

ITT EDUCATIONAL SERVICES INC
Form 10-Q/A
October 16, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-13144

ITT EDUCATIONAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2061311
(I.R.S. Employer
Identification No.)

13000 North Meridian Street
Carmel, Indiana
(Address of principal executive offices)

46032-1404
(Zip Code)

Registrant's telephone number, including area code: (317) 706-9200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

23,369,914

Number of shares of Common Stock, \$.01 par value, outstanding at September 30, 2013

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EXPLANATORY NOTE

Restatement and Revision of Consolidated Financial Statements

ITT Educational Services, Inc. (we, us or our) is filing this Amendment No. 1 (Amended Filing) to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, originally filed with the United States Securities and Exchange Commission (SEC) on October 29, 2013 (the Original Filing), to amend and restate its unaudited condensed consolidated financial statements and related disclosures for the three and nine months ended September 30, 2013.

In February 2014, we commenced a review of the accounting for a variable interest that we held in a variable interest entity (VIE), which is a trust (the PEAKS Trust) that purchased, owns and collects private education loans made under the PEAKS Private Student Loan Program (the PEAKS Program). We engaged significant internal and external resources to perform supplemental procedures to assist us in reviewing our financial statements and accounting practices (the Supplemental Procedures). As a result of the review and the Supplemental Procedures, on June 18, 2014, the Audit Committee of our Board of Directors determined that we should have consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013. February 28, 2013 was the first date that we had the substantive unilateral right to remove the servicer of the private education loans owned by the PEAKS Trust (PEAKS Trust Student Loans). Within this Amended Filing, we are restating our previously issued condensed consolidated financial statements as of and for the three and nine months ended September 30, 2013 to reflect our determination that we should have consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013 (the Consolidation) and to reflect other corrections and reclassifications.

In this Amended Filing, we are restating:

our Condensed Consolidated Balance Sheet as of September 30, 2013 (unaudited);

our Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2013 (unaudited);

our Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 (unaudited);

our Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2013 (unaudited);

our Condensed Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2013 (unaudited); and

the Notes to those condensed consolidated financial statements.

For a description of the restatement, see Note 2 Restatement and Revision of Previously Issued Unaudited Financial Statements of the Notes to Condensed Consolidated Financial Statements.

We have also revised our previously issued condensed consolidated financial statements as of and for the periods specified below to reflect certain immaterial corrections and reclassifications. In this Amended Filing, we have revised our:

Condensed Consolidated Balance Sheet as of September 30, 2012 (unaudited);

Condensed Consolidated Balance Sheet as of December 31, 2012;

Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2012 (unaudited);

Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 (unaudited);

Condensed Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2012 (unaudited); and

Condensed Consolidated Statement of Shareholders' Equity for the year ended December 31, 2012.
For a description of the revision, see Note 2 - Restatement and Revision of Previously Issued Unaudited Financial Statements of the Notes to Condensed Consolidated Financial Statements.

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For ease of reference, this Amended Filing amends and restates the Original Filing in its entirety. Restatements and revisions to the Original Filing have been made to the following sections:

Part I, Item 1 Financial Statements

Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 3 Quantitative and Qualitative Disclosures about Market Risk

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Part I, Item 4 Controls and Procedures

Part II, Item 1 Legal Proceedings

Part II, Item 1A Risk Factors

Part II, Item 6 Exhibits

The information in those sections has been modified to reflect the restatement and revisions described above, as well as where necessary to correct and/or update information as a result of the restatement and revisions to our financial statements. We have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our unaudited consolidated financial statements formatted in eXtensible Business Reporting Language (XBRL) in Exhibit 101. Except as provided in this Explanatory Note, or as indicated in the applicable disclosure, this Amended Filing has not been updated to reflect other events occurring after the filing of the Original Filing and does not modify or update information and disclosures in the Original Filing affected by subsequent events. Accordingly, this Amended Filing should be read in conjunction with our filings with the SEC subsequent to the date on which we filed the Original Filing, together with any amendments to those filings.

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ITT EDUCATIONAL SERVICES, INC.

Carmel, Indiana

Quarterly Report to Securities and Exchange Commission

September 30, 2013

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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Condensed Consolidated Balance Sheets as of September 30, 2013 (unaudited and as restated) and 2012 (unaudited) and December 31, 2012

Condensed Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2013 (as restated) and 2012

Condensed Consolidated Statements of Comprehensive Income (unaudited) for the three and nine months ended September 30, 2013 (as restated) and 2012

Condensed Consolidated Statements of Cash Flows (unaudited) for the three and nine months ended September 30, 2013 (as restated) and 2012

Condensed Consolidated Statements of Shareholders' Equity for the nine months ended September 30, 2013 (unaudited and as restated) and 2012 (unaudited) and the year ended December 31, 2012

Notes to Condensed Consolidated Financial Statements (as restated)

Table of Contents**ITT EDUCATIONAL SERVICES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except per share data)**

	September 30, 2013 (unaudited) (as restated)	As of December 31, 2012	September 30, 2012 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$ 165,581	\$ 243,465	\$ 169,666
Restricted cash	4,989	3,478	5,512
Accounts receivable, net	122,693	78,928	90,940
PEAKS Trust student loans, less allowance for loan losses of \$0, \$0 and \$0	7,598	0	0
Deferred income taxes	77,343	44,547	19,284
Prepaid expenses and other current assets	21,671	16,162	18,331
Total current assets	399,875	386,580	303,733
Property and equipment, net	174,394	189,890	194,253
PEAKS Trust student loans, excluding current portion, less allowance for loan losses of \$20,701, \$0 and \$0	85,340	0	0
Deferred income taxes	40,949	57,471	40,442
Other assets	38,744	41,263	49,080
Total assets	\$ 739,302	\$ 675,204	\$ 587,508
Liabilities and Shareholders Equity			
Current liabilities:			
Current portion of PEAKS Trust senior debt	\$ 134,075	\$ 0	\$ 0
Accounts payable	61,468	63,304	76,358
Accrued compensation and benefits	20,113	21,023	19,729
Other current liabilities	57,485	106,796	39,245
Deferred revenue	132,246	135,900	119,089
Total current liabilities	405,387	327,023	254,421
Long-term debt	60,000	140,000	140,000
PEAKS Trust senior debt, excluding current portion	94,420	0	0
Other liabilities	38,260	82,416	61,895
Total liabilities	598,067	549,439	456,316

Shareholders' equity:			
Preferred stock, \$.01 par value, 5,000,000 shares authorized, none issued	0	0	0
Common stock, \$.01 par value, 300,000,000 shares authorized, 37,068,904 issued	371	371	371
Capital surplus	197,124	197,113	193,510
Retained earnings	979,830	967,473	977,547
Accumulated other comprehensive (loss)	(7,715)	(7,930)	(8,970)
Treasury stock, 13,698,990, 13,744,395 and 13,744,474 shares, at cost	(1,028,375)	(1,031,262)	(1,031,266)
Total shareholders' equity	141,235	125,765	131,192
Total liabilities and shareholders' equity	\$ 739,302	\$ 675,204	\$ 587,508

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

(unaudited)

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	(as restated)	2012	(as restated)	2012
Revenue	\$ 259,617	\$ 313,791	\$ 805,138	\$ 981,061
Costs and expenses:				
Cost of educational services	120,204	133,948	367,921	408,956
Student services and administrative expenses	96,182	104,647	296,238	311,861
Legal and other investigation costs	2,089	0	3,802	873
Loss related to loan program guarantees	4,826	5,095	8,629	12,055
Provision for PEAKS Trust student loan losses	16,382	0	20,701	0
Total costs and expenses	239,683	243,690	697,291	733,745
Operating income	19,934	70,101	107,847	247,316
(Loss) on consolidation of PEAKS Trust	0	0	(73,248)	0
Interest income	16	125	75	1,308
Interest (expense)	(7,190)	(1,021)	(18,133)	(2,822)
Income before provision for income taxes	12,760	69,205	16,541	245,802
Provision for income taxes	3,336	26,747	4,184	96,758
Net income	\$ 9,424	\$ 42,458	\$ 12,357	\$ 149,044
Earnings per share:				
Basic	\$ 0.40	\$ 1.82	\$ 0.53	\$ 6.20
Diluted	\$ 0.40	\$ 1.81	\$ 0.52	\$ 6.16
Weighted average shares outstanding:				
Basic	23,418	23,359	23,410	24,054
Diluted	23,634	23,443	23,556	24,200

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(unaudited)

	Three Months Ended September 30, 2013 (as restated)		Nine Months Ended September 30, 2013 (as restated)	
	2012	2012	2012	2012
Net income	\$ 9,424	\$ 42,458	\$ 12,357	\$ 149,044
Other comprehensive income, net of tax:				
Net actuarial pension loss amortization, net of income tax of \$196, \$265, \$589 and \$796	310	414	929	1,241
Prior service (credit) amortization, net of income tax of \$151, \$152, \$453 and \$455	(238)	(237)	(714)	(711)
Unrealized gains (losses) on available-for-sale securities, net of income tax of \$0, \$0, \$0 and \$0	0	0	0	(21)
Other comprehensive income, net of tax	72	177	215	509
Comprehensive income	\$ 9,496	\$ 42,635	\$ 12,572	\$ 149,553

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(unaudited)

	Three Months Ended September 30, 2013 (as restated)		Nine Months Ended September 30, 2013 (as restated)	
	2012	2012	2012	2012
Cash flows from operating activities:				
Net income	\$ 9,424	\$ 42,458	\$ 12,357	\$ 149,044
Adjustments to reconcile net income to net cash flows from operating activities:				
Depreciation and amortization	6,173	6,930	20,816	22,045
Provision for doubtful accounts	14,526	17,474	44,755	41,562
Deferred income taxes	(6,075)	(6,326)	(19,974)	(17,040)
Excess tax benefit from stock option exercises	0	(3)	0	(1,382)
Stock-based compensation expense	3,304	4,291	8,698	13,046
Settlement cost	0	0	(46,000)	0
Accretion of discount on PEAKS Trust student loans	(4,072)	0	(9,536)	0
Accretion of discount on PEAKS Trust senior debt	1,411	0	3,444	0
Provision for PEAKS Trust student loan losses	16,382	0	20,701	0
Loss on consolidation of PEAKS Trust	0	0	73,248	0
Other	257	340	622	97
Changes in operating assets and liabilities, net of acquisition:				
Restricted cash	830	1,275	192	1,760
Accounts receivable	(10,275)	(33,367)	(87,503)	(83,894)
PEAKS Trust student loans	3,434	0	8,013	0
Accounts payable	(2,542)	(4,419)	(2,127)	(2,518)
Other operating assets and liabilities	715	(4,908)	(7,316)	3,853
Deferred revenue	17,769	(2,784)	(4,085)	(107,454)
Net cash flows from operating activities	51,416	20,961	16,303	19,119
Cash flows from investing activities:				
Facility expenditures	(81)	(108)	(541)	(493)
Capital expenditures, net	(904)	(3,185)	(4,277)	(14,820)
Acquisition of company, net of cash acquired	(6,953)	0	(6,953)	0
Proceeds from sales and maturities of investments and repayment of notes	91	553	413	216,724
Purchase of investments and note advances	0	0	(1,241)	(63,545)
Net cash flows from investing activities	(7,847)	(2,740)	(12,599)	137,866

Cash flows from financing activities:

Excess tax benefit from stock option exercises	0	3	0	1,382
Proceeds from exercise of stock options	0	254	0	8,345
Debt issue costs	0	0	0	(1,525)
Proceeds from revolving borrowings	0	0	0	175,000
Repayment of revolving borrowings	(60,000)	(10,000)	(80,000)	(185,000)
Repayment of PEAKS Trust senior debt	(537)	0	(1,198)	0
Repurchase of common stock and shares tendered for taxes	(19)	(10)	(390)	(209,370)
Net cash flows from financing activities	(60,556)	(9,753)	(81,588)	(211,168)
Net change in cash and cash equivalents	(16,987)	8,468	(77,884)	(54,183)
Cash and cash equivalents at beginning of period	182,568	161,198	243,465	223,849
Cash and cash equivalents at end of period	\$ 165,581	\$ 169,666	\$ 165,581	\$ 169,666

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Dollars and shares in thousands)

Accumulated

Other

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Comprehensive Income/(Loss)	Common Stock in Treasury Shares	Common Stock in Treasury Amount	Total
Balance as of December 31, 2011 (as revised See Note 2)	37,069	\$ 371	\$ 184,207	\$ 833,347	\$ (9,479)	(10,969)	\$ (839,341)	\$ 169,105
For the nine months ended September 30, 2012 (unaudited):								
Net income				149,044				149,044
Other comprehensive income					509			509
Equity award vesting and exercises			(4,219)	(4,843)		272	17,407	8,345
Tax benefit from equity awards			922					922
Stock-based compensation			12,600					12,600
Common shares repurchased						(3,026)	(207,918)	(207,918)
Issuance of shares for Directors compensation				(1)		1	38	37
Shares tendered for taxes						(22)	(1,452)	(1,452)
Balance as of September 30, 2012	37,069	371	193,510	977,547	(8,970)	(13,744)	(1,031,266)	131,192
For the three months ended December 31, 2012 (unaudited):								
Net income (loss)				(10,074)				(10,074)
Other comprehensive income					1,040			1,040

Equity award vesting and exercises				(5)			5	0
Tax benefit from equity awards				(4)				(4)
Stock-based compensation				3,612				3,612
Shares tendered for taxes							(1)	(1)
Balance as of December 31, 2012	37,069	371	197,113	967,473	(7,930)	(13,744)	(1,031,262)	125,765

For the nine months ended September 30, 2013 (unaudited):

Net income (as restated)				12,357				12,357
Other comprehensive income					215			215
Equity award vesting and exercises				(3,277)		68	3,277	0
Tax benefit from equity awards				(5,410)				(5,410)
Stock-based compensation				8,698				8,698
Shares tendered for taxes						(23)	(390)	(390)
Balance as of September 30, 2013 (as restated)	37,069	\$ 371	\$ 197,124	\$ 979,830	\$ (7,715)	(13,699)	\$ (1,028,375)	\$ 141,235

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ITT EDUCATIONAL SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(As Restated)

September 30, 2013

(Dollars in thousands, except per share data and unless otherwise stated)

1. The Company and Basis of Presentation

We are a leading proprietary provider of postsecondary degree programs in the United States based on revenue and student enrollment. As of September 30, 2013, we were offering:

master, bachelor and associate degree programs to approximately 61,000 students at ITT Technical Institute and Daniel Webster College locations; and

short-term information technology and business learning solutions for career advancers and other professionals.

In addition, we offered one or more of our online degree programs to students who are located in 48 states. As of September 30, 2013, we had 149 college locations (including 147 campuses and two learning sites) in 39 states and one training facility. All of our college locations are authorized by the applicable education authorities of the states in which they operate and are accredited by an accrediting commission recognized by the U.S. Department of Education (ED). We have provided career-oriented education programs since 1969 under the ITT Technical Institute name and since June 2009 under the Daniel Webster College name. In August 2013, we acquired all of the membership interests of Cable Holdings, LLC (Cable Holdings), an education company that offers short-term information technology and business learning solutions for career advancers and other professionals. See Note 5 Acquisition, for a further discussion of the acquisition of Cable Holdings. Our corporate headquarters are located in Carmel, Indiana.

The accompanying restated and unaudited condensed consolidated financial statements include the accounts of ITT Educational Services, Inc., its wholly-owned subsidiaries and, beginning on February 28, 2013, the PEAKS Trust, a VIE in which ITT Educational Services, Inc. is the primary beneficiary, and have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) for interim periods and pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures, including significant accounting policies, normally included in a complete presentation of financial statements prepared in accordance with those principles, rules and regulations have been omitted. All significant intercompany balances and transactions are eliminated upon consolidation.

The Condensed Consolidated Balance Sheet as of December 31, 2012 was derived from audited financial statements but, as presented in this report, may not include all disclosures required by GAAP. Arrangements where we have a variable interest in another party are evaluated in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) 810, Consolidation (ASC 810), to det

whether we are required to consolidate the other party in our condensed consolidated financial statements. See Note 9 Variable Interest Entities, for a further discussion of the VIEs in which we held a variable interest and the consolidation of the PEAKS Trust in our condensed consolidated financial statements as of and for the three and nine months ended September 30, 2013.

Certain reclassifications have been made in our condensed consolidated financial statements for prior years to conform to the current year presentation. These reclassifications have no impact on previously reported net income, total shareholders' equity or cash flows. See Note 2 Restatement and Revision of Previously Issued Unaudited Financial Statements, for a further discussion of the revisions and reclassifications made to our condensed consolidated financial statements for prior years.

In the opinion of our management, the financial statements contain all adjustments necessary to fairly state our financial condition and results of operations. The interim financial information should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2012.

2. Restatement and Revision of Previously Issued Unaudited Financial Statements

Restatement of 2013 Unaudited Financial Statements. In February 2014, we commenced a review of the accounting for a variable interest that we held in the PEAKS Trust, a VIE. We engaged significant internal and external resources to perform the Supplemental Procedures. As a result of the review and the Supplemental Procedures, on June 18, 2014, the Audit Committee of our Board of Directors determined that we should have consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013. February 28, 2013 was the first date that we had the substantive unilateral right to remove the servicer of the PEAKS Trust Student Loans, as described further below.

We had previously concluded that we were not required to consolidate the PEAKS Trust in our consolidated financial statements, because we believed we did not have the power to direct the activities of the PEAKS Trust that most significantly impact its economic performance and, therefore, believed we were not the primary beneficiary of the PEAKS Trust. We determined that the activities of the PEAKS Trust that most significantly impact its economic performance involve the servicing of the PEAKS Trust Student Loans. We determined that February 28, 2013 was the first date that we could have exercised our right to terminate the servicing agreement that governs the

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servicing activities of the PEAKS Trust Student Loans (the PEAKS Servicing Agreement), due to the failure of the entity that performs those servicing activities for the PEAKS Trust Student Loans on behalf of the PEAKS Trust to meet certain performance criteria specified in the PEAKS Servicing Agreement. As a result of this analysis, we concluded that we became the primary beneficiary of the PEAKS Trust on February 28, 2013, which was the first date that we had the power to direct the activities of the PEAKS Trust that most significantly impact the economic performance of the PEAKS Trust.

As a result of our determination that we should have consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013, we concluded that we needed to restate the unaudited condensed consolidated financial statements in our Quarterly Reports on Form 10-Q for each of the fiscal quarters ended March 31, 2013, June 30, 2013 and September 30, 2013, and that those previously-issued financial statements should no longer be relied upon. See Note 9 Variable Interest Entities, for a further discussion of the Consolidation.

In addition, we corrected certain unrelated, immaterial errors as part of the restatement of the unaudited condensed consolidated financial statements in this Amended Filing. These immaterial errors related to:

the reassessment of the recognition of revenue with respect to students who withdrew from a program of study in the three and nine months ended September 30, 2013, which resulted in adjustments to the amount of revenue, the provision for doubtful accounts (which is included in student services and administrative expenses) and accounts receivable, net recorded in those periods;

the calculation of the contingent loss for a risk sharing agreement (the 2009 RSA) that we entered into on February 20, 2009 with an unaffiliated entity (the 2009 Entity) in connection with other agreements to create a program that made private education loans available to our students to help pay the students cost of education that financial aid from federal, state and other sources did not cover (the 2009 Loan Program), which resulted in adjustments to the loss from loan program guarantees and other liabilities as of and for the three and nine months ended September 30, 2013;

the classification of the 2009 RSA contingent liability, which resulted in an increase to other current liabilities and a decrease to other liabilities as of September 30, 2013; and

the classification of funds held for students from federal student financial aid programs under Title IV (Title IV Programs) of the Higher Education Act of 1965, as amended (HEA) that result in a credit balance on a student s account, which resulted in an increase to restricted cash and a decrease to cash and cash equivalents as of September 30, 2013.

Our restated condensed consolidated financial statements as of and for the three and nine months ended September 30, 2013 reflect the correction of those errors in the period in which they arose. The amounts related to the correction of these immaterial errors are shown in the Other Adjustments column in the tables below.

Our Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Shareholders Equity as of September 30, 2013, December 31, 2012 and September 30, 2012 also reflect the cumulative corrections related to:

the reassessment of the recognition of revenue with respect to students who withdrew from a program of study in prior periods;

the contingent loss for the 2009 RSA;

the reclassification of funds held for students from Title IV Programs that result in a credit balance on a student's account as restricted cash; and

the reclassification of amounts related to the vesting of restricted stock units (RSUs) from retained earnings to capital surplus in prior periods.

The amounts related to the correction of these immaterial errors are shown in the Other Adjustments column in the tables below.

In addition, we reclassified legal and other investigation costs, which were previously recorded in cost of educational services and in student services and administrative expenses, to a separate line in our Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2013. The amounts of those reclassifications are shown in the Reclassifications column in the applicable tables below.

A reconciliation of previously reported amounts to the restated, corrected and reclassified amounts is set forth in the tables below. Amounts shown in the Consolidation of PEAKS Trust column include the financial results of the PEAKS Trust and the amounts that were eliminated from our financial statements as a result of the Consolidation.

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The following table sets forth the effect of the Consolidation and correction of errors on the affected line items on our Condensed Consolidated Balance Sheet as of September 30, 2013:

	As Previously Reported	As of September 30, 2013 Consolidation of PEAKS Trust	Other Adjustments	As Restated
Condensed Consolidated Balance Sheet Data:				
Cash and cash equivalents	\$ 168,721	\$ 0	\$ (3,140)	\$ 165,581
Restricted cash	612	1,237	3,140	4,989
Accounts receivable, net	119,529	0	3,164	122,693
PEAKS Trust student loans, less allowance for loan losses	0	7,598	0	7,598
Deferred income taxes	25,687	51,656	0	77,343
Prepaid expenses and other current assets	18,952	413	2,306	21,671
Total current assets	333,501	60,904	5,470	399,875
PEAKS Trust student loans, excluding current portion, less allowance for loan losses	0	85,340	0	85,340
Deferred income taxes	54,657	(14,942)	1,234	40,949
Other assets	46,409	(7,665) ^(a)	0	38,744
Total assets	608,961	123,637	6,704	739,302
Current portion of PEAKS Trust senior debt	0	134,075	0	134,075
Other current liabilities	51,285	(22,328) ^(a)	28,528 ^(b)	57,485
Total current liabilities	265,112	111,747	28,528	405,387
PEAKS Trust senior debt, excluding current portion	0	94,420	0	94,420
Other liabilities	82,852	(22,580) ^(a)	(22,012) ^(b)	38,260
Total liabilities	407,964	183,587	6,516	598,067
Capital surplus	206,714	0	(9,590)	197,124
Retained earnings	1,030,002	(59,950)	9,778	979,830
Total shareholders equity	200,997	(59,950)	188	141,235
Total liabilities and shareholders equity	608,961	123,637	6,704	739,302

(a) Includes amounts that were eliminated from our consolidated financial statements as a result of the Consolidation, primarily the contingent liability and estimated recoveries associated with payments made under the PEAKS Guarantee.

(b) These amounts represent the increase to the contingent loss associated with the 2009 RSA and the reclassification, from long-term to current, that portion expected to be paid within 12 months of September 30, 2013.

The following table sets forth the effect of the Consolidation, correction of errors and reclassifications in our Condensed Consolidated Statement of Income for the three months ended September 30, 2013:

	Three Months Ended September 30, 2013				
	Consolidation of				
	As Previously Reported	PEAKS Trust	Other Adjustments	Reclass- ifications	As Restated
Condensed Consolidated Statement of Income Data:					
Revenue	\$ 259,416	\$ 4,072	\$ (3,871)	\$ 0	\$ 259,617
Costs and expenses:					
Cost of educational services	121,994	0	0	(1,790)	120,204
Student services and administrative expenses	99,130	1,535	(4,184)	(299)	96,182
Legal and other investigation costs	0	0	0	2,089	2,089
Loss related to loan program guarantees	6,213	(721)	(666)	0	4,826
Provision for PEAKS Trust student loan losses	0	16,382	0	0	16,382
Total costs and expenses	227,337	17,196	(4,850)	0	239,683