ITT EDUCATIONAL SERVICES INC
Form 10-K/A
October 20, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 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	**36-2061311**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
13000 North Meridian Street Carmel, Indiana	**46032-1404**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
COMMON STOCK, $.01 PAR VALUE	**NEW YORK STOCK EXCHANGE, INC.**

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x

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 x

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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.

Large accelerated filer x	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 x

$566,443,560

Aggregate market value of the voting stock held by nonaffiliates of the registrant based on the last sale price for such stock at June 28, 2013 (assuming solely for the purposes of this calculation that all Directors and executive officers of the registrant are affiliates).

23,449,175

Number of shares of Common Stock, $.01 par value, outstanding at September 30, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

None

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-K (Form 10-K/A) (the Amended Filing) is being filed solely for the purpose of modifying two paragraphs contained in Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations included in ITT Educational Services, Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, originally filed with the U.S. Securities and Exchange Commission on October 16, 2014 (the Original Filing). The two paragraphs that are being modified are the seventh and the tenth paragraphs of Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources *Capital Resources*.

This Amended Filing does not modify or update any other disclosures set forth in the Original Filing and does not otherwise reflect events occurring after the date of the Original Filing.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read with the Selected Financial Data and the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this report.

This management s discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenue, expenses and contingent assets and liabilities. Actual results may differ from those estimates and judgments under different assumptions or conditions.

In this management s discussion and analysis of financial condition and results of operations, when we discuss factors that contributed to a change in our financial condition or results of operations, we disclose the primary factors that materially contributed to that change in the order of significance.

Revision of Prior Periods

This management s discussion and analysis of financial condition and results of operations reflects the fact that we have revised our previously issued financial statements as of and for the years ended December 31, 2012 and 2011. We revised our Consolidated Statement of Income for the year ended December 31, 2012 to reflect immaterial corrections for:

- the recognition of revenue with respect to students who withdrew from a program of study, which reduced revenue by $20.4 million and student services and administrative expenses by $21.5 million;

- a contingent loss related to the 2009 RSA, which increased loss related to loan program guarantees by $3.5 million; and

- losses related to the 2009 RSA, which increased both revenue and loss related to loan program guarantees by $19.8 million.

We also reclassified certain items in our Consolidated Statement of Income for the year ended December 31, 2012 to reflect adjustments for:

the settlement cost associated with the 2007 RSA, which decreased settlement cost and increased loss related to loan program guarantees by $21.8 million;

the impairment of the Subordinated Note and Revolving Note, which decreased loss related to private student loan programs and increased asset impairment by $15.2 million;

losses related to private education loan programs, which decreased loss related to private student loan programs and increased loss related to loan program guarantees by $71.1 million; and

legal and other investigation costs, which decreased cost of educational services and increased legal and other investigation costs by $0.9 million.

We revised our Consolidated Statement of Income for the year ended December 31, 2011 to reflect immaterial corrections for the recognition of revenue with respect to students who withdrew from a program of study, which reduced revenue by $23.5 million and student services and administrative expenses by $25.7 million. We also corrected the classification of losses related to the 2009 RSA and 2007 RSA in our Consolidated Statement of Income for the year ended December 31, 2011, which increased both revenue and loss related to loan program guarantees by $23.5 million.

This management s discussion and analysis of financial condition and results of operations discusses our financial condition and results of operations as of and for the 12 months ended December 31, 2012 and 2011 as so revised and reclassified.

Consolidation and Core Operations

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 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 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 exercise our right to terminate the servicing agreement that governs the servicing activities of the PEAKS Trust Student Loans (PEAKS Servicing Agreement), due to the failure of the entity that performs those servicing activities 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 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the Consolidation.

Our results of operations, financial condition and cash flows for periods after February 28, 2013 reflect the results of operations, financial condition and cash flows of the PEAKS Trust, because we were considered to have control over the PEAKS Trust under ASC 810, Consolidation (ASC 810), as a result of our substantive unilateral right to terminate the PEAKS Servicing Agreement. We do not, however, actively manage the operations of the PEAKS Trust, and the assets of the consolidated PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust. Our obligations under the PEAKS Guarantee remain in effect, until the PEAKS Senior Debt and the PEAKS Trust s fees and expenses are paid in full, as discussed further under Private Education Loan Program Obligations and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

Unless otherwise noted, the information in this management s discussion and analysis of financial condition and results of operations is presented and discussed on a consolidated basis, including the PEAKS Trust. Certain information is also provided, however, regarding our results of operations, financial condition and cash flows on a basis that excludes the impact of the PEAKS Trust. We identify and describe our education programs and education-related services on this basis as our core operations (Core Operations). The presentation of the Core Operations financial measures differs from the presentation of our consolidated financial measures determined in accordance with generally accepted accounting principles in the United States (GAAP). We believe that the presentation of the Core Operations information assists investors in comparing current period information against prior periods during which the PEAKS Trust was not consolidated. In addition, our management believes that the Core Operations information provides useful information to investors, because it:

- allows more meaningful information about our ongoing operating results, financial condition and cash flows;

helps in performing trend analyses and identifying trends that may otherwise be masked or distorted by items that are not part of the Core Operations; and

provides a higher degree of transparency of our core results of operations, financial condition and cash flows.

The following tables set forth selected data from our balance sheets, statements of income and statements of cash flows as of and for the years ended:

December 31, 2012 (which was prior to the Consolidation); and

December 31, 2013, regarding:

the Core Operations on a stand-alone basis;

the PEAKS Trust on a stand-alone basis;

the elimination of transactions between the PEAKS Trust and Core Operations, as a result of the Consolidation; and

the Core Operations and the PEAKS Trust consolidated in accordance with GAAP.

The information presented related to 2013 also constitutes the reconciliation of our non-GAAP Core Operations and PEAKS Trust data to the related GAAP consolidated financial measures. Following each table, we describe the effect of the Consolidation on the financial statement information presented, including the components attributable to the Core Operations and the PEAKS Trust.

		As of December 31, 2013			
	As of December 31, 2012	Core Operations	PEAKS Trust	Eliminations	GAAP Consolidated
		(Dollar amounts in thousands)			
Balance Sheet Data:					
Cash and cash equivalents	$ 243,465	$ 215,771	$ 0	$ 0	$ 215,771
Restricted cash	3,478	3,043	2,593	0	5,636
Accounts receivable, net	78,928	99,530	0	0	99,530
PEAKS Trust student loans, net	0	0	7,730	0	7,730
Deferred income taxes	44,547	33,961	43,588	0	77,549
Prepaid expenses and other current assets	16,162	27,827	573	0	28,400
Total current assets	386,580	380,132	54,484	0	434,616

Property and equipment, net	189,890	168,509	0	0	168,509
PEAKS Trust student loans, net	0	0	76,479	0	76,479
Deferred income taxes	57,471	113,398	(45,074)	0	68,324
Other assets	41,263	67,354	0	(8,431)	58,923
Total assets	$ 675,204	$ 729,393	$ 85,889	$ (8,431)	$ 806,851
Current portion of long-term debt	$ 0	$ 50,000	$ 0	$ 0	$ 50,000
Current portion of PEAKS Trust senior debt	0	0	157,883	0	157,883
Accounts payable	63,304	58,021	0	0	58,021
Accrued compensation and Benefits	21,023	18,107	0	0	18,107
Other current liabilities	106,796	33,366	11,830	(3,060)	42,136
Deferred revenue	135,900	147,630	0	0	147,630
Total current liabilities	327,023	307,124	169,713	(3,060)	473,777
Long-term debt	140,000	0	0	0	0
PEAKS Trust senior debt	0	0	71,341	0	71,341
Other liabilities	82,416	213,343	1,684	(68,940)	146,087
Total liabilities	549,439	520,467	242,738	(72,000)	691,205
Total shareholders equity	125,765	208,926	(156,849)	63,569	115,646
Total liabilities and shareholders equity	$ 675,204	$ 729,393	$ 85,889	$ (8,431)	$ 806,851

In accordance with ASC 810, the assets and liabilities of the PEAKS Trust were treated as having been acquired by us at their fair values as of February 28, 2013. The carrying values of the assets and liabilities of the PEAKS Trust are included on our Consolidated Balance Sheet as of December 31, 2013. The assets of the PEAKS Trust consist of cash and the PEAKS Trust Student Loans. The liabilities of the PEAKS Trust consist primarily of the PEAKS Senior Debt. For further information about the terms of the PEAKS Senior Debt, see Financial Condition, Liquidity and Capital Resources *Financing.* The assets of the PEAKS Trust serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt. The carrying values of the assets and liabilities related to the PEAKS Program that had been included as balance sheet items related to our Core Operations and consisted of the Subordinated Note, a guarantee receivable and a contingent liability, were eliminated from our Consolidated Balance Sheet as of December 31, 2013.

Although the assets and liabilities of the PEAKS Trust are presented on our Consolidated Balance Sheets following the Consolidation, the assets of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust.

	Year Ended December 31, 2012	Year Ended December 31, 2013			
		Core Operations	PEAKS Trust	Eliminations	GAAP Consolidated
	(Dollar amounts in thousands)				
Statement of Income Data:					
Revenue	$ 1,286,633	$ 1,059,315	$ 12,996	$ 0	$ 1,072,311
Cost and expenses:					
Cost of educational services	538,350	486,353	0	0	486,353
Student services and administrative expenses	400,856	392,253	5,288	0	397,541
Asset impairment	15,166	0	0	0	0
Legal and other investigation costs	873	6,923	0	0	6,923
Loss related to loan program guarantees	101,025	115,503	0	(24,539)	90,964
Provision for PEAKS Trust student loan losses	0	0	29,349	0	29,349
Total costs and expenses	1,056,270	1,001,032	34,637	(24,539)	1,011,130
Operating income (loss)	230,363	58,283	(21,641)	24,539	61,181
(Loss) on consolidation of PEAKS Trust	0	0	(112,748)	39,500	(73,248)
Interest income	1,348	578	0	(470)	108
Interest (expense)	(3,723)	(3,989)	(21,288)	0	(25,277)
Income (loss) before provision for income taxes	227,988	54,872	(155,677)	63,569	(37,236)
Provision for income taxes	89,018	(11,384)	1,172	0	(10,212)
Net income (loss)	$ 138,970	$ 66,256	$ (156,849)	$ 63,569	$ (27,024)

The Consolidation impacts the presentation of our Statements of Income in a number of ways. Following the Consolidation, our revenue consists of:

- revenue from the Core Operations, primarily from tuition, tool kit sales and student fees; and
- student loan interest income on the PEAKS Trust Student Loans, which is the accretion of the accretable yield on the PEAKS Trust Student Loans.

Following the Consolidation, our student services and administrative expenses are comprised of:

- expenses related to the Core Operations, including marketing expenses, an expense for uncollectible accounts and administrative expenses incurred primarily at our corporate headquarters; and
- expenses incurred by the PEAKS Trust, primarily related to fees for servicing the PEAKS Trust Student Loans and various other administrative fees and expenses of the PEAKS Trust.

The loss related to loan program guarantees represents:

- in 2012, the additional contingent liability accruals that we recorded related to the PEAKS Guarantee and the 2009 RSA; and
- in 2013, the additional contingent liability accruals that we recorded related to the 2009 RSA, because the contingent liability related to the PEAKS Guarantee was eliminated from our consolidated financial statements as a result of the Consolidation (though our obligations under the PEAKS Guarantee remain in effect).

Following the Consolidation, our provision for PEAKS Trust student loan losses represents the increase in the allowance for loan losses that occurred during the period. The allowance for loan losses is the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool of the PEAKS Trust Student Loans, discounted by the loan pool s effective interest rate as of December 31, 2013.

We recognized a loss upon the Consolidation that represented the amount by which the fair value of the PEAKS Trust s liabilities exceeded the fair value of the PEAKS Trust s assets as of February 28, 2013, partially reduced by the net amount of the carrying value of the assets and liabilities related to the PEAKS Program that had been recorded in our consolidated financial statements as of February 28, 2013 and were eliminated upon the Consolidation. Following the Consolidation, our interest expense includes:

- interest expense from matters related to the Core Operations, primarily the interest expense on the outstanding balance under the Amended Credit Agreement; and

- interest expense on the PEAKS Senior Debt, which includes the contractual interest obligation and the accretion of the discount on the PEAKS Senior Debt.

Since the inception of the PEAKS Program, we have guaranteed, and continue to guarantee, the payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and the minimum required Asset/Liability Ratio, pursuant to the terms of the PEAKS Guarantee. Our obligations under the PEAKS Guarantee remain in effect until the PEAKS Senior Debt and the PEAKS Trust s fees and expenses are paid in full.

The revenue and expenses of the PEAKS Trust are presented in our Consolidated Statements of Income following the Consolidation. The cash received by the PEAKS Trust, which is derived from its revenue, however, is considered restricted and can only be used to satisfy the obligations of the PEAKS Trust.

	Year Ended December 31, 2012	Year Ended December 31, 2013 Core Operations	PEAKS Trust	Eliminations	GAAP Consolidated
		(Dollar amounts in thousands)			
Statement of Cash Flows Data:					
Cash flows from operating activities:					
Net income (loss)	$ 138,970	$ 66,256	$ (156,849)	$ 63,569	$ (27,024)
Adjustments to reconcile net income to net cash flows from operating activities:					
Depreciation and amortization	29,350	27,252	0	0	27,252
Provision for doubtful accounts	56,818	67,640	0	0	67,640
Deferred income taxes	(59,999)	(47,318)	(7,107)	0	(54,425)
Excess tax benefit from stock option exercises	(1,382)	0	0	0	0
Stock-based compensation expense	16,658	11,638	0	0	11,638
Settlement cost	21,750	(46,000)	0	0	(46,000)
Asset impairment	15,166	0	0	0	0
Accretion of discount on PEAKS Trust student loans	0	0	(12,996)	0	(12,996)
Accretion of discount on PEAKS Trust senior debt	0	0	4,926	0	4,926
Provision for PEAKS Trust student loan losses	0	0	29,349	0	29,349
Loss on consolidation of PEAKS Trust	0	0	112,748	(39,500)	73,248
Other	6,992	315	0	0	315
Changes in operating assets and liabilities:					
Restricted cash	3,794	435	(890)	0	(455)
Accounts receivable	(87,138)	(87,225)	0	0	(87,225)
PEAKS Trust student loans	0	0	11,554	0	11,554
Accounts payable	(15,572)	(5,574)	0	0	(5,574)
Other operating assets and Liabilities	72,857	76,651	21,621	(24,069)	74,203
Deferred revenue	(90,643)	11,299	0	0	11,299
Net cash flows from operating activities	107,621	75,779	1,946	0	77,725
Net cash flows from investing activities	123,164	(13,078)	0	0	(13,078)
Cash flows from financing activities:					
Excess tax benefit from stock option exercises	1,382	0	0	0	0
Proceeds from exercise of stock options	8,345	0	0	0	0
Debt issue costs	(1,525)	0	0	0	0
Proceeds from revolving borrowings	175,000	0	0	0	0
Repayment of revolving borrowings	(185,000)	(90,000)	0	0	(90,000)
Repayment of PEAKS Trust senior debt	0	0	(1,946)	0	(1,946)
Repurchase of common stock and shares tendered for taxes	(209,371)	(395)	0	0	(395)

Net cash flows from financing activities	(211,169)	(90,395)	(1,946)	0	(92,341)
Net change in cash and cash equivalents	19,616	(27,694)	0	0	(27,694)
Cash and cash equivalents at beginning of period	223,849	243,465	0	0	243,465
Cash and cash equivalents at end of period	$ 243,465	$ 215,771	$ 0	$ 0	$ 215,771

Although the cash flows of the PEAKS Trust are presented in our Consolidated Statements of Cash Flows following the Consolidation, the cash resulting from the cash flows from operations and financing activities of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust.

General

As of December 31, 2013, we had 149 locations (including 147 campuses and two learning sites) in 39 states, which were providing education programs to approximately 57,000 students, and one training facility which was providing training programs. In 2013, we derived approximately 98% of our revenue from the Core Operations from tuition and approximately 2% from the sale of tool kits and fees, charged to and paid by, or on behalf of, our students. Most students enrolled in our education programs at our institutions pay a substantial portion of their tuition and other education-related expenses with funds received under various government-sponsored student financial aid programs, especially Title IV Programs.

Our revenue from the Core Operations varies based primarily on the following factors:

- the aggregate student population, which is influenced by the number of students attending our institutions at the beginning of a fiscal period and student retention rates;
- the amount of tuition charged to our students; and
- the levels of availability and utilization of institutional scholarships, grants and awards.

New students generally enter our education programs at the beginning of an academic term that typically begins for most education programs in early March, mid-June, early September and late November or early December. We believe that the changes to our institutions aggregate student population in recent years was primarily due to:

- our prospective students greater sensitivity to the cost of a postsecondary education;
- our prospective students uncertainty about the value of a postsecondary education due to the prolonged economic and labor market disruptions;
- changes that we made to education program offerings at select campuses, which resulted in a more significant decline in new student enrollment in the criminal justice programs of study compared to our institutions other curricula; and
- the discontinuation or suspension of new student enrollments at select locations.

In order to participate in Title IV Programs, a new campus or learning site must be authorized by the state in which it will operate, accredited by an accrediting commission recognized by the ED, and certified by the ED to participate in Title IV Programs. The ED s certification process cannot commence until the location receives its state authorization and accreditation.

We generally earn tuition revenue on a straight-line basis over the length of each of four, 12-week academic quarters in each fiscal year. State regulations, accrediting commission criteria and our policies generally require us to refund a portion of the tuition and fee payments received from a student who withdraws from one of our institutions during an academic term. We recognize immediately the amount of tuition and fees, if any, that we may retain after payment of any refund. Revenue that we recognize after the Consolidation also includes student loan interest income on the PEAKS Trust Student Loans, which is the accretion of the accretable yield on the PEAKS Trust Student Loans.

We incur expenses throughout a fiscal period in connection with the operation of our institutions. The cost of educational services includes salaries of faculty and institution administrators, cost of course materials, occupancy costs, depreciation and amortization of equipment costs, facilities and leasehold improvements, and other miscellaneous costs incurred by our institutions.

Student services and administrative expenses from the Core Operations include marketing expenses, an expense for uncollectible accounts and administrative expenses incurred at our corporate headquarters. Marketing expenses include advertising expenses and salaries and employee benefits for recruiting representatives. After the Consolidation, student services and administrative expenses also include expenses incurred by the PEAKS Trust, primarily related to fees for servicing the PEAKS Trust Student Loans and various other administrative fees and expenses of the PEAKS Trust.

In 2013, we continued to add education program and training program offerings among existing campuses and learning sites**.** We also continued our efforts to diversify our education program offerings by developing education programs at different degree levels in both technology and non-technology fields of study that we intend to offer at our campuses and deliver entirely in residence, entirely online over the Internet or partially in residence and partially online. In 2013, we did not begin operations at any new ITT Technical Institute campuses or learning sites. As part of our efforts to maximize the efficiency and effectiveness of our current campus locations, during 2013, we:

- relocated five of our campuses into existing facilities of other ITT Technical Institute campuses; and

- discontinued new student enrollments at two ITT Technical Institute campuses and, subsequently, determined to discontinue operations at those campuses after the students who are currently attending those campuses have had an opportunity to complete their education programs at those campuses.

The following table sets forth select operating and growth statistics for the periods indicated:

	Year Ended December 31,		
	2013	2012	2011
Additional education program offerings	348	272	1,343
Additional training program offerings	293	N/A	N/A
Number of campuses and learning sites with additional education program offerings	104	62	132
Began operations at new campuses	0	6	11
Campuses offering bachelor degree programs	134	133	128

In 2014, we intend to add more of our current education program offerings among most of our institutions locations. We also plan to continue developing new education programs in both technology and non-technology fields, but primarily in technology- and healthcare-related disciplines. We believe that those programs of study will be at different education levels and delivered in a variety of formats, including entirely in residence, entirely online or partially in residence and partially online. While our growth strategy continues to include opening new campuses and learning sites, we do not expect to begin operations at any new campuses in 2014. We plan to continue to evaluate the performance of the current ITT Technical Institute campuses in order to maximize the efficiency and effectiveness of our national network of campuses. As part of this effort, we may relocate and/or suspend enrollments at additional campuses. We also plan to continue to develop and offer training programs to career advancers and other professionals through the CPD.

Critical Accounting Policies and Estimates

We believe the following critical accounting policies affect our more significant estimates and judgments used in the preparation of our consolidated financial statements. These policies should be read in conjunction with Note 1 Business and Significant Accounting Policies of the Notes to Consolidated Financial Statements.

Recognition of Revenue. Tuition revenue is recorded on a straight-line basis over the length of the applicable course to the extent that we consider the collectability of that revenue to be reasonably assured. If a student withdraws from an institution, the standards of most SAs that regulate our institutions, the ACs and our own internal policy limit a student s obligation for tuition and fees to the institution depending on when a student withdraws during an academic term. The terms of the Refund Policies vary by state, and the limitations imposed by the Refund Policies are generally based on the portion of the academic term that has elapsed at the time the student withdraws. Generally, the greater the portion of the academic term that has elapsed at the time the student withdraws, the greater the student s obligation is to the institution for the tuition and fees related to that academic term. We record revenue net of any refunds that result from any applicable Refund Policy. On an individual student basis, tuition earned in excess of cash received is recorded as accounts receivable, and cash received in excess of tuition earned is recorded as deferred revenue.

We do not charge a separate fee for textbooks and certain equipment that students use in their education programs. We record the cost of these textbooks and equipment in prepaid expenses and other current assets and amortize the cost on a straight-line basis over the applicable course length. Tool kit sales, and the related cost, are recognized when the student receives the tool kit. Academic fees (which are charged only one time to students on their first day of class attendance) are recognized as revenue on a straight-line basis over the average education program length. If a student withdraws from an institution, all unrecognized revenue relating to his or her fees, net of any refunds that result from any applicable Refund Policy, is recognized upon the student s departure. An administrative fee is charged to a student and recognized as revenue when the student withdraws or graduates from an education program at an institution. We reassess the collectability of tuition revenue on a student-by-student basis throughout our revenue recognition period. We reassess the collectability of tuition revenue that we may earn based on new information and changes in the facts and circumstances relevant to a student s ability to pay, which primarily include when a student withdraws from a program of study.

We derived 98% of our revenue from tuition and 2% from tool kit sales and student fees in each of the years ended December 31, 2013, 2012 and 2011. The amount of tuition earned depends on:

- the cost per credit hour of the courses in our education programs;
- the length of a student s enrollment;
- the number of courses a student takes during each period of enrollment; and
- the total number of students enrolled in our education programs.

Each of these factors is known at the time our tuition revenue is calculated.

We have significantly increased the amount of institutional scholarships and awards that we offer to our institutions students and which those students use to help reduce their educational expenses. Institutional scholarships and awards reduce the students tuition charges and are recorded as offsets to revenue. In the year ended December 31, 2013, institutional scholarships and awards amounted to, in aggregate, approximately $171.2 million, compared to approximately $65.1 million in the year ended December 31, 2012.

Interest income on the PEAKS Trust Student Loans, which is the accretion of the accretable yield on the PEAKS Trust Student Loans, is included in revenue on our Consolidated Statements of Income and recognized based on the effective interest method, as described in Note 11 PEAKS Trust Student Loans of the Notes to Consolidated Financial Statements.

Equity-Based Compensation. In accordance with ASC 718, Compensation Stock Compensation (ASC 718), the value of our equity instruments exchanged for employee and director services is measured at the date of grant, based on the calculated fair value of the grant, and is recognized as an expense over the period of time that the grantee must provide services to us before the stock-based compensation is fully vested. The vesting period is generally the period set forth in the agreement granting the stock-based compensation. Under the terms of our stock-based compensation plans, some grants immediately vest in full when the grantee s employment or service terminates for death or disability. As a result, in certain circumstances, the period of time that the grantee must provide services to us in order for that stock-based compensation to fully vest may be less than the vesting period set forth in the agreement granting the stock-based compensation. In these instances, compensation expense will be recognized over this shorter period. We recognize stock-based compensation expense on a straight-line basis over the service period applicable to the grantee.

We use a binomial option pricing model to determine the fair value of stock options granted, and we use the market price of our common stock to determine the fair value of restricted stock and restricted stock units (RSUs) granted. Various assumptions are used in the binomial option pricing model to determine the fair value of the stock options. These assumptions are discussed in Note 1 Business and Significant Accounting Policies of the Notes to Consolidated Financial Statements.

The following table sets forth the stock-based compensation expense and related income tax benefit recognized in our Consolidated Statements of Income in the periods indicated:

	Year Ended December 31,		
	2013	**2012**	**2011**
		(In thousands)	
Stock-based compensation expense	$ 11,638	$ 16,658	$ 17,074
Income tax (benefit)	($4,481)	($6,414)	($6,574)
	$7,157	$10,244	$10,500

As of December 31, 2013, we estimated that pre-tax compensation expense for unvested stock-based compensation grants in the amount of approximately $13.9 million, net of estimated forfeitures, will be recognized in future periods. We expect to recognize this expense over the remaining service period applicable to the grantees which, on a weighted average basis, is approximately two years.

See also Note 1 Business and Significant Accounting Policies and Note 7 Equity Compensation Plans of the Notes to Consolidated Financial Statements, for a discussion of stock-based compensation.

Income Taxes. We follow ASC 740, Income Taxes (ASC 740), which prescribes a single, comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. This guidance requires us to evaluate whether it is more likely than not, based on the technical merits of a tax position, that the benefits resulting from the position will be realized by us.

Accounts Receivable and Allowance for Doubtful Accounts. We extend unsecured credit to our institutions students for tuition and fees, and we record a receivable for the tuition and fees earned in excess of the payment received from or on behalf of a student. The individual student balances of these receivables are insignificant. We record an allowance for doubtful accounts with respect to accounts receivable based on the students credit profiles and our historical collection experience related to amounts owed by our students with similar credit profiles. If our collection trends were to differ significantly from our historical collection experience, we would make a corresponding adjustment to our allowance for doubtful accounts.

When a student is no longer enrolled in an education program at one of our campuses, we increase the allowance for doubtful accounts related to the former student s receivable balance to reflect the amount we estimate will not be collected. The amount that we estimate will not be collected is based on a review of the historical collection experience for each campus, adjusted as needed to reflect other facts and circumstances. We review the collection activity after a student withdraws or graduates from an education program and will write off the accounts receivable, if we conclude that collection of the balance is not probable.

PEAKS Trust Student Loans. Beginning on February 28, 2013, we consolidated the PEAKS Trust, a VIE, that purchased, owns and collects the PEAKS Trust Student Loans made under the PEAKS Program in our consolidated financial statements. Certain of the PEAKS Trust Student Loans had evidence of credit deterioration since the date those loans were originated and, therefore, we determined that, at the date of the Consolidation, it was probable that all contractually required payments under those loans would not be collected. We recorded those loans at fair value at the date of the Consolidation. We also recorded at fair value the PEAKS Trust Student Loans that did not individually have evidence of deteriorated credit quality at the date of the Consolidation, because we determined that the application of an expected cash flow model provided the most reasonable presentation and this accounting treatment was consistent with the American Institute of Certified Public Accountants (the

AICPA) December 18, 2009 Confirmation Letter (the Confirmation Letter). No allowance for loan losses was recorded at the date of the Consolidation, because all of the PEAKS Trust Student Loans were recorded at fair value and future credit losses are considered in the estimate of fair value. Cash flows from PEAKS Trust Student Loans expected to be collected within the next 12 months have been classified as current in our consolidated balance sheet. The remaining balance is classified as non-current.

We aggregated the individual PEAKS Trust Student Loans into 24 separate pools of loans, based on common risk characteristics of the individual loans, which included:

- the fiscal quarter in which the PEAKS Trust Student Loan was originated; and
- the consumer credit score of the borrower.

Loans that did not have evidence of deteriorated credit quality were not aggregated in the same pools with loans that had evidence of deteriorated credit quality. The same aggregation criteria, however, were used to determine those loan pools. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

On a quarterly basis, we estimate the total principal and interest expected to be collected over the remaining life of each loan pool. These estimates include assumptions regarding default rates, forbearances and other factors that reflect then-current market conditions. If a decrease in the expected cash flows of a loan pool is probable and would cause the expected cash flows to be less than the expected cash flows at the date of the Consolidation or the end of the previous fiscal quarter, whichever is later, we would record the impairment as:

- a provision for PEAKS Trust student loan losses in our Consolidated Statement of Income; and
- an increase in the allowance for loan losses on our Consolidated Balance Sheet.

The provision for PEAKS Trust student loan losses represents the increase in the allowance for loan losses that occurred during the period. The allowance for loan losses is the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool, discounted by the loan pool s effective interest rate at the date of the Consolidation or the end of the previous fiscal quarter, whichever is later. If a significant increase in the expected cash flows of a loan pool is probable and would cause the expected cash flows to be greater than the expected cash flows at the date of the Consolidation or the end of the previous fiscal quarter, whichever is later, we would:

- first reverse any allowance for loan losses with respect to that loan pool that was previously recorded on our Consolidated Balance Sheet, up to the amount of that allowance; and
- record any remaining increase prospectively as a yield adjustment over the remaining estimated lives of the loans in the loan pool.

The impact of prepayments, changes in variable interest rates and any other changes in the timing of the expected cash flows of a loan pool are recognized prospectively as adjustments to interest income.

The impact of modifications made to loans in a loan pool is incorporated into our quarterly assessment of whether a significant change in the expected cash flows of the loan pool is probable or has occurred. We consider the historical loss experience associated with the PEAKS Trust Student Loans in estimating the future probabilities of default for all of the outstanding PEAKS Trust Student Loans.

The excess of any cash flows expected to be collected with respect to a loan pool of the PEAKS Trust Student Loans over the carrying value of the loan pool is referred to as the accretable yield. The accretable yield is not reported on our Consolidated Balance Sheets, but it is accreted and included as interest income at a level rate of return over the remaining estimated life of the loan pool. If we determine that the timing and/or amounts of expected cash flows with respect to a loan pool are not reasonably estimable, no interest income would be accreted and the loans in that loan pool would be reported as nonaccrual loans. We recognize the accretable yield of the PEAKS Trust Student Loans as interest income, because the timing and the amounts of the expected cash flows are reasonably estimable.

If a PEAKS Trust Student Loan is paid in full or charged-off, that loan is removed from the loan pool. If the amount of the proceeds received for that loan, if any, is less than the unpaid principal balance of the loan, the difference is first applied against the loan pool s nonaccretable difference for principal losses (i.e., the lifetime credit loss estimate established at the date of the Consolidation). If the nonaccretable difference for principal losses with respect to a loan pool has been fully depleted, any unpaid loan principal balance in excess of the proceeds received for the loan is charged-off against the loan pool s allowance for loan losses. We do not recognize charge offs of individual PEAKS Trust Student Loans when those loans reach certain stages of delinquency, because those loans are accounted for at a loan pool level.

If any portion of a PEAKS Trust Student Loan that had previously been charged-off is recovered, the amount collected increases the applicable loan pool s nonaccretable difference. If the nonaccretable difference with respect to the applicable loan pool has been fully depleted, the amount collected increases that loan pool s allowance for loan losses.

Fair Value. ASC 820, Fair Value Measurements (ASC 820), defines fair value for financial reporting as the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement of our financial assets utilized assumptions categorized as observable inputs under ASC 820. Observable inputs are assumptions based on independent market data sources.

The following table sets forth information regarding the recurring fair value measurement of our financial assets as of December 31, 2013:

		Fair Value Measurements at Reporting Date Using		
Description	As of December 31, 2013	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
	(In thousands)			
Cash equivalents:				
Money market fund	$ 214,985	$ 214,985	$ 0	$ 0
Restricted cash:				
Money market fund	2,433	2,433	0	0
Other assets:				
Money market fund	8,626	8,626	0	0
	$ 226,044	$ 226,044	$ 0	$ 0

We used quoted prices in active markets for identical assets as of the measurement date to value our financial assets that were categorized as Level 1.

Property and Equipment. We include all property and equipment in the financial statements at cost and make provisions for depreciation of property and equipment using the straight-line method. The following table sets forth the general ranges of the estimated useful lives of our property and equipment:

Type of Property and Equipment	Estimated Useful Life
Furniture and equipment	3 to 10 years
Leasehold, building and land improvements	3 to 14 years
Buildings	20 to 40 years

Changes in circumstances, such as changes in our curricula and technological advances, may result in the actual useful lives of our property and equipment differing from our estimates. We regularly review and evaluate the estimated useful lives of our property and equipment. Although we believe that our assumptions and estimates are reasonable, deviations from our assumptions and estimates could produce a materially different result.

Asset Impairment. We regularly review our long-lived assets and notes receivable for impairment whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable. If we determine that the carrying value of the long-lived asset exceeds its fair market value, we recognize an impairment loss equal to the difference. We base our impairment analyses of long-lived assets on our current business strategy, expected growth rates and estimates of future economic and regulatory conditions. We evaluate each note receivable individually for impairment. We consider a note receivable to be impaired when it is probable that we will be unable to collect all amounts of principal and interest owed to us under the terms of the underlying note. If the present value of the expected future cash flows from the note receivable is less than the carrying value of the note receivable, we recognize an impairment loss in the amount of the difference.

Contingent Liabilities. We are subject to various claims and contingencies in the ordinary course of our business, including those related to litigation, government investigations, business transactions, guarantee obligations and employee-related matters, among others. When we are aware of a claim or potential claim, we assess the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, we record a liability for the loss. The liability recorded includes probable and estimable legal costs associated with the claim or potential claim. If the loss is not probable or the amount of the loss cannot be reasonably estimated, we disclose the claim if the likelihood of a potential loss is reasonably possible and the amount involved is material.

We determine the amount of our contingent liabilities related to our guarantee obligations by estimating the expected payments to be made under the guarantee and the amount that we expect to be repaid to us. We also consider the payment options available to us. To the extent that we project that we will have sufficient funds available to discharge our guarantee obligations for the outstanding balance of those private education loans that have been charged off at the time that they default, we incorporate that assumption into our estimate of the contingent liability. If we do not believe that we will have sufficient funds available, we assume that we will make monthly payments to satisfy our guarantee obligations as allowed under the applicable agreements. We discount the amount of those expected future monthly payments at a risk-free rate of interest. Making payments for the full amount of the charged-off loans at the time that they default results in us paying a lesser amount than we otherwise would have been required to pay under our guarantee obligations in future periods and, therefore, results in an estimated contingent liability that is less than if we had assumed we would make monthly payments in the future.

We discount the amounts that we expect will be repaid to us to reflect a risk free rate of interest. The difference between the amount of the guarantee payments that we expect to make and the discounted amount that we expect will be repaid to us is included in our estimate of the amount of our contingent liability related to our guarantee obligations.

Debt. In accordance with ASC 810, we included the PEAKS Senior Debt on our consolidated balance sheet at its fair value as of February 28, 2013, the date of the Consolidation. The difference between the fair value of the PEAKS Senior Debt and its outstanding aggregate principal balance at the date of the Consolidation was recorded as an accrued discount on our consolidated balance sheet at the date of the Consolidation. The accrued discount will be recognized in interest expense at a level rate of return over the life of the PEAKS Senior Debt.

New Accounting Guidance

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, which is included in the Codification under ASC 606, Revenue Recognition (ASC 606). This guidance requires the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration expected in exchange for those goods or services. This guidance will become effective for our interim and annual reporting periods beginning January 1, 2017. We have not completed our evaluation of the impact that this guidance may have on our consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, which is included in the Codification under ASC 205, Presentation of Financial Statements (ASC 205). This update changes the requirements for reporting discontinued operations and clarifies when disposals of groups of assets qualify for discontinued operations presentation under ASC 205. This guidance will become effective for our interim and annual reporting periods beginning January 1, 2015, and will be applied to any transactions that meet those requirements beginning January 1, 2015.

In July 2013, the FASB issued ASU No. 2013-11, which is included in the Codification under ASC 740. This update provides guidance on the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses or tax credit carryforwards exist. This guidance became effective for our interim and annual reporting periods beginning January 1, 2014. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, which is included in the Codification under ASC 220, Other Comprehensive Income (ASC 220). This update requires an entity to report the effect, by component, of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income. This guidance was effective for our interim and annual reporting periods beginning January 1, 2013. The adoption of this guidance requires us to provide additional disclosures regarding the amounts reclassified out of accumulated other comprehensive income during a reporting period. We have included these disclosures in the footnotes to our consolidated financial statements. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In October 2012, the FASB issued ASU No. 2012-04, which makes technical corrections, clarifications and limited-scope improvements to various topics throughout the Codification. The amendments in this ASU that do not have transition guidance were effective upon issuance, and the amendments that are subject to transition guidance were effective for our interim and annual reporting periods beginning January 1, 2013. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, which is included in the Codification under ASC 350, Intangibles Goodwill and Other (ASC 350). This update allows an entity to first assess qualitative factors to determine whether it must perform a quantitative impairment test. An entity would be required to calculate the fair value of an indefinite-lived intangible asset, if the entity determines, based on a qualitative assessment, that it is more likely than not that the indefinite-lived intangible asset is impaired. This guidance was effective for impairment tests performed for our interim and annual reporting periods beginning January 1, 2013. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, which is included in the Codification under ASC 210, Balance Sheet. This update provides for enhanced disclosures to help users of financial statements evaluate the effect or potential effect of netting arrangements on an entity s financial position. In January 2013, the FASB issued ASU No. 2013-01, which clarified the scope of the disclosures required under ASU No. 2011-11. Both of these updates were effective for our interim and annual reporting periods beginning January 1, 2013. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Variations in Quarterly Results of Operations

Our quarterly results of operations have tended to fluctuate within a fiscal year due to the timing of student matriculations. Each of our four fiscal quarters has 12 weeks of earned tuition revenue. The academic schedule generally does not affect our incurrence of most of our costs, however, and costs do not fluctuate significantly on a quarterly basis.

The revenue recognized in our fiscal quarters has been impacted by fluctuations in our institutions total student enrollment. These fluctuations were primarily due to changing patterns of student matriculations and variations in student persistence, which were primarily attributable to the number of graduates in the fiscal quarter and student retention in certain courses. These factors are discussed in greater detail below under Results of Operations. In addition, the increased amount of our institutional scholarships and awards, primarily the Opportunity Scholarship, has reduced revenue per student in the various periods compared to the same prior year periods.

The following table sets forth the Core Operations revenue per student for the periods indicated:

	Core Operations Revenue per Student					
	2013		2012		2011	
Three Months Ended	Amount	Increase (Decrease) to Prior Year	Amount	Increase (Decrease) to Prior Year	Amount	Increase (Decrease) to Prior Year
March 31	$ 4,646	0.3%	$ 4,631	1.7%	$ 4,552	(2.7%)
June 30	4,200	(8.9%)	4,613	0.4%	4,593	(2.6%)
September 30	4,360	(7.7%)	4,726	2.6%	4,604	(0.9%)
December 31	4,323	(7.1%)	4,654	(0.8%)	4,619	1.0%
Total for Year	$ 17,529	(5.9%)	$ 18,624	1.4%	$ 18,368	(1.4%)

Core Operations revenue per student is calculated by dividing all revenue from Core Operations by the total student enrollment in education programs as of the beginning of the applicable fiscal period.

Results of Operations

The following table sets forth the percentage relationship of certain statement of income data to revenue for the periods indicated:

	Year Ended December 31,		
	2013	2012	2011
Revenue	100.0%	100.0%	100.0%
Cost of educational services	45.4%	41.8%	36.9%
Student services and administrative expenses	37.1%	31.2%	27.6%
Asset impairment	0.0%	1.1%	0.0%
Legal and other investigation costs	0.6%	0.1%	0.0%
Loss related to loan program guarantees	8.5%	7.9%	1.6%
Provision for PEAKS Trust student loan losses	2.7%	0.0%	0.0%
Operating income	5.7%	17.9%	33.9%
(Loss) on consolidation of PEAKS Trust	(6.8)%	0.0%	0.0%
Interest income (expense), net	(2.3)%	(0.2)%	0.1%
Income (loss) before income taxes	(3.5)%	17.7%	34.0%

The following table sets forth our total student enrollment in education programs as of the dates indicated:

As of December 31,	Total Student Enrollment in	Increase (Decrease) to Prior Year

	Education Programs	
2013	57,542	(5.8%)
2012	61,059	(16.6%)
2011	73,255	(13.5%)

Total student enrollment in education programs includes all new and continuing students. A continuing student is any student who, in the academic term being measured, is enrolled in an education program at one of our campuses and was enrolled in the same program at any of our campuses at the end of the immediately preceding academic term. A new student is any student who, in the academic term being measured, enrolls in and begins attending any education program at one of our campuses:

- for the first time at that campus;
- after graduating in a prior academic term from a different education program at that campus; or
- after having withdrawn or been terminated from an education program at that campus.

The following table sets forth our new student enrollment in education programs in the periods indicated:

New Student Enrollment in Education Programs in the Three Months Ended:	2013 New Student Enrollment in Education Programs	2013 Increase (Decrease) to Prior Year	2012 New Student Enrollment in Education Programs	2012 (Decrease) to Prior Year	2011 New Student Enrollment in Education Programs	2011 (Decrease) to Prior Year
March 31	17,412	(3.6%)	18,067	(17.0%)	21,761	(5.6%)
June 30	16,883	7.5%	15,698	(9.5%)	17,351	(19.9%)
September 30	20,307	5.2%	19,298	(15.8%)	22,909	(14.1%)
December 31	13,995	4.5%	13,398	(11.4%)	15,125	(14.7%)
Total for the year	68,597	3.2%	66,461	(13.9%)	77,146	(13.4%)

We believe that the 4.5% increase in new student enrollment in education programs in the three months ended December 31, 2013 compared to the three months ended December 31, 2012 was primarily due to an increase in the

- rate at which prospective students who applied for enrollment actually began attending classes in their education programs, and

- availability to, and use by, our students of institutional scholarships and awards (which have the effect of reducing the students cost of our education programs),

which were partially offset by a decrease in the number of prospective students who inquired about our education programs in the three months ended December 31, 2013.

We believe that the 5.2% increase in new student enrollment in education programs in the three months ended September 30, 2013 compared to the three months ended September 30, 2012 and the 7.5% increase in new student enrollment in education programs in the three months ended June 30, 2013 compared to the three months ended June 30, 2012 was primarily due to an increase in the:

- number of prospective students who inquired about our education programs in the three month periods ended September 30, 2013 and June 30, 2013;

- rate at which prospective students who applied for enrollment actually began attending classes in their education programs; and

- availability to, and use by, our students of institutional scholarships and awards (which have the effect of reducing the students cost of our education programs).

We believe that the 3.6% decrease in new student enrollment in education programs in the three months ended March 31, 2013 compared to the three months ended March 31, 2012 was primarily due to:

changes that we made to education program offerings at select campuses which resulted in a more significant decline in new student enrollment in the criminal justice programs of study compared to our other curricula; and

a decrease in new student enrollment in our bachelor degree programs.

We believe that the decrease in new student enrollment in education programs in the three months ended March 31, 2013 compared to the three months ended March 31, 2012 was also due to our prospective students :

greater sensitivity to the cost of postsecondary education; and

uncertainty about the value of a postsecondary education due to the prolonged economic and labor market disruptions.

We believe that the decrease in new student enrollment in education programs in each of the three months ended December 31, 2012, September 30, 2012, June 30, 2012 and March 31, 2012 compared to the corresponding period in the prior year was primarily due to:

our prospective students greater sensitivity to the cost of postsecondary education;

our prospective students uncertainty about the value of a postsecondary education due to the prolonged economic and labor market disruptions; and

changes that we made to education program offerings at select campuses which resulted in a more significant decline in new student enrollment in the criminal justice programs of study compared to our other curricula,

which resulted in a decrease in the rate at which prospective students who applied for enrollment actually began attending classes in their education programs.

A continued decline in total student enrollment in education programs, and declines in new student enrollment in education programs similar to those that we experienced prior to the three months ended June 30, 2013, could have a material adverse effect on our business, financial condition, revenue and other results of operations and cash flows. We have taken a number of steps in an attempt to reverse the declines in total and new student enrollment in education programs, including, without limitation:

introducing other institutional scholarship programs for select education programs at certain locations, which are intended to help reduce the cost of an ITT Technical Institute education and increase student access to our education programs;

refining our marketing, advertising and communications to focus more on the student value proposition and outcomes of an ITT Technical Institute education; and

refining our education programs to better align the content with industry standards.

At the vast majority of our campuses, we generally organize the academic schedule for education programs offered on the basis of four 12-week academic quarters in a calendar year. The academic quarters typically begin in early March, mid-June, early September and late November or early December. To measure the persistence of our students, the number of continuing students in any academic term is divided by the total student enrollment in education programs in the immediately preceding academic term.

The following table sets forth the rates of our students persistence as of the dates indicated:

	Student Persistence as of:			
Year	**March 31**	**June 30**	**September 30**	**December 31**
2013	71.5%	68.4%	69.4%	71.4%
2012	72.4%	71.3%	69.8%	72.6%
2011	73.5%	73.1%	71.5%	73.4%

We believe that the decrease in student persistence as of December 31, 2013 compared to December 31, 2012 and September 30, 2013 compared to September 30, 2012 was primarily due to a decrease in student retention in the three months ended September 30, 2013 compared to the same prior year period, primarily attributed to:

lower student retention in a few courses that are delivered in the early portions of certain associate degree programs; and

an increase in the number of students who were enrolled in hybrid courses, in which a portion of the course is delivered in residence and a portion is delivered online, and which generally have a lower student retention rate.

We believe that the decrease in student persistence as of June 30, 2013 compared to June 30, 2012 was primarily due to:

an increase in the number of graduates at the end of the academic quarter that began in March 2013 compared to the end of the same academic quarter in the prior year; and

a slight decrease in student retention in the three months ended June 30, 2013 compared to the same prior year period, primarily attributed to lower student retention in a few courses that are delivered in the early portions of certain associate degree programs.

The increase in the number of graduates at the end of the academic quarter that began in March 2013 was primarily due to two, instead of one, graduating classes of students comprised of:

- the first graduation class of the associate degree programs that we introduced in 2011, which reduce from eight to seven the number of academic quarters required for a full-time student to graduate; and
- the last graduation class of full-time students of the associate degree programs that required eight academic quarters for a full-time student to graduate.

We believe that the decrease in student persistence as of March 31, 2013 compared to March 31, 2012 was primarily due to the number of graduates in the three months ended March 31, 2013 compared to the three months ended March 31, 2012 decreasing at a lesser rate than the decline in total student enrollment in education programs as of December 31, 2012 compared to December 31, 2011.

We believe that the decrease in student persistence as of December 31, 2012 and September 30, 2012 compared to December 31, 2011 and September 30, 2011 was primarily due to:

- the number of graduates in the three months ended December 31, 2012 and September 30, 2012 compared to the corresponding prior year periods decreasing at a lesser rate than the decline in total student enrollment in education programs as of September 30 and June 30, 2012 compared to the same date in the prior year; and
- a slight decrease in student retention in the three months ended December 31 and September 30, 2012 compared to the corresponding prior year periods, principally as a result of a decline in retention in some of the courses in new education programs that we recently began offering.

We believe that the decrease in student persistence as of June 30 and March 31, 2012 compared to the corresponding prior year dates was primarily due to a higher number of students who graduated at the end of the academic period that began in March 2012 and December 2011 compared to the end of the corresponding academic periods in the prior year.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012. Revenue decreased $214.3 million, or 16.7%, to $1,072.3 million in the year ended December 31, 2013 compared to $1,286.6 million in the year ended December 31, 2012. The primary factors that contributed to this decrease were:

- an increase in institutional scholarships and awards provided to our students, which reduced revenue by $108.3 million in the year ended December 31, 2013 compared to the prior year; and
- an average 9.9% decrease in total student enrollment in education programs as of the end of each fiscal quarter in 2013 compared to 2012.

The increase in institutional scholarships and awards was primarily due to the introduction of the Opportunity Scholarship at the vast majority of the ITT Technical Institute campuses in the academic quarter that began in March 2013.

Revenue of the PEAKS Trust is comprised of interest income on the PEAKS Trust Student Loans, which is the accretion of the accretable yield on the PEAKS Trust Student Loans. Revenue attributable to the interest income on the PEAKS Trust Student Loans was approximately $13.0 million in the year ended December 31, 2013. No interest income on the PEAKS Trust Student Loans was included in revenue in the year ended December 31, 2012, because the Consolidation was effective February 28, 2013. See Note 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a discussion of the Consolidation.

Cost of educational services decreased $52.0 million, or 9.7%, to $486.4 million in the year ended December 31, 2013 compared to $538.4 million in the year ended December 31, 2012. The primary factors that contributed to this decrease included, in order of significance:

- a decrease in compensation and benefit costs resulting from fewer employees; and
- a decrease in course supply expenses, due to lower student enrollments in education programs.

Cost of educational services as a percentage of revenue increased 350 basis points to 45.4% in the year ended December 31, 2013 compared to 41.8% in the year ended December 31, 2012. The primary factor that contributed to this increase was a decline in revenue, which was partially offset by decreases in compensation and benefit costs and course supply expenses.

Student services and administrative expenses decreased $3.3 million, or 0.8%, to $397.5 million in the year ended December 31, 2013 compared to $400.9 million in the year ended December 31, 2012. The principal causes of this decrease were decreases in compensation and benefit costs and expenses related to student scholarships, which were partially offset by increases in media advertising expenses and bad debt expense. Approximately $5.3 million of expenses of the PEAKS Trust were included in student services and administrative expenses in the year ended December 31, 2013. Those expenses primarily represented fees for servicing the PEAKS Trust Student Loans and various other administrative fees and expenses of the PEAKS Trust. The amount of the fees for servicing the PEAKS Trust Student Loans are based on the outstanding balance of non-defaulted PEAKS Trust Student Loans, and the amount of the other administrative fees and expenses are based on the outstanding principal balance of the PEAKS Senior Debt.

Student services and administrative expenses increased to 37.1% of revenue in the year ended December 31, 2013 compared to 31.2% of revenue in the year ended December 31, 2012. The principal cause of this increase was the decline in revenue, which was partially offset by decreases in compensation and benefit costs and expenses related to student scholarships. Bad debt expense as a percentage of revenue increased to 6.3% in the year ended December 31, 2013 compared to 4.4% in the year ended December 31, 2012, primarily as a result of an increase in student account balances that were determined to be uncollectible.

We recorded an expense of $15.2 million in the year ended December 31, 2012 related to the impairment of the Subordinated Note and the Revolving Note. See Note 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a more detailed discussion of the impairment of the notes. No impairment of those notes was recorded in the year ended December 31, 2013.

Legal and other investigation costs increased $6.1 million, or 693.0%, to $6.9 million in the year ended December 31, 2013, compared to $0.9 million in the year ended December 31, 2012. Legal and other investigation costs represent the costs and other expenses associated with the SEC investigation of us, the CFPB investigation of us and the Securities Litigation. See Legal Proceedings and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for further information about these matters.

In the year ended December 31, 2013, we recorded a loss related to loan program guarantees of $91.0 million for the 2009 RSA compared to $101.0 million in the year ended December 31, 2012 for the RSAs. The entire amount of the loss recorded in the year ended December 31, 2013 related to a change in our accounting estimate for the amount of our guarantee obligations under the 2009 RSA. We revised our estimate for the 2009 RSA based on an enhanced default rate methodology and more recent performance data that we obtained in the three months ended December 31, 2013. The primary enhancements and performance data included:

- an adjustment to the default estimates for student borrowers, as a result of recently obtained actual default data for similarly-situated student borrowers;

- an adjustment to the default rate expectations, due to declines in repayment performance;

- our ability to make Discharge Payments; and

- a lower expectation for collections on defaulted loans as a result of the performance to date of collections.

See Private Education Loan Program Obligations, for a further discussion of the loss. The loss recorded in the year ended December 31, 2012 included $79.2 million for additional contingent liabilities related to our guarantee obligations under the 2009 RSA and PEAKS Guarantee and $21.8 million related to the settlement of litigation and the resolution of our guarantee obligations under the 2007 RSA. See Private Education Loan Program Obligations and Note 10 Variable Interest Entities and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

Provision for PEAKS Trust student loan losses of approximately $29.3 million in the year ended December 31, 2013 represented the increase in the allowance for loan losses that occurred from February 28, 2013 through December 31, 2013. We did not consolidate the PEAKS Trust in our consolidated financial statements in the year ended December 31, 2012, and, therefore, we did not include the PEAKS Trust Student Loans in our consolidated financial statements or recognize any provision for PEAKS Trust student loan losses in that year.

Operating income decreased $169.2 million, or 73.4%, to $61.2 million in the year ended December 31, 2013 compared to $230.4 million in the year ended December 31, 2012, primarily as a result of the impact of the factors discussed above in connection with revenue, cost of educational services, student services and administrative expenses, legal and other investigation costs, loss related to loan program guarantees and provision for PEAKS Trust student loan losses. Our operating margin decreased to 5.7% in the year ended December 31, 2013 compared to 17.9% in the year ended December 31, 2012, primarily due to the impact of the factors discussed above.

In the year ended December 31, 2013, we recorded a loss upon the Consolidation of $73.2 million. This loss represented the amount by which the fair value of the PEAKS Trust s liabilities exceeded the fair value of the PEAKS Trust s assets as of February 28, 2013 upon the Consolidation, partially reduced by the net amount of the carrying value of the assets and liabilities related to the PEAKS Program that had been recorded in our consolidated financial statements as of February 28, 2013 and were eliminated upon the Consolidation. See Note 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the Consolidation.

Interest income decreased $1.2 million, or 92.0%, to $0.1 million in the year ended December 31, 2013 compared to $1.3 million in the year ended December 31, 2012, primarily due to discontinuing the amortization of the discount on the Subordinated Note. See Note 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a discussion of the Subordinated Note.

Interest expense increased $21.6 million, or 578.9%, to $25.3 million in the year ended December 31, 2013 compared to $3.7 million in the year ended December 31, 2012, primarily due to:

- interest expense of approximately $21.3 million on the PEAKS Senior Debt, which includes the contractual interest obligation and the accretion of the discount on the PEAKS Senior Debt, in the year ended December 31, 2013 as a result of the Consolidation, during which the effective interest rate was 9.9%; and

- an increase in the effective interest rate under the Amended Credit Agreement, which was partially offset by a decrease in our weighted average outstanding borrowings under the revolving credit facility.

Our combined federal and state effective income tax rate was 27.4% in the year ended December 31, 2013 compared to 39.0% in the year ended December 31, 2012. The primary factor that contributed to the decrease in the effective income tax rate in the year ended December 31, 2013 compared to the year ended December 31, 2012 was the recognition of certain losses related to the PEAKS Trust in our consolidated financial statements for which an income tax benefit was not recognized.

Year Ended December 31, 2012 Compared with Year Ended December 31, 2011. Revenue decreased $213.3 million, or 14.2%, to $1,286.6 million in the year ended December 31, 2012 compared to $1,500.0 million in the year ended December 31, 2011. The primary factor that contributed to this decrease was an average 16.2% decrease in total student enrollment in education programs as of the end of each fiscal quarter in 2012 compared to 2011. The decrease in revenue from lower total student enrollment in education programs in 2012 was partially offset by a decrease in the amount of institutional scholarships and other awards that we granted to our students in 2012. We did not increase tuition rates for our ITT Technical Institute programs of study in 2012 or 2011.

Cost of educational services decreased $14.7 million, or 2.7%, to $538.4 million in the year ended December 31, 2012 compared to $553.1 million in the year ended December 31, 2011. The primary factors that contributed to this decrease included, in order of significance:

- a decrease in compensation costs resulting from fewer employees; and
- a decrease in legal expenses.

Cost of educational services as a percentage of revenue increased 490 basis points to 41.8% in the year ended December 31, 2012 compared to 36.9% in the year ended December 31, 2011. The primary factor that contributed to this increase was a decline in revenue, which was partially offset by decreases in compensation costs and legal expenses.

Student services and administrative expenses decreased $13.3 million, or 3.2%, to $400.9 million in the year ended December 31, 2012 compared to $414.2 million in the year ended December 31, 2011. The principal causes of this decrease were decreases in media advertising expenses and expenses related to student scholarships, which were partially offset by an increase in bad debt expense.

Student services and administrative expenses increased to 31.2% of revenue in the year ended December 31, 2012 compared to 27.6% of revenue in the year ended December 31, 2011. The principal causes of this increase were the decline in revenue and an increase in bad debt expense, which were partially offset by decreases in media advertising expenses and expenses related to student scholarships. Bad debt expense as a percentage of revenue increased to 4.4% in the year ended December 31, 2012 compared to 2.4% in the year ended December 31, 2011, primarily as a result of an increase in the amount of internal student financing that we provided to our students in the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in the amount of internal student financing was primarily due to a decline in the amount of private education loans available to our students in 2012 as a result of the expiration in 2011 of the two private education loan programs that provided the vast majority of private education loans to our students in 2011.

We recorded a loss of $15.2 million in the year ended December 31, 2012 for the impairment of the Revolving Note and Subordinated Note. See Note 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a discussion of the impairment of these assets.

Legal and other investigation costs associated with the CFPB investigation of us and the Securities Litigation were $0.9 million in the year ended December 31, 2012. We did not incur any legal and other investigation costs associated with those matters in the year ended December 31, 2011. See Legal Proceedings and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for further information about these matters.

In the year ended December 31, 2012, we recorded a loss related to loan program guarantees of $101.0 million compared to $23.5 million in the year ended December 31, 2011. The $101.0 million loss in the year ended December 31, 2012 included $79.2 million for additional contingent liabilities related to our guarantee obligations under the 2009 RSA and PEAKS Guarantee and $21.8 million related to the settlement of litigation and the resolution of our guarantee obligations under the 2007 RSA. The $23.5 million loss recorded in the year ended December 31, 2011, related to our guarantee obligations under the 2009 RSA and 2007 RSA. See Off-Balance Sheet Arrangements and Note 10 Variable Interest Entities and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for further information about the RSAs.

Operating income decreased $278.9 million, or 54.8%, to $230.4 million in the year ended December 31, 2012 compared to $509.3 million in the year ended December 31, 2011, primarily as a result of the impact of the factors discussed above in connection with revenue, cost of educational services, student services and administrative expenses, asset impairment and the loss related to loan program guarantees. Our operating margin decreased to 17.9% in the year ended December 31, 2012 compared to 33.9% in the year ended December 31, 2011, primarily due to the impact of the factors discussed above.

Interest income decreased $1.6 million, or 53.5%, to $1.3 million in the year ended December 31, 2012 compared to $2.9 million in the year ended December 31, 2011, primarily due to discontinuing the amortization of the discount on the Subordinated Note. See Note 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a discussion of the Subordinated Note. Interest expense increased $1.9 million, or 104.0%, to $3.7 million in the year ended December 31, 2012 compared to $1.8 million in the year ended December 31, 2011, primarily due to an increase in the effective interest rate under the Amended Credit Agreement.

Our combined federal and state effective income tax rate was 39.0% in the year ended December 31, 2012 compared to 39.4% in the year ended December 31, 2011.

Financial Condition, Liquidity and Capital Resources

Cash and cash equivalents were $215.8 million as of December 31, 2013 compared to $243.5 million as of December 31, 2012. The $27.7 million decrease in cash and cash equivalents as of December 31, 2013 compared to December 31, 2012 was primarily due to a reduction of $90.0 million in outstanding borrowings under the Amended Credit Agreement which was partially offset by net cash flows from operating activities of $77.7 million.

As of December 31, 2013, restricted cash included approximately $2.6 million of funds held by the PEAKS Trust. Those funds can only be used to satisfy the obligations of the PEAKS Trust.

We are required to recognize the funded status of our defined benefit postretirement plans on our balance sheet. We recorded an asset of $27.6 million for the ESI Pension Plan, a non-contributory defined benefit pension plan commonly referred to as a cash balance plan, and a liability of $0.3 million for the ESI Excess Pension Plan, a nonqualified, unfunded retirement plan, on our Consolidated Balance Sheet as of December 31, 2013. In order to determine those amounts, we performed an actuarial valuation of the ESI Pension Plan and ESI Excess Pension Plan (the Pension Plans), and reviewed and updated our key assumptions as part of each valuation, including the discount rate and expected long-term rate of return on the investments.

Effective March 31, 2006, the benefit accruals under the Pension Plans were frozen, such that no further benefits accrue under those plans after March 31, 2006. Participants in the Pension Plans, however, continue to be credited with vesting service and interest according to the terms of the Pension Plans. Total net pension benefit in the year ended December 31, 2013 was $2.1 million, compared to $0.2 million in the year ended December 31, 2012 and $0.9 million in the year ended December 31, 2011. In 2014, we do not expect that our total net pension benefit will be material.

We did not make any contributions to the Pension Plans in 2013 or 2012. We do not expect to make any material contributions to either of the Pension Plans in 2014.

See Note 15 Employee Benefit Plans of the Notes to Consolidated Financial Statements, for a more detailed discussion of the Pension Plans.

Our Consolidated Balance Sheet as of December 31, 2013 included the assets and liabilities of the PEAKS Trust. The assets of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust.

Payments that we are required to make in the future pursuant to our guarantee obligations under the RSAs could have a material adverse effect on our cash flows and liquidity. See *Financing,* for a further discussion of these matters. If we elect to make Discharge Payments in future periods, those payments could impact our liquidity in particular periods. See Private Education Loan Program Obligations, for a further discussion of our guarantee obligations under the RSAs and Discharge Payments.

Capital Resources. Our cash flows are highly dependent upon the receipt of Title IV Program funds. The primary Title IV Programs from which the students at our campuses receive grants, loans and other aid to fund the cost of their education include:

- the FDL program, which represented, in aggregate, approximately 58% of our cash receipts in 2013 and 58% of our cash receipts in 2012; and

- the Pell program, which represented, in aggregate, approximately 24% of our cash receipts in 2013 and 22% of our cash receipts in 2012.

We also receive funds on behalf of our students from state financial aid programs, veterans and military service member benefit programs and other sources, which represented, in aggregate, approximately 13% of our cash receipts in 2013 and approximately 16% in 2012.

Under a provision of the HEA commonly referred to as the 90/10 Rule, a proprietary institution, such as each of our institutions, must not derive more than 90% of its applicable revenue in a fiscal year, on a cash accounting basis, from Title IV Programs. If an institution exceeds the 90% threshold for any single fiscal year, that institution would be placed on provisional certification status for the institution s following two fiscal years. In addition, if an institution exceeds the 90% threshold for two consecutive fiscal years, it would be ineligible to participate in Title IV Programs as of the first day of the following fiscal year and would be unable to apply to regain its eligibility until the end of the second subsequent fiscal year. Payments that we made under the 2007 RSA and 2009 RSA impact the 90/10 Rule calculation by reducing the amount of cash receipts from sources other than Title IV Programs and total cash receipts. As a result of the Consolidation, disbursements of the private education loans that we received under the PEAKS Program are no longer considered cash proceeds from external sources for purposes of determining total cash receipts in the 90/10 Rule calculation. The amount of payments received by the PEAKS Trust from borrowers is included, however, in both the total receipts component and the cash receipts from sources other than Title IV Programs component of the 90/10 Rule calculation. In our 2013 and 2012 fiscal years, none of our institutions derived more than approximately 83% of its revenue from Title IV Programs under the 90/10 Rule calculation. In the aggregate, we derived approximately 82% of our revenue in 2013 and 80% of our revenue in 2012 from Title IV Programs under the 90/10 Rule calculation. Cash receipts from Title IV Programs as a percentage of our total cash receipts were approximately 83% in 2013 and 80% in 2012.

Federal regulations affect the timing of our receipt and disbursements of Title IV Program funds. These regulations require institutions to disburse all Title IV Program funds by payment period. For most of our campuses, the payment period is an academic term. Our campuses generally disburse the first installment of an FDL program loan to a first-year undergraduate student who was a first-time borrower 30 or more days after the student begins his or her education program. We disburse Title IV Program funds to other students enrolled in education programs ten days before the start of each academic term.

During the fourth quarter of 2012, we introduced an institutional scholarship program, called the Opportunity Scholarship, which is intended to help reduce the cost of an ITT Technical Institute education and increase student access to our programs of study. Beginning with the June 2013 academic quarter, the Opportunity Scholarship was being offered to students at all of the ITT Technical Institute campuses. As a result of our institutional scholarships and awards granted in 2013, we received minimal cash payments from private education loan lenders related to our students cost of education in 2013.

As an institutional scholarship, in addition to us not receiving any cash payment when amounts are awarded under the Opportunity Scholarship, students are not obligated to make payments to us of amounts awarded under the Opportunity Scholarship and, therefore, the amounts receivable from students to us, as well as our revenue, decreased in 2013, as we began awarding the Opportunity Scholarship at all of our ITT Technical Institute campuses. The Opportunity Scholarships awarded in 2013 and, to a lesser extent, other factors had the effect of reducing our Core Operations revenue per student by approximately 5.0 percent in 2013 compared to 2012.

In the year ended December 31, 2013, we made guarantee payments under the RSAs and Payments on Behalf of Borrowers of $16.6 million and recovered $0.1 million related to the RSAs. We paid $46.0 million in January 2013 to settle the litigation and absolve us from any further guarantee obligations under the 2007 RSA. In March 2014, we paid $40.0 million pursuant to a letter agreement, dated as of March 17, 2014, that we entered into with the trustee under the PEAKS Program and the holders of the PEAKS Senior Debt (the Letter Agreement). In accordance with the terms of the Letter Agreement, the $40.0 million is considered to be a payment under the PEAKS Guarantee. See Private Education Loan Program Obligations, for a further discussion of the Letter Agreement.

Inclusive of the $40.0 million payment, we made guarantee and other payments of $100.8 million, offset $0.2 million against that amount and are due recoveries of $0.5 million related to the RSAs in the nine months ended September 30, 2014. We estimate that we could make guarantee payments related to the RSAs in the three months ended December 31, 2014 of approximately $72.2 million, which includes the $50.0 million payment we made on October 9, 2014. We believe that recoveries of charged-off loans that we expect to offset against those required payments in the three months ended December 31, 2014 could be approximately $0.3 million. See Private Education Loan Program Obligations and Note 13 - Debt and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the RSAs and contingent liabilities.

The PEAKS Trust s ability to service the PEAKS Senior Debt is based on payments received from borrowers on the PEAKS Trust Student Loans and collections on the PEAKS Trust Student Loans that have defaulted. To the extent that those payments and collections from borrowers on the PEAKS Trust Student Loans are not sufficient to service the PEAKS Senior Debt, we are required to make payments under the PEAKS Guarantee. Based on various assumptions, including the historical and projected performance and collection of the PEAKS Trust Student Loans, we believe that we will make payments under the PEAKS Guarantee (related to the PEAKS Senior Debt and the other items that we guarantee) of approximately $164.0 million in 2014, approximately $9.2 million in 2015 and approximately $40.8 million in January 2020, when the PEAKS Senior Debt matures.

Our Consolidated Balance Sheet as of December 31, 2013 included the assets and liabilities of the PEAKS Trust. The assets of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust. We have significant payment obligations under the PEAKS Guarantee. See Private Education Loan Program Obligations and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of our obligations under the PEAKS Guarantee.

We made guarantee payments of $4.6 million, offset $0.2 million against that amount and are due recoveries of $0.5 million related to the 2009 RSA in the nine months ended September 30, 2014, and estimate that we could make guarantee payments of $4.4 million and offset $0.3 million against those payments under the 2009 RSA in the three months ended December 31, 2014. See Private Education Loan Program Obligations, for a further discussion of the projected guarantee payments under the 2009 RSA for periods after 2014.

In addition, we are required to submit the ED Letter of Credit in the amount of $79.7 million on or before November 4, 2014. Under the Amended Credit Agreement, the aggregate commitment of the lenders is $135.0 million and the portion of the aggregate commitment that may be used by us for letters of credit is $85.0 million. If, however, we have not caused the issuance of the ED Letter of Credit by November 15, 2014, the aggregate commitments of the lenders will be reduced to $100.0 million. We are required to provide cash collateral in an amount equal to 109% of the face amount of the ED Letter of Credit and in an amount equal to 103% of the face amount of all other letters of credit. See *Financing,* for a discussion of the Amended Credit Agreement. Based on the required amount of the ED Letter of Credit and other letters of credit outstanding as of the date of this filing, the amount of the cash collateral that we will have to provide is approximately $89.3 million.

Operations. Net cash flows from operating activities decreased $29.9 million to $77.7 million in the year ended December 31, 2013 compared to $107.6 million in the year ended December 31, 2012. The decrease in net cash flows from operating activities was primarily due to a decrease in funds received as a result of lower student enrollments and the $46.0 million payment that we made to settle the litigation and absolve us from any further obligations under the 2007 RSA. The decrease was partially offset by lower income tax and compensation-related payments.

Accounts receivable less allowance for doubtful accounts was $99.5 million as of December 31, 2013 compared to $78.9 million as of December 31, 2012. Days sales outstanding increased 9.1 days to 32.7 days at December 31, 2013 compared to 23.6 days at December 31, 2012. Our accounts receivable balance and days sales outstanding at December 31, 2013 increased primarily due to, in order of significance:

- an increase in internal student financing as a result of a decrease in the amount of funds received from private education loans made to our students by third-party lenders and less than full utilization of the Opportunity Scholarship by our students (see *Student Financing Update*); and to a lesser extent, changes implemented to the Pell program that eliminated multiple awards in a 12-month period and adjusted the lifetime limits, both of which began to impact our students in 2012.

The amount of scholarships and other awards provided to our students increased 158.9% to $172.2 million in 2013 compared to $66.5 million in 2012.

In the year ended December 31, 2012, net cash flows from operating activities decreased $281.1 million to $107.6 million compared to $388.7 million in the year ended December 31, 2011, primarily due to:

lower student enrollments; and

a significant decrease in the amount of funds received from private education loans made to our students by third-party lenders (see *Student Financing Update*).

Investing. In the year ended December 31, 2013, we spent $0.7 million to renovate, expand or construct buildings compared to $1.0 million in 2012 and $4.1 million in 2011.

Capital expenditures, excluding facility and land purchases and facility construction, totaled $4.5 million in 2013, $17.2 million in 2012 and $26.9 million in 2011. These expenditures consisted primarily of classroom and laboratory equipment (such as computers and electronic equipment), classroom and office furniture, software and leasehold improvements.

In the year ended December 31, 2012, approximately $148.0 million of investments, net of purchases during the year, matured or were sold. We did not hold any investments as of December 31, 2013 or 2012. We also spent $7.2 million in 2013 to acquire all of the membership interests of Cable Holdings. See Note 4 Acquisitions of the Notes to Consolidated Financial Statements, for a more detailed discussion of the acquisition.

We plan to continue to upgrade and modify, whether by expansion or reduction, the space of our current facilities, and upgrade equipment during 2014. Cash generated from operations is expected to be sufficient to fund our capital expenditure requirements.

Financing. On March 21, 2012, we entered into a credit agreement (the Credit Agreement) that provided for a $325.0 million senior revolving credit facility. We entered into amendments to the Credit Agreement on March 31, 2014, May 29, 2014, June 30, 2014 (the Third Amendment), July 30, 2014 (the Fourth Amendment) and September 15, 2014 (the Fifth Amendment), and we entered into a Consent to Credit Agreement, which is effective upon the delivery by us to the lenders of our audited consolidated financial statements included in this Annual Report on Form 10-K (the Consent). The Credit Agreement, as so amended and including the Consent, is referred to herein as the Amended Credit Agreement. The Amended Credit Agreement has a maturity date of March 21, 2015.

A portion of the borrowings under the Credit Agreement were used to prepay the entire outstanding indebtedness under a prior credit agreement which was terminated on March 21, 2012. In addition to the prepayment of the outstanding indebtedness under the prior credit agreement, borrowings under the Amended Credit Agreement are used for general corporate purposes.

Under the Amended Credit Agreement, the aggregate commitment of the lenders, effective June 30, 2014, is reduced to $135.0 million, and the portion of the commitments available for letters of credit is increased from $25.0 million to $85.0 million. Certain letters of credit in an aggregate amount of approximately $2.4 million previously issued by JPMorgan Chase Bank, N.A. are deemed to be letters of credit issued pursuant to the Amended Credit Agreement. If we have not caused the issuance of the ED Letter of Credit by November 15, 2014, the aggregate commitments of the lenders will be reduced to $100.0 million. In addition, the commitments of the lenders under the Amended Credit Agreement will be reduced to the extent that borrowings are repaid by us using proceeds from certain types of transactions specified in the Fourth Amendment and the Fifth Amendment, as described further below.

Borrowings under the Amended Credit Agreement bear interest, at our option, at the London Interbank Offered Rate (LIBOR) plus an applicable margin or at an alternative base rate, as defined under the Amended Credit Agreement, plus an applicable margin. The applicable margin for borrowings under the Amended Credit Agreement is determined based on the ratio of our total Indebtedness (as defined in the Amended Credit Agreement and which primarily includes outstanding borrowings, recorded contingent liabilities related to our guarantee obligations, letters of credit and surety bonds) to EBITDA (as defined in the Amended Credit Agreement) (the Leverage Ratio) as of the end of each fiscal quarter. We also pay a commitment fee on the amount of the unutilized commitments under the Amended Credit Agreement. The amount of the commitment fee is determined based on the Leverage Ratio as of the end of each quarter. The effective interest rate on our borrowings was approximately:

3.60% per annum in the year ended December 31, 2013;

2.40% per annum in the year ended December 31, 2012; and

1.20% per annum in the year ended December 31, 2011.

The commitment fee under the Amended Credit Agreement was 0.40% as of December 31, 2013.

In addition to the participation fee required to be paid by us pursuant to the original terms of the Credit Agreement related to letters of credit, which accrues at the same rate used to determine the interest rate applicable to Eurodollar Revolving Loans (as defined in the Amended Credit Agreement), the Fifth Amendment provides that an additional participation fee is required to be paid by us related to the ED Letter of Credit, which will accrue at a ticking fee rate on the average daily amount of the lenders letter of credit exposure with respect to the ED Letter of Credit. The ticking fee rate is defined as:

0.00% per annum for the period from September 15, 2014 through and including March 21, 2015;

1.00% per annum for the period from March 22, 2015 through and including March 21, 2016;

2.00% per annum for the period from March 22, 2016 through and including March 21, 2017;

3.00% per annum for the period from March 22, 2017 through and including March 21, 2018;

4.00% per annum for the period from March 22, 2018 through and including March 21, 2019; and

5.00% per annum for the period from March 22, 2019 through November 15, 2019.

The Amended Credit Agreement contains, among other things, covenants, representations and warranties and events of default customary for credit facilities. We are required to maintain compliance with a maximum Leverage Ratio, a minimum fixed charge coverage ratio, a minimum liquidity amount, and several covenants related to the ED s regulations. We were in compliance with those covenants as of December 31, 2013, after giving effect to the Third Amendment and the Fourth Amendment. The Third Amendment provides that noncompliance with the Leverage Ratio as of the end of the fiscal quarters ending March 31, 2013, June 30, 2013 and September 30, 2013, and noncompliance with the fixed charge coverage ratio as of the end of the fiscal quarters ending March 31, 2013, June 30, 2013, September 30, 2013, and December 31, 2013 (in each case, before giving effect to the Third Amendment) have been waived by the lenders. In addition, among other things, the Third Amendment, the Fourth Amendment, the Fifth Amendment and the Consent, taken together:

provided that our consolidated financial statements (and related certificates) as of and for the fiscal year ended December 31, 2013, did not have to be furnished by us to the lenders until October 15, 2014;

provide that our condensed consolidated financial statements (and related certificates) as of and for the fiscal quarter ended March 31, 2014, do not have to be furnished by us to the lenders until November 15, 2014;

provide that our condensed consolidated financial statements (and related certificates) as of and for the fiscal quarter ended June 30, 2014, do not have to be furnished by us to the lenders until November 15, 2014;

provide that our condensed consolidated financial statements (and related certificates) as of and for the fiscal quarter ended September 30, 2014, do not have to be furnished by us to the lenders until December 15, 2014;

amend certain covenants to allow for the Consolidation beginning on February 28, 2013, and for other factors; and

waive certain defaults related to our financial reporting.

The Amended Credit Agreement:

- is secured by a pledge of the equity interests of our subsidiaries;
- is guaranteed by one of our subsidiaries;
- is secured by security interests in substantially all of our personal property and the personal property of the subsidiary guarantor; and
- is secured by the Mortgaged Property.

The Fourth Amendment provides that an event of default under the Amended Credit Agreement will occur, if, among other things, the ED imposes a delay of more than five days in our receipt of Title IV Program funds. The Fifth Amendment provides that an event of default under the Amended Credit Agreement will occur if, among other things, we do not engage a financial advisor acceptable to the administrative agent before November 15, 2014 (or another date not later than December 15, 2014, if acceptable to the administrative agent). Based on our discussions with the administrative agent, we understand that the financial advisor would be retained to assist us in our ongoing efforts to identify and secure alternative financing.

The Fifth Amendment provides that the ED Letter of Credit will not be issued unless we have previously delivered certain real estate due diligence items related to the Mortgaged Property. In addition, the Fifth Amendment allows for the ED Letter of Credit, if issued, to have a term ending not later than November 15, 2019.

Under the Amended Credit Agreement, we are required to provide cash collateral (in an amount equal to 109% of the face amount of the ED Letter of Credit and 103% of the face amount of all other letters of credit) for any letter of credit issued under the Amended Credit Agreement:

- after July 30, 2014, immediately upon issuance, except for the ED Letter of Credit, for which cash collateral is not required, until the earlier of December 31, 2014 or when net cash proceeds are received from certain transactions described in the next paragraph; and
- before July 30, 2014, by the earlier of December 31, 2014 or when net cash proceeds are received from certain transactions described in the next paragraph.

All amounts posted as cash collateral for letters of credit will be treated as cash for purposes of determining our compliance with the minimum liquidity covenant of the Amended Credit Agreement.

Under the Fourth Amendment and the Fifth Amendment, in the event that any net cash proceeds are received by us or a material subsidiary of ours in connection with any sale, transfer, lease or other disposition of the Mortgaged Property, including in connection with any sale and leaseback transaction, any mortgage financing or similar transaction with respect to the Mortgaged Property or the incurrence by us of indebtedness that is not permitted under the Amended Credit Agreement, those net cash proceeds will:

first, be delivered to the administrative agent in order to cash collateralize all then outstanding letters of credit under the Amended Credit Agreement, until such time as the administrative agent holds cash collateral equal to 109% of the face amount of the ED Letter of Credit and 103% of the face amount of all other letters of credit, or if the ED Letter of Credit has not yet been issued when the net cash proceeds are received, to be held by the administrative agent until the issuance of the ED Letter of Credit and application of the proceeds to cash collateral; and

second, be used to repay outstanding borrowings under the Amended Credit Agreement, which repayments will be accompanied by a corresponding pro rata reduction of the commitment of each lender under the Amended Credit Agreement.

The Fourth Amendment also implements additional restrictions on us, including, without limitation:

the exception to the limitation on asset dispositions not otherwise permitted under the Amended Credit Agreement is reduced from $75.0 million in the aggregate during the term of the Amended Credit Agreement to $5.0 million in the aggregate during the period from July 30, 2014 through the remaining term of the Amended Credit Agreement, and all of those asset dispositions must be for fair market value and an adequate cash purchase consideration, as reasonably determined by the administrative agent, provided that those limitations do not apply to an asset disposition of the Mortgaged Property, if that asset disposition generates net cash proceeds of at least 75% of the appraised value of that Mortgaged Property;

in addition to the existing limitation on sale and leaseback transactions that the net cash proceeds received therefrom may not exceed $125.0 million in the aggregate during the term of the Amended Credit Agreement, any sale and leaseback transaction must be for fair market value and an adequate cash purchase consideration, as reasonably determined by the administrative agent, provided that any sale and leaseback transaction of the Mortgaged Property will be deemed to be for fair market value and an adequate cash purchase consideration, if it generates net cash proceeds of at least 75% of the appraised value of that Mortgaged Property;

the permitted indebtedness consisting of secured indebtedness at any time outstanding (and not otherwise permitted by the Amended Credit Agreement) is reduced from $25.0 million to $5.0 million in aggregate principal amount; and

permitted liens to secure indebtedness, obligations and/or liabilities at any one time outstanding (which liens are not otherwise permitted by the Amended Credit Agreement) may not secure debt in excess of $5.0 million in aggregate principal amount, reduced from the original $25.0 million.

If any collateral is sold in a transaction permitted under the Amended Credit Agreement or is financed by indebtedness permitted under the Amended Credit Agreement, the administrative agent will release the mortgage or other security interest in that collateral.

As of December 31, 2013, the outstanding borrowings under the Amended Credit Agreement totaled $50.0 million and were classified as a current liability, because we believed it was probable that we would not be in compliance with certain covenants under the Amended Credit Agreement during the 12 months following December 31, 2013. If we are not in compliance with one or more covenants and are unable to obtain a waiver of our noncompliance or an amendment to the Amended Credit Agreement that would allow us to be in compliance with those covenants or otherwise not be in default under the Amended Credit Agreement, the lenders would have various remedies, including:

- the lending commitments under the Amended Credit Agreement may be terminated;

- our ability to request the issuance of letters of credit and to obtain amendments, extensions or renewals of letters of credit already issued under the Amended Credit Agreement may be terminated;

- all then outstanding borrowings and other amounts owed under the Amended Credit Agreement may be declared immediately due and payable; and

- we could be required to provide cash collateral (in an amount equal to 109% of the face amount of the ED Letter of Credit and 103% of the face amount of all other letters of credit) for our obligations with respect to any outstanding letters of credit, if that cash collateral has not already been posted.

In the event that we or our subsidiary guarantor do not pay in full, upon demand, all of our outstanding borrowings and other amounts owed under the Amended Credit Agreement or we, or our subsidiary guarantor, do not provide, upon demand, the cash collateral for our letter of credit obligations, the lenders would be entitled to recourse against the collateral security, including the Mortgaged Property, that we and our subsidiary guarantor have provided, in order to obtain payment of amounts we owe or are required to provide as cash collateral.

For the period February 28, 2013 through December 31, 2013, we have consolidated the PEAKS Trust in our consolidated financial statements. See Note 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the Consolidation. In January 2010, the PEAKS Trust issued PEAKS Senior Debt in the aggregate principal amount of $300.0 million to investors. The PEAKS Senior Debt matures in January 2020 and bears interest at a variable rate based on the LIBOR, plus a 550 basis point margin. The minimum LIBOR rate applied to the PEAKS Senior Debt cannot be less than 2.00%. There are no scheduled principal repayment requirements for the PEAKS Senior Debt prior to the January 2020 maturity date. Under the terms of the PEAKS Program documents, however, amounts received on a monthly basis by the PEAKS Trust that exceed the fees and expenses of the PEAKS Trust then due and the interest then due on the PEAKS Senior Debt are to be paid to reduce the outstanding principal balance of the PEAKS Senior Debt. We estimate that the amounts received in 2014 by the PEAKS Trust from PEAKS Trust Student Loan borrowers that could be used to reduce the outstanding principal balance of the PEAKS Senior Debt, will not be material. The assets of the PEAKS Trust (which include, among other assets, the PEAKS Trust Student Loans) serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt. Payment of the PEAKS Senior Debt may be accelerated by the indenture trustee of the PEAKS Trust or by the holders of the PEAKS Senior Debt in response to certain events of default under the PEAKS Indenture, including, among other things:

- a payment default by the PEAKS Trust;
- a default in the performance or observation of the PEAKS Trust s covenants, agreements or conditions under the PEAKS Indenture;
- a breach of our obligations under the PEAKS Guarantee; and
- certain bankruptcy events with respect to the PEAKS Trust or us.

An acceleration of the payment of the PEAKS Senior Debt would result in an acceleration of our obligation to pay the full amount of the PEAKS Senior Debt pursuant to the terms of the PEAKS Guarantee, if the PEAKS Trust was not able to make that payment (and we believe that it is unlikely that the PEAKS Trust would be able to make that payment). The acceleration of our obligation to pay the full amount of the PEAKS Senior Debt, and/or our inability to make that payment, could result in cross-defaults under the Amended Credit Agreement.

The PEAKS Trust must maintain a minimum required Asset/Liability Ratio. The minimum required Asset/Liability Ratio is 1.05/1.00. The applicable required Asset/Liability Ratio as of each monthly measurement date, however, is based on our compliance, as of the prior quarterly measurement date, with certain metrics specified in the PEAKS Program documents, including maximum leverage ratios and minimum liquidity amounts. If we are not in compliance with those metrics as of the end of a fiscal quarter, the required Asset/Liability Ratio increases to 1.40/1.00, until the monthly measurement date following the end of a succeeding quarter at which we are in compliance with those metrics. As a result of the Consolidation and other factors, we were not in compliance with those metrics as of December 31, 2013, and we do not expect to be in compliance with those metrics prior to December 31, 2014.

If the amount of the assets of the PEAKS Trust does not equal or exceed the outstanding PEAKS Senior Debt by the applicable required Asset/Liability Ratio on a monthly measurement date, we are required to make a payment under the PEAKS Guarantee in an amount that would reduce the outstanding principal balance of the PEAKS Senior Debt to the extent necessary to cause the ratio of the assets of the PEAKS Trust to the resulting outstanding PEAKS Senior Debt to equal or exceed the applicable required Asset/Liability Ratio. See Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the PEAKS Guarantee.

As a consequence of the restatement of our unaudited condensed consolidated financial statements in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2013, June 30, 2013 and September 30, 2013, certain quarterly reports that we were required to deliver to the indenture trustee of the PEAKS Trust under the PEAKS Guarantee were inaccurate. We delivered corrected quarterly reports to the indenture trustee on October 9, 2014. If we had delivered accurate quarterly reports, or with respect to periods in 2014 through June 30, 2014, delivered quarterly reports, to the indenture trustee of the PEAKS Trust, we believe the indenture trustee would have made payment demands beginning in April 2013, requiring us to make additional payments under the PEAKS Guarantee totaling approximately $60.3 million in the aggregate, in order to maintain an Asset/Liability Ratio of 1.40/1.00. On October 9, 2014, we made a guarantee payment of $50.0 million, which payment, along with other payments that we have made to the PEAKS Trust in recent months, included amounts that would have become due between April 2013 and September 2014, had we delivered accurate quarterly reports. The delivery of inaccurate quarterly reports constituted a breach of the PEAKS Guarantee and an event of default under the PEAKS Indenture. In the event of a default under the PEAKS Indenture, the payment of the entire amount of the PEAKS Senior Debt could be accelerated, which would trigger our obligation to pay the full amount of the PEAKS Senior Debt pursuant to our obligations under the PEAKS Guarantee, additional remedies could be sought against us and there could be a cross-default under the Amended Credit Agreement, any of which would have a material adverse effect on our results of operations, financial condition and cash flows. We believe that the delivery of the corrected quarterly reports and making the additional guarantee payments satisfied our obligations under the PEAKS Guarantee with respect to these matters and cured the event of default under the PEAKS Indenture. We cannot predict, however, whether the holders of the PEAKS Senior Debt will assert other breaches of the PEAKS Guarantee by us or assert that any breach of the PEAKS Guarantee or event of default under the PEAKS Indenture was not properly cured.

We estimate that we have made, and will make, payments under the PEAKS Guarantee of approximately $159.5 million in the year ending December 31, 2014 to cause the PEAKS Trust to maintain the applicable required Asset/Liability Ratio. That estimated amount includes the:

- $40.0 million that we paid in March 2014 pursuant to the Letter Agreement, which was applied primarily to make a mandatory prepayment of the PEAKS Senior Debt (see Note 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the Letter Agreement);

- payments totaling approximately $51.7 million that we made from July 2014 through September 2014 to satisfy our obligations under the PEAKS Guarantee with respect to the increased minimum required Asset/Liability Ratio in prior periods; and

- $50.0 million that we paid in October 2014, as described in the immediately preceding paragraph.

The amount of the assets of the PEAKS Trust for purposes of computing the Asset/Liability Ratio was $282.0 million as of December 31, 2013 and $211.6 million as of June 30, 2014. The outstanding principal balance of the PEAKS Senior Debt was approximately $255.6 million as of December 31, 2013 and $214.5 million as of June 30, 2014. The carrying value of the PEAKS Senior Debt as was approximately $229.2 million as of December 31, 2013 and $190.9 million as of June 30, 2014. We recorded $157.9 million of the total carrying value of the PEAKS Senior Debt as a current liability as of December 31, 2013, which represented our estimate of the amount of the carrying value that would have been due in the 12 months following December 31, after giving consideration to the effects of the restatement, as described above. The PEAKS Senior Debt was recorded on our consolidated balance sheet as of February 28, 2013 at its estimated fair value on that date, which was approximately $226.1 million. The outstanding principal balance of the PEAKS Senior Debt as of February 28, 2013 was approximately $257.5 million. The $31.4 million difference between the estimated fair value and the outstanding principal balance of the PEAKS Senior Debt as of February 28, 2013 was recorded as an accrued discount on our consolidated balance sheet and will be recognized as Interest expense in our Consolidated Statements of Income using an effective interest rate method over the term of the PEAKS Senior Debt. The effective interest rate on the PEAKS Senior Debt was approximately 9.90% per annum in the year ended December 31, 2013. We recognized interest expense on the PEAKS Senior Debt of $21.3 million in the year ended December 31, 2013, which included approximately $4.9 million of discount accretion.

Under the Repurchase Program, our Board of Directors has authorized us to repurchase shares of our common stock in the open market or through privately negotiated transactions in accordance with Rule 10b-18 of the Exchange Act. The following table sets forth our share repurchase activity in the periods indicated:

	Year Ended December 31, 2013	2012	2011
Repurchase authorization at beginning of period	7,771,025	5,796,725	4,836,725
Additional repurchase authorization	0	5,000,000	5,000,000
Number of shares repurchased	0	(3,025,700)	(4,040,000)
Repurchase authorization at end of period	7,771,025	7,771,025	5,796,725
Total cost of shares repurchased (in millions)	$ 0.0	$ 207.9	$ 282.7
Average cost per share	$ 0.00	$ 68.72	$ 69.98

Approximately 7.8 million shares remained available for repurchase under the Repurchase Program as of December 31, 2013.

There were no proceeds from the exercise of stock options in the year ended December 31, 2013 compared to $8.4 million in the year ended December 31, 2012 and $5.6 million in the year ended December 31, 2011. Excess tax benefits from the exercise of stock options were $0.0 million in the year ended December 31, 2013 compared to $1.4 million in the year ended December 31, 2012 and $1.2 million in the year ended December 31, 2011.

Based on our current projections, we believe that cash generated from operations will be sufficient for us to satisfy our RSA payments, letters of credit cash collateralization, working capital, loan repayment and capital expenditure requirements over the 12-month period following the date that this Annual Report on Form 10-K was filed with the SEC. We also believe that any reduction in cash and cash equivalents that may result from their use to make payments under the RSAs, provide cash collateral for letters of credit, construct facilities or repay loans will not have a material adverse effect on our expansion plans, planned capital expenditures, ability to meet any applicable regulatory financial responsibility standards or ability to conduct normal operations over the 12-month period following the date that this Annual Report on Form 10-K was filed with the SEC. Our projections, however, are estimates, which are based on numerous assumptions and, therefore, may not prove to be accurate or reliable and involve a number of risks and uncertainties.

Student Financing Update. During the fourth quarter of 2012, we introduced an institutional scholarship program, called the Opportunity Scholarship, which is intended to help reduce the cost of an ITT Technical Institute education and increase student access to our programs of study. As of June 30, 2013, the Opportunity Scholarship was being offered to students at all of the ITT Technical Institute campuses. We believe that the Opportunity Scholarship has and will continue to reduce our students need and use of private education loans, as well as decrease the internal student financing that we provide to our students. As an institutional scholarship, our revenue is reduced by the amount of the Opportunity Scholarship awarded. In addition, no cash payments are received and students are not obligated to make payments to us of the amounts awarded under the Opportunity Scholarship. We believe that the amounts receivable from students to us will decrease in future periods as more students utilize the Opportunity Scholarship, instead of internal student financing.

Our revenue decreased in the year ended December 31, 2013 compared to the prior year, partially as a result of the increase in institutional scholarships and awards provided to our students. As a result of the increase in institutional scholarships and awards, our revenue decreased $108.3 million in the year ended December 31, 2013 compared to the year ended December 31, 2012. The increase in institutional scholarships and awards in the year ended December 31, 2013 was primarily due to the introduction of the Opportunity Scholarship at the vast majority of the ITT Technical Institute campuses in the academic quarter than began in March 2013.

We believe that the amount of institutional scholarships that we expect to award in 2014, and, to a lesser extent, other factors will have the effect of reducing our Core Operations revenue per student in 2014 compared to 2013.

In 2013 and 2012, we increased the amount of internal student financing that we provided to our students. The internal student financing that we provide to our students consists of non-interest bearing, unsecured credit extended to our students and is included in Accounts receivable, net on our Consolidated Balance Sheets. As of December 31, 2013, our accounts receivable less allowance for doubtful accounts increased $20.6 million, or 26.1%, to $99.5 million compared to $78.9 million as of December 31, 2012, primarily due to:

- the increase in the amount of internal financing that we provided to our students since the private education loan programs expired in 2011; and
- less than full utilization of the Opportunity Scholarship by our students.

The internal student financing provided to a student is generally due and payable by the student at the end of the student s academic year (which is generally nine months) or enrollment, whichever occurs first. Both the delay in our receipt of internal student financing payments compared to our receipt of private education loan proceeds and the increased amount of internal student financing that we provide to our students have negatively impacted our liquidity and cash flows from operating activities. The increased amount of internal student financing that we have provided to our students has also exposed us to greater credit risk. In addition, we have the risk of collection with respect to our internal student financing which resulted in an increase in our bad debt expense as a percentage of revenue in the year ended December 31, 2013 to 6.3% compared to 4.4% in the year ended December 31, 2012. The 10.5-day increase in our days sales outstanding to 34.3 days at December 31, 2013 compared to 23.8 days at December 31, 2012 was primarily attributable to:

- the increase in internal student financing caused by a decrease in the amount of funds received from private education loans made to our students by third-party lenders and less than full utilization of the Opportunity Scholarship by our students; and
- to a lesser extent, changes implemented to the Pell program that eliminated multiple awards in a 12-month period and adjusted the lifetime limits, both of which began to impact our students in 2012.

We plan to continue offering the Opportunity Scholarship and other scholarships which we believe will reduce the amount of internal student financing that we provide to our students. The increased use of institutional scholarships and awards by our students and any additional internal student financing provided to our students could result in a continuation of the adverse factors that are described above, including a material adverse effect on our financial condition and cash flows.

Contractual Obligations

The following table sets forth the specified contractual obligations as of December 31, 2013:

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
			(In thousands)		
Operating lease obligations	$ 156,047	$ 44,714	$ 66,521	$ 32,366	$ 12,446
Debt under Amended Credit Agreement [a]	53,296	2,474	50,822	0	0
PEAKS Trust senior debt[b]	295,338	176,907	36,277	26,523	55,631
Claims and contingencies-2009 RSA[c]	130,847	9,009	30,311	91,527	0
Total	$ 635,528	$ 233,104	$ 183,931	$ 150,416	$ 68,077

(a) The Debt under Amended Credit Agreement represents the borrowings under the Amended Credit Agreement and assumes that the $50.0 million outstanding balance under the Amended Credit Agreement as of December 31, 2013 will be outstanding at all times through the date of maturity. The amounts shown include the principal payments that will be due upon maturity as well as interest payments and commitment fees. Interest payments and commitment fees have been calculated based on their scheduled payment dates using the interest rate charged on our borrowings and the rate charged on unutilized commitments as of December 31, 2013.

(b) The PEAKS Trust senior debt represents the PEAKS Senior Debt issued by the PEAKS Trust. Beginning on February 28, 2013, the PEAKS Trust was consolidated in our consolidated financial statements, and the PEAKS Senior Debt was included on our Consolidated Balance Sheet as of December 31, 2013. There is no separate liability recorded on our Consolidated Balance Sheet as of December 31, 2013 for the PEAKS Guarantee, because this liability was eliminated upon the Consolidation. We do, however, have significant payment obligations under the PEAKS Guarantee, as further discussed under Private Education Loan Program Obligations. See also Note 10 Variable Interest Entities and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for additional information on the PEAKS Guarantee and the Consolidation. The assets of the PEAKS Trust serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt. There are no scheduled principal repayment requirements for the PEAKS Senior Debt prior to the January 2020 maturity date. The amounts shown in the above table represent our estimate of the total PEAKS Senior Debt interest and principal payments that may be made by the PEAKS Trust in the periods indicated. We estimated the interest due on the PEAKS Senior Debt in each of the periods based on our estimate of the outstanding balance of the PEAKS Senior Debt during those periods. Interest payments have been calculated using the interest rate charged on the PEAKS Senior Debt as of December 31, 2013. We estimated the amount of PEAKS Senior Debt principal payments in each of the periods based on an estimate of the excess cash flows generated by the PEAKS Trust. Cash flows generated by the PEAKS Trust in any month that exceed the amounts needed to pay various administrative fees and expenses and the interest due on the

PEAKS Senior Debt for the month must be applied to reduce the outstanding balance on the PEAKS Senior Debt. We also considered whether any payments would be required to be made under the PEAKS Guarantee in order to maintain the required Asset/Liability Ratio. Payments made under the PEAKS Guarantee to maintain the required Asset/Liability Ratio reduce the amount of the outstanding PEAKS Senior Debt and have been included as principal payments in the above table. In order to estimate the PEAKS Senior Debt interest and principal payments shown above, we made certain assumptions regarding the timing and amount of the cash flows generated by the PEAKS Trust. The cash flows of the PEAKS Trust are dependent on the performance of the PEAKS Trust Student Loans and, therefore, are subject to change. See Note 10 Variable Interest Entities, Note 13 Debt and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the PEAKS Senior Debt and PEAKS Guarantee.

(c) The $130.8 million in the Claims and contingencies-2009 RSA line item represents our estimate of the amounts that we believe we will pay in the periods indicated related to our guarantee obligations under the 2009 RSA. These estimated amounts were included in our calculation of the amount to record as contingent liabilities, as were estimated collections from charged-off loans. Our contingent liability for the 2009 RSA includes the total estimated payments and estimated recoveries, net of a $9.0 million discount representing the time value of money, and was included in Other current liabilities

27

and Other liabilities on our Consolidated Balance Sheet as of December 31, 2013. The amounts shown in the table do not include amounts from the recovery of charged-off loans under the 2009 Loan Program, which we estimate could be approximately $5.0 million and paid to us over the seven year period following December 31, 2013. See Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for additional information on the 2009 RSA. The timing and amount of the estimated payments shown in the above table were based on various assumptions and, therefore, are subject to change.

The table above does not reflect unrecognized tax benefits of $22.3 million and accrued interest related to unrecognized tax benefits of $6.4 million, because we cannot reasonably predict the timing of the resolution of the related tax positions beyond 2014. See Note 14 Income Taxes of the Notes to Consolidated Financial Statements, for additional information on the unrecognized tax benefits as of December 31, 2013.

Off-Balance Sheet Arrangements

As of December 31, 2013, we leased our non-owned facilities under operating lease agreements. A majority of the operating leases contain renewal options that can be exercised after the initial lease term. Renewal options are generally for periods of one to five years. All operating leases will expire over the next 10 years and management believes that:

- those leases will be renewed or replaced by other leases in the normal course of business;
- we may purchase the facilities represented by those leases; or
- we may purchase or build other replacement facilities.

There are no material restrictions imposed by the lease agreements, and we have not entered into any significant guarantees related to the leases. We are required to make additional payments under the terms of certain operating leases for taxes, insurance and other operating expenses incurred during the operating lease period.

As part of our normal course of operations, one of our insurers issues surety bonds for us that are required by various education authorities that regulate us. We are obligated to reimburse our insurer for any of those surety bonds that are paid by the insurer. As of December 31, 2013, the total face amount of those surety bonds was approximately $19.3 million. As of December 31, 2013, we also had issued approximately $2.2 million of letters of credit to our workers compensation insurers.

As of December 31, 2013, we concluded that we were not required to consolidate the 2009 Entity in our consolidated financial statements. Based on preliminary loan performance data as of September 30, 2014 that we have received regarding the private education loans made under the 2009 Loan Program, however, we believe that, as of September 30, 2014, the 2009 Loan Program Servicer may not have met the performance criteria specified in the 2009 Servicing Agreement. As a result, it appears likely that the 2009 Loan Program Servicer either has failed, or within the foreseeable future will fail, to meet the performance criteria in the 2009 Servicing Agreement. Once that occurs, following a cure period and that assuming that no cure occurs, we will have the right to terminate the 2009 Servicing Agreement. As a result of that right, we will be required to consolidate the 2009 Entity into our consolidated financial statements. We believe that our right to terminate the 2009 Servicing Agreement will become operative in late 2014 or early 2015. At this time, we are unable to quantify the impact of the consolidation of the 2009 Entity into our consolidated financial statements, but it could have a material adverse effect on our consolidated financial statements. See Risk Factors Risks Related to Recent Developments *We believe that we will be required to consolidate the 2009 Entity into our consolidated financial statements in the foreseeable future, which could have a material adverse effect*

on our consolidated financial statements and our compliance with covenants and metrics to which we are subject,
Private Education Loan Program Obligations and Note 10 Variable Interest Entities and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

Private Education Loan Program Obligations

On January 20, 2010, we entered into the PEAKS Guarantee in connection with the PEAKS Program. We entered into the PEAKS Program to offer our students another source of private education loans that they could use to help pay their education costs owed to us and to supplement the limited amount of private education loans available to our students under other private education loan programs, including the 2009 Loan Program. Under the PEAKS Program, our students had access to a greater amount of private education loans, which resulted in a reduction in the amount of internal financing that we provided to our students in 2010 and 2011. No new private education loans were or will be originated under the PEAKS Program after July 2011, but immaterial amounts related to loans originated prior to that date were disbursed by the lender through March 2012.

Under the PEAKS Program, an unrelated lender originated private education loans to our eligible students and, subsequently, sold those loans to the PEAKS Trust. The PEAKS Trust issued the PEAKS Senior Debt to investors. The lender disbursed the proceeds of the private education loans to us for application to the students account balances with us that represented their unpaid education costs. We transferred a portion of the amount of each private education loan disbursed to us under the PEAKS Program to the PEAKS Trust in exchange for the Subordinated Note. The Subordinated Note does not bear interest, and principal is due on the Subordinated Note following:

- the repayment of the PEAKS Senior Debt;
- the payment of fees and expenses of the PEAKS Trust; and
- the reimbursement of the amount of any payments made by us under the PEAKS Guarantee, other than Payments on Behalf of Borrowers.

The PEAKS Trust utilized the proceeds from the issuance of the PEAKS Senior Debt and the Subordinated Note to purchase the student loans from the lender.

Under the PEAKS Guarantee, we guarantee payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and a minimum required Asset/Liability Ratio. The PEAKS Guarantee contains, among other things, representations and warranties and events of default that we believe are customary for guarantees of this type. In addition, under the PEAKS Program, some or all of the holders of the PEAKS Senior Debt could require us to purchase their PEAKS Senior Debt, if the law is changed to reduce the maximum allowable percentage of our annual revenue derived from Title IV Program funds from 90% to 75% or less. At this time, we believe that the likelihood of such a change in the law is remote.

Our guarantee and purchase obligations under the PEAKS Program remain in effect until the PEAKS Senior Debt and the PEAKS Trust s fees and expenses are paid in full. At such time, we will be entitled to repayment of the amount of any payments we made under the PEAKS Guarantee (which do not include Payments on Behalf of Borrowers) to the extent that funds remain in the PEAKS Trust.

We concluded that we were required to consolidate the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013. See Note 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the Consolidation. As a result, the assets and liabilities of the PEAKS Trust have been included on, and all intercompany transactions have been eliminated from, our Consolidated Balance Sheet as of December 31, 2013. While we no longer record a contingent liability for the PEAKS Guarantee on our consolidated balance sheet beginning on February 28, 2013, our obligations under the PEAKS Guarantee remain in effect.

The amount of future payments that we could be required to make under the PEAKS Guarantee will be affected by:

- the repayment performance of the PEAKS Trust Student Loans, the proceeds from which will be used to repay the PEAKS Senior Debt and to pay the fees and expenses of the PEAKS Trust, and the performance of which also affects the Asset/Liability Ratio;
- the fact that those loans will consist of a large number of loans of individually immaterial amounts;
- the fact that the interest rate on the PEAKS Senior Debt is a variable rate based on the LIBOR plus a margin; and
- the amount of fees and expenses of the PEAKS Trust, much of which is based on the principal balance of the PEAKS Trust Student Loans.

Beginning in the fourth quarter of 2012 and continuing through the first quarter of 2014, we made Payments on Behalf of Borrowers in connection with the PEAKS Program. We made Payments on Behalf of Borrowers to avoid defaults by those borrowers on their PEAKS Trust Student Loans, which defaults would have triggered much larger contractually required payments by us under the PEAKS Guarantee. We made Payments on Behalf of Borrowers after assessing:

- the likelihood of us being contractually required to make payments under the PEAKS Guarantee in the near future;
- the effect on our liquidity that would result from making payments under the PEAKS Guarantee compared to making Payments on Behalf of Borrowers;
- the effect that Payments on Behalf of Borrowers may have on the funds available to the PEAKS Trust to repay the Subordinated Note to us following full payment of the PEAKS Trust s other obligations; and
- the fact that we will not be able to recover Payments on Behalf of Borrowers from the PEAKS Trust or the student borrowers on whose behalf we made those payments.

Payments on Behalf of Borrowers assisted in:

- maintaining the required Asset/Liability Ratio; and
- satisfying the following month s required payment of interest on the PEAKS Senior Debt and administrative fees and expenses of the PEAKS Trust.

In March 2014, we entered into the Letter Agreement in order to resolve differing interpretations of the permissibility of the Payments on Behalf of Borrowers under the PEAKS Program documents. Pursuant to the Letter Agreement, the trustee agreed to waive, and the holders of the PEAKS Senior Debt consented to the waiver of, any:

- breach of the PEAKS Program documents caused by us making Payments on Behalf of Borrowers, including any failure to make payments under the PEAKS Guarantee as a result thereof; and
- event of default under the PEAKS Program documents that may have arisen or resulted by us making Payments on Behalf of Borrowers.

In the Letter Agreement, we agreed, after the date of the Letter Agreement, not to make any further payments of any kind on behalf of any borrower in respect of a private education loan made under the PEAKS Program. In accordance with the terms of the Letter Agreement, we paid $40.0 million on March 20, 2014, which is considered to be a payment under the PEAKS Guarantee and was applied primarily to make a mandatory prepayment of the PEAKS Senior Debt.

We believe that it is probable that we will make additional payments under the PEAKS Guarantee and estimate that those payments may be approximately $164.0 million in 2014, $9.2 million in 2015 and $40.8 million in 2020. The vast majority of these payments are expected to reduce the outstanding principal balance of the PEAKS Senior Debt, which would result in an outstanding principal balance of the PEAKS Senior Debt of approximately $94.4 million as of December 31, 2014 and $0.0 million as of January 31, 2020. See Note 13 Debt and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the Asset/Liability Ratio. After the PEAKS Senior Debt matures in January 2020, the PEAKS Trust will continue to collect on student loans that remain in repayment as well as recoveries from charged-off loans and the only obligations of the PEAKS Trust at that time will be the fees and expenses of the PEAKS Trust. As a result, we believe that, after that time, we may recover from the PEAKS Trust, in the aggregate, approximately $49.6 million of the amount that we have paid or will pay under the PEAKS Guarantee. See below for information regarding the assumptions on which those estimates are based. Included in the estimated amount to be paid in 2014 are:

- the $40.0 million payment we made in March 2014 pursuant to the Letter Agreement, which is considered to be a payment under the PEAKS Guarantee;
- payments totaling approximately $51.7 million that we made from July 2014 through September 2014 to satisfy our obligations under the PEAKS Guarantee with respect to the increased minimum required Asset/Liability Ratio in prior periods; and
- the $50.0 million payment we made in October 2014 to satisfy our obligation under the PEAKS Guarantee with respect to the increased minimum required Asset/Liability Ratio in prior periods.

On February 20, 2009, we entered into the 2009 RSA in connection with the 2009 Loan Program. Under the 2009 RSA, we guarantee the repayment of the principal amount (including capitalized origination fees) and accrued interest payable on any private education loans made under the 2009 Loan Program that are charged off above a certain percentage of the private education loans made under the 2009 Loan Program, based on the annual dollar volume. The total initial principal amount of private education loans that the 2009 Entity purchased under the 2009 Loan Program was approximately $141.0 million. No new private education loans were or will be originated under the 2009 Loan Program after December 31, 2011, but immaterial amounts related to loans originated prior to that date were disbursed by the lender through June 2012. Our obligations under the 2009 RSA will remain in effect, until all private education loans made under the 2009 Loan Program are paid in full or charged off. The standard repayment term for a private education loan made under the 2009 Loan Program is ten years, with repayment generally beginning six months after a student graduates or three months after a student withdraws or is terminated from his or her program of study.

Under the 2009 RSA, we have the right to elect to make Discharge Payments with respect to private education loans made under the 2009 Loan Program that have been charged off. The effect of making a Discharge Payment related to a private education loan is to reduce the aggregate amount that we may have to pay under our guarantee obligations with respect to that loan. We have claimed as an offset against the Revolving Note amounts that would have the effect of discharging our obligations with respect to certain charged off loans under the 2009 RSA. In addition, in the three months ended December 31, 2013, we made Discharge Payments to the 2009 Entity. We may continue to make

Discharge Payments in future periods, if we believe that doing so would be economically beneficial to us. Making Discharge Payments may result in us paying amounts to the 2009 Entity in advance of when a guarantee payment would be due, which would negatively impact our liquidity in a particular period, but may result in us paying a lesser amount than we otherwise would have been required to pay under our guarantee obligations in future periods under the 2009 RSA. See Note 10 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of Discharge Payments.

We believe that it is probable that we will make additional payments under the 2009 RSA. The following table sets forth the estimated amount of Regular Payments and Discharge Payments that we expect to pay and the estimated amounts of recoveries from charged-off loans that we expect to be paid to us by the 2009 Entity in the periods indicated:

Year	**Estimated Regular Payments**	**Estimated Discharge Payments**	**Estimated Total Payments**	**Estimated Recoveries**
		(Amounts in thousands)		
2014	$ 9,009	$ 0	$ 9,009	$ (1,011)
2015	14,251	0	14,251	(1,200)
2016	16,060	0	16,060	(1,200)
2017	16,333	0	16,333	(1,200)
2018 and later	0	75,194	75,194	(300)
	$ 55,653	$ 75,194	$ 130,847	$ (4,911)

We believe that the vast majority of the $75.2 million of payments estimated to be paid after 2017 will be made by us in 2018. The estimated future payment amounts and timing related to the 2009 RSA assume, among other factors, that we do not make any Discharge Payments until 2018 and do make Discharge Payments to the fullest extent possible in 2018 and later years. If we do not make the Discharge Payments as assumed in 2018 and later years, we estimate that we would make approximately $97.4 million of Regular Payments in 2018 through 2027. Of this amount, approximately $15.1 million to $16.4 million would be paid annually in each of 2018 through 2022, and approximately $16.6 million, in the aggregate, would be paid in 2023 through 2027. See Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the 2009 RSA.

The estimated future payment amounts, the estimated timing of those payments and the estimated amount of recoveries with respect to the RSAs discussed above and elsewhere in this Annual Report on Form 10-K are only estimates, are based on numerous assumptions and are subject to change. As with any estimate, as facts and circumstances change, the estimated amounts and timing could change. We made a number of assumptions in preparing the estimates, which assumptions may not be correct. The assumptions included, among other things, the following:

- the repayment performance of the private education loans made under the applicable private education loan program;
- the timing and rate at which those private education loans will be paid;
- the changes in the variable interest rates applicable to those private education loans and, with respect to the PEAKS Program, the PEAKS Senior Debt;
- the amounts and timing of collections in the future on those private education loans that have been charged off;
- the fees and expenses associated with servicing those private education loans; and
- our ability to utilize the available options for payment of our obligations under the 2009 RSA.

If we are required to pay amounts that exceed the amounts that we estimated could be due under the RSAs, we may not have cash and other sources of funds sufficient to pay those amounts. Failure to make the required payments:

- would constitute a default under the applicable program documents;
- could potentially result in cross-defaults under the Amended Credit Agreement; and
- could have a material adverse effect on our compliance with the regulations of the ED, SAs and ACs and other agencies that regulate us.

In addition, payments that we do make under the RSAs will reduce the cash we have available to use for other purposes. If we are required to pay material amounts under the RSAs, it could have a material adverse effect on our financial condition, results of operations and cash flows.

Pursuant to the 2009 RSA, we are required to maintain collateral to secure our guarantee obligation in an amount equal to a percentage of the outstanding balance of the private education loans disbursed to our students under the 2009 Loan Program. As of December 31, 2013 and 2012, the total collateral maintained in a restricted bank account was approximately $8.6 million. This amount was included in Other assets on our Consolidated Balance Sheets as of each of those dates. The 2009 RSA also requires that we comply with certain covenants, including that we maintain certain financial ratios which are measured on a quarterly basis and deliver compliance certificates on a quarterly basis setting forth the status of our compliance with those financial ratios. If we are not in compliance with those covenants at the end of each fiscal quarter, we are required to increase the amount of collateral maintained in the restricted bank account to a predetermined amount, until the end of a succeeding quarter at which we are in compliance with those covenants. The predetermined amount is based on the percentage of the aggregate principal balance of the private education loans made under the 2009 Loan Program that exceeds a certain percentage as of the end of each fiscal quarter. We were not in compliance with those covenants as of December 31, 2013.

As a consequence of the restatement of our unaudited condensed consolidated financial statements in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2013, June 30, 2013 and September 30, 2013, certain quarterly compliance certificates that we were required to deliver to the 2009 Entity under the 2009 RSA were inaccurate. Those inaccuracies did not affect our compliance with the financial ratio covenants in the 2009 RSA as of March 31, 2013. We were not, however, in compliance with the financial ratio covenants in the 2009 RSA as of June 30, 2013 and subsequent measurement dates. Further, due to our failure to timely file our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2014 and June 30, 2014, we did not timely deliver the required compliance certificates under the 2009 RSA with respect to those periods. As a result of our noncompliance with the financial ratio covenants as of June 30, 2013 and subsequent measurement dates, the amount of collateral required to be maintained in the restricted bank account has been increased by approximately $2.6 million. We intend to make in October 2014 a deposit in that amount to the restricted bank account to be held as additional collateral under the 2009 RSA.

We are entitled to all amounts that the 2009 Entity recovers from loans in a particular loan pool made under the 2009 Loan Program that have been charged off, until all payments that we made under the 2009 RSA with respect to that loan pool have been repaid to us by the 2009 Entity. The following table sets forth the approximate aggregate amount of guarantee payments, Discharge Payments and Payments on Behalf of Borrowers that we made related to the PEAKS Program and 2009 RSA and the amount of recoveries from charged-off loans paid to us by the 2009 Entity, in the periods indicated:

Type of Payment (Receipt)	**January 1, 2013 Through February 28, 2013** (1)(2)	**March 1, 2013 Through December 31, 2013** (1)(2)	**Total Year Ended December 31, 2013**	**Year Ended December 31, 2012**
		(In thousands)		
Guarantee:				
PEAKS Program	$ 854	$ 1,559	$ 2,413	$ 12,342
2009 RSA Regular Payments	0	0	1,791	1,990
2009 RSA Discharge Payments	0	0	912	0
Payments on Behalf of Borrowers	532	10,967	11,499	2,762
2009 RSA-Recoveries from Charged-Off Loans	0	0	(103)	(234)
Total	$ 1,386	$ 12,526	$ 16,512	$ 16,860

(1) We have provided separate columns showing the payment amounts prior to and after the Consolidation, because all transactions with the PEAKS Trust were eliminated from our consolidated financial statements after the Consolidation. Cash payments were, however, made by us throughout the periods indicated, including the periods after the Consolidation.

(2) The 2009 RSA payments are made to, and recoveries are received from, the 2009 Entity. The 2009 Entity was not consolidated in our consolidated financial statements and, therefore, separate disclosure of amounts paid or received before and after the February 28, 2013 date of Consolidation is not applicable.

In the fiscal year ended December 31, 2013, we also offset $9.1 million owed by us under the 2009 RSA against amounts owed to us by the 2009 Entity under the Revolving Note, instead of making additional payments in that amount. See below for a further discussion of the offset. Approximately $6.8 million of the amount that we claimed as an offset against the Revolving Note in the fiscal year ended December 31, 2013 represented Discharge Payments. We recorded all of the amounts claimed as offsets in Other current liabilities on our Consolidated Balance Sheet as of December 31, 2013. In the year ended December 31, 2013, the 2009 Entity did not remit to us $0.6 million of recoveries from charged-off loans that were owed to us. We recorded all of the amounts owed to us from the 2009 Entity for recoveries from charged-off loans in Prepaid expenses and other current assets on our Consolidated Balance Sheet as of December 31, 2013.

In the first quarter of 2013, we notified the 2009 Entity that:

- we had determined that the 2009 Entity was in default of its obligations to us under the loan and security agreement pursuant to which the Revolving Note was issued (the 2009 Loan Agreement);
- as a result of that default, all amounts under the Revolving Note were immediately due and payable; and
- we would not make payments under the 2009 RSA until we received credit for the full amount due us under the Revolving Note, based on the provisions of the 2009 Loan Agreement and the 2009 RSA that allow us to set off amounts owed by us under the 2009 RSA against amounts owed to us by the 2009 Entity under the Revolving Note.

At that time, the outstanding amount of the Revolving Note due to us was approximately $8.2 million, representing principal and accrued interest. In response to our notification, the 2009 Entity:

- denied that it had defaulted under the 2009 Loan Agreement and, therefore, our ability to accelerate the payment of the Revolving Note; and
- refused our demand to immediately pay the Revolving Note in full.

As a consequence, over the period from February 2013 through August 2013, we offset our then current payment obligations under the 2009 RSA and the amount of Discharge Payments we elected to make during that period against all of the 2009 Entity s obligations owed to us under the Revolving Note (the Offset).

We understand that the 2009 Entity s position is that the Offset was improper, because:

- it has not defaulted under the 2009 Loan Agreement; and
- even if it had defaulted under the 2009 Loan Agreement, the assets of the 2009 Entity against which we could offset or exercise our other remedies, were limited.

We further understand the 2009 Entity s position to be that, because the Offset was improper, we are in default under the 2009 RSA. In April 2013, the 2009 Entity notified us that it had taken control of the restricted account containing the cash collateral that we deposited to secure our obligations under the 2009 RSA (the Collateral). At that time, the amount of funds in that account was approximately $8.6 million. To our knowledge, the 2009 Entity has taken no further action related to the Collateral. We believe that our good faith exercise of our right of offset provided for in the 2009 Loan Agreement and the 2009 RSA does not constitute an event of default under the 2009 RSA, and that the 2009 Entity s seizure of control of the restricted account containing the Collateral constitutes an additional default by the 2009 Entity. We cannot assure you, however, that the Offset will ultimately be determined to have been proper. In the event of a default by us under the 2009 RSA related to the Offset, we may be required to pay to the 2009 Entity approximately $8.6 million, representing the amount of the Offset, net of approximately $0.5 million of recoveries from charged-off loans that are owed, but have not been paid, to us. If the 2009 Entity instead were to withdraw Collateral in that amount from the restricted bank account, we would be required to deposit that amount of cash in the account to maintain the required level of Collateral.

Under the 2007 RSA, we guaranteed the repayment of private education loans made by a lender to our students in 2007 and early 2008 that the lender charged off above a certain percentage of the total dollar volume of private education loans made under the 2007 RSA. The 2007 RSA was terminated effective February 22, 2008, and no private education loans have been or will be made under the 2007 RSA after that date. Based on information that we received from the lender, we believe that the total original principal amount of private education loans made under the 2007 RSA, net of amounts refunded under those loans, was approximately $180.0 million. We settled all of our guarantee obligations under the 2007 RSA through a payment of $46.0 million in January 2013.

At the end of each reporting period, we assess whether we should recognize a contingent liability related to our guarantee obligations under the 2009 RSA (and, prior to February 28, 2013, the PEAKS Guarantee) and, if so, in what amount. As with any assessment, as facts and circumstances change, the recorded liability could change, and has changed, significantly. In order to make this assessment, we made certain assumptions with respect to the performance of the private education loans made under the 2009 Loan Program (and, prior to February 28, 2013, the PEAKS Program) over the life of those loans. The life of a private education loan made under the 2009 Loan Program or PEAKS Program may be in excess of ten years and those assumptions included, among other things:

- the repayment performance of the private education loans made under the 2009 Loan Program (and, prior to February 28, 2013, the PEAKS Program);
- the timing and rate at which those private education loans will be paid;
- the changes in the variable interest rates applicable to those private education loans (and, prior to February 28, 2013, the PEAKS Senior Debt);
- the amounts and timing of collections that will be collected in the future on those private education loans that have defaulted;
- prior to February 28, 2013, the fees and expenses associated with servicing the PEAKS Trust Student Loans; and
- our ability to utilize the available options for payment of our obligations under the 2009 RSA.

We consulted with third-party consumer credit consulting firms in arriving at our assumptions. The assumptions have changed, and may continue to change, significantly over time as actual results become known. The principal factor that we review is the repayment performance of the private education loans made under the 2009 Loan Program. In determining the estimated default rate used in the assumptions to establish our contingent liability for our guarantee obligations under the 2009 RSA, we considered the payment performance of the private education loans made under the 2009 Loan Program. As each portfolio of private education loans matures, additional data related to the performance of the loans and other information regarding the loans becomes available to us that we utilize to estimate the related contingent liability. In certain prior reporting periods, there have been disruptions in the servicing of a portion of the private education loans made under the 2009 Loan Program, which we believe had a negative impact on the repayment performance of those private education loans. We cannot predict with any certainty whether other servicing disruptions will occur in the future. If additional servicing disruptions occur or other factors negatively impact the repayment performance of the private education loans made under the 2009 Loan Program in the future, the contingent liability associated with our guarantee obligations under the 2009 RSA would increase and we could be required to pay additional material amounts under those guarantee obligations, which could have a material adverse effect on our financial condition, results of operations and cash flows.

In the year ended December 31, 2013, we recorded $91.0 million of additional charges related to our guarantee obligations under the 2009 RSA. The entire amount of the loss recorded in the year ended December 31, 2013 related to a change in our accounting estimate for the amount of our guarantee obligations under the 2009 RSA. We revised our estimate for the 2009 RSA based on an enhanced default rate methodology and more recent performance data that we obtained in the three months ended December 31, 2013. The primary enhancements and performance data included:

- an adjustment to the default estimates for student borrowers, as a result of recently obtained actual default data for similarly-situated student borrowers;
- an adjustment to the default rate expectations, due to declines in repayment performance;
- our ability to make Discharge Payments; and
- a lower expectation for collections on defaulted loans as a result of the performance to date of collections.

As of December 31, 2013, the recorded liability related to our guarantee obligations under the 2009 RSA was approximately $116.9 million, compared to $121.7 million related to the RSAs and the 2007 RSA as of December 31, 2012. Our recorded liability for our guarantee obligations under the 2009 RSA and the 2007 RSA (and, prior to February 28, 2013, the PEAKS Guarantee) was included in Other current liabilities and Other liabilities on our Consolidated Balance Sheets. See Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the recorded liability.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	ITT Educational Services, Inc.
	By: /s/ Kevin M. Modany
Dated: October 20, 2014	Kevin M. Modany
	Chief Executive Officer

INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Chief Executive Officer s Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
31.2	Chief Financial Officer s Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934