UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2011**

OR

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

For the transition period from ________ to ________

Commission file number **1-13144**

ITT EDUCATIONAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

Large accelerated filer 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

26,663,022

Number of shares of Common Stock, $.01 par value, outstanding at September 30, 2011

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ITT EDUCATIONAL SERVICES, INC.

Carmel, Indiana

Quarterly Report to Securities and Exchange Commission

September 30, 2011

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	September 30, 2011 (unaudited)	As of December 31, 2010	September 30, 2010 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$172,577	$163,779	$119,956
Short-term investments	146,799	149,160	142,483
Restricted cash	413	255	108
Accounts receivable, net	56,140	68,937	85,246
Deferred income taxes	6,760	9,079	17,488
Prepaid expenses and other current assets	19,565	22,887	17,494
Total current assets	402,254	414,097	382,775
Property and equipment, net	201,010	198,213	197,383
Deferred income taxes	37,068	21,814	18,189
Other assets	46,422	40,656	29,383
Total assets	$686,754	$674,780	$627,730
Liabilities and Shareholders Equity			
Current liabilities:			
Accounts payable	$88,825	$67,920	$79,620
Accrued compensation and benefits	16,772	28,428	19,545
Other current liabilities	12,809	15,441	12,051
Deferred revenue	226,046	244,362	195,168
Total current liabilities	344,452	356,151	306,384
Long-term debt	150,000	150,000	150,000
Other liabilities	63,840	40,559	29,004
Total liabilities	558,292	546,710	485,388
Shareholders equity:			
Preferred stock, $.01 par value, 5,000,000 shares authorized, none issued	0	0	0
Common stock, $.01 par value, 300,000,000 shares authorized, 37,068,904, 37,068,904 and 54,068,904 issued	371	371	541
Capital surplus	186,009	173,935	170,699
Retained earnings	751,705	524,678	1,270,248
Accumulated other comprehensive (loss)	(4,498)	(4,509)	(9,147)

Treasury stock, 10,405,882, 7,075,563 and 22,151,915 shares, at cost	(805,125)	(566,405)	(1,289,999)
Total shareholders equity	128,462	128,070	142,342
Total liabilities and shareholders equity	$686,754	$674,780	$627,730

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

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Revenue	$360,638	$400,597	$1,131,686	$1,186,403
Costs and expenses:				
Cost of educational services	141,262	134,478	421,460	402,623
Student services and administrative expenses	109,512	114,706	329,721	332,620
Total costs and expenses	250,774	249,184	751,181	735,243
Operating income	109,864	151,413	380,505	451,160
Interest income	716	634	2,341	1,876
Interest (expense)	(378)	(490)	(1,442)	(1,424)
Income before provision for income taxes	110,202	151,557	381,404	451,612
Provision for income taxes	42,884	58,380	149,700	174,944
Net income	$67,318	$93,177	$231,704	$276,668
Earnings per share:				
Basic	$2.51	$2.84	$8.34	$8.15
Diluted	$2.48	$2.82	$8.27	$8.06
Weighted average shares outstanding:				
Basic	26,839	32,777	27,791	33,954
Diluted	27,098	33,011	28,035	34,336

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

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cash flows from operating activities:				
Net income	$67,318	$93,177	$231,704	$276,668
Adjustments to reconcile net income to net cash flows from operating activities:				
Depreciation and amortization	6,486	6,205	20,368	19,687
Provision for doubtful accounts	13,864	22,151	44,018	67,950
Deferred income taxes	(5,831)	(6,568)	(13,008)	(16,031)
Excess tax benefit from stock option exercises	(167)	(1,313)	(1,145)	(3,253)
Stock-based compensation expense	4,166	3,708	12,838	12,707
Other	(820)	268	(3,237)	758
Changes in operating assets and liabilities:				
Restricted cash	(26)	(38)	(158)	1,783
Accounts receivable	(22,963)	(9,007)	(31,221)	(67,770)
Accounts payable	22,817	3,504	20,905	18,345
Other operating assets and liabilities	5,035	6,756	29,071	29,096
Deferred revenue	(40,801)	(1,939)	(18,316)	23,235
Net cash flows from operating activities	49,078	116,904	291,819	363,175
Cash flows from investing activities:				
Facility expenditures and land purchases	(1,454)	(1,775)	(3,129)	(4,368)
Capital expenditures, net	(7,827)	(8,090)	(20,013)	(20,629)
Proceeds from sales and maturities of investments and repayment of notes	52,317	81,517	312,709	281,343
Purchase of investments and note advances	(48,613)	(100,741)	(330,306)	(323,515)
Net cash flows from investing activities	(5,577)	(29,089)	(40,739)	(67,169)
Cash flows from financing activities:				
Excess tax benefit from stock option exercises	167	1,313	1,145	3,253
Proceeds from exercise of stock options	303	5,210	5,286	7,830
Repurchase of common stock and shares tendered for taxes	(29,629)	(114,906)	(248,713)	(315,921)
Net cash flows from financing activities	(29,159)	(108,383)	(242,282)	(304,838)
Net change in cash and cash equivalents	14,342	(20,568)	8,798	(8,832)
Cash and cash equivalents at beginning of period	158,235	140,524	163,779	128,788
Cash and cash equivalents at end of period	$172,577	$119,956	$172,577	$119,956

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

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Dollars and shares in thousands)

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Common Stock in Treasury Shares	Common Stock in Treasury Amount	Total
Balance as of December 31, 2009	54,069	$541	$154,495	$1,006,903	($10,093)	(18,623)	($995,261)	$156,585
For the nine months ended September 30, 2010 (unaudited):								
Net income				276,668				276,668
Other comprehensive income:								
Prior service costs, net of $8 of income tax					13			13
Net actuarial pension loss, net of $561 of income tax					877			877
Unrealized gain					56			56
Comprehensive income								277,614
Exercise of stock options and equity awards				(13,324)		208	21,154	7,830
Tax benefit from exercise of stock options and equity award vesting			3,497					3,497
Stock-based compensation			12,707					12,707
Common shares repurchased						(3,728)	(314,950)	(314,950)
Issuance of shares for Directors compensation				1		1	29	30
Shares tendered for taxes						(10)	(971)	(971)
Balance as of September 30, 2010	54,069	541	170,699	1,270,248	(9,147)	(22,152)	(1,289,999)	142,342
For the three months ended December 31, 2010 (unaudited):								
Net income				97,498				97,498
Other comprehensive income:								
Prior service costs, net of $4,050 of income tax					6,327			6,327
Net actuarial pension loss, net of $1,112 of income tax					(1,737)			(1,737)
Unrealized gain					48			48
Comprehensive income								102,136
Exercise of stock options and equity awards				(307)		6	370	63
Tax benefit from exercise of stock options and equity award vesting			130					130
Stock-based compensation			3,106					3,106
Common shares repurchased						(1,930)	(119,706)	(119,706)

Shares tendered for taxes						0	(1)	(1)
Common shares retired	(17,000)	(170)		(842,761)		17,000	842,931	0
Balance as of December 31, 2010	37,069	371	173,935	524,678	(4,509)	(7,076)	(566,405)	128,070
For the nine months ended September 30, 2011 (unaudited):								
Net income				231,704				231,704
Other comprehensive income:								
Prior service costs, net of $455 of income tax					(711)			(711)
Net actuarial pension loss, net of $528 of income tax					824			824
Unrealized (loss)					(102)			(102)
Comprehensive income								231,715
Exercise of stock options and equity awards				(4,678)		148	9,964	5,286
Tax benefit from exercise of stock options and equity award vesting			1,169					1,169
Stock-based compensation			10,905					10,905
Common shares repurchased						(3,470)	(248,099)	(248,099)
Issuance of shares for Directors compensation				1		1	29	30
Shares tendered for taxes						(9)	(614)	(614)
Balance as of September 30, 2011	37,069	$371	$186,009	$751,705	($4,498)	(10,406)	($805,125)	$128,462

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

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ITT EDUCATIONAL SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

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

1. The Company and Basis of Presentation

We are a leading provider of technology-oriented postsecondary education in the United States based on revenue and student enrollment. As of September 30, 2011, we were offering master, bachelor and associate degree programs to approximately 79,000 students at ITT Technical Institute and Daniel Webster College locations. As of September 30, 2011, we had 140 college locations (including 136 campuses and four learning sites) in 39 states. All of our college locations are authorized by the applicable education authorities of the states in which they operate and are accredited by an accrediting commission recognized by the U.S. Department of Education (ED). We have provided career-oriented education programs since 1969 under the ITT Technical Institute name and since June 2009 under the Daniel Webster College name. Our corporate headquarters are located in Carmel, Indiana.

The accompanying unaudited condensed consolidated financial statements include our wholly-owned subsidiaries accounts and have been prepared in accordance with generally accepted accounting principles in the United States of America for interim periods and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures, including significant accounting policies, normally included in a complete presentation of financial statements prepared in accordance with those principles, rules and regulations have been omitted. The Condensed Consolidated Balance Sheet as of December 31, 2010 was derived from audited financial statements but, as presented in this report, may not include all disclosures required by accounting principles generally accepted in the United States. Arrangements where we may have a variable interest in another party are evaluated in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) 810, Consolidation (ASC 810), to determine whether we would be required to include the financial results of the other party in our consolidated financial statements. Based on our most recent evaluation, we were not required to include the financial results of any variable interest entity in our condensed consolidated financial statements. See Note 8 Variable Interests, for additional discussion of our variable interests.

In the opinion of our management, the financial statements contain all adjustments necessary to fairly state our financial condition and results of operations. The interim financial information should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2010.

2. New Accounting Guidance

In September 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-08, which is included in the Codification under ASC 350, Intangibles Goodwill and Other (ASC 350). This update allows an entity to assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2012. The adoption of this guidance will not have a material impact on our condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, which is included in the Codification under ASC 220, Comprehensive Income. This update requires total comprehensive income, the components of net income and the components of other comprehensive income to be presented either in a single continuous statement or in two separate but consecutive statements. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2012. Currently, we present total comprehensive income and the components of other comprehensive income in the statement of shareholders equity. The adoption of this guidance will require us to present comprehensive income on a different statement.

In May 2011, the FASB issued ASU No. 2011-04, which is included in the Codification under ASC 820, Fair Value Measurement. This update provides guidance and clarification about the application of existing fair value measurements and disclosure requirements. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2012. We have not yet determined the effect that the adoption of this guidance will have on our financial statements.

In December 2010, the FASB issued ASU No. 2010-29, which is included in the Codification under ASC 805, Business Combinations. This update provides guidance on the disclosure of supplemental pro forma information for business combinations. This guidance became effective for our interim and annual reporting periods beginning January 1, 2011. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

Also in December 2010, the FASB issued ASU No. 2010-28, which is included in the Codification under ASC 350. This update provides guidance on applying the goodwill impairment test for reporting units with zero or negative carrying amounts. This guidance became effective for our interim and annual reporting periods beginning January 1, 2011. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

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3. Fair Value

Fair value for financial reporting is defined 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 the accounting guidance. Observable inputs are assumptions based on independent market data sources.

The following table sets forth information regarding the fair value measurement of our financial assets as of September 30, 2011:

Description	As of September 30, 2011	Fair Value Measurements at Reporting Date Using (Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Cash equivalents:				
Money market funds	$167,993	$167,993	$0	$0
Short-term investments:				
U.S. Treasury obligations	90,629	90,629	0	0
Government agency obligations	31,565	0	31,565	0
Corporate obligations	24,605	0	24,605	0
Other assets:				
Money market fund	7,307	7,307	0	0
	$322,099	$265,929	$56,170	$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. For assets that were categorized as Level 2, we used:

- quoted prices for similar assets in active markets;
- quoted prices for identical or similar assets in markets that were not active or in which little public information had been released;
- inputs other than quoted prices that were observable for the assets; or
- inputs that were principally derived from or corroborated by observable market data by correlation or other means.

The carrying amounts for cash and cash equivalents, restricted cash, accounts receivable, accounts payable, other current liabilities and deferred revenue approximate fair value because of the immediate or short-term maturity of these financial instruments. Investments classified as available-for-sale are recorded at their market value.

The fair value of the notes receivable included in Other assets on our Condensed Consolidated Balance Sheet as of September 30, 2011 is estimated by discounting the future cash flows using current rates for similar arrangements. As of September 30, 2011, each of the carrying value and the estimated fair value of these financial instruments was approximately $18,000.

The fair value of our long-term debt is estimated by discounting the future cash flows using current rates for similar loans with similar characteristics and remaining maturities. As of September 30, 2011, each of the carrying value and the estimated fair value of our long-term debt was approximately $150,000.

4. Equity Compensation

The stock-based compensation expense and related income tax benefit recognized in our Condensed Consolidated Statements of Income in the periods indicated were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Stock-based compensation expense	$4,166	$3,708	$12,838	$12,707
Income tax (benefit)	($1,604)	($1,428)	($4,943)	($4,893)

We did not capitalize any stock-based compensation cost in the three or nine months ended September 30, 2011 or 2010.

As of September 30, 2011, we estimated that pre-tax compensation expense for unvested stock-based compensation grants in the amount of approximately $22,940 net of estimated forfeitures, will be recognized in future periods. This expense will be recognized over the remaining service period applicable to the grantees which, on a weighted-average basis, is approximately 1.9 years.

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The stock options granted, forfeited, exercised and expired in the period indicated were as follows:

	Nine Months Ended September 30, 2011				
	# of Shares	Weighted Average Exercise Price	Aggregate Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value [(1)]
Outstanding at beginning of period	1,724,791	$77.95	$134,447		
Granted	159,500	$69.43	11,074		
Forfeited	0	$0	0		
Exercised	(112,110)	$47.15	(5,286)		
Expired	0	$0	0		
Outstanding at end of period	1,772,181	$79.13	$140,235	3.8	$7,941
Exercisable at end of period	1,326,000	$72.38	$95,970	3.1	$7,941

(1) The aggregate intrinsic value of the stock options was calculated by identifying those stock options that had a lower exercise price than the closing market price of our common stock on September 30, 2011 and multiplying the difference between the closing market price of our common stock and the exercise price of each of those stock options by the number of shares subject to those stock options that were outstanding or exercisable, as applicable.

The following table sets forth information regarding the stock options granted and exercised in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Shares subject to stock options granted	0	0	159,500	305,000
Weighted average grant date fair value per share	$0	$0	$28.90	$43.59
Shares subject to stock options exercised	8,800	101,550	112,110	172,879
Intrinsic value of stock options exercised	$469	$3,410	$3,039	$8,582
Proceeds received from stock options exercised	$303	$5,210	$5,286	$7,830
Tax benefits realized from stock options exercised	$180	$1,313	$1,169	$3,255

The intrinsic value of a stock option is the difference between the fair market value of the stock and the option exercise price.

The fair value of each stock option grant was estimated on the date of grant using the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Risk-free interest rates	Not applicable	Not applicable	1.8%	2.2%
Expected lives (in years)	Not applicable	Not applicable	4.7	4.6
Volatility	Not applicable	Not applicable	48%	43%
Dividend yield	Not applicable	Not applicable	None	None

The following table sets forth the number of restricted stock units (RSUs) that were granted, forfeited and vested in the period indicated:

	Nine Months Ended September 30, 2011	
	# of RSUs	Weighted Average Grant Date Fair Value
Unvested at beginning of period	128,803	$99.22
Granted	249,575	$70.05
Forfeited	(19,441)	$83.93
Vested	(36,321)	$82.21
Unvested at end of period	322,616	$79.49

In the nine months ended September 30, 2011, we awarded 50,363 RSUs that have a time-based restriction period that ends on the first anniversary of the date of grant. Each of these RSUs had a grant date fair value of $69.43 and will be settled in cash. All other RSUs awarded in the nine months ended September 30, 2011 have a time-based restriction period that ends on the third anniversary of the date of grant and will be settled in shares of our common stock. The total fair market value of the RSUs that vested during the nine months ended September 30, 2011 was $2,440.

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5. Stock Repurchases

As of September 30, 2011, 6,366,725 shares remained available for repurchase under the share repurchase program (the Repurchase Program) authorized by our Board of Directors. The terms of the Repurchase Program provide that we may repurchase shares of our common stock, from time to time depending on market conditions and other considerations, in the open market or through privately negotiated transactions in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (the Exchange Act). Unless earlier terminated by our Board of Directors, the Repurchase Program will expire when we repurchase all shares authorized for repurchase thereunder.

The following table sets forth information regarding the shares of our common stock that we repurchased in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Number of shares	370,000	1,775,000	3,470,000	3,727,500
Total cost	$29,579	$114,891	$248,099	$314,950
Average cost per share	$79.94	$64.73	$71.50	$84.49

6. Debt

We are a party to a Second Amended and Restated Credit Agreement dated as of January 11, 2010, as amended (the Credit Agreement), to borrow up to $150,000 under two revolving credit facilities: one in the maximum principal amount of $50,000; and the other in the maximum principal amount of $100,000. The Credit Agreement was amended as of June 27, 2011 to:

- extend the maturity date;
- decrease the margin applicable to the interest rate that is based on the London Interbank Offered Rate (LIBOR) and adjusted for any reserve percentage obligations under the Federal Reserve System regulations; and
- decrease the facility fee.

We can borrow under each credit facility on either a secured or unsecured basis at our election, except if an event that would be a default under the Credit Agreement has occurred and is continuing, we may not elect to borrow on an unsecured basis. Both revolving credit facilities under the Credit Agreement mature on July 1, 2014.

Borrowings under the Credit Agreement bear interest, at our option, at the LIBOR plus an applicable margin or at an alternative base rate, as defined under the Credit Agreement. As of September 30, 2011, we pay a facility fee equal to 0.25% per annum on the daily amount of the commitment (whether used or unused) under the Credit Agreement. As of September 30, 2011, the borrowings under the Credit Agreement were $150,000, all of which were secured and bore interest at a rate of 0.68% per annum. Approximately $157,950 of our investments and cash equivalents served as collateral for the secured borrowings as of September 30, 2011.

The following table sets forth the interest expense (including the facility fee) that we recognized on our borrowings under the Credit Agreement and under the prior credit agreement that was replaced by the Credit Agreement in the periods indicated:

Three Months Ended September 30,		Nine Months Ended September 30,	
2011	**2010**	**2011**	**2010**
$378	$490	$1,442	$1,424

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7. Investments

Our available-for-sale investments were classified as short-term investments on our September 30, 2011, December 31, 2010 and September 30, 2010 Condensed Consolidated Balance Sheets. The following table sets forth the aggregate fair value, amortized cost basis and the net unrealized gains and losses included in accumulated other comprehensive income (loss) of our available-for-sale investments as of the dates indicated:

	As of:								
	September 30, 2011			December 31, 2010			September 30, 2010		
	Aggregate Fair Value	Amortized Cost	Net Unrealized Gains (Losses)	Aggregate Fair Value	Amortized Cost	Net Unrealized Gains (Losses)	Aggregate Fair Value	Amortized Cost	Net Unrealized Gains (Losses)
Available-for-Sale Investments:									
Government obligations	$90,629	$90,611	$18	$110,560	$110,550	$10	$90,374	$90,348	$26
Government agency obligations	31,565	31,565	0	24,394					