



Analysis of 3Q08 Conference Call Transcript ITT Educational Services Inc. (NYSE:ESI)

November 24, 2008

The following analysis was performed by an independent consultant under contract with 3DAdvisors, LLC. The consultant is an expert in the field of analyzing corporate disclosures (press releases, conference call transcripts, etc.) for “verbal deceptive indicators”, which are words and phrases that suggest the speaker or author may be attempting to deceive or obfuscate certain facts they don’t want the listener/reader to focus on or know about. The techniques utilized were first developed by investigators and analysts at the CIA and have been adapted for use in analyzing corporate communications of various types.

The following is meant to compliment our other research on ITT Educational Services Inc. (ESI). This analysis does not in any way suggest ESI management is *necessarily* being deceptive or not being truthful in the 3Q08 conference call.

Executive Summary

Behavioral analysis of this call produced a Medium-High Level of Concern. Management displayed medium to high levels of verbal deceptive indicators on most questions. Collectively, behavioral analysis consistently indicates that management has underlying concerns surrounding potentially significant issues as outlined in the following transcript analysis and referenced below.

- Management has significant concerns about the overall outlook of the financial market and its impact on private student loans. During the call, management offers numerous protest statements intended to convince investors that they plan to “closely monitor” the situation on both students and operations. Even though they exhibit behaviors that are designed to instill confidence to their investors, such as, “we have no plans to change what we do or who we serve,” they are reluctant to discuss issues that could potentially impact the internal financing program and single lender third party loans. This could indicate that the issues that need to be resolved will be significantly more challenging than they insist.
- Management may not be comfortable in their ability to create a sustainable student enrollment and recruitment stream as changing economic conditions exist. Throughout the Q&A, they consistently use detour statements to revert back to historical data and prior year periods. These behaviors coupled with their delay to provide future guidance suggest that management may not be comfortable with its ability to sustain their current revenue and earnings.
- Management is also evasive on questions relating to pricing plans, loan sell, bad debt and deferred revenue. In the questions that address these issues, management may be withholding or omitting information they do not currently wish to disclose relevant to current financial events.

Oct. 23. 2008 / 11:00AM ET, ESI - Q3 2008 ITT Educational Services, Inc. Earnings Conference Call

FINAL TRANSCRIPT

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Conference Call Transcript

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Event Date/Time: Oct. 23. 2008 / 11:00AM ET

CORPORATE PARTICIPANTS

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Dan Fitzpatrick

ITT Educational Services, Inc. - CFO and SVP

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PRESENTATION

Operator

Greetings ladies and gentlemen and welcome to the ITT Educational Services third quarter 2008 earnings call. A brief question and answer session will follow the formal presentation. (OPERATOR INSTRUCTIONS)

Joining us today from the management of ITT Educational Services we have Kevin Modany, Chief Executive Officer, Chairman and President. And Dan Fitzpatrick Senior Vice President and Chief Financial Officer. Before we begin, ITT Educational Services, Inc. Wishes to remind you that this conference call may include forward looking information. Actual results may differ from the information presented during this call. For additional information, please review the section on forward looking information contained in today's news release in the Company's filing with the securities and exchange commission. Thank you Mr. Modany you may begin.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Thank you good morning everyone and thanks for join us on our third quarter conference call to review our operating financial results for the three and nine months ended September 30, 2008. As usual Dan Fitzpatrick our Senior Vice President and Chief Financial Office will join me on the call this morning and will assist me in providing prepared comments and in answering your questions. We'll like to kick off the discussion and give you a quick over for the agenda this morning. We plan to follow our regular conference call outline by providing you with updates in **several key area of the business.**

First we'll provide you with **some additional color** on the **fantastic** third quarter operating results **recorded earlier this morning in our press release.** Then we'll review **the progress we've made in the execution of a growth strategy.** We'll go from there to providing **some additional insight** on the student financial aid market, **with regard to** our students ability to access Federal and private student loans as we enter the fourth quarter of the year.

At that point I'll turn the call over to Dan, who will provide **a few** comment on the **excellent** financial results for the quarter. I will follow his remarks with a wrap up of our prepared comments and then we'll open up the lines for your questions. With the administrative matters out of

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way, let's get started on the operating results for the quarter. As you've already read in this morning's press release we reported wonderful results that once again, exceeded our internal goals due to another quarter of exceptional performance by our management, faculty and staff.

We believe that the challenging economic environment creates excellent opportunities for our business, and we believe that our prospect for attractive levels of performance are very good as we head into the fourth quarter of 2008. Historically we've experienced above average growths at our colleges during slow or recessionary economy because these periods motivated people to pursue additional education, to learn new or upgrade existing skills in order to increase their employment prospect.

We believe this is especially true in the current employment market that places an ever increasing premium on skilled labor. These market dynamic coupled with a strong performance in the third quarter and the robust outlook we have for our key operating metrics have let us increase our internal 2008 EPS goals from the previous range from \$4.65 to \$4.75. To our revise range of \$4.90 to \$5.

We continue to believe that we are well positioned to achieve our operating and financial goals for fiscal 2008. I'd like to now turn to a brief review of our third quarter operating results. As you read in this morning's press release, new student enrollment increased a very impressive 19.4% to 21,807 during the three months ended September 30, 2008, compared to 18,270 during the same period in the prior year. The increase in new students enrollment was fueled by continued strong demand for our program offerings across all six schools of study. Student interests in our programs of study in the third quarter was driven by a 7% increase in advertising expenditures in the third quarter of 2008, compared to the third quarter of 2007.

The year over year increase in advertising expenditures in the third quarter was less than we originally planned, as we once, again, benefited from the reduced advertising cost due to the declining demand in the general advertising market arising from the slowing economy. We believe that advertising expenditures in the final quarter of 2008 will be below our originally planned year over year increase in the quarter of between 10% and 15%, we continue to taking advantage of lower advertising rates.

Our advertising plan allocates efficient amounts of marketing expenditures to support the opening of new colleges and the introduction of new programs of study throughout the remainder of 2008 and into 2009. A rate at which student increase converted new students increased in the third quarter of 2008 compared to the same prior year period. We attribute some of this to improved productivity of the student recruiters that were hired early in 2008. As many of you are aware the lead conversion rates of student recruiters correlate with their tenure in the position. As a result, more experienced recruiters typically convert student inquiries at a higher rate than less experienced representatives.

We believe that we have entered the fourth quarter with a sufficient number of trained and experienced student recruiters to service an increasing number of perspective students who are expressing interest in our programs of study. At this point we'll turn our attention to student persistence. We're very pleased to report in this morning's press release that our student persistence rate in third quarter of 2008 increased ten-basis point to 72.5%, compared to 72.4% in the third quarter of 2007. That increase in the student persistence was due to improved student retention in the third quarter compared to the same prior year period. That increase in student retention was offset by a solid increase in the number of graduate in third quarter 2008 compared to the third quarter in 2007.

The increase in graduates was primarily due to improved student retention that we experienced and reported to you during fiscal 2007. As we looked to the fourth quarter of 2008 we believe that student persistent will be approximately the same as the fourth quarter of 2007, after excluding the large increase in the number of graduate that we expect in the fourth quarter of 2008. The 19.4% year over year increase in new student enrolment combined with the improved student persistence lead to an impressive 14.7% increase in total student enrollment, to 61,556 as of September 30, 2008, compared to 53,675 at the same point in 2007.

As of September 30, 2008, total student enrollment was higher in all six schools of study compared to the same point in the prior year. At this point I'd like to turn your attention to our graduate employment metrics. At September 30, 2008, the graduate employment rate of our 2008 employable graduates was approximately 3 percentage points lower than the graduate employment rate for our 2007 graduate employment average at the same point in 2007. We believe the decline in the graduate employment rate was primarily due to the significant increase in the number of employable graduates in 2008 compared to 2007, as a result of the improvement in student retention that we've experienced in 2007. We think conversations with organizations that hire our graduate have indicated to us a continued demand for employees with the types of skills possessed by our graduates. Nevertheless, due to the significant increase in the total number of graduate in 2008, compared to 2007.

We do not believe that the graduate employment rate of our 2008 employable graduates will be higher than the graduate employment rate of our 2007 employable graduates. Just to remind everyone, 82% of our 2007 employable graduate obtained employment by April 30, 2008. The cut off date for our annual graduate employment calculation.

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As of September 30, 2008, our 2008 employee graduates reported an average annual salary that was approximately 4% higher than the average annual salary reported by our 2007 employed graduates as of September 30, 2007. We're optimistic about the employment opportunities for our 2008 graduate, but we remain mindful of the slowing economy. We intend to monitor the labor market conditions very closely over the next several quarters. We continue to believe that demand for skill labor and increases in the average annual salary of our employed graduates are positive indicators that we can continue to increase the value proposition for graduates of our programs of study.

At this point I'd like to provide an overview of our progress with the few of our key growth initiatives. The primary element of our growth strategy involves increasing the number of our colleges. We expand geographically by adding new colleges of which there are currently 103. And new learning sites of existing colleges, of which there are currently nine. We began operations at 103rd college in Madison, Mississippi a suburb of Jackson during the third quarter of 2008. This new location marks the beginning of operations in our 36th state.

We began operations at six new locations in the first nine months of 2008 and plan to begin operations at up to two additional colleges in the fourth quarter. As a result, we expect to meet the high end of our previously stated goal of six to eight new locations in 2008.

At this point I'd like to provide an update on our programmatic expansion efforts. In the nine months ended September 30, 2008, we added 153 programs that we are offering at new and/or existing ITT Technical Institutes throughout the United States. As a result, we have exceeded our originally stated goal to add approximately 125 programs in 2008.

During the quarter, we continued our work to expand the number of our colleges that offer an Associate's Degree in Nursing. We currently offer the associate nursing program at our Indianapolis campus. Pending the receipt of the necessary regulatory authorizations we anticipate the initial offering of our Associate nursing program at three additional colleges in the academic quarter that begins in December 2008. As we look forward into 2009 we are optimistic that our aggressive efforts to obtain authorizations to offer our nursing program at additional colleges will be successful. We remain very excited about the prospect of our nursing curriculum as a contributing piece of our growth strategy over the long-term.

In our academic quarter that begins December 2008 we plan to introduce three new programs of study at a small number of our colleges. These new programs include new Bachelor Degree programs in software applications development and project management and a new Associates Degree program in software development technology. As we enter the final quarter of 2008 we have several additional programs of study that are in various stages of research or development. These potential new program offerings are both in technology and non-technology areas of study that can be delivered both in residence and on-line. We plan to introduce several of these programs at one or more of our ITT Technical institutes in the early part of 2009.

We're also pleased to report that the number of our colleges offering Bachelor Degree programs has increased to 85. During the third quarter, all seven of our colleges in Texas received authorization to offer Bachelor Degree programs. Each of the seven ITT Technical Institutes in Texas have begun recruiting for our first class and at least one Bachelor Degree to begin in the academic quarter that starts in December. We believe that the Bachelor Degree program offerings in our colleges in Texas will help attract a broader base of prospective students and provide our current students as well as the Associates Degree graduates from our seven Texas colleges with the opportunity to continue their studies at the same ITT Technical Institute location. Historically approximately 33% of our Associates Degree graduates enroll into a Bachelor Degree program.

At this point I'd like to provide an update on the student financing environment. We'll begin with the market for private student loans. I think it's safe to assume that most everyone listening on the call understands that the turmoil in the financial markets during 2008 has had a tightening effect on the availability of private student loans. The impact on our students' access to private loans began in the first quarter of 2008 when lenders tightened their underwriting criteria for private student loans. Those actions reduced the number of our students who qualified for private loans as compared to prior periods.

While several high profile developments in the financial services sector were reported in the press in the third quarter of 2008 and continue to be reported as we enter the fourth quarter of year, our students' access to private loans has not suffered any further limitations. In addition, lenders who provide private loans to our students have indicated to us that they do not intend to tighten underwriting criteria any further in 2008. We continue to monitor the situation very closely and are meeting with private lenders to attempt to proactively address any future impact on our students and our operations.

As an additional point of clarification, we feel compelled to reiterate our previously issued comments that Sallie Mae is not providing private loans to our students and has not originated private loans for our students since February of 2008. Any changes or modifications to the underwriting standard that Sallie Mae may have made to its private loan program did not have any impact on our student's ability to access private student loans during the second or third quarters of 2008. To sum up the current situation as it relates to the private student loan market, I'd

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like to restate that we believe the funding gap for our students on a forward looking 12 months basis will be rough life to 12% to 13% of our annual revenue.

As we continue to gain more experience with private lender underwriting standards and collect more approval rate data, we expect to be in a better position to provide an estimate of the amount of our projected annual revenue that will come from private education loans made to our students. As we have previously communicated to you, we do not expect to have a sufficient amount of information to provide you with this estimate before January 2008.

In addition, we continue to have discussions with several new potential lenders about the possibility of them providing private loans to our current and perspective students. Moving on now to an update of the internally funded financing provided to our students. During the third quarter of 2008, we continued to provide internally funded financing to eligible students, who did not qualify for private education loans as a result of the tighter underwriting standards currently used by private lenders. The criteria that we used to determine a student's eligibility for our internal financing are similar to the criteria used by the lender that made private education loans to our students before 2008.

Student response to our internal financing has been overwhelmingly positive and we do not anticipate making any change to our student enrollment practices in the future as a result of providing internally funded financing. Based on my earlier comments regarding the lack of data and the experience to accurately estimate the amount of revenue that we expect to derive from private education loans, we're unable to accurately estimate the amount of internal financing that will be utilized by our students, until we obtain a better perspective on the amount of private education loans that our students can expect to receive.

That said we re-affirming our prior estimate that the total funding gap for our students will amount to approximately 12% to 13% of our annual revenue, and that that some portion of that amount will be funded by third party private education lenders to our students and the remainder will be funded through our internal financing. Our internally funding financing has and will continue to result in day sells outstanding and bad debt expense that are higher than our historical ranges.

While we're not providing guidance on these metrics at this time we want to, once again, emphasize that any anticipated effect on our results, that may be caused by the internally funded financing that we provide to our students, has been fully reflected in our revised 2008 EPS goal to the range of \$4.90 to \$5 and in our 2008 pre-cash flow estimate of \$150 million. Reconciliations of this non-GAAP pre-cash flow measure to our comparable GAAP operating cash flow measure are posted at our website at www.ittesi.com, with that I'd like it turn our attention now to the Federal student loan market.

In our July 2008 conference call, we reported that we experienced a delay in our FFEL loan disbursement while we were integrating several new student lenders with our new financial aid systems. Issues that created the delay in the processing of our students FFEL loan disbursements were addressed and successfully eliminated in the third quarter 2008.

Moving on to the availability of FFEL loans. Several student lenders are offering FFEL loans to our students and we do not anticipate any disruption in our student's ability to access Federal student loans from FFEL lenders for the foreseeable future. Nevertheless, all of our colleges are prepared to immediately begin participating in the Federal direct loan program, in the event that our student access to Federal student loans through the FFEL Program is interrupted. At this point we do not anticipate the need to aggressively move into the FDL program but we continue to monitor the situation very closely.

To close out the student financing portion of our prepared remarks let me just say that we continue to believe that the financial aid that is currently available to our students, including our internally funded financing, will provide our students with access to sufficient funds to pay the cost of their ITT Technical Institute education. Further, we believe that the financial aid options that are currently available to our students will allow us to achieve our 2008 goals.

Now before I send it over to Dan for the financial overview, I would just like to once again, comment on our continued level of optimism for the business and our high degree of confidence in our ability to achieve our 2008 goals. We plan to continue focusing on our efforts, focusing our efforts on the things we can control including the efficient execution of our business model and growth strategy. We believe the current environment present several outstanding opportunities for our organization and plan to utilize our ample resources and expertise to capitalize on those opportunities for the benefits of our shareholders and most importantly to our students and the employers that hire them.

Lastly, I want to congratulate our management, faculty and staff for the recognition we received from Forbes by being selected for it's annual list of the 100 best mid-cap stocks in America. Out of more than 1,000 mid cap companies reviewed by Forbes we were selected by the 11th best by

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Forbes, based on the assessment of growth, financial stability and future prospect. On behalf of our entire organization, I thank Forbes for its recognition. Dan, I'll send it your way so that you can provide additional color on the amazing financial results on the third quarter.

Dan Fitzpatrick - ITT Educational Services, Inc. - CFO and SVP

Thank you Kevin. I'd like to begin by reviewing the key financial highlights for the quarter. In the three months ended September 30, 2008, revenue increased 16.7%, to \$254.3 million. Compared to \$217.9 million in the same period in 2007. Revenue increase was primarily due to 12.1% increase in total student enrollment as of June 30, 2008 compared to the same point in 2007. 5% increase in tuition that became effective with the academic quarter that began in March of this year.

Revenue increase was also helped by a 10 basis point increase in student persistent in the third quarter 2008, compared to the same period in the prior year, as a result of the improved student retention during the quarter. Revenue per student increased 4.1% in the three months ended September 30, 2008. Compared to the same period in the prior year. Cost of educational services increased \$6.2 million or 7% to \$95 million in the three months ended September 30, 2008. Compared to \$88.8 million in the three months ended September 30, 2007. Primarily due to the higher cost to increase the support of students and to operate our colleges.

Increase in the cost of the educational services was partially offset by the greater efficiencies realized in the operation of our college related to the leverage we gain due to increase student census. As a result cost of educational service as a percent of revenue decreased 330 basis point to 37.4% in the third quarter 2008. This compared to 40.7% in the three month ended September 30, 2007. Student services and administrative services increased \$12.3 million or 18.6% to \$78.5 million in the third quarter in 2008. Compared to \$66.2 million during the period in the prior year. Increase was primarily due to the increase in bad debt expense to 5% of revenue in the third quarter of 2008. Compared to 1.8% in the same period in 2007.

The increase in bad debt expense was the result of increased amount of internal financing that we've provided to our students. Increase in student service in administrative expenses was partially offset by the efficient execution of our advertising plan during the third quarter 2008 which resulted in only a 7% increase in advertising expenditure compared to the same quarter in 2007. As Kevin noted we believe that we will continue to note a favorable advertising market in the fourth quarter. Which should lead to a year over year increase in advertising expenditures that is lower than the 10% to 15% increase that we originally planned for.

Despite the 320-basis point increase in bad debt, student services and administrative expenses, as a percentage of revenue increased only 40-basis point to 30.8% in the three months ended September 30, 2008. Compared to 30.4% in the three months ended September 30, 2007. Due to disruption in the private student loan market we plan to continue providing internally funded financing to our students. As a result we believe that bad debt expense as a percentage of revenue could increase in future periods, however we are not providing specific bad debt guidance at this time.

As Kevin already reported, a revised 2008 EPS and free cash flow goals fully incorporate the anticipated effects of the internal financing provided to our students. Operating income increased \$17.8 million or 28.4% to \$80.8 million to the third quarter compared to \$62.9 million in the three months ended September 30, 2007. Operating margin increased to 31.8% in the third quarter 2008 or 290-basis points compared to 28.9% in the third quarter 2007. As we reported in our release this morning, diluted earnings per share in the third quarter 2008 increased 30.6% to \$1.28 compared to the \$0.98 the same quarter 2007.

Cash, cash equivalents, restricted cash investments were \$287.3 million as of September 30, 2008, compared to \$273 million as of September 30, 2007. Day sales outstanding increased 5.2 days, to 12.1 days as of September 30, 2008. Compared to 6.9 days as the same date the prior year. The increase related primarily to the increasing amount of internally funded financing provided to our students. Once, again, since we anticipate that we will continue to provide internal financing to our student in future quarters the possibility exists that our DSO could increase in future periods compared to the same prior year periods.

We repurchased 184,700 shares of our common stock in the third quarter for approximately \$16 million or an average cost of \$86.47 per share. We have approximately 4 million shares remaining under the share repurchase program authorized by our Board of Directors. Repeating my comments from this morning's press release as we look forward to the remaining part of the year and into 2009 we may repurchase additional shares subject to the changing and sometime volatile market conditions.

In closing, I just like to note that we feel very comfort about the prospect of the business over the next several quarters as economic conditions continues to develop. We believe that we are very well positioned to take advantage of these opportunities. The financial metrics of the Company

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continue to be very strong, and we believe for the foreseeable future looks very bright for the organization. With that, I'll toss it back to Kevin for closing comments.

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

Thanks Dan. >From our perspective, it is much the same story that we told in the July conference call. We continue to experience very favorable macro trends and as a result, have a lot of confidence with regard to our ability to achieve our internal financial and operating goals. The financial markets remain a challenge but this is a challenge that we as an organization are very well positioned to successfully navigate. We have no plans to change what we do or who we serve.

We see an outstanding opportunity to fulfill our mission to increase access to high quality post-secondary education for all that are academically qualified. As always, we remain committed to delivering high quality education to our student and increasing value proposition for ITT Technical Institute graduates across the Company. We strongly believe that shareholder value will be created and delivered over the long-term through our efficient execution of the business model and singular focus on increasing student success. At this point I'd like to ask the operator to open up the lines and we'll entertain your questions.

ANALYSIS/OPENING REMARKS

Throughout the opening remarks, management makes a litany of detour and qualified protest statements intended to convince investors of the strength and positive impact of their third quarter operating results and future growth expansion efforts. Their use of enhanced qualifiers to describe third quarter results such as, "fantastic" "excellent" "wonderful" "exceptionable" and "amazing" could be an attempt to oversell their current optimism to shareholders as a slow and recessionary economy looms. Protest statements such as how "challenging economic environments create excellent opportunities" and "our high degree of confidence in our ability to achieve our 2008 goals" may reflect their attempt to try and minimize obvious investor concerns in these areas. Numerous times, they rely on detour statements (i.e., "based on our earlier comments," "to reiterate our previous issued comments," as we previously communicated to you," "as you already read in the morning's press release,") to perhaps distract investors away from the more current issues that they may anticipate as becoming problematic for them in the financial services sector. These would include the impact of the disruption in the private student loan market, bad debt expenses and increasing internal financing demands, expansion program efforts, student recruitment and graduate employment outlook. Overall, management is consistently reluctant to provide any information outside of their current and historical data as economic conditions change. These behaviors would strongly suggest that they are showing signs of having some major concerns over students and operations and their ability to sustain a positive impact as they enter in the fourth quarter and beyond.

QUESTION AND ANSWER

Operator

Thank you, ladies and gentlemen at this time we'll be conducting a question and answer session. (OPERATOR INSTRUCTIONS) Thank you, our first question today is coming from the line of Jerry Herman of Stifel Nicolaus.

Jerry Herman - *Stifel Nicolaus - Analyst*

Hi, guys.

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

How do you do.

Jerry Herman - *Stifel Nicolaus - Analyst*

We'll go, I guess we'll go right to **lending** first as you might expect. Just to be clear, the internally funded numbers are in accounts receivable correct Dan.

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Dan Fitzpatrick - ITT Educational Services, Inc. - CFO and SVP

That is correct.

Jerry Herman - Stifel Nicolaus - Analyst

And the re-relationship there it seems to suggest that those numbers at least at this juncture are pretty low. If you just look at the change in AR, either sequentially or year over year its relationship to revenues generally. **Is it actually coming in less than what you guys thought earlier on, and is the GAAP filled by private lenders? Maybe coming in more favorably than what you thought earlier on?**

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Well, again we're not given a lot of guidance, Jerry but let me try give you a little bit of color. We've really kind of went at this looking at these underwriting standard that we really don't have a lot of detail, about. We don't know what the underwriting standards are, so we really have to process transactions through those underwriting standards to get a general sense of where things are coming out.

As we look at what we're seeing right now, it, we're hesitant to project forward as this as a longer term expectation, that being said, I think if you look at our comments, we said during the fourth quarter, based on our conversations we are not expecting a big change there.

We have just want to make sure we get a couple of quarter of new students through the underwriting standards, get all of the continuing students through so the re-packaging efforts through there, because as we understand it, the underwriting standards actual incorporate where you are in your academic period, so if you're further along, you may actually get higher approval rates than not, so I want to make sure we get a full class through there, and then we'll kind of digest where we're at. I don't want to say we're pleasantly surprised or we're not one way or the another right now. It's fully reflected, everything that we're seeing right now is fully reflected in that AR. After we get through one more quarter I think we'll have a better sense on what we should expect on a full year basis and try to give you more color on that

ANALYSIS/LENDING

Non-answer statement and overly courteous reply coupled with management's use of detour, "I think if you look at our comments," and overly specific and qualified remarks such as "really" "kind of" and "actually" would suggest they don't know what to expect, and that, management may lack confidence in any positive projections for the near term. The CEO's comment of "as we understand it" also leaves room for other factors or conditions to come into play surrounding the standards which they may have knowledge of, but do not wish to currently address.

Jerry Herman - Stifel Nicolaus - Analyst

Just to follow up. I imagine you'll answer similarly, given the consumer condition, the economic condition, **have you changed your assumptions in any way, some of the numbers we run would suggest that may be you have at least from the second quarter to third quarter, but, are the charge off assumptions changing in any way, growing more conservative. Getting lower?**

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

No we're, we mentioned this before in the last call, and I'll reiterate to again, we are being as conservative as we possibly can within the accounting pronouncements. So, you can incorporate changes you're seeing in the market conditions in your estimates and in your expectations, so we're on the conservative side of the estimates, and again, our third party accounts are involved in everything we're doing here even we're inside of the lines of what's allowable, but we're being as conservative as we can be.

Dan Fitzpatrick - ITT Educational Services, Inc. - CFO and SVP

Hey, Jerry, one other thing too when you compare to the second quarter, with a little bit of the change with regard to the reserve impact. Any additional monies for the unsubsidized loans we weren't able to draw those monies down to July 1st. Therefore monies due related to this wouldn't get the same as reserve as other monies, that are going to be collecting over time.

ANALYSIS/ASSUMPTIONS

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Both CEO and CFO provide overly specific responses with qualified language. CFO also resorts to detour statements immediately and then feels the need to protest beyond his "No" answer. This behavior could indicate that management may not be fully disclosing and they may not be as conservative as they assert themselves to be outside of accounting pronouncements.

Jerry Herman - Stifel Nicolaus - Analyst

Very good one final one I'll turn it over, can you guys give us any parameters on the actual loan programs. I.e. duration size, rate, when a student has to start paying back the loans, for the stuff that you guys are directly involved in.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Sure. Sure. Well the way its structured right now, is a little bit different than what it will ultimately be so let me talk what it's ultimately going to be. We're setting the infrastructure to charge interest on these loans, once we do they'll really be ten-year term. So it will be very similar to what the students had in the prior program. And the interest rates will be similar.

So in the current market, it will be very attractive pricing quite frankly, because at the present time, we don't anticipate, increasing the interest rates for the current environment. Which would suggest that we should do so. So similar pricing at the old program, similar terms and duration on the notes. Really almost mimicking that old program.

Jerry Herman - Stifel Nicolaus - Analyst

Great. Thanks very much. I'll turn it over.

ANALYSIS/LOAN PROGRAMS

The analyst asks an open-ended question which leaves room for the CEO to answer it in any way he wants to. That said, his response would indicate a deceptive cluster suggesting that there is the possibility of increasing interest rates in the current environment, as well as, the potential of the structuring of the loan program to ultimately change. The fact that he qualifies his answer suggests that the parameters may not be similar to how it is currently being structured. Even though management attempts to convince investors that everything will stay the same in the "current" market, they are reluctant to discuss future market. Possible follow-up questions would include: Under what circumstances would you consider changing the current interest rate? What specifically can you guarantee will stay the same as the old program?

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Thank you.

Operator

Thank you. Our next question is coming from the line of Brandon Dobell with William Blair, please proceed with your question.

Brandon Dobell - William Blair & Company - Analyst

High thanks I want to see if I understand this correctly. You guys talked last quarter about delayed disbursement timing, it sounds like that issue got fixed but in the context of deferred revenue being down, I think it was 26% in the quarter, is there something else going on with deferred, is it a timing issue or last year's comparison was strained. I'm just trying to understand why, with population growth and revenue growth and the disbursement issues out of the way, how do we get arms around what that deferred revenue is doing this quarter?

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Brandon we talked about this before, whenever we started the internal financing program, what you would have seen prior to the internal financing program is, cash receipt in advance of recognition for the private loan programs, now we're not getting that cash in advance, so that's going to have an impact on the deferred revenue. There's still a little bit of delay on the felt, that we didn't yet get all of it. We've got the issue

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corrected there's still a little bit there. The majority what your seeing is the impact of not collecting private lending in advance of revenue recognition. That's going to be the case going forward.

Brandon Dobell - William Blair & Company - Analyst

Okay.

Dan Fitzpatrick - ITT Educational Services, Inc. - CFO and SVP

Brandon, another thing to point out too in terms of the fact we're not collecting some of the private loans up front, but as you shift from private to Federal, too, there is a cash flow impact. Private loans tend to be disbursed up front. Where Federal loans are dispersed on each academic quarter.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

The other thing too, as Dan said, the Federal loans, the \$2,000 in unsub that we're getting, that additional money, we may get that money 30 days delayed as well so that has a timing impact, so there's a couple things going on there I guess is what we're saying.

Brandon Dobell - William Blair & Company - Analyst

Okay. But net net. What happened with deferred this quarter, wasn't a surprise to you guys, you expected given all the changes on the sources of funds and the timing of things.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Absolutely. No surprise there.

ANALYSIS/DEFERRED REVENUE/INTERNAL FINANCING PROGRAM

The overly specific comment coupled with being overly courteous and a detour statement, "as Dan said," as well as, a subtle attack on the analyst would strongly suggest that management does not want to address this issue and they are attempting to minimize concern in this area.

Brandon Dobell - William Blair & Company - Analyst

Okay. That's fair. I also want to get a sense of, where you're seeing enrollment growth, are their strength. Relative strength. Absolute strength given kind of programs. Or perhaps geographic areas. Anything you can point out to us giving us a sense of what underlying trends might be.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Just talk to the resident side of the business for a second. Core program very strong so our electronic information technology. Drafting and design we're still seeing good results there. Saw good results in the quarter, in criminal justice, as I said a last couple times. Business is growing at a slower rate than other programs. And Health Sciences is too small to have any kind of impact.

When we look on-line it's really a continuation the same story we've been talking about. Majority of our growth is coming from our resident schools there's simply no doubt about that, however our on-line school is growing, it's growing at a nice rate and it continues to contribute. So if you look at the quarter and you look at the last couple of quarters there's nothing that sticks out in terms of program specific, nothing unusual going on there. We're continuing to see strong responses to the core programs and as long as we see that, we're going to do pretty well.

Brandon Dobell - William Blair & Company - Analyst

Okay. Great thanks.

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ANALYSIS/ENROLLMENT GROWTH

The CEO's qualified protest response would suggest that he is attempting to minimize any investor concerns over enrollment growth even though management may be downplaying the notion that some on-line programs may not be doing as well as expected.

Operator

Thank you. Our next question will be coming from the line of Corey Greendale with First Analysis, please proceed with your question.

Corey Greendale - First Analysis Securities - Analyst

Thank you, good morning.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Good morning Corey.

Corey Greendale - First Analysis Securities - Analyst

I want to follow up on a couple things you said in your comments, first of all, the fact that the **placement rate** was down a bit, well first of all, can you remind us **what the experience was on that metric in past downturns if this is similar**. Secondly, **do you think that it might be given that you're going to have more graduate you want to be adding more career people who are building relationships and building a pipeline of jobs or do you think it's purely economic and there's nothing internally you can do about it**.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Well I actually think it's more execution than it is economic right now, not suggesting that there won't be any economic impact, that's not what I'm trying to say. What I am saying is that when we look at the detail and the data we can see that this shift year over year, the three percentage points really is concentrated in a handful of schools. And there's a handful of schools that have this significant number of grads and so it's isolated to us executing in those particular schools as opposed to us seeing anything, systemic across the entire network that would be more indicative of some economic change.

Again I tried to say in my prepared comment we're paying attention to that we don't have our head in the sand here. We see what's going on. We're constantly looking the unemployment rate skilled versus us skilled. We see those skilled unemployment rates still holding on they've picked up ten or 20 basis points in the last couple of months they're still very attractive and the feedback we're getting from our employers is, that there are still opportunities there, so we're not seeing the economic impact yet in these numbers this is just pure execution, and we really, we know where the schools are, we know what we have to do go after it. Go after it and improve on it, what we're going to see, however, in graduates is even a greater increase in our fourth quarter.

We have, our largest increase quarter over, or year over year, excuse me -- for the quarter coming in December, and that's going to put some added pressure on us as well. So right now it's about the number of graduates for us and in some specific schools where we need to execute more effectively, but we're being mindful of what's going on in the economy and paying attention to it.

ANALYSIS/GRADUATE PLACEMENT

The analyst proposes a very open-ended question. This allows the CEO to never really answer the question, and instead, he talks at length in an overly specific manner. There is clearly some recognition on management's part to execute more effectively, but he does not provide any details about how that is to be accomplished. His protest as the end of his response would also suggest that they are very concerned about the economy, but he wants to reassure investors that they are paying attention to it.

Corey Greendale - First Analysis Securities - Analyst

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Okay. And then I also wanted to ask about **pricing**, where first of all, I think you said, you're committed to doing **5% for next year**, but can you just remind me if that's **still true** and secondly **I know you tied pricing to the ROI to the student, if starting salaries start to moderate because of the economy, would that change your pricing plans.**

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Couple things you asked there, see if I can hit them all. Pricing increase for March of 2009. Yes **that is the plan**. Do we tie it to the ROI. Yes we **absolutely** do.

I mentioned in my prepared comments that the salaries are up 4% year to date, so **we're still seeing good increases in salaries and expect that to continue, so we're still on the positive front there.** Let me just remind you **as a way to answer your question about the salaries, there were also a lot of other favorable changes to the variables that go into the calculation of ROI including increases in Pell grants. Including reductions in interest rates.**

Including increases in low cost loans that offset higher cost private loans, so there are several positive factors that go into that calculation of the ROI. That we're moving in the right direction and that **quite frankly, we expect to move in the right direction over the next couple of years,** just some of the Pell grant increases and interest rate reductions those are on a five-year track as a part of the college cost reduction act the so we still feel **pretty good** about that, **at this point,** you can never look too far out. **At this particular point** we would not **anticipate** changing our pricing strategy.

ANALYSIS/PRICING PLANS

When asked specifically about pricing plans, CEO answers the easiest part of the question first and states that "the plan" is a price increase for March of 2009. However, there does exist the possibility that it could change. Also, he uses a detour and protest to reassure investors that salaries are in a good place; however, they may have underlying concerns that salaries may change if things do not move in the "right" direction. Lastly, he is overly specific and limiting in his comments on pricing strategy. His behavior could indicate that, even though it is not explicitly stated, management plans to leave the door open to change their pricing strategy at anytime. A possible follow-up question might be: Hypothetically speaking, under what circumstances would you change your pricing strategy?

Corey Greendale - First Analysis Securities - Analyst

Okay. And just one other one if I could, there have been some reports about more traditional not-for profit schools, **some students switching to part time status as response to the credit crunch, are you seeing that at all, or is that something you'd anticipate.**

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Thankfully we've not seen that **as of yet.** I think the reason is we have the internal financing program so we're able to provide the financing for students. We also know that there is a correlation between full time status and success rate. So we always try to promote that, and some vast, vast majority of our students are full time. They have been, they continue to be, so we, we haven't seen that. I would not anticipate that being a factor for us going forward.

ANALYSIS/PART-TIME STATUS

CEO responds with a qualified protest in an overly specific manner in an attempt to reassure and convince investors that they do not have any concerns or fears about the possibility of this happening to them.

Corey Greendale - First Analysis Securities - Analyst

Okay. Thanks and congratulations on the quarter.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Thank you.

Operator

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Thank you. Our next question will be coming from the line of Gary Bisbee with Barclays Capital.

Gary Bisbee - Barclays Capital - Analyst

Hey guys great job in the quarter.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Hey Gary thank.

Gary Bisbee - Barclays Capital - Analyst

I guess I just add one more question on deferred revenue. Is it safe to say today that most of the balance, the remaining of balance sheet is from the pre-paid title four, and most or much of the pre-paid from the prior Sallie Mae program has already been worked off.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Well, that's, I mean, that's probably true quite frankly. We're seeing new originations in the private program that are in there as well Gary. But, just from the basis of what we've talked about in terms of what the GAAP is, your talking about a GAAP of 12% to 13% in revenue and some portion of that is coming from private lending then you compare that to the bigger portion, it's probably 60% or so 70% coming from just the Stafford loan program. The vast majority is title four.

Gary Bisbee - Barclays Capital - Analyst

So, in other words, the big drop the last two quarters which was clearly the run down of the Sallie Mae is they stopped making those loans, the majority of that is done I guess is what I'm getting at?

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Yeah that's probably true.

ANALYSIS /DEFERRED REVENUE

Based on the leading nature of the analyst's question, it is difficult to say if the CEO has a clear sense of how much has been paid off. At a minimum, his qualified answer of, "Yeah that's probably true." only reflects that he may lack confidence on the true status.

Gary Bisbee - Barclays Capital - Analyst

Okay. Great. The lower advertising expense, it clearly, that's been a real positive, is that, is it more due to spot rates dropping on the various media your spending on, or just an increase, return on the spend like more, your getting more leads per, per spot just based on the economy, so you're taking less spots? Or is it really just a combination of the two at this point.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Both are had an impact on the quarter, but I would say that there's more to the spot cost reductions right now.

ANALYSIS /ADVERTISING EXPENSE

The analyst asks a leading question which allows the CEO an easy out in simply agreeing with him. However, he provides some over specificity to imply that spot cost reductions are playing a greater role. This could mean that they are not getting the increase return on spend.

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Gary Bisbee - Barclays Capital - Analyst

Okay. I think you floated the idea in the past and I realize it's early so you don't have any concrete details, but, if, if there was an **opportunity to sell some of these loans down the road**, maybe, maybe there would be more attractive opportunity to do it for kids who have graduated and who are employed that you would consider that. **Any thoughts on that yet** or is it just with the current credit situation way too early to tell who might want to do it and how they think about.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

I can tell you **where we're at** with it, and it's **probably not as far along as I'd like to be**, but we've **had conversations** with people who have expressed interest in doing that. We've **really** not gotten into the details of figuring out **exactly** how we would, **just because we are preoccupied with setting up the infrastructure for our originations and getting the interest rates on and getting the servicing in place. That's really been our focus, but, we've started some of those conversations and people are interested.**

I would say to you that, just based upon those **very preliminary** discussions that, I would say the questions are not whether or not we're going to be able to do it. So it's not a question of if, it's **probably** a more a question of when, and when I say when, where at in the academic cycle. Do we have to wait until they graduate, somebody take it before that? So it's **kind of a question of when**, and then the biggest question is at what price. **And of course, the pricing right now it's very expensive. Money is very expensive. We've not gotten into details on either one of those two key questions.**

But again there are **multiple parties** who have expressed interest in acquiring the assets. So we're **cautiously optimistic** there. We're going to have to see what price it is. I'll tell you this much, we won't do a fire sale. We're not going to sell these assets at fire sale prices because we don't think we need to do that, but if there's a price that makes sense, and we'll do that, and, we're optimistic that we can create some sort of liquidity event at some point down the line.

ANALYSIS / LOAN SELL

Again, the analyst asks a poorly worded question that is both open-ended and compounded. This question type allows the CEO to lay out the ground work for the possibility of a sale without giving any specifics on the details about the discussions that are taking place behind the scenes. His protest at the end would imply that they might have to sell at a time and price unplanned for, even though he is attempting to convince investors differently. Also, his qualified remark about being "cautiously optimistic" further suggests that they have could have some reservations about being able to control what they want to do at a time they want to do it.

Gary Bisbee - Barclays Capital - Analyst

Okay. Great. And then just, you're **not yet charging interest**. I think I've heard you say in the past this you're optimistic sometimes sort of early in 2009 you might have all of the approval and whatnot in place to do that, **is that still something that can happen, happen next year.**

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Yes. That's still correct. The early 2009 is our goal.

Gary Bisbee - Barclays Capital - Analyst

Okay. And just one more question on that. You will be, **will you be charging the students**, it won't be a cash interest until after they graduate, but it would likely be accruing interest **do you know.**

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

That's correct.

Gary Bisbee - Barclays Capital - Analyst

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Okay. Great.

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

Great.

Gary Bisbee - *Barclays Capital - Analyst*

Thanks.

ANALYSIS/INTEREST

It is unclear from CEO's response about where they are in the approval process and whether they will actually meet their goal, since he qualifies his answer with "still" correct. The analyst follows up with a leading question; this simply allows the CEO to respond in a non-specific manner, so it is again unclear to which part of the question he is answering.

Operator

Thank you. Our next question will be coming from the line of Trace Urdan with Signal Hill Group, please proceed with your question.

Trace Urdan - *Signal Hill Group LLC - Analyst*

Thanks. Kevin, are the third party loans that your students are able to access, are they coming disproportionately from a single lender.

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

We've got one lender whose a bigger piece than not. They're north of 50%.

Trace Urdan - *Signal Hill Group LLC - Analyst*

I'd heard that Chase was moving pretty aggressively to pick up market share in this space and I guess the reason I'm asking is, that I'm wondering whether the, the behavior you're seeing may be from the single lender might be anomalous. In other words, might that lender not be raising their criterion in order to pick up share and might that behavior be different from what some of the other lenders are, are doing out there? Is that --

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

Well.

Trace Urdan - *Signal Hill Group LLC - Analyst*

You want to comment on that.

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

I would say that every lender that we're dealing with has changed their underwriting standards. Most to a pretty severe degree, so there's, the degree to which each of them has changed is, is pretty close. Yeah, you have some variation but probably not as much as that you might be insinuating in the question I think. They've all moved. Now, there are some that are being more aggressive than others, but not by a wide margin.

Trace Urdan - *Signal Hill Group LLC - Analyst*

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Cause you've kind of suggested in your remarks that there was no sequential change that basically you saw sort of a one time change.

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

That's right.

Trace Urdan - *Signal Hill Group LLC - Analyst*

The standard and nothing has changed since then. And is it fair to say that everybody your working with, is, is behaving that same way?

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

Yes.

Trace Urdan - *Signal Hill Group LLC - Analyst*

Okay.

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

It's fair to say that.

ANALYSIS/THIRD PARTY LOANS

CEO provides a general percent of one lender they are dealing with, but fails to give the total percent. His behavior would suggest that he is hesitant to reveal how much they are relying disproportionately on this one particular lender. Secondly, the analyst follows up with a poorly worded opinion question. This leaves room for the CEO to speculate without providing any details. His qualified protest and subtle attack on the analyst's remarks clearly reflect an inappropriate lack of concern about the aggressiveness, even though he too, may be having specific concerns about this issue.

Trace Urdan - *Signal Hill Group LLC - Analyst*

Okay. And then kind of back to Jerry's question, if, we can't help ourselves we're going to be going through this exercise in trying to figure out weather there's sort of two ways to try to get at what you guys are lending one of them is to look at the account receivable and try to figure out how it's different from what it might have been the otherwise.

The other way is look at, at the deferred revenue account and try to figure out how that might look different from what it would otherwise look like given the growth you've seen in revenue. I'm wondering if Dan, given that that exercise is going to on whether you guys can help to or not, can you offer any guidance as to which avenue you think might be more productive or whether there's some other change going on in either of those two accounts that we should be aware of if we're trying to go through that exercise?

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

Yeah. This is Kevin. I would say that the former rather than the latter would probably get you a better estimate of it.

Trace Urdan - *Signal Hill Group LLC - Analyst*

Okay.

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

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If you looked at the AR, and folks have asked us before, and we're just hesitant it try to give you any kind of clarity on that because I don't know if that's what it's going to be like going forward. But if you're just trying to look at the quarter and your trying to see what's there, and you've got a general sense of what the historical rate has been you see where we're at today, you can do that both on the DSO and on the bad debt, look at the differences between the two, your not going to be too far off.

Trace Urdan - Signal Hill Group LLC - Analyst

Okay.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

What occurred in the quarter. Now is that representative of what's going to be going ongoing forward for a longer term? I'd like one more quarter of data before I say, yes, to that. But that's the best, by doing that, you have the best information available and it's the same information that I have, quite frankly.

Trace Urdan - Signal Hill Group LLC - Analyst

Okay. And then, that makes perfect sense in terms of the volume. I'm wondering if that comment about, the past doesn't necessarily reflect the future might also apply to the discounts that you guys are using or are you pretty comfortable that the discount your using is the discount you're going to continue to use.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

We're being really conservative there.

Trace Urdan - Signal Hill Group LLC - Analyst

Okay.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

I think we're reflective of the market conditions that are out there right now, so you start with historical and then you get as conservative as you can within the guidelines of the accounting pronouncements and you go from there. Do I expect major changes perfect what we're doing now given the level of conservatism, no, I really do not, to be honest with you, so I would say at the present time I think what your seeing in terms of the reserve levels being consistent. Now the only thing that can impact that is if there's a change in the amount of third party financing, because the more they take, then of course, the higher we reserve because, just default reserve I'm talking.

Trace Urdan - Signal Hill Group LLC - Analyst

Right.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

They're going to obviously be, quote, unquote, creaming off the top.

Trace Urdan - Signal Hill Group LLC - Analyst

Right.

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Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

So that's not a bad thing that's just a calculation itself. But again things stay constant. The methodology and the way we're going to be reserving and looking at that default rate based on historical and factoring in conservative estimates based on conditions, I don't think that changes.

Dan Fitzpatrick - ITT Educational Services, Inc. - CFO and SVP

I think it's important to point out too that we do have a lot of data there. I think some folks don't have a lot of history we've got a lot there we're not just winging it

Trace Urdan - Signal Hill Group LLC - Analyst

We know you have more than we do, so.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

All right. Thank you

Trace Urdan - Signal Hill Group LLC - Analyst

Okay. Thanks.

ANALYSIS/LENDING AND DISCOUNTS

When asked about guidance, the CEO uses qualified language to steer the analyst towards accounts receivable over deferred revenue without further explanation. He then feels the need to follow-up further with overly specific detail beyond the scope of the question after the analyst says, "Okay." This behavior may suggest that they do not want to reveal any additional information outside the parameters of the analyst's question, as well as, a possible lack of confidence in what to expect. This concern is amplified when he poses a "question" within his answer and then finishes his response with a qualified protest. Again, this behavior may provide some indication that they may be withholding additional information about this issue. Further on, when the analyst asks about discounts, the CEO answers with a non-answer response, he then continues on with limited and over specific language, asks another question within his response and then follows with a protest. Overall, this could imply that management may lack confidence in their efforts to maintain future discounts at the same level while trying to minimize concerns over the impact third party financing may have.

Operator

Thank you our next question comes from the line of Mark Marostica from Piper Jaffray.

Mark Skitovich - Piper Jaffray & Co. - Analyst

It's actually Mark Skitovich for Marostica, nice results.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Thank you.

Mark Skitovich - Piper Jaffray & Co. - Analyst

Maybe if I may just one final question on the bad debt, I'm just curious what you might attribute the sequential move to the fact that you don't have this third party servicer in place yet.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

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I'm not sure I understand the question to be honest with you.

Mark Skitovich - Piper Jaffray & Co. - Analyst

Is there, if you look at sort of your baseline **bad debt levels**.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Yes.

Mark Skitovich - Piper Jaffray & Co. - Analyst

And look at sort of what that may have, how that may have acted in the quarter, I'm just curious if you have, if there's **some, efficiencies that are taking place that are short-term in nature that might be resolved with the third party servicer that you're talking about having**.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

The reserve that you're seeing is an estimate, so there's not anything added to that for **any kind of** efficiency as a result of our **current** system. That may happen down the line that we may see some upside if we saw **better** performance in terms of servicing and collection and **whatnot**, but those would be adjustments you'd make down the line, so no, there's, there's none of that in the **current** numbers.

Mark Skitovich - Piper Jaffray & Co. - Analyst

Okay. And then just in terms of **cyclicality question**. I'm just curious if you've seen any **inquire I see that are cyclical related and what you might anticipate, based on the past as to when you my start to see that**.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Nothing more cyclical or seasonal than what we **normally** see, **there is a seasonal pattern to the business and demand, in the third quarter is one of the high peak seasons of course, it's when traditional schools open and when people think about going back to school**. But aside from that, we're not seeing anything **unusual**.

Mark Skitovich - Piper Jaffray & Co. - Analyst

Okay. Great. Thanks, guys.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Okay. thank you.

ANALYSIS/BAD DEBT

Management responds to the initial question on bad debt as a failure to understand the question and then qualifies it with "to be honest with you." in an attempt to sound truthful. This allows them additional time to think while the analyst has to rephrase the question. When the CEO does respond, he resorts to over specific and qualified language. This behavior may be indicative of this issue of having particular significant for the company and may could imply that they have already begun to evaluate circumstances where adjustments in the system may have to be made; even though, they are not willing to discuss them outside of their current numbers. Lastly, in response to the cyclicality question, the CEO uses qualified and overly specific language to try and convince investors that they do not see anything out of the normal, even though they may anticipate possible change, they are not forthcoming in this area.

Operator

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Thank you. Our next question will be coming from the line of Kevin Doherty at Banc of America Securities. Please go ahead with your question, sir.

Kevin Doherty - Banc of America Securities - Analyst

Thanks, as we think about the moving parts from the financing side, **how much of that benefit have you seen from the higher Stafford loan limits coming through on the quarter, I guess how much of the \$2,000 have they started to be able to access?** And then just, **what's just a timing of the re-packaging as some of your continuing students start to access those funds.**

Dan Fitzpatrick - ITT Educational Services, Inc. - CFO and SVP

Well **Kevin basically** the way that works is that \$2,000 is available per academic year. For each academic quarter they'd be entitled to \$667, so for those students we'd be able to get back and re-package for the March quarter, **potentially** you could receive the entire \$2,000 you would have March, June and September's impact there.

In terms of how it's going to play out as far as the student's population, it would depend on when they've started and what they're scheduled to be re-packaged. Students are re-packaged on a nine-month basis. Three quarters, so folks who started in June, they would have got **got their initial disbursement. But they'd get their next log if you will, as we re-package them, let's see that would would be in March of next year.**

Kevin Doherty - Banc of America Securities - Analyst

How much of that population do you think's been impacted --

Dan Fitzpatrick - ITT Educational Services, Inc. - CFO and SVP

In our system, **if you're asking about how much of an impact it has on the total student population,** we would **guesstimate** that the **mid** 90% of our students are going to be able to utilize the \$2,000.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

I think that goes back to you are our original estimate where we were originally looking at 25% gap and that got cut in half to **basically** 12%, 12.5% and that's how we factored in that number. **If you're asking how much of that is showing in the current quarter.** All the **new** students we're re-packaging them with the additional dollars or the new, we've got **some portion** of the continuing so we're able to go back and get **some** funding **for some of** those people, but you won't see 100% of it impacted for a couple of quarters.

Kevin Doherty - Banc of America Securities - Analyst

Right. I guess that's my question. **How much of that re-packaging of the continuing students came through this quarter. How much can we expect as we go through the next few quarters then.**

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Yeah, I mean, **for the new**, you've got all of them. For the continuing, **I mean**, you're going to see **probably** a third of the dollars coming through for maybe 50% of them. **Somewhere** in that range, that would give you a **rough** estimate.

ANALYSIS/STAFFORD LOAN LIMITS

CEO initially avoids answering the question and responds in an overly courteous and specific manner. He is attempting to carve out the portion of the question he can answer at it applies to "total student population" but actively avoids trying to provide additional information about continuing students until he is further pressed by the analyst. His response is overly vague and non-specific and would indicate that they are not confident that they are going to get the dollars for their continuing student population they hope for, and that, they may have concerns it could be actually lower than the 50% he states.

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Kevin Doherty - Banc of America Securities - Analyst

Okay. And then just, as we think about your, the start demand that came through on this quarter, **what's the profile of some of those incremental students, has that changed at all?** I mean, are those students who have maybe lost their jobs, **is the profile any different from the typical ITT student.**

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

No, **we're not seeing that.** Still 80% of our students are **currently** working. So these, it's the same profile average 26-year old, **probably** I have 30% to 40% of them have some experience in education, these are people working in skilled positions and **most** are still there.

We're not seeing a **ton of** people coming there it's our big incremental people that are coming through **you remember** that employment or being affected by employment rate. **At that may occur we haven't seen that yet.** If you look at the profile of the student we saw just in the September quarter it would not be **materially** different than what you saw in September 2007.

ANALYSIS/STUDENT PROFILE

CEO ended his remarks with not "materially" different as he deflected his response back to an earlier period. He also relied on limiting language and selective memory to make his point more salient. This cluster of behaviors could imply that he may be trying to omit some information about the other percent of the students who may not meet the profile.

Kevin Doherty - Banc of America Securities - Analyst

Okay. And could you just talk about the **shift, between the the Associate and Bachelor students,** I guess as we think of more students coming back in on the front end are they may be staying a little longer moving onto a Bachelor Program in a greater degree.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Sure a couple things we're seeing **pretty strong** demand at the front end at the **social** level. The mix on that about where we're about 80% in Associate, 20% Bachelor. We were, **probably** year or two back 75%, 25% but the Associate demand has been **very** strong we've done well there.

So the flip side **just this quarter,** we saw **very** strong Associate to Bachelor matriculation that was, **quite frankly** in total north of our historical average we've not seen that for **quite some** time that was a nice pleasant impact, now it's not huge numbers relative to the total number of new students that we're talking about when we're talking about 20,000. But still yet, the percentage was nice and it was good to see people continuing and going, going into the Bachelor programs, so strong demand on associates, and yes we're seeing a, just this quarter for the first time, pretty strong Associate to Bachelor matriculation over historical rate.

Kevin Doherty - Banc of America Securities - Analyst

Has that been something enough to move the needle for start growth yet or --

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Not really.

Kevin Doherty - Banc of America Securities - Analyst

Later on.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

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No, not yet.

Kevin Doherty - *Banc of America Securities - Analyst*

Okay. Thanks, guys.

ANALYSIS/ASSOCIATE/BACHELOR PROGRAMS

This exchange between the analyst and CEO is very revealing even though the analyst is asking a very open-ended question. The CEO takes advantage of this by deciding to talk about the strong numbers of the Associate Program. He then protests about how they are seeing “pretty strong” Associate to Bachelor matriculation, and how it was “totally north” of their expectations and how it was a “nice pleasant impact” for the “current quarter” but does not provide any numbers to support his comments. When pressed by the analyst about growth in this area, he states, “Not Really.” This behavior suggests that their numbers are not as good as they would suggest and likely indicates that they have concerns about future growth in this area as well.

Operator

Thank you our last question will be coming from the line of Suzanne Stein with Morgan Stanley.

Suzanne Stein - *Morgan Stanley - Analyst*

Thank you, are your students getting private loans without co-borrowers do you know?

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

The student that get a private loan for us, are getting them without co-signers for the most part. I mean, these are -- a student of 26 years of age, that's an average age most of them are independent they really don't have anyone to co-sign with them. Occasionally you'll have somebody that has a spouse or family member that will, the vast majority are doing this without a co-signer.

Suzanne Stein - *Morgan Stanley - Analyst*

Okay. Great. Can you be more specific about your experience with advertising rates, is it mostly TV and radio or is the reduction in pricing across the board to other channels, I can't remember if you provided this, but do you have any detail on the breakdown of advertising by channel?

Kevin Modany - *ITT Educational Services, Inc. - Chairman, CEO and President*

Two questions I'll try to handle both. We're seeing on TV bigger impact than elsewhere but we are seeing it across the board. Spot costs are down again more prominent on the television side than anywhere else. In terms of where our mix is, we obviously don't give details on that because of the proprietary aspects of it. We have said the vast majority of our dollars are being allocated to television as opposed to anywhere else.

Suzanne Stein - *Morgan Stanley - Analyst*

Okay. Great. Thanks.

ANALYSIS/PRIVATE LOANS AND ADVERTISING RATES

CEO provides overly specific detail about co-signing. Although this may not be significant, he does preface his remarks with “for the most part.” This could indicate that there are some students with other circumstances that he does not feel the need to address. In his response to the

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advertising question, management is overly specific again and resorts to a qualified protest in an attempt to minimize any concerns about advertising impact outside television. Possible follow-up questions could be: Outside of television, what percentage of advertising dollars are being allocated to other areas? In what areas have you experienced the lowest impact?

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

Thank you.

Operator

Thank you. Mr. Modany we are out of time for today. I'd like to send the floor back over to management for any additional or closing comment.

Kevin Modany - ITT Educational Services, Inc. - Chairman, CEO and President

I appreciate everyone participating in the call. And we look forward to talking with you again in January, again at that time we hope to provide you a little bit of additional color on the financing. We understand that's the key issue here and we're getting very close to the point where we're comfortable enough to start talking about that in some detail. So again, thanks for participating in the call and we look forward to you talking to you all in January of 2009. Thank you.

ANALYSIS/CONCLUDING REMARKS

CEO's final remarks are a vague protest statement that is an attempt to minimize concerns over financing. His need to state this at the end of the call may be an indication that they may lack confidence in their ability to meeting their internal financial and operating goals and may have some uncertainty about the challenges they could face in these areas.

Operator

This concludes today's conference. Thank you for your participation.

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