ITT EDUCATIONAL SERVICES INC
Form DEF 14A
March 12, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

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Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material under §240.14a-12

ITT EDUCATIONAL SERVICES, INC.

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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ITT Educational Services, Inc.

2009 Annual Meeting

Notice and Proxy Statement

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ITT EDUCATIONAL SERVICES, INC.

13000 North Meridian Street

Carmel, IN 46032-1404

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 5, 2009

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The 2009 Annual Meeting of Shareholders of ITT Educational Services, Inc. ("ITT/ESI") will be held at the Intercontinental Chicago O'Hare, 5300 North River Road, Rosemont, IL 60018, on Tuesday, May 5, 2009, at 11:30 a.m., local time, for the following purposes:

1. To consider and vote upon two proposals described in the accompanying Proxy Statement providing for:

   Proposal One: Election of three Directors to serve until the 2012 Annual Meeting of Shareholders and until their successors are elected and have qualified.

   Proposal Two: Ratification of the appointment of PricewaterhouseCoopers LLP to serve as ITT/ESI's independent registered public accounting firm for its fiscal year ending December 31, 2009.

2. To act upon such other matters that may properly come before the meeting.

All shareholders of record at the close of business on March 6, 2009 will be entitled to vote at the meeting.

It is important that your shares be represented at this meeting. Whether or not you expect to be present, please vote as soon as possible. We have provided information on available voting methods in the accompanying Proxy Statement. If you attend the meeting, you may revoke your proxy and vote in person.

By Order of the Board of Directors,

Clark D. Elwood

Senior Vice President, General

Counsel and Secretary

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ITT EDUCATIONAL SERVICES, INC.

13000 North Meridian Street

Carmel, IN 46032-1404

PROXY STATEMENT

Annual Meeting of Shareholders

May 5, 2009

This Proxy Statement and accompanying proxy are being provided to shareholders on or about March 20, 2009 in connection with the solicitation by the Board of Directors of ITT Educational Services, Inc. (“ITT/ESI,” “we” or “us”) of proxies to be voted at the 2009 Annual Meeting of Shareholders (“Annual Meeting”) to be held at 11:30 a.m., local time, Tuesday, May 5, 2009, at the Intercontinental Chicago O’Hare, 5300 North River Road, Rosemont, IL 60018, for the purposes set forth in the accompanying notice.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Why did I receive a Notice of Internet Availability of Proxy Materials?

Many of our shareholders will receive a Notice of Internet Availability of Proxy Materials (the “Notice”), which was or will be sent to shareholders on or about March 20, 2009. We are furnishing our proxy materials to our shareholders on the Internet, unless the shareholder has previously requested printed copies. Printed copies of our proxy materials furnished at the previous request of our shareholders were or will be sent to those shareholders on or about March 20, 2009.

If you received a Notice by mail or e-mail, you will not receive a printed copy of our proxy materials unless you request such a copy in the manner described in the Notice. The Notice also instructs you as to how you may access and review this Proxy Statement and our 2008 Annual Report on Form 10-K, and how you may submit your proxy to vote at the Annual Meeting.

Who is entitled to vote at the Annual Meeting?

Holders of our common stock outstanding at the close of business on March 6, 2009, the record date for the Annual Meeting (the "Record Date"), are entitled to vote their shares at the Annual Meeting. As of the Record Date, 38,320,318 shares of our common stock were issued and outstanding. Each share of our common stock is entitled to one vote on each matter properly brought before the Annual Meeting.

What will shareholders vote on at the Annual Meeting and how does the Board of Directors recommend that I vote?

There are two proposals that shareholders will vote on at the Annual Meeting:

- election of three directors to serve until the 2012 Annual Meeting of Shareholders and until their successors are elected and have qualified; and
- ratification of the appointment of PricewaterhouseCoopers LLP ("PWC") to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2009.

The Board of Directors recommends that you vote FOR both proposals.

What is the difference between holding shares as a shareholder of record and as a beneficial owner?

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, you are considered, with respect to those shares, the "shareholder of record." The Notice has been or will be sent directly to you, unless you previously requested printed copies of our proxy materials.

If your shares are held in a stock brokerage account or by a bank or other holder of record, you are considered the "beneficial owner" of those shares held in "street name." The Notice has been or will be sent to you by your broker, bank or other holder of record who is considered, with respect to those shares, to be the shareholder of record. As the beneficial owner, you have the right to direct your broker, bank or other holder of record on how to vote the shares in your account.

How do I vote?

Record Holders

If you are a record holder, you may vote by using any of the following methods.

Through the Internet. You may submit a proxy through the Internet by following the instructions on the Notice or the instructions on the proxy card if you previously requested to receive paper copies of proxy materials or you request paper copies in connection with this Annual Meeting. If you submit a proxy through the Internet, you do not need to return a proxy card. The Internet voting facility for shareholders of record will close at 11:59 p.m., Eastern Time, on May 4, 2009.

By Telephone. If you receive a proxy card by mail because you have previously requested to receive paper copies of proxy materials or you request paper copies in connection with this Annual Meeting, you may submit a proxy by telephone by dialing the toll-free telephone number shown on the proxy card and following the recorded instructions. If you submit a proxy by telephone, you do not need to return a proxy card. The telephone voting facility for shareholders of record will close at 11:59 p.m., Eastern Time, on May 4, 2009.

By Mail. If you receive a proxy card by mail because you have previously requested to receive paper copies of proxy materials or you request paper copies in connection with this Annual Meeting, you may vote by completing, signing, dating and mailing that proxy card in the pre-addressed postage-prepaid envelope that will be included when the proxy card is sent to you.

In Person at the Annual Meeting. If you attend the Annual Meeting, you may vote your shares in person. We encourage you, however, to vote by proxy card, through the Internet or by telephone even if you plan to attend the meeting so that your shares will be voted in the event you later decide not to attend the meeting.

Beneficial Owners

If you are a beneficial shareholder, you may vote by using any voting instruction card provided by your broker, bank or other record holder or by following their instructions for voting through the Internet or by telephone. If you are a beneficial shareholder who would like to vote in person at the Annual Meeting, you must obtain a legal proxy from your broker, bank or other holder of record and present it at the Annual Meeting.

What does it mean if I receive more than one Notice or proxy card?

If you received more than one Notice or proxy card, your shares are registered in more than one name or are registered in different accounts. Please follow the voting instructions included in **each** Notice and proxy card to ensure that all of your shares are voted.

May I change my vote after I have submitted a proxy?

If you are a shareholder of record, you have the power to revoke your proxy at any time before the shares it represents are voted, by:

- delivering to our Secretary an instrument revoking the proxy;
- delivering a new proxy in writing, through the Internet or by telephone, dated after the date of the proxy being revoked and, in the case of telephone or Internet voting, before 11:59 p.m., Eastern Time, on May 4, 2009; or
- attending the Annual Meeting and voting in person (attendance without casting a ballot will not, by itself, constitute revocation of a proxy).

If you are a beneficial shareholder, you may submit new voting instructions by contacting your broker, bank or other holder of record. You may also revoke your previous voting instructions by voting in person at the Annual

Meeting if you obtain a legal proxy from your broker, bank or other holder of record and present it at the Annual Meeting.

How will the proxies be voted?

Clark D. Elwood and Daniel M. Fitzpatrick, two of our executive officers, have been selected by our Board of Directors to serve as proxy holders for the Annual Meeting. All shares of our common stock represented by properly delivered proxies received in time for the Annual Meeting will be voted at the Annual Meeting by the proxy holders in the manner specified by the shareholder. If a written proxy card is signed by a shareholder and returned without instructions, the shares of our common stock represented by the proxy will be voted FOR the election of the three director nominees named in this Proxy Statement, and FOR the ratification of the appointment of PWC.

What is the quorum required at the Annual Meeting?

In order for business to be conducted at the Annual Meeting, a quorum must be present. A quorum will be present if the holders of a majority of the shares issued and outstanding as of the Record Date and entitled to vote are represented in person or by proxy at the Annual Meeting. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the election inspector appointed for the meeting and will determine whether a quorum is present. The election inspector will treat abstentions and broker non-votes as shares that are present for purposes of determining the presence of a quorum. A broker non-vote occurs when a broker, bank or other holder of record holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for that particular item and has not received voting instructions from the beneficial owner.

What are the voting requirements to approve each of the proposals?

Election of Three Directors. To be elected, a Director nominee must receive a majority of the votes cast with respect to such Director, which means that the number of shares voted “for” that Director’s election must exceed the number of shares voted “against” that Director’s election. Shareholders will not be allowed to cumulate their votes in the election of Directors. Abstentions and broker non-votes will not be considered as votes cast on this proposal and therefore will have no effect on the outcome of this proposal.

Ratification of the Appointment of the Independent Registered Public Accounting Firm. The affirmative vote of a majority of the shares of our common stock represented in person or by proxy at the Annual Meeting is required to ratify the appointment by the Audit Committee of the Board of Directors of PWC as our independent registered public accounting firm for our fiscal year ending December 31, 2009. Abstentions and broker non-votes will be counted for purposes of determining whether a quorum is present and will be considered shares represented at the Annual Meeting. Accordingly, an abstention or broker non-vote will have the same effect as a vote against this proposal.

Could other matters be decided at the Annual Meeting?

As of the date of this Proxy Statement, our Board of Directors is not aware of any matters, other than those described in this Proxy Statement, which are to be voted on at the Annual Meeting. If any other matters are properly raised at the Annual Meeting, however, the persons named as proxy holders intend to vote the shares represented by your proxy in accordance with their judgment on such matters.

Who is paying for the costs of this proxy solicitation?

We will pay all expenses of solicitation of proxies. Our officers, Directors and other employees may solicit proxies, without additional compensation, by telephone, electronic mail, facsimile or mail, or by meetings with shareholders or their representatives. We also will reimburse brokers, banks and other record holders for their charges and expenses in forwarding proxy material to beneficial owners.

***PROPOSAL ONE*: ELECTION OF THREE DIRECTORS TO SERVE UNTIL THE 2012 ANNUAL MEETING OF SHAREHOLDERS AND UNTIL THEIR SUCCESSORS ARE ELECTED AND HAVE QUALIFIED**

Our Board of Directors currently consists of nine Directors divided into three classes. Each class contains three Directors. The term of one class expires each year. Generally, each Director serves until the annual meeting of shareholders held in the year that is three years after the Director's election and thereafter until the Director's successor is elected and has qualified. There is a vacancy in the class of Directors whose terms expire at the 2010 Annual Meeting of Shareholders. Our Board of Directors intends to fill that vacancy when a suitable candidate has been identified. Proxies cannot be voted for a greater number of persons than the number of persons nominated for election to our Board of Directors named in this Proxy Statement.

At the meeting, three Directors are to be elected to hold office for a three-year term to expire at the 2012 Annual Meeting of Shareholders and until their successors are elected and have qualified. The proxy holders intend to vote such proxy for the election to the Board of Directors of Joanna T. Lau, Samuel L. Odle and John A. Yena, three current Directors whose terms expire this year, unless you direct them to vote otherwise.

The voting standard for election of the Director nominees is a majority vote standard. This majority vote standard is in effect because this is an uncontested election of Directors (i.e., the number of nominees for Director did not exceed the number of Directors to be elected, as of the date that was 14 days in advance of the date that this Proxy Statement was filed with the U.S. Securities and Exchange Commission ("SEC")). For any contested elections, the Directors would be elected by a plurality of the shares of our common stock voted in person or by proxy at the meeting.

All of the Director nominees for this Annual Meeting are currently serving on our Board of Directors. If any nominee is not elected at the Annual Meeting, he or she is expected to tender his or her resignation to our Board of Directors. Our Board of Directors will act on the tendered resignation and publicly disclose its decision regarding the tendered resignation within 90 days from the date of the certification of the election results. In making its decision regarding the tendered resignation, our Board of Directors may consider any factors or other information that it considers appropriate and relevant. If a Director's resignation is not accepted by our Board of Directors, the Director will continue to serve until the end of the term of his or her class and until his or her successor is duly elected, or his or her earlier resignation or removal. If a Director's resignation is accepted by our Board of Directors, then the Board may fill the resulting vacancy or decrease the size of the Board.

Each of the nominees has consented to serve as a Director. If for any reason a nominee should become unable or unwilling to accept nomination or election, the proxy holders intend to vote the proxy for the election of such other person as our Board, upon the recommendation of the Nominating and Corporate Governance Committee, may select. Alternatively, our Board may reduce the number of Directors to eliminate the vacancy.

Our Board of Directors does not have a policy with respect to the Directors' attendance at our annual shareholder meetings, but all of our Directors are encouraged to attend those meetings. Our 2008 Annual Meeting of Shareholders was held on May 6, 2008, and all nine members of our Board of Directors at that time attended that meeting.

A brief summary of each Director's principal occupation, business affiliations and other information follows. Unless otherwise indicated, each Director's principal occupation has been the same for the past five years. There is no family relationship between any of our Directors or executive officers.

Nominees for Director

Term Expiring at the 2009 Annual Meeting.

Joanna T. Lau, age 50, has served as chairperson and chief executive officer of Lau Acquisition Corporation (doing business as LAU Technologies), a management consulting and investment firm, since March 1990. She is also a director of DSW Inc. Ms. Lau has been a Director of ours since October 2003.

Samuel L. Odle, age 59, has served as president and chief executive officer of Methodist Hospital (“MH”) and Indiana University Hospital (“IUH”) and executive vice president of Clarian Health Partners (“Clarian”), an Indianapolis-based private, non-profit healthcare organization comprised of MH, IUH and Riley Hospital for Children, since July 2004. Mr. Odle served as chief administrative officer of MH and senior vice president of Clarian from January 1997 through June 2004. Mr. Odle has been a Director of ours since January 2006.

John A. Yena, age 68, has served as chairman of the board of Johnson & Wales University (“J&W”), a postsecondary educational institution, since June 2004. Mr. Yena served as president and chief executive officer of J&W from June 1989 through May 2004. He is also a director of Bancorp Rhode Island, Inc. Mr. Yena has been a Director of ours since May 2006.

The Board of Directors recommends a vote FOR each of the nominees listed above.

Directors Continuing in Office

Term Expiring at the 2010 Annual Meeting.

John F. Cozzi, age 47, has served as a managing director of AEA Investors LP, a private equity firm, since January 2004. Mr. Cozzi has been a Director of ours since October 2003.

Kevin M. Modany, age 42, has served as our Chairman since February 2008 and as our Chief Executive Officer since April 2007. He has also served as our President since April 2005. From April 2005 through March 2007, Mr. Modany also served as our Chief Operating Officer. From January 2003 through May 2005, he served as our Chief Financial Officer. From July 2002 through April 2005, Mr. Modany served as a Senior Vice President of ours. Mr. Modany has been a Director of ours since July 2006.

Term Expiring at the 2011 Annual Meeting.

John E. Dean, age 58, is an attorney who has specialized in higher education law since April 1985. Mr. Dean has been a partner at the Law Offices of John E. Dean since June 2005. He was a partner of the Dean Blakey law firm from June 2002 through May 2005. Mr. Dean has also served as a principal of Washington Partners, LLC, a public affairs firm, since June 2002. Mr. Dean has been a Director of ours since December 1994.

James D. Fowler, Jr., age 64, served as senior vice president and director, human resources of ITT Industries, Inc., an industrial, commercial machinery and equipment company now known as ITT Corporation, from November 2000 until his retirement in October 2002. Mr. Fowler has been a Director of ours since April 1994.

Vin Weber, age 56, has been a partner at Clark & Weinstock Inc. (“C&W”), a management and public policy consulting firm, since 1994, and the chief executive officer of C&W since 2007. He is also a director of Lenox Group, Inc. Mr. Weber has been a Director of ours since December 1994.

Meetings, Independence and Committees of the Board of Directors

Meetings. During 2008, there were six regular meetings of the Board of Directors. During 2008, each of the Directors attended 75% or more of the aggregate number of meetings of the Board of Directors and the standing Board committees on which he or she served.

Independent Directors. Our Board of Directors currently contains seven non-employee Directors: Messrs. Cozzi, Dean, Fowler, Odle, Weber and Yena, and Ms. Lau. As permitted by the rules of the New York Stock Exchange (“NYSE”), our Board of Directors has adopted categorical standards to assist it in making determinations of independence. Any transactions, relationships or arrangements that we may have with any of our Directors are immaterial, so long as none of those transactions, relationships or arrangements caused the Director to violate any of our categorical standards of independence. Our categorical standards of independence are attached to this Proxy Statement as Appendix A. They are also contained in Section 5 of our Corporate Governance Guidelines and are posted on our website at www.ittesi.com. Our Board of Directors has determined that each of our current non-employee Directors is independent, and each of the non-employee Directors in 2008 was independent, pursuant to our categorical standards of independence and in accordance with Section 303A.02 of the NYSE Listed Company Manual. In the application of our categorical standards of independence to determine the independence of each non-employee Director for service on our Board of Directors and on its Audit, Compensation, Nominating and Corporate Governance and Academic Committees, there were no transactions, relationships or arrangements with our non-employee Directors that were required to be disclosed pursuant to Item 404(a) of Regulation S-K under the Securities Exchange Act of 1934 ("1934 Act"), or if not disclosed, that our Board considered.

The non-employee Directors on our Board of Directors meet at regularly scheduled executive sessions without our management. The Directors on our Board of Directors who are determined to be independent meet by themselves in executive session at least once annually. Our Board of Directors has chosen the Chair of the Nominating and Corporate Governance Committee, currently John A. Yena, to preside over the executive sessions of our non-employee and independent Directors ("Presiding Director"). Interested parties may send communications to the non-employee Directors, independent Directors or the entire Board of Directors by e-mail to PresidingDirector@ittesi.com or by regular mail addressed to:

ITT Educational Services, Inc.

13000 North Meridian Street

Carmel, IN 46032-1404

Attention: Presiding Director

Although such communications are available to any Director who wishes to review them, our General Counsel initially reviews all communications and forwards to the Presiding Director those communications that meet certain criteria set by the non-employee Directors.

Committees. The standing committees of the Board of Directors are the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Academic Committee.

Audit Committee. Our Audit Committee was established in accordance with Section 3(a)(58)(A) of the 1934 Act. Our Board of Directors has adopted a written charter for the Audit Committee, a current copy of which may be obtained from our website at www.ittesi.com. The functions of the Audit Committee are to assist the Board of Directors in its oversight of:

- the integrity of our financial statements and other financial information provided by us to any governmental body or the public;
- our compliance with legal and regulatory requirements;
- our systems of internal controls regarding finance, accounting, legal compliance and ethics that our management and the Board of Directors establish;
- our auditing, accounting and financial reporting processes generally;
- the qualifications, independence and performance of our independent registered public accounting firm; and
- the performance of our compliance and internal audit functions.

The Audit Committee also performs other functions as detailed in the Audit Committee's charter, including, without limitation, appointing, compensating, retaining and overseeing our independent registered public accounting firm and pre-approving all services to be provided to us by our independent registered public accounting firm.

The Audit Committee held five meetings during 2008. The members of the Audit Committee throughout 2008 were John F. Cozzi, John E. Dean and Joanna T. Lau. Thomas I. Morgan was also a member of the Audit Committee in 2008 through June 16, 2008, the date of his resignation from our Board of Directors. The current members of the Audit Committee are John F. Cozzi, John E. Dean (Chairperson) and Joanna T. Lau. Our Board of Directors has determined that John F. Cozzi is an "audit committee financial expert," as that term is defined in Item 407(d)(5) of Regulation S-K under the 1934 Act, and is independent pursuant to our categorical standards of independence, Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 of the 1934 Act. Each of the current members of the Audit Committee is independent and each of the members of the Audit Committee in 2008 was independent, pursuant to our categorical standards of independence, Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 of the 1934 Act.

Compensation Committee. Our Board of Directors has adopted a written charter for the Compensation Committee. A current copy of the charter may be obtained from our website at www.ittesi.com. The principal function of the Compensation Committee is to discharge the Board of Directors' responsibilities relating to compensation of our Directors and officers. The Compensation Committee has overall responsibility and authority for approving and evaluating our Director and officer compensation plans, policies and programs. The Compensation

Committee also performs other functions as detailed in the Compensation Committee's charter. The Committee's charter provides that it may delegate some or all of its responsibility and authority to subcommittees and/or our executive officers when the Compensation Committee deems the delegation to be appropriate. The elements of the compensation program for our executives presently consist of base salary, non-equity incentive compensation, equity-based compensation, qualified retirement savings, nonqualified deferred compensation, pension benefits, employee benefits, perquisites, and potential payments upon termination of employment or a change in control of us. See "Compensation of Executive Officers and Directors–Compensation Discussion and Analysis." Each element is determined by the Compensation Committee with the assistance of an independent compensation consultant, upon the recommendation of our Chief Executive Officer, except for each element of our Chief Executive Officer's compensation, which is determined solely by the Compensation Committee with the assistance of an independent compensation consultant. See "Compensation of Executive Officers and Directors – Compensation Discussion and Analysis – Design and Determinations."

The elements of the compensation program for our non-employee Directors presently consist of an annual retainer, equity-based compensation, nonqualified deferred compensation, perquisites and potential payments upon termination of services as a non-employee Director or a change in control of us. See "Compensation of Executive Officers and Directors – Director Compensation." Each element is determined by the Compensation Committee with the assistance of an independent compensation consultant and our Chief Executive Officer.

The compensation consulting firm currently used by the Compensation Committee is Farient Advisors LLC ("Farient"). The Committee previously used Mercer (US) Inc. ("Mercer"). The consulting firm is retained directly by the Compensation Committee and has helped the Compensation Committee develop an appropriate agenda for performing the Compensation Committee's responsibilities. In this regard, the consultant advises and assists the Compensation Committee:

- in determining the appropriate objectives and goals of our executive and Director compensation programs;
- in designing compensation programs that fulfill those objectives and goals;
- regarding the external and internal equity of our executive officers' total compensation and the primary components of that compensation;
- in evaluating the effectiveness of our compensation programs;
- in identifying appropriate pay positioning strategies and pay levels in our executive compensation program; and
- in identifying comparable companies and compensation surveys for the Compensation Committee to use to benchmark the appropriateness and competitiveness of our executive compensation program.

The Compensation Committee has retained the consultant as an outside advisor to provide information and objective advice regarding executive and Director compensation. All of the decisions with respect to our executive and Director compensation, however, are made by the Compensation Committee alone and may reflect factors and considerations other than, or that may differ from, the information and recommendations provided by the consultant. The consultant may, from time to time, contact our executive officers for information necessary to fulfill its assignment and may make reports and presentations to and on behalf of the Compensation Committee that our executive officers also receive. We did not have any other business relationship with Farient or Mercer during 2008.

The Compensation Committee held five meetings during 2008. The members of the Compensation Committee throughout 2008 were, and the current members are, James D. Fowler, Jr., Samuel L. Odle (Chairperson), Vin Weber and John A. Yena. Each of the current members of the Compensation Committee is independent, pursuant to our categorical standards of independence and Section 303A.02 of the NYSE Listed Company Manual. None of the Compensation Committee members during 2008 was:

- an officer or employee of ours;
- a former officer of ours; or

- involved in a relationship requiring disclosure as a related person transaction pursuant to Item 404 of Regulation S-K under the 1934 Act or as an interlocking executive officer/director pursuant to Item 407(e)(4)(iii) of Regulation S-K under the 1934 Act.

Nominating and Corporate Governance Committee. Our Board of Directors has adopted a written charter for the Nominating and Corporate Governance Committee. A current copy of the charter may be obtained from our website at www.ittesi.com. The functions of the Nominating and Corporate Governance Committee, which are detailed in its charter, are to:

- assist the Board of Directors by identifying individuals qualified to become Directors, and recommend to the Board of Directors the Director nominees for each annual meeting of shareholders;
- develop and recommend to the Board the Corporate Governance Guidelines applicable to us;
- lead the Board of Directors in its annual review of the Board of Directors' performance; and
- recommend to the Board of Directors Board members for each standing Board committee.

The Nominating and Corporate Governance Committee held three meetings during 2008. The members of the Nominating and Corporate Governance Committee throughout 2008 were, and the current members are, James D. Fowler, Jr., Samuel L. Odle, Vin Weber and John A. Yena (Chairperson). Each of the current members of the Nominating and Corporate Governance Committee is independent, pursuant to our categorical standards of independence and Section 303A.02 of the NYSE Listed Company Manual.

The Nominating and Corporate Governance Committee will consider Director candidates recommended by our shareholders. A shareholder who wishes to recommend a Director candidate for consideration by the Nominating and Corporate Governance Committee should send the recommendation to our Secretary at ITT Educational Services, Inc., 13000 North Meridian Street, Carmel, Indiana 46032-1404, who will forward it to the Committee. Any such recommendation should include a description of the candidate's qualifications for Board service, the candidate's written consent to be considered for nomination and to serve if nominated and elected, and addresses and telephone numbers for contacting the shareholder and the candidate for more information. A shareholder who wishes to nominate an individual as a Director candidate at an annual meeting of shareholders, rather than recommend the individual to the Nominating and Corporate Governance Committee as a nominee, must comply with the advance notice requirements set forth in our By-Laws. See "Shareholder Proposals for 2010 Annual Meeting."

The Nominating and Corporate Governance Committee selects nominees for Directors on the basis of each candidate's broad experience, judgment, integrity, ability to make independent inquiries, understanding of our business environment and willingness to devote adequate time to the duties of our Board of Directors. The Nominating and Corporate Governance Committee identifies possible nominees for a Director who meet specified objectives in terms of the composition of our Board of Directors that are established by law, the NYSE and/or our Board of Directors, taking into account such factors as geographic, occupational, gender, race and age diversity. The only minimum specified qualities and skills that the Nominating and Corporate Governance Committee believes are necessary for one or more of our Directors to possess and the only specific standards for the overall structure and composition of our Board of Directors are those imposed by law and the NYSE or contained in our Corporate Governance Guidelines and the charters of the standing committees of our Board of Directors, such as independence, financial expertise and age.

The Nominating and Corporate Governance Committee utilizes various resources for identifying nominees for Directors, including, but not limited to, recommendations of our Directors, management and shareholders, the media, industry affiliations, government service and search firms. The Nominating and Corporate Governance Committee evaluates nominees for Directors by assessing the nominees' qualities, skills and potential contributions to our Board based on available information, against the qualities, skills and contributions sought and the current composition of our Board.

Academic Committee. Our Board of Directors has adopted a written charter for the Academic Committee. A current copy of the charter may be obtained from our website at www.ittesi.com. The functions of the Academic Committee, which are detailed in its charter, are to assist our Board of Directors in:

- ensuring that our programs and services fulfill their commitment to serve the public good;
- overseeing the integrity of our academic affairs, including our curricula;
- overseeing our academic policies;

- providing guidance on our academic activities; and
- overseeing our fulfillment of accreditation criteria.

The Academic Committee was formed in October 2008 and did not hold any meetings in 2008. The members of the Academic Committee in 2008 were, and the current members are, James D. Fowler, Jr., Samuel L. Odle, Vin Weber and John A. Yena (Chairperson). Each of the current members of the Academic Committee is independent, pursuant to our categorical standards of independence and Section 303A.02 of the NYSE Listed Company Manual.

PROPOSAL TWO**: RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP TO SERVE AS ITT/ESI'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR ITS FISCAL YEAR ENDING DECEMBER 31, 2009**

The Audit Committee of our Board of Directors has appointed PWC to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2009. This firm has audited our financial statements since 1994. Although shareholder ratification of the selection of PWC to serve as our independent registered public accounting firm is not legally required, our Board of Directors has determined to afford our shareholders the opportunity to express their opinions on the matter of auditors and, accordingly, is submitting to our shareholders at the Annual Meeting a proposal to ratify the Audit Committee's appointment of PWC. If a majority of the shares represented at the Annual Meeting, in person or by proxy, are not voted in favor of the ratification of the appointment of PWC, the Audit Committee will consider the facts and circumstances surrounding the vote and may reconsider such appointment. Notwithstanding this selection, and the ratification of this selection by shareholders, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in our best interests. A representative of PWC is not expected to be present at the meeting.

The Board of Directors recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2009.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee Report

The Audit Committee oversees our financial reporting process on behalf of our Board of Directors. Our management has the primary responsibility for our financial statements and the reporting process, including the system of disclosure controls and procedures and internal control over financial reporting. PWC, who is our independent registered public accounting firm, is responsible for expressing an opinion on the conformity of our audited financial statements with generally accepted accounting principles. The Audit Committee has reviewed and discussed with our management and PWC the audited financial statements for our 2008 fiscal year. The Audit Committee also has reviewed and discussed with our management and PWC our management's report and PWC's attestation report on internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.

The Audit Committee discussed with PWC the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees (Codification of Statements on Auditing Standards, AU 380), as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T. This discussion involved certain information relating to PWC's judgments about the quality, not just the acceptability, of our accounting principles and included such other matters as are required to be discussed with the Audit Committee under standards established by the PCAOB.

The Audit Committee also has received the written disclosures and the letter from PWC required by applicable requirements of the PCAOB regarding PWC's communications with the Audit Committee concerning independence, and has discussed with PWC its independence from us and our management. In addition, the Audit Committee considered whether PWC's independence would be jeopardized by providing non-audit services to us.

Based on the review and discussions referred to above, the Audit Committee recommended to our Board of Directors, and the Board has approved, that the audited financial statements for our 2008 fiscal year be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for filing with the SEC.

Audit Committee
John F. Cozzi
John E. Dean, Chair
Joanna T. Lau

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended (the “1933 Act”) or the 1934 Act that may incorporate future filings (including this Proxy Statement, in whole or in part), the preceding Audit Committee Report shall not be incorporated by reference in any such filings.

Audit, Audit-Related, Tax and All Other Fees

The following table sets forth fees for audit services provided by PWC for the audit of our consolidated financial statements for the years ended December 31, 2008 and 2007, and fees billed for other services rendered by PWC during those periods:

Type of Service	2008	2007
Audit	$803,000 (1)	$762,593 (2)
Audit-Related	$64,000 (3)	$75,425 (3)
Tax	$144,930 (4)	$111,810 (4)
All Other	$-- (5)	$-- (5)

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(1) Represents fees for the following services associated with the audit or review of our financial statements:

- auditing our annual consolidated financial statements for our 2008 fiscal year;
- reviewing our financial statements included in our Quarterly Reports on Form 10-Q which were filed with the SEC in our 2008 fiscal year;
- conducting internal control reviews and assisting with internal control reporting requirements in 2008;
- conducting statutory audits (such as federal and state student financial aid compliance audits) for 2008; and
- providing other audit services in connection with statutory and regulatory filings or engagements for our 2008 fiscal year.

Those services were rendered in both the 2008 and 2009 calendar years.

(2) Represents fees for the following services associated with the audit or review of our financial statements:

- auditing our annual consolidated financial statements for our 2007 fiscal year;
- reviewing our financial statements included in our Quarterly Reports on Form 10-Q which were filed with the SEC in our 2007 fiscal year;
- conducting internal control reviews and assisting with internal control reporting requirements in 2007;
- conducting statutory audits (such as federal and state student financial aid compliance audits) for 2007; and
- providing other audit services in connection with statutory and regulatory filings or engagements for our 2007 fiscal year.

Those services were rendered in both the 2007 and 2008 calendar years.

(3) Represents fees for services rendered in the period indicated that were related to the performance of the audit or review of our financial statements and were not reported as Audit services. The nature of those services included, without limitation:

- financial statement audits of our employee benefit plans; and
- assistance with respect to accounting, financial reporting and disclosure treatment of transactions or events, including:
  - consultations with us;
  - assistance with understanding and implementing related final and proposed rules, guidance, standards and interpretations from accounting rulemakers, the SEC and the NYSE; and
  - helping us assess the actual or potential impact of final or proposed rules, guidance, standards and interpretations from accounting rulemakers, the SEC and the NYSE.

(4) Represents fees for tax services rendered in the period indicated. The nature of those services included, without limitation:

- the preparation and/or review of original and amended income, franchise and other tax returns with respect to international, federal, state and local tax authorities;
- assistance with tax audits and appeals before federal, state and local tax authorities; and
- tax advice and assistance related to employee benefit plans and statutory, regulatory or administrative developments, and tax credits and refund opportunities.

(5) PWC did not render any services in the period indicated, other than those services reported as Audit, Audit-Related or Tax services.

Audit and Non-Audit Services Pre-Approval Policy

The Audit Committee has adopted a policy that sets forth the procedures and conditions pursuant to which services proposed to be performed by our independent registered public accounting firm may be pre-approved by the Audit Committee. Under the Audit Committee's policy, unless a type of service has received pre-approval by the Audit Committee without consideration of specific case-by-case services ("general pre-approval"), it requires specific pre-approval by the Audit Committee if it is to be provided by our independent registered public accounting firm.

For both types of pre-approval, the Audit Committee considers whether such services are consistent with the SEC's rules on auditor independence. The Audit Committee also considers whether our independent registered public accounting firm is best positioned to provide the most effective and efficient service, for reasons such as its familiarity with our business, people, culture, accounting systems, risk profile and other factors, and whether the service might enhance our ability to manage or control risk or improve audit quality. All such factors are considered as a whole, and no one factor is necessarily determinative.

In deciding whether to pre-approve any audit and non-audit services, the Audit Committee is also mindful of the relationship between fees for audit and non-audit services and may determine, for each fiscal year, the appropriate ratio between the total amount of fees for audit, audit-related and tax services and the total amount of fees for certain permissible non-audit services classified as all other services.

The term of any general pre-approval is 12 months from the date of pre-approval, unless the Audit Committee considers a different period and states otherwise and except that the pre-approvals related to an audit of our annual consolidated financial statements will last until that audit is completed. The Audit Committee annually reviews and pre-approves the services that may be provided by our independent registered public accounting firm without obtaining specific pre-approval. The Audit Committee may add to or subtract from the list of general pre-approved services from time to time, based on subsequent determinations.

The policy does not delegate the Audit Committee's responsibilities to pre-approve services performed by our independent registered public accounting firm to our management. The Audit Committee may delegate either type of pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee has delegated both types of pre-approval authority to the Chairperson of the Audit Committee with respect to any requests for services to be performed by our independent registered public accounting firm that cannot be delayed without inconvenience until the next scheduled Audit Committee meeting.

Pre-approval fee levels or budgeted amounts for all services to be provided by our independent registered public accounting firm are established annually by the Audit Committee. Any proposed services exceeding those levels or amounts require specific pre-approval by the Audit Committee.

All requests or applications for services to be provided by our independent registered public accounting firm that do not require specific approval by the Audit Committee are submitted to our Chief Financial Officer and must include a detailed description of the services to be rendered. Our Chief Financial Officer will determine whether such services are included within the list of services that have received the general pre-approval of the Audit Committee.

Requests or applications to provide services that require specific approval by the Audit Committee are submitted to the Audit Committee by both our independent registered public accounting firm and Chief Financial Officer.

All of the fees reported in the table above as “Audit,” “Audit-Related” and “Tax” services rendered by PWC in our 2008 and 2007 fiscal years were pre-approved by the Audit Committee.

The annual audit services engagement terms and fees are subject to the specific pre-approval of the Audit Committee. Audit services include all services performed to comply with the PCAOB’s standards, including, without limitation, the annual financial statement audit (including required quarterly reviews), subsidiary audits, equity investment audits and other procedures required to be performed by our independent registered public accounting firm to be able to form an opinion on our consolidated financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit or quarterly review. Audit services also include services performed in connection with the independent registered public accounting firm’s report on internal control over financial reporting. The Audit Committee monitors the audit services engagement as necessary and also approves, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, our structure or other items.

In addition to the annual audit services engagement approved by the Audit Committee, the Audit Committee may grant general pre-approval of other audit services, which are those services that our independent registered public accounting firm reasonably can provide. Other audit services include:

- statutory audits (such as federal and state student financial aid compliance audits) or financial audits for our subsidiaries or affiliates;
- services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings; and
- consultations with our management concerning accounting, financial reporting or treatment of transactions or events.

Any audit services that the Audit Committee generally pre-approves are reflected in the minutes of the Audit Committee meeting at which the services were pre-approved. All other audit services not reflected in the Audit Committee's meeting minutes must be specifically approved by the Audit Committee before they are performed.

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the independent registered public accounting firm. Since the Audit Committee believes that the provision of audit-related services does not impair the independence of the auditor and is consistent with the SEC's rules on auditor independence, the Audit Committee may grant general pre-approval to audit-related services. Audit-related services include, among others:

- due diligence services pertaining to potential business acquisitions or dispositions;
- consultations concerning accounting, financial reporting or disclosure treatment of transactions or events not classified as "audit services";
- assistance with understanding and implementing new and proposed accounting and financial reporting guidance from rulemaking authorities;
- financial statement audits of employee benefit plans;
- assistance with assessing the actual or potential impact of final or proposed rules, standards or interpretations from accounting authorities;
- agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters;
- attest services not required by statute or regulation;
- information systems reviews not performed in connection with the financial statement audit;
- subsidiary or equity investee audits not required by statute or regulation that are incremental to the audit of the consolidated financial statements;
- review of the effectiveness of the internal audit function;
- general assistance with understanding and implementing requirements of SEC rules and stock exchange listing standards; and
- consultations and audits in connection with acquisitions.

Any audit-related services that the Audit Committee generally pre-approves are reflected in the minutes of the Audit Committee meeting at which the services were pre-approved. All other audit-related services not reflected in the Audit Committee's meeting minutes must be specifically approved by the Audit Committee before they are performed.

Tax services include tax compliance, planning and advice, as well as tax only valuation services, including transfer pricing and cost segregation. Since the Audit Committee believes that the provision of tax services does not impair our independent registered public accounting firm's independence, and the SEC has stated that the independent registered public accounting firm may provide such services, the Audit Committee believes it may grant general pre-approval to tax services. The Audit Committee will not permit the retention of the independent registered public accounting firm in connection with a transaction initially recommended by our independent registered public accounting firm, the sole business purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code of 1986, as amended (the "IRC") and related regulations. The Audit Committee will consult with our Chief Financial Officer or outside counsel to determine that the tax planning and reporting positions are consistent with the policy.

Any tax services that the Audit Committee generally pre-approves are reflected in the minutes of the Audit Committee meeting at which the services were pre-approved. All tax services not reflected in the Audit Committee's meeting minutes must be specifically approved by the Audit Committee before they are performed.

The Audit Committee believes, based on the SEC's rules prohibiting the independent registered public accounting firm from providing specific non-audit services, that other types of non-audit services are permitted. Accordingly, the Audit Committee believes it may grant general pre-approval to those permissible non-audit services classified as all other services that it believes are routine and recurring services, would not impair the independence of our independent registered public accounting firm and are consistent with the SEC's rules on auditor independence.

Any other services that the Audit Committee generally pre-approves are reflected in the minutes of the Audit Committee meeting at which the services were pre-approved. All other services not reflected in the Audit Committee's meeting minutes must be specifically approved by the Audit Committee before they are performed.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the 1934 Act requires our executive officers and Directors, and persons who own more than 10% of our common stock, to file reports of ownership with the SEC. These persons also are required to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of copies of such forms received by us, or written representations from certain reporting persons that no Forms 5 were required for those persons, we believe that, during 2008, all of our executive officers, Directors and greater than 10% shareholders complied with all applicable filing requirements.

EXECUTIVE OFFICERS

Name	Age	Position
Kevin M. Modany	42	Chairman, Chief Executive Officer and President
David E. Catalano	43	Senior Vice President, Business Development
Jeffrey R. Cooper	57	Senior Vice President, Chief Compliance Officer
Clark D. Elwood	48	Senior Vice President, General Counsel and Secretary
Nina F. Esbin	52	Senior Vice President, Human Resources
Eugene W. Feichtner	53	Senior Vice President, Operations
Daniel M. Fitzpatrick	49	Senior Vice President, Chief Financial Officer
June M. McCormack	59	President, Online Division
Glenn E. Tanner	61	Senior Vice President, Marketing
Martin Van Buren	41	Senior Vice President, Chief Information Officer

Kevin M. Modany has served as our Chairman since February 2008 and as our Chief Executive Officer since April 2007. He has also served as our President since April 2005. From April 2005 through March 2007, Mr. Modany also served as our Chief Operating Officer. From January 2003 through May 2005, he served as our Chief Financial Officer. From July 2002 through April 2005, Mr. Modany served as a Senior Vice President of ours. Mr. Modany has been a Director of ours since July 2006.

David E. Catalano has served as our Senior Vice President, Business Development since November 2007. Mr. Catalano served as chief executive officer of Midwest Bankers Holdings, Inc., a commercial lending and advisory firm, from September 1996 through October 2007.

Jeffrey R. Cooper has served as our Senior Vice President, Chief Compliance Officer since November 2004. Mr. Cooper served as vice president of Great American Financial Resources, Inc. ("GAFRI"), the annuity and life insurance operations of American Financial Group, from June 1999 through October 2004, and as chief compliance officer of GAFRI from June 1997 through October 2004.

Clark D. Elwood has served as a Senior Vice President of ours since December 1996, as our Secretary since October 1992 and as our General Counsel since May 1991.

Nina F. Esbin has served as our Senior Vice President, Human Resources since January 2004.

Eugene W. Feichtner has served as our Senior Vice President, Operations since March 2004. From March 2002 through February 2004, he served as our Vice President, National Operations Director.

Daniel M. Fitzpatrick has served as our Senior Vice President, Chief Financial Officer since June 2005. From July 1998 through May 2005, he served as senior vice president and controller of Education Management Corporation, a provider of postsecondary education.

June M. McCormack, has served as our President, Online Division since May 2008. Ms. McCormack served as executive vice president, servicing, information technology and sales marketing of SLM Corporation ("SLM") from October 2005 through December 2007, as executive vice president, servicing and sales marketing of SLM from June 2004 through September 2005, and as executive vice president guarantor services and sales marketing from April 2001 through May 2004.

Glenn E. Tanner has served as Senior Vice President, Marketing since April 2007. From October 2002 through March 2007, he served as our Vice President, Marketing.

Martin Van Buren, has served as our Senior Vice President, Chief Information Officer since April 2008. From January 2004 through March 2008, he served as our Vice President, Information Technology.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Compensation Discussion and Analysis

Overview. This discussion explains the compensation program for our executives, including the Named Executive Officers. The individuals included as Named Executive Officers in this Proxy Statement are:

- Kevin M. Modany, who served as our Chief Executive Officer during all of 2008;
- Daniel M. Fitzpatrick, who served as our Chief Financial Officer during all of 2008; and
- Clark D. Elwood, Eugene W. Feichtner and Glenn E. Tanner, who were our three other most highly compensated executive officers during 2008.

This discussion describes the following:

the objectives of our compensation program;

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- what our compensation program is designed to reward and not reward;
- each element of compensation;
- why we choose to pay each compensation element;
- how we determine the amount to pay and, where applicable, the formula with respect to each compensation element; and
- how each compensation element and our decisions regarding that element relate to our overall compensation objectives and affect our decisions regarding other compensation elements.

The Compensation Committee of our Board of Directors has overall responsibility and authority for approving and evaluating the compensation programs and policies pertaining to our executives and Directors. Each year, the Compensation Committee reviews all elements of all of our executive officers' compensation and the internal pay equity of our Chief Executive Officer's compensation compared to our other executive officers' compensation. Based on its review of all of the elements of our executive officers' compensation, the Compensation Committee found the compensation paid to our executive officers in 2008 to be reasonable in light of market practices and performance, and to be effective in promoting the Committee's compensation objectives, as described below. See "*Compensation Objectives*."

The Compensation Committee directly retains consultants from independent compensation consulting firms to provide advice on aspects of our executive and Director compensation programs. The Committee requests written reports and holds meetings with such consultants which are not attended by any of our employees in order to obtain independent opinions on compensation proposals. The independent consultants help the Committee determine the amount and, where applicable, the formula for each element of the compensation program for each executive. The Compensation Committee retained the independent compensation consulting firm Mercer (US) Inc. to advise it on

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2008 compensation determinations. In 2008, the Committee conducted a rigorous request for proposal process in which it reviewed and evaluated a number of compensation consulting firms. As a result of that review and evaluation, in July 2008, the Compensation Committee retained the independent compensation consulting firm of Farient Advisors LLC. For additional information about the role of the compensation consultant, see "Proposal One: Election of Three Directors to Serve Until the 2012 Annual Meeting of Shareholders and Until Their Successors are Elected and have Qualified – Meetings, Independence and Committees of the Board of Directors – *Committees – Compensation Committee*."

When making executive compensation decisions, the Compensation Committee also considers, for all executives other than our Chief Executive Officer, the recommendation of our Chief Executive Officer. Our Chief Executive Officer's compensation is determined solely by the Compensation Committee with the assistance of the independent compensation consultant. Our Chief Executive Officer plays a significant role in the process of determining the compensation elements and the value of those elements for our other executives by:

- evaluating executive performance;
- recommending financial and operating performance targets and goals; and
- recommending salary levels, non-equity incentive compensation awards (i.e., annual bonus awards), equity-based compensation awards and perquisites.

The Compensation Committee has met, and will continue to meet, in executive sessions which are not attended by any of our employees. The Committee regularly reports its activities to our Board of Directors.

The Compensation Committee met in executive session in January 2009 to review the overall performance of our Chief Executive Officer during 2008, particularly with respect to our long range strategies and the achievement of both financial and non-financial goals and objectives. Consideration was given to our Chief Executive Officer's role in building shareholder value and improving our shareholders' return on invested capital. The Compensation Committee also met with our Chief Executive Officer to review the overall performance of the other Named Executive Officers during 2008. The Committee reviewed a tally of the total compensation received by each of the Named Executive Officers in 2008 and information from its compensation consultant.

Compensation Objectives. The Compensation Committee is guided by the following objectives in determining the compensation of our executives:

- *Competition*. The Committee believes that compensation should reflect the competitive marketplace in order for us to attract, retain and motivate talented executives.
- *Accountability for Business Performance*. Compensation should be tied in part to our financial and operating results in order for us to hold our executives accountable, through their compensation, for our performance.
- *Accountability for Individual Performance*. Compensation should be tied in part to the executive's individual performance to encourage and reflect individual contributions to our performance.
- *Alignment with Shareholder Interests*. Compensation should be tied in part to increases in the price of our common stock through equity-based compensation awards in order to align the executives' interests with those of our shareholders.
- *Focus*. The Committee believes that certain elements of compensation should provide some security to our executives to allow them to continue to focus on our financial and operating results, their individual performance and their job responsibilities.

Design and Determinations. Our executive compensation program is designed to attract, retain and motivate skilled executives and to provide incentives which vary upon the attainment of short- and long-term performance goals. The goal of the compensation program for our executives is to reward each of our executives based on the short- and long-term performance of both the executive and us. Under this pay-for-performance philosophy, the better the performance, the greater the increase in shareholder value and compensation that should result.

The Compensation Committee believes that its goal for the compensation program can best be achieved by paying our executives:

- a reasonable amount of stable compensation (in the form of base salary, employee benefits, perquisites, qualified retirement savings and nonqualified deferred compensation) to help them maintain a reasonable standard of living and provide for their families, so that they can focus their energies and efforts on our financial and operating performance and increasing shareholder value; and

- performance-based compensation (in the form of annual bonus awards and equity-based compensation awards) to help motivate them to achieve our financial and operating goals and increase shareholder value by conditioning a significant portion of their total compensation on producing the individual and company results that are necessary to achieve those goals.

In determining and recommending the compensation of our executives, the Compensation Committee and our Chief Executive Officer make subjective assessments after deliberate and thorough review and consideration of a number of factors. These factors include:

- the competitive marketplace and, in particular, how the level of an executive's compensation compares with the compensation paid to executives in the same or similar positions and with similar responsibilities at comparator companies;
- the level and area of job responsibilities of the executive;
- the executive's individual performance in his or her position and as it relates to his or her specific job responsibilities;
- the executive's contribution toward achieving our financial and operating results; and
- our overall financial and operating results.

The Committee considers these factors when determining both actual pay levels, such as salary increases, and targeted pay levels, such as annual bonus awards.

The Compensation Committee also annually reviews the tally of total compensation of our executives in order to determine that the amount of compensation is within appropriate competitive parameters. The tally information is not, however, a key factor in the Committee's current compensation decisions, because the tally information is reflective of past performance and past competitive market practice.

The Compensation Committee receives information on the value that could be realized by the Named Executive Officers from compensation paid to them in prior years, such as gains on prior stock option awards. The Compensation Committee recognizes, however, that the realization of the value from prior equity-based compensation is, in large part, a function of the personal investment decisions made by the Named Executive Officers. Therefore, the Committee does not factor in the value realized from prior equity-based compensation awards granted to the Named Executive Officers in setting any of the subsequent compensation to be paid to the Named Executive Officers.

Benchmarking. The Compensation Committee believes that compensation decisions are complex and should be made after a review of our performance and compensation levels paid to executives in the same or similar positions at other comparator companies.

In setting and administering the compensation program and policies for our executives, the Committee attempts to target the total direct compensation of our executives, which includes both the stable and performance-based elements, to the upper third of the range of compensation provided to executives of comparator companies. The upper third of the range is targeted in order to attract and retain a higher than average level of executive, who is tasked with producing financial and operational results that are higher than average. Consistent with our pay-for-performance philosophy:

- base salary levels for our executives, in the aggregate, have generally been targeted at the median of the range of compensation provided to executives of comparator companies;

- annual bonus awards for our executives have generally been targeted at the median of the range; and
- equity incentive compensation for our executives has generally been targeted in the upper quarter of the range.

As a result, in order to reach the upper third of the range for total direct compensation, the incentive compensation portion must be payable at a higher level, which will only occur if the executive and the company achieve high levels of performance.

The companies used for the comparisons vary from time to time. In 2008, the primary comparator companies within our industry that the Compensation Committee used to benchmark the appropriateness and competitiveness of our executive compensation program were as follows:

- Apollo Group, Inc.;
- Career Education Corp.;
- Corinthian Colleges, Inc.;
- DeVry, Inc.;
- Education Management LLC;
- Laureate Education, Inc.;
- Learning Tree International, Inc.;
- Lincoln Educational Services Corporation;
- Strayer Education, Inc.; and
- Universal Technical Institute, Inc.

In 2008, the Compensation Committee also benchmarked our executive compensation against the following subset of six of the comparator companies that were selected due to their size, type of operations and longevity in the industry:

- Apollo Group, Inc.;
- Career Education Corp.;
- Corinthian Colleges, Inc.;
- DeVry, Inc.;
- Education Management LLC; and
- Laureate Education, Inc.

To determine the range of compensation in 2008, the Compensation Committee supplemented the compensation data of the comparator companies within our industry with summary statistics of compensation data obtained from several published third-party compensation surveys of hundreds of companies in:

- the services industry that were comparable to us in terms of size (i.e., revenue); and
- the general industry, in a few instances, where there was insufficient data in the surveys of companies in our industry or the services industry.

In 2009, the Compensation Committee benchmarked the appropriateness and competitiveness of our executive compensation program against a market composite that consisted of ten companies in our industry and broad market surveys of companies with annual revenues of between $500 million and $2 billion. The ten companies in our industry that were used include:

- Apollo Group, Inc.;
- Capella Education Company;
- Career Education Corp.;
- Corinthian Colleges, Inc.;
- DeVry, Inc.
- Education Management LLC;
- Learning Tree International, Inc.;
- Lincoln Educational Services Corporation;
- Strayer Education, Inc.; and
- Universal Technical Institute, Inc.

In 2009, the Compensation Committee also reviewed compensation information of 14 high performing companies in the consumer services industry with similar size, growth and margin characteristics as us. The Committee did not benchmark our 2009 executive compensation against those companies, but instead used such information as a second check of the industry-specific data to ensure relevance. The 14 companies in the consumer services industry that were used include:

- Ameristar Casinos, Inc.;
- CEC Entertainment, Inc.;
- Chipotle Mexican Grill, Inc.;
- Choice Hotels International, Inc.;
- Gaylord Entertainment Company;
- Life Time Fitness, Inc.;
- Panera Bread Company;
- Service Corporation International;
- Sonic Corp.;
- Sotheby’s;
- Stewart Enterprises, Inc.;
- Texas Roadhouse, Inc.;
- Vail Resorts, Inc.; and
- Weight Watchers International, Inc.

Pay-For-Performance. The total compensation paid to our executive officers depends on both the executive’s individual performance and our financial and operating performance. Under the Compensation Committee’s pay-for-performance philosophy with respect to executive compensation, there is a direct correlation between the Committee’s subjective assessment of each executive officer and the amount of compensation that the Committee determines to pay to the executive officer. As a result, the higher the Compensation Committee’s subjective assessment of an executive officer’s performance, the higher the amount of compensation that the Committee will approve for that executive officer, relative to his or her level and area of responsibility, the competitive marketplace for the same or similar positions and his or her contribution toward achieving our results.

The Compensation Committee believes that performance-based compensation should provide our executives with an opportunity to earn an increasingly greater amount of compensation for increasingly better financial and operating results and higher shareholder value. The potential value of the performance-based compensation elements, such as annual bonus awards and equity-based compensation awards, is based entirely on improving our financial and operating results. See "*Compensation Elements*." For example, the four performance measures under our 2008 Executive Bonus Parameters were diluted earnings per share, total student enrollment, Free Cash Flow (as defined below) and graduate employment rate. These measures are the more significant measures on which our operational performance is reviewed by our management and our Board of Directors, and they are reflective of our overall financial and operational growth and, ultimately, return to shareholders. The Committee believes that, as a result, our executive compensation is closely aligned with company performance.

In addition, the Compensation Committee has selected nonqualified stock options as the principal form of equity-based compensation awards to be granted to our Named Executive Officers. The future value of the stock option awards are entirely dependent on our executives' ability to produce the financial and operating results necessary for the share price of our common stock to increase. Given the long-term nature of the equity-based compensation awards, they also correspond to our long-term financial and operating performance. The Compensation Committee believes that, over the long-term, the price of our common stock will not increase significantly, if we do not fulfill our long-term financial and operating goals. For this reason, the Compensation Committee also believes that the expense to us of the compensation paid to our executives correlates to the benefits we expect to receive in return for the compensation, because that expense is reflected in our financial results.

The Compensation Committee recognizes that unforeseen circumstances may arise in the future after targets associated with performance-based compensation have been established. As a result, the Compensation Committee has reserved the discretion to adjust performance targets and awards in the event any unforeseen situation arises. The Compensation Committee believes that talented executives cannot be recruited, retained or motivated if the executives perceive the performance targets to be unreasonable or unachievable. The Compensation Committee monitors and evaluates the Named Executive Officer's progress in achieving the targets of our performance-based compensation. If an unforeseen situation were to arise that could jeopardize all or part of the Named Executive Officers' achievement of the targets notwithstanding the Named Executive Officers' individual performance, the Compensation Committee may decide to adjust the targets, grant additional awards or provide the Named Executive Officer with a different financial incentive. In January 2009, the Compensation Committee adjusted the target levels in the Free Cash Flow category under our 2008 Executive Bonus Parameters due to circumstances that negatively affected our cash flows in 2008. Those circumstances were unforeseen at the time the Free Cash Flow target levels were originally established in January 2008, and they were not a result of any actions or the performance of us or any of the Named Executive Officers. See "*Compensation Elements – Annual Bonus Awards*." The Compensation Committee did not make any other adjustments to the targets or awards of any of the performance-based compensation granted to our Named Executive Officers related to 2008.

The Compensation Committee also believes that performance-based compensation should represent an increasingly greater percentage of an executive's total compensation the higher the executive's position within the organization. The Compensation Committee recognizes that our executives face a commensurate downside risk from performance-based compensation, such that the level of compensation paid corresponds directly to the level of results achieved.

The Compensation Committee applies the same pay-for-performance philosophy for executive compensation in determining our Chief Executive Officer's compensation that it applies in determining the compensation of the other executive officers. The Compensation Committee has established a higher level of compensation for our Chief Executive Officer than the levels for our other executive officers, due to:

- the high level of responsibility that he has with us;
- the substantial duties and responsibilities that he has to us; and
- the fact that the market and comparator compensation information demonstrates higher levels of compensation for chief executive officers both within and outside of our industry.

Certain Policies. We do not have any policies regarding automatic adjustment or recovery of compensation paid or awarded to our executives in the event any of the performance measures upon which that compensation was paid or awarded are restated or adjusted, such that the compensation paid or awarded would have been less under the restated or adjusted performance measures. The Compensation Committee believes that the cause of any subsequent restatement or adjustment to the results of the performance measure(s) used to trigger compensation should be thoroughly examined to assess each executive's culpability for the restatement or adjustment, instead of establishing a policy that requires an automatic adjustment or recovery of compensation. We did not experience any restatement or adjustment in 2008 to the results of any performance measures upon which our executives were compensated, so no consideration was given by the Compensation Committee in 2008 whether to adjust or recover any compensation payments or awards to our executives.

We do not impose any specific equity or security ownership requirements on our executives. We believe that the equity-based compensation paid to our executives serves to align their interests with those of our shareholders. We believe that it is improper and inappropriate for any employee or Director to engage in short-term or speculative transactions involving our securities. It is our policy that our executives and Directors are prohibited from purchasing or selling any publicly traded options for our securities, including the trading of any call or put, the writing of any call or put, hedging or the use of collars.

Compensation Elements. The elements of our compensation program, a description of the purpose of each element and the objectives that each element supports are shown in the table below. See "*Compensation Objectives.*" We believe that each element is a typical component of an executive's compensation and is, therefore, necessary for us to attract, retain and motivate talented executives.

Compensation Element	**Purpose**	**Link to Compensation Objectives**
Base Salary	Fixed component used to help us motivate and hold accountable our executives for our financial and operating results and their individual performance.	• Competition • Accountability for Business Performance • Accountability for Individual Performance
Annual Bonus Awards	Variable component used to help us incentivize, motivate and hold accountable our executives for our financial and operating results and their individual performance.	• Competition • Accountability for Business Performance • Accountability for Individual Performance
Equity-Based Compensation (i.e., Time-Based Stock Options and/or Restricted Stock Unit Awards)	Used to create performance incentives and promote equity ownership in us by our executives. Aligns the executives' interests with those of our shareholders.	• Competition • Accountability for Business Performance • Accountability for Individual Performance • Alignment with Shareholder Interests
Qualified Retirement Savings (i.e., 401(k) Plan Contributions)	Used to help us provide stable compensation and some security to our executives, in order to help them save for retirement on a tax-deferred basis.	• Competition • Accountability for Individual Performance • Focus

Nonqualified Deferred Compensation	Provides some security to our executives and helps them save a portion of their compensation for retirement on a tax-deferred basis.	• Competition • Accountability for Individual Performance • Focus

Compensation Element	Purpose	Link to Compensation Objectives
Pension Benefits (i.e., Qualified and Nonqualified Retirement Plan Earnings)	Allows executives to focus on their job responsibilities while employed and provides some security upon retirement.	• Benefit accruals under our pension plans were frozen as of March 31, 2006.
Employee Benefits	Provides stable compensation and some security to our executives, in order to allow them to focus on their individual performance and achieving our financial and operating results.	• Competition • Focus
Perquisites	Used to recognize and reward our executives based on their responsibilities and efforts to achieve our financial and operating results and increase shareholder value. Helps our executives focus on their job responsibilities.	• Competition • Focus
Potential Payments Upon Termination of Employment or a Change in Control of Us	Provides for payments in connection with a change in control and/or involuntary termination of employment. Provides some security to our executives to help them focus on their job responsibilities and to encourage them to remain employed with us during a critical time of a potential change in control.	• Competition • Accountability for Business Performance • Accountability for Individual Performance • Alignment with Shareholder Interests • Focus

Base Salary. Salaries provide a necessary element of stability in the total compensation program and, as such, are not subject to significant variability. Salaries are set and administered to reflect the value of the job in the marketplace and individual contribution and performance over time. Increases in base salary are based on individual and company performance, as well as a comparison of the base salaries of executives in the same or similar positions at the comparator companies that the Committee uses for benchmarking. Each executive’s performance is evaluated annually based on his or her achievement of specific goals. The specified goals pertain to the executive’s areas of responsibility and, depending on the goal, the results may be measured by the performance of the individual or the entire company. The executive’s overall performance rating is reduced to one of five levels that are either at, above or below satisfactory performance. The Compensation Committee believes that it is progressively more challenging for an executive to achieve a higher overall performance rating.

The Compensation Committee authorized a salary increase for the Named Executive Officers in:

- January 2008 that became effective on March 31, 2008; and
- January 2009 that becomes effective on March 30, 2009.

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The following table sets forth the annualized base salary information for each of the Named Executive Officers as of March 31, 2008 and March 30, 2009.

Named Executive Officer	Annualized Base Salary	Dollar Increase	Percentage Increase Over Prior Year	Interval From Last Increase
Kevin M. Modany				
2008	$675,000	$45,000	7.1%	12 months
2009	$725,000	$50,000	7.4%	12 months
Daniel M. Fitzpatrick				
2008	$285,000	$21,700	8.2%	12 months
2009	$305,000	$20,000	7.0%	12 months
Clark D. Elwood				
2008	$280,000	$19,900	7.7%	12 months
2009	$300,000	$20,000	7.1%	12 months
Eugene W. Feichtner				
2008	$245,000	$15,000	6.5%	12 months
2009	$275,000	$30,000	12.2%	12 months
Glenn E. Tanner				
2008	$185,000	$13,300	7.7%	12 months
2009	$230,000	$45,000	24.3%	12 months

Annual Bonus Awards. The annual bonus award to our executives is intended to serve as an incentive to achieve performance targets established by the Compensation Committee for a specified fiscal year. The outcome with respect to the relevant performance targets under our bonus parameters is substantially uncertain at the time the performance targets are established by the Compensation Committee and communicated to our executives. Annual bonuses are a form of performance-based compensation for our executives. The amount of the annual bonus payout opportunity is based on the total bonus amounts available to executives in the same or similar positions at the comparator companies that the Committee uses for benchmarking.

Pursuant to the SEC's regulations, our annual bonus awards are typically classified in the tables in our proxy statements as non-equity incentive plan compensation, instead of bonus compensation, due to the annual bonus awards being based on pre-established performance targets. For our 2008 bonus awards, however, an additional amount was awarded by our Compensation Committee as a result of an adjustment to the target levels in the Free Cash Flow category, which additional amount is classified in the tables in this Proxy Statement as bonus compensation. We refer to the non-equity incentive plan compensation as our "bonus" compensation internally and in previous filings with the SEC. Throughout this Proxy Statement in the narrative and in the footnotes to the tables, when we refer to "annual bonus awards" and related items, we mean the non-equity incentive plan and bonus compensation and related items shown in the columns in the tables in this Proxy Statement. See "– Summary Compensation Table."

The annual bonus parameters are typically based on our primary financial and operating goals for the ensuing year. While the bonus parameters reflect our financial and operating goals, as opposed to the individual executive's performance goals, achievement of our financial and operating goals depends on, and is affected by, each executive's performance with respect to his or her individual goals. The Compensation Committee may, in its sole discretion, modify the bonus parameters at any time prior to the payment of the annual bonus awards under the parameters.

In January 2008, the Compensation Committee approved the 2008 Executive Bonus Parameters for participation by our executives, including the Named Executive Officers. In January 2009, the Compensation Committee considered the fact that the disruption in the student financing market in 2008 as a result of the general economic turmoil and credit crisis caused the target levels in the Free Cash Flow category under the 2008 Executive Bonus Parameters to be unachievable. The Compensation Committee noted that the target levels in the Free Cash Flow category were set at a time when the full effect of the credit crisis could not accurately be foreseen, and that the fact that those levels were unachievable was in no way related to the performance of our executives. Based on the Compensation Committee's pay-for-performance philosophy and its recognition that executives are less likely to be retained or motivated if performance targets are set at a level that are not achievable, the Committee determined to adjust the target levels in the Free Cash Flow category of the 2008 Executive Bonus Parameters to levels that were challenging but achievable.

The annual bonus awards payable to individual participants under the 2008 Executive Bonus Parameters were based on a formula that took into account our ability to achieve specified targets in 2008 in each of four performance categories, each weighted equally, as shown in the following table:

	2008 Performance Category			
Performance Points (1)	**EPS (2)**	**Percentage Increase in Total Student Enrollment (3)**	**Free Cash Flow (4)**	**Graduate Employment Percentage (5)**
5	≥ $4.62	≥ 10.00%	≥ $111.0 million	≥ 84.00%
4	$4.56 to $4.61	9.00% to 9.99%	$108.0 million to $110.9 million	82.00% to 83.99%
3	$4.50 to $4.55	8.00% to 8.99%	$105.0 million to $107.9 million	80.00% to 81.99%
2	$4.44 to $4.49	7.00% to 7.99%	$102.0 million to $104.9 million	78.00% to 79.99%
1	≤ $4.43	≤ 6.99%	≤ $101.9 million	≤ 77.99%

(1) Under the formula, each performance category is assigned the performance points associated with our actual 2008 performance in that category.

(2) Represents our diluted earnings per share ("EPS") in 2008.

(3) Represents the percentage increase in total student enrollment at our institutes as of December 31, 2008 compared to the total student enrollment at our institutes as of December 31, 2007.

(4) Defined as our net cash flows from operating activities, less:

- capital expenditures, net (excluding facility purchases); and
- any change in restricted cash

("Free Cash Flow") in 2008. This is a Non-GAAP financial measure. The Compensation Committee believes that the Non-GAAP Free Cash Flow measure improves its ability to measure the amount of cash that is generated from our operations and, therefore, is a better measure to assess our performance for purposes of performance-based bonus compensation. The target levels shown for the Free Cash Flow category are the adjusted target levels approved by the Compensation Committee in January 2009.

(5) Represents the percentage of Employable Graduates (as defined below) from our institutes' programs of study in the third and fourth calendar quarters of 2007 and first and second calendar quarters of 2008 who either obtained employment by December 31, 2008, or were already employed, in positions that required the direct or indirect use of skills taught in their programs of study. Employable Graduates include all of the graduates from our institutes, except for those graduates who:

- have been admitted into other programs of study at postsecondary educational institutions that are scheduled to begin within one academic year following their graduation;
- possessed visas that did not permit them to work in the United States following their graduation;
- were personally suffering from a health condition that prevented them from working;
- were actively engaged in U.S. military service; or
- moved out of the Continental United States with a spouse or parent who was actively engaged in U.S. military service.

The 2008 Executive Bonus Parameters established for each participant a standard bonus target percentage of annualized base salary as of December 31, 2008, ranging from 10% to 100%, with the percentage depending on the participant's position. The following table sets forth the standard bonus target percentage of annualized base salary as of December 31, 2008 for each of the Named Executive Officers under the 2008 Executive Bonus Parameters.

2008 Standard Bonus

Named Executive Officer	**Target Percentage of Annualized Base Salary**
Kevin M. Modany	100%
Daniel M. Fitzpatrick	60%
Clark D. Elwood	55%
Eugene W. Feichtner	55%
Glenn E. Tanner	45%

The maximum bonus percentage under the 2008 Executive Bonus Parameters ranged from 25% to 200% of the standard bonus target percentage of annualized base salary as of December 31, 2008, depending on the weighted average performance points associated with the actual results achieved with respect to each performance category. To determine the weighted average performance points, the sum of the performance points associated with the actual performance in the four performance categories was divided by four. The following table sets forth the maximum bonus percentage associated with each range of weighted average performance points under the 2008 Executive Bonus Parameters.

Weighted Average Performance Points	**Maximum Bonus Percentage**
4.76 – 5.00	200.0%
4.51 – 4.75	187.5%
4.26 – 4.50	175.0%
4.01 – 4.25	162.5%
3.76 – 4.00	150.0%
3.51 – 3.75	137.5%
3.26 – 3.50	125.0%
3.01 – 3.25	112.5%
2.76 – 3.00	100.0%
2.51 – 2.75	87.5%
2.26 – 2.50	75.0%
2.01 – 2.25	62.5%
1.76 – 2.00	50.0%
1.51 – 1.75	41.7%
1.26 – 1.50	33.3%
1.01 – 1.25	25.0%

The following table sets forth the actual results achieved and the resulting performance points associated with each performance category under the 2008 Executive Bonus Parameters.

EPS		**Percentage Increase in Total Student Enrollment**		**Free Cash Flow**		**Graduate Employment Percentage**	
2008 Results	**Performance Points**	**2008 Results**	**Performance Points**	**2008 Results**	**Performance Points**	**2008 Results**	**Performance Points**
$5.17	5	16.9%	5	$159.8 million	5	81.4%	3

The weighted average performance points associated with the actual results achieved with respect to the 2008 performance categories were 4.50, which resulted in a maximum bonus percentage of 175.0% under the 2008 Executive Bonus Parameters. The Compensation Committee's adjustment to the target levels in the Free Cash Flow category caused the maximum bonus percentage to increase from 125.0% to 175.0%. The additional amount received by each Named Executive Officer as a result of such increase is shown in the Bonus column of the Summary Compensation Table. See "– Summary Compensation Table."

A participant's annual bonus award may be more or less than the participant's potential award as calculated under the formula. A participant's actual annual bonus award is based on a discretionary assessment of the participant's individual performance and contribution toward achieving the specified targets in the four performance categories that is made by the Compensation Committee upon the recommendation of our Chief Executive Officer, except for our Chief Executive Officer's annual bonus award, which is made by the Committee without a recommendation from our Chief Executive Officer. The total amount available for the payment of bonuses for each year is capped at an amount equal to the cumulative sum of the products of each participant's bonus percentage multiplied by each participant's annualized base salary as of the end of the year. The Committee also took into consideration the individual performance of each participant in determining the amount of the participant's 2008 annual bonus award.

On January 19, 2009, the Compensation Committee approved the payment of a 2008 annual bonus award in cash to each of the Named Executive Officers, as follows:

Named Executive Officer	2008 Annual Bonus Award	2008 Bonus Percentage of 2008 Annualized Base Salary (1)	Percentage Increase over 2007 Bonus Award
Kevin M. Modany	$1,181,250	175.0%	18.7%
Daniel M. Fitzpatrick	$299,250	105.0%	1.0%
Clark D. Elwood	$269,500	96.3%	0.5%
Eugene W. Feichtner	$235,813	96.3%	(0.6)%
Glenn E. Tanner	$145,688	78.8%	0.6%

(1) As of March 31, 2008.

In January 2009, the Compensation Committee also approved the 2009 Executive Bonus Parameters for participation by our executives, including the Named Executive Officers. Bonuses payable to individual participants will be paid in cash and based on a formula that takes into account our ability to achieve specified targets in 2009 in each of the following four performance categories, each weighted equally:

- Our EPS in 2009.
- The percentage increase in total student enrollment at our institutes as of December 31, 2009 compared to the total student enrollment at our institutes as of December 31, 2008.
- Our Free Cash Flow in 2009.
- The percentage of Employable Graduates from our institutes' programs of study in the third and fourth calendar quarters of 2008 and first and second calendar quarters of 2009 who either obtain employment by December 31, 2009, or are already employed, in positions that require the direct or indirect use of skills taught in their programs of study.

Each target level associated with each incremental bonus percentage is progressively higher and, therefore, more of a challenge to achieve. If we applied the actual results that we achieved in 2008 with respect to each of the four performance factors to the 2009 performance categories, the weighted average performance points under the 2009 performance categories would be 3.00, for a maximum bonus percentage of 100.0%, compared to 4.50 under the 2008 performance categories, for a maximum bonus percentage of 175.0%. At the time that the Compensation Committee approved the target levels under the 2009 Executive Bonus Parameters, we publicly disclosed that the range of $6.25 to $6.45 was our internal goal for our 2009 earnings per share. The mid-point of that range was the basis for the target level associated with 2.00 performance points in the earnings per share performance category of the 2009 Executive Bonus Parameters. We subsequently announced that we have revised our internal goal for our 2009 earnings per share to a range of $6.50 to $6.75. The Compensation Committee has not adjusted, however, the target levels in the earnings per share performance category of the 2009 Executive Bonus Parameters.

The 2009 Executive Bonus Parameters establish for each participant a standard bonus target percentage of annualized base salary as of December 31, 2009, ranging from 10% to 100%, with the percentage depending on the participant's position. The following table sets forth the standard bonus target percentage of annualized base salary as of December 31, 2009 for each of the Named Executive Officers under the 2009 Executive Bonus Parameters.

Named Executive Officer	2009 Standard Bonus Target Percentage of Annualized Base Salary
Kevin M. Modany	100%
Daniel M. Fitzpatrick	65%
Clark D. Elwood	65%
Eugene W. Feichtner	60%
Glenn E. Tanner	60%

The maximum bonus percentage under the 2009 Executive Bonus Parameters ranges from 25% to 200% of the standard bonus target percentage of annualized base salary as of December 31, 2009 and is based on the weighted average performance points associated with the actual results achieved with respect to each performance category. The maximum bonus percentage associated with each range of weighted average performance points under the 2009 Executive Bonus Parameters is the same as the range under the 2008 Executive Bonus Parameters.

Equity-Based Compensation. The Compensation Committee believes that equity-based compensation related to our long-term performance should be a major component of the total compensation for executives. The Committee believes that the use of our common stock in the payment of this compensation will enhance our executives' commitment to our long-term performance because equity-based compensation awards, such as time-based stock options, restricted stock and restricted stock units ("RSUs"), are directly related to the performance of our common stock. The type and value of the equity-based compensation awards vary based on the executive's level and individual performance.

In 2008, as a guideline for determining the amount (based on fair value, determined by using a Black-Scholes pricing model) of the annual equity-based compensation award to grant to our executives, the Compensation Committee used a percentage of the executive's annualized base salary, ranging from 33% to 425%, with the percentage depending on market comparisons and the executive's responsibilities, performance and contributions. The percentage applicable to each of the Named Executive Officers in 2008 was as follows:

Named Executive Officer	Percentage of 2008 Annualized Base Salary [(1)]
Kevin M. Modany	425%
Daniel M. Fitzpatrick	211%
Clark D. Elwood	214%
Eugene W. Feichtner	245%
Glenn E. Tanner	195%

(1) As of March 31, 2008.

On January 21, 2008, the Compensation Committee authorized the grant of nonqualified stock options to purchase shares of our common stock under the 2006 ITT Educational Services, Inc. Equity Compensation Plan ("2006 Equity Compensation Plan") to the Named Executive Officers effective on January 30, 2008. See "– Grants of Plan-Based Awards Table." The amounts of the equity awards in 2008 to the Named Executive Officers were based on the percentage of base salary set forth above.

In 2009, the Compensation Committee decided to change its method of determining the amount of equity-based compensation grants to our executive officers, as a result of its review of its previous method and the recommendation of Farient. Instead of the previous value-based method, the Committee has moved to a fixed share range method. The Compensation Committee made this change after determining that the volatility component of the valuation method can cause the value of the equity-based compensation to be non-reflective of our performance. Higher stock volatility, as has been the case with our common stock in recent periods, leads to higher relative option values under the valuation method, which is not always indicative of actual stock price performance. By establishing a fixed number of shares for equity grants, those grants will have a higher intrinsic value when the market price of our common stock is higher and a lower intrinsic value when the market price of our common stock is lower. As a result, the Compensation Committee believes that the intrinsic value of the equity-based compensation is tied more closely to company and individual performance, since our executives will need to produce the financial and operating results necessary for the share price of our common stock to increase, which is the only way that the stock options will have value to the executive.

The Compensation Committee determined the ranges of the fixed share amounts to be granted to our executives as a percentage of our outstanding common stock. The Compensation Committee reviewed equity compensation awards in the previous two years granted to executives in the same or similar positions at the comparator companies that the Committee uses for benchmarking, and calculated the percentage that those awards bore to the applicable company's outstanding common shares in order to develop fixed share grant guidelines for the Committee's use in making future equity compensation awards. The Committee intends for the fixed share grant guidelines to provide an equity compensation opportunity to our executives in the upper quartile of peer practices over time based on the percentage of common shares outstanding, although it is not the intent of the Committee to make adjustments on an annual basis to achieve this positioning, and actual pay opportunity will vary with performance from year-to-year. The Compensation Committee currently intends to utilize those fixed share grant guidelines for the next three to five years, but it retains the discretion to modify the guidelines, or the entire grant method, at any time. The Committee also expects that it would reset the guidelines, if the market price of our common stock substantially increases or decreases from its current level and is sustained at that different level for an extended period of time.

For the stock option grants to executives in 2009, the Compensation Committee utilized the applicable ranges determined as described above, and set the exact number of stock options to grant to each executive based on the executive's individual performance in 2008 and, for all executives other than our Chief Executive Officer, the recommendation of our Chief Executive Officer. Specifically, on January 19, 2009, the Compensation Committee authorized the grant of nonqualified stock options to purchase shares of our common stock under the 2006 Equity Compensation Plan to the Named Executive Officers, effective on January 28, 2009, as follows:

Named Executive Officer	**Number of Securities Underlying Option Granted**	**Exercise Price**	**Expiration Date**	**Grant Date** [1]	**Date Compensation Committee Took Action**
Kevin M. Modany	100,000	$121.56 [2]	01/28/16	01/28/09	01/19/09 [3]
Daniel M. Fitzpatrick	20,000	$121.56 [2]	01/28/16	01/28/09	01/19/09 [3]
Clark D. Elwood	20,000	$121.56 [2]	01/28/16	01/28/09	01/19/09 [3]
Eugene W. Feichtner	17,500	$121.56 [2]	01/28/16	01/28/09	01/19/09 [3]
Glenn E. Tanner	17,500	$121.56 [2]	01/28/16	01/28/09	01/19/09 [3]

(1) The effective date of the stock option grant.

(2) Nonqualified stock option granted at 100% of the closing market price of a share of our common stock on January 28, 2009, the effective date of the grant. One-third of the option is exercisable on the anniversary date of the grant in each of the years 2010, 2011 and 2012.

(3) The stock option was granted by the Compensation Committee during a Committee meeting on January 19, 2009, and became effective on January 28, 2009, which was the fourth business day following the date we publicly disclosed our financial and operating results for the fiscal quarter and year ended December 31, 2008.

The Compensation Committee is responsible for determining equity-based compensation paid to our executives. All equity-based compensation awards to our executive officers are granted exclusively by our Compensation Committee. The Compensation Committee has delegated limited authority to our Chief Executive Officer to grant equity-based compensation awards to our newly-hired executives (excluding our executive officers) and other key employees.

Equity-based compensation is granted to our executives and other key employees under the following circumstances:

- the Compensation Committee has typically made grants to our executives and other key employees annually during its first regularly scheduled meeting of the calendar year, which grants become effective prospectively on the fourth business day following the public disclosure of our financial and operating results for our prior fiscal year;
- the Compensation Committee has typically made grants to our newly-hired executive officers at a Committee meeting occurring either:
  - prior to the date that the executive officer's employment with us begins, in which case the effective date of the grant is typically the executive officer's first day of employment with us but, if the markets are closed on that day, is the next subsequent day that the markets are open; or
  - after the executive officer's employment with us begins, in which case the effective date of the grant is the date of the Committee meeting or a subsequent date specified by the Committee at its meeting; and
- pursuant to authority delegated to him by the Compensation Committee, our Chief Executive Officer typically grants equity-based compensation to our newly-hired executives (excluding our executive officers) and other key employees on the newly-hired

employee’s first day of employment with us.

In each of the above circumstances, the exercise price of any stock option granted is the closing market price of a share of our common stock on the effective date of the stock option grant. In addition, the number of any RSUs or shares of restricted stock is based on the closing market price of a share of our common stock on the effective date of the RSU or restricted stock grant.

We do not time our release of material non-public information for the purpose of affecting the value of our executives’ compensation, nor do we time our grants of equity-based compensation to take advantage of material non-public information. Nevertheless, our process for granting equity-based compensation (as described above) may result in equity-based compensation, including stock options, being granted to our executives and other key employees at times when our Board of Directors or the Compensation Committee is in possession of material non-public information about us. This possibility is not taken into account in determining whether to make the equity-based compensation awards or the amount or value of those awards.

Retirement Plans.

Qualified Retirement Savings. Our executives participate in our ESI 401(k) Plan, a qualified defined contribution plan, that is designed to provide substantially all of our employees with a tax-deferred, long-term savings vehicle. See "– Equity Compensation and Qualified Savings Plans – *ESI 401(k) Plan*."

Nonqualified Deferred Compensation. Due to federal limitations that preclude our highly-compensated employees from fully participating in the ESI 401(k) Plan, we established the ESI Excess Savings Plan, an unfunded, nonqualified deferred compensation plan for a select group of our management, including the Named Executive Officers. We froze the ESI Excess Savings Plan, effective for plan years beginning on and after January 1, 2008, such that executives may no longer make elective deferrals and we no longer make contributions under the ESI Excess Savings Plan. Amounts previously credited to an executive under the ESI Excess Savings Plan will, however, continue to accrue interest in accordance with the terms of the ESI Excess Savings Plan until those amounts are distributed pursuant to the plan's terms. See "– Nonqualified Deferred Compensation Plans – *ESI Excess Savings Plan*."

In addition, we have established the ESI Executive Deferred Bonus Compensation Plan (the "Deferred Bonus Plan"), an unfunded, nonqualified deferred compensation plan, for a select group of our management and highly-compensated employees, including the Named Executive Officers. The Deferred Bonus Plan allows eligible employees to defer payment of all or a portion of his or her annual bonus compensation and to earn interest on any annual bonus compensation in the form of cash that is deferred. See "– Nonqualified Deferred Compensation Plans – *Deferred Bonus Plan*."

The terms of the ESI Excess Savings Plan and the Deferred Bonus Plan, including the interest rate on the earnings on the Named Executive Officers' account balances under each plan, are based on common and typical terms and types of nonqualified deferred compensation plans that had been adopted by other publicly traded companies at the time that we adopted those plans.

Pension Benefits. Pension benefits provide retirement compensation which is based on the salary and bonus compensation paid to the employee during his or her employment. We froze the benefit accruals under the ESI Pension Plan and ESI Excess Pension Plan for all participants in the plans on March 31, 2006, such that no further benefits accrue under those plans after March 31, 2006. Participants do, however, continue to be credited with vesting service and interest according to the terms of those plans. See "– Pension Plans – *ESI Pension Plan*" and "– *ESI Excess Pension Plan*."

Employee Benefits and Perquisites.

Employee Benefits. All of our executives are eligible to participate in our employee benefits, which include medical and dental benefits, vision insurance, life insurance, flexible spending account, tuition reimbursement, business travel and accident insurance, disability insurance, vacation leave, sick leave, bereavement leave, ITT Technical Institute tuition discounts and an employee assistance program that can help employees find answers to various kinds of personal concerns by offering consultation, support, information, planning and referrals. The employee benefits are generally available on a non-discriminatory basis to all full-time and part-time regular employees.

Perquisites. We also provide limited perquisites to our executives, including the Named Executive Officers, that vary based on the executive's level. The perquisites include use of a company car for our Chief Executive Officer only, a tax return preparation and financial planning allowance, tickets to sporting, theater and other events, enhanced disability benefits, an annual physical examination and, for newly-hired executive officers from outside the Indianapolis metropolitan area whom we ask to relocate, relocation assistance. The value and type of perquisites made available to our executives are based on the value and type of perquisites that had been made available to executives at other publicly-traded companies at the time that we began making those perquisites available, and at the time of each subsequent annual review by the Compensation Committee of those perquisites. The Compensation

Committee believes that our executives value the perquisites provided to them and, given that the cost to us of the perquisites is not significant, the Committee has determined to continue providing these perquisites to our executives.

The perquisites that we provided to our Named Executive Officers in 2008 are disclosed in the Summary Compensation Table and footnotes thereto in this Proxy Statement. See "– Summary Compensation Table." In January 2009, the Compensation Committee approved the value and type of perquisites in 2009 for the Named Executive Officers, which are consistent with the value and type of perquisites provided to them in 2008. The aggregate incremental cost to us in 2009 for providing all of the 2009 perquisites to the Named Executive Officers is not expected to exceed $125,000.

Potential Payments Upon Termination of Employment or a Change In Control of Us. Our executive officers, including the Named Executive Officers, participate in the ITT Educational Services, Inc. Senior Executive Severance Plan (the "Senior Executive Severance Plan"), which provides for severance benefits if:

- we terminate the executive's employment, other than for cause, or when the executive terminates his or her employment for good reason, in each case within two years after the occurrence of a change in control of us;
- we terminate the executive's employment, other than for cause, if a change in control is imminent.

The benefits vary depending on the executive's level and include, among other things, two or three times the executive's base salary and bonus and a stipend equal to two or three times the annual cost of certain employee benefits. See "– Potential Payments Upon Termination or Change in Control – *Senior Executive Severance Plan*."

The Compensation Committee believes that a change in control transaction, or potential change in control transaction, would create uncertainty regarding the continued employment of our executives. This is because many change in control transactions result in significant organizational changes, particularly at the senior executive level. In order to encourage our executives to remain employed with us during an important time when their continued employment in connection with or following a transaction is often uncertain and to help keep our executives focused on our business rather than on their personal financial security, we believe that providing certain of our executives with severance benefits upon the specified terminations of employment is in the best interests of our company and our shareholders. The Committee also believes that severance benefits are even more effective in achieving those purposes at companies, like ours, where executives do not have significant amounts of wealth accumulation from previous compensation awards.

The benefits under the Senior Executive Severance Plan are not payable merely because a change in control transaction occurs or is imminent. Instead, payment of the severance benefits is only triggered if a change in control has occurred or is imminent and certain types of termination of employment occur within certain limited time periods. The Compensation Committee has determined that this "double trigger" requirement is appropriate and reasonable.

If benefits are triggered under the Senior Executive Severance Plan, our Chief Executive Officer would be entitled to payments under the "three times" multiplier and the other covered executives would be entitled to payments under the "two times" multiplier. Our Chief Executive Officer would also be entitled to certain benefits that would not be available to the other covered executives, including that our Chief Executive Officer would receive a tax gross-up payment on any excise taxes and that his severance benefits would not be limited in the event of the imposition of an excise tax. The Compensation Committee believes that our Chief Executive Officer should receive the higher multiplier and the enhanced benefits given his high level of responsibility and the substantial duties that he has with us, as well as the fact that it is common market practice for a chief executive officer to receive a higher level of severance benefits than other executive officers.

The amount and type of severance pay made available to our executive officers are based on common and typical amounts and types of severance pay that are made available to executives by other publicly traded companies at the time that these benefits were determined.

In addition, some of the awards granted under our equity compensation plans and all or a portion of the contributions, benefits and earnings under our qualified savings plan, nonqualified deferred compensation plans and pension plans may vest and/or become payable to the participating employees, including the Named Executive Officers, if the participating employee's employment terminates in certain situations or we undergo a change in control. See "– Potential Payments Upon Termination or Change In Control." The accelerated vesting and payments are useful in providing security to our executives and helps them to focus on their job responsibilities, instead of the safety of compensation that they have previously been awarded or paid. Further, the accelerated vesting of equity compensation awards upon a change in control:

- provides employees with the same opportunities as shareholders, who are free to sell their equity at the time of the change in control event and thereby realize the value created at the time of the transaction;
- ensures that employees do not have the fate of their outstanding equity tied to the future success of the new and different company that results from the change in control;
- can be a strong retention device during change in control discussions, particularly for those employees whose equity represents a significant portion of their total pay package; and
- treats all employees the same regardless of their employment status after the transaction.

The Impact of Accounting and Tax Treatments on the Compensation. Section 162(m) of the IRC limits the allowable deduction for compensation paid or accrued with respect to the chief executive officer and each of the three other most highly compensated executive officers (other than the chief financial officer) of a publicly held corporation to no more than $1 million per year. Certain compensation is exempt from this deduction limitation, including performance-based compensation paid under a plan administered by a committee of outside directors, the material terms of which have been approved by our shareholders.

In light of Section 162(m), it is the policy of the Compensation Committee to modify, where necessary, our executive compensation program to maximize the tax deductibility of compensation paid to our executive officers. Accordingly, our equity incentive compensation plans include a fixed limit on the awards that may be granted to any individual in any given year. Any future gains that may be realized upon the stock options granted under our equity incentive compensation plans will qualify as “performance-based compensation” and will be fully deductible by us.

At the same time, the Compensation Committee also believes that the overall performance of our senior executives cannot in all cases be reduced to a fixed formula and that the prudent use of discretion in determining pay levels is in our best interests and those of our shareholders. Under some circumstances (other than in the context of our employee incentive stock plans), the Committee’s use of discretion in determining appropriate amounts of compensation may be essential. In those situations where discretion is or can be used by the Compensation Committee, compensation may not be fully deductible. The Committee does not believe that such loss of deductibility will have any material impact on our financial condition.

Section 409A of the IRC provides certain requirements for deferred compensation arrangements. Those requirements, among other things, limit flexibility with respect to the time and form of payment of deferred compensation. If a payment or award constitutes deferred compensation subject to Section 409A and the applicable requirements are not satisfied, the recipient could be subject to tax on the award and all other deferred compensation of the same type, and an additional 20% tax and interest at the underpayment rate plus 1%, at the time the legally binding right to the payment or award arises or, if later, when that right ceases to be subject to a substantial risk of forfeiture. We have made modifications to our plans and arrangements such that payments or awards under those arrangements either are intended to not constitute “deferred compensation” for Section 409A purposes (and will thereby be exempt from Section 409A’s requirements) or, if they constitute “deferred compensation,” are intended to comply with the Section 409A statutory provisions and final regulations.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K under the 1934 Act with our management. Based on that review and discussions, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and in our Proxy Statement for our 2009 Annual Meeting of Shareholders for filing with the U.S. Securities and Exchange Commission

("SEC").

Compensation Committee
James D. Fowler, Jr.
Samuel L. Odle, Chair
Vin Weber
John A. Yena

Summary Compensation Table

The following table sets forth information regarding the compensation of the Named Executive Officers for each of our last three completed fiscal years.

Summary Compensation Table for Fiscal Years 2008, 2007 and 2006

Name and Principal Position (a)	Year (b)	Salary[1] (c)	Bonus[2] (d)	Stock Awards[3] (e)	Option Awards[4] (f)	Non-Equity Incentive Plan Compensation[5] (g)	Change in Pension Value and Non-qualified Deferred Compensation Earnings [6] (h)	All Other Compensation[7] (i)	Total [8] (j)
Kevin M. Modany Chairman, Chief Executive Officer and President	2008	$663,750	$337,500	$300,056	$1,957,325	$843,750	$ 3,032	$49,574	$4,154,987
	2007	$555,625	$ 0	$225,042	$ 879,474	$995,039	$ 8,979	$66,522	$2,730,681
	2006	$326,878	$ 0	$ 0	$ 71,802	$436,400	$13,426	$31,244	$ 879,750
Daniel M. Fitzpatrick Senior Vice President and Chief Financial Officer	2008	$279,575	$ 85,500	$ 0	$ 430,393	$213,750	$ 0	$16,094	$1,025,312
	2007	$259,350	$ 0	$ 0	$ 190,290	$296,213	$ 0	$14,369	$ 760,222
	2006	$244,377	$ 0	$ 0	$ 106,855	$278,500	$ 0	$37,361	$ 667,093