

# CHARTING OUR COURSE INTO THE FUTURE



ITT Educational Services, Inc. **ITT**

2005 Annual Meeting & Proxy Statement  
**2004 ANNUAL REPORT**

The mission of ITT Educational Services, Inc. is to provide a quality postsecondary education and the services that can help a diverse student body to prepare for career opportunities in various fields involving technology. We will strive to establish an environment for students and employees which promotes professional growth, encourages each person to achieve his or her highest potential and fosters ethical responsibility and individual creativity within a framework of equal opportunity.



Revenue (a)  
(\$ in millions)

**ITT Educational Services, Inc.** ("ITT/ESI") currently operates 77 ITT Technical Institutes located in 30 states. As of December 31, 2004, more than 40,000 students were pursuing associate, bachelor and master degree programs in five different schools of study at our institutes-School of Electronics Technology, School of Information Technology, School of Drafting and Design, School of Business and School of Criminal Justice.

We are very proud of our accomplishments in 2004. We experienced record student enrollment, revenue growth, operating margin expansion and earnings per share. We believe that ITT/ESI's fundamentals are sound and the business is well-positioned for continued growth in 2005.

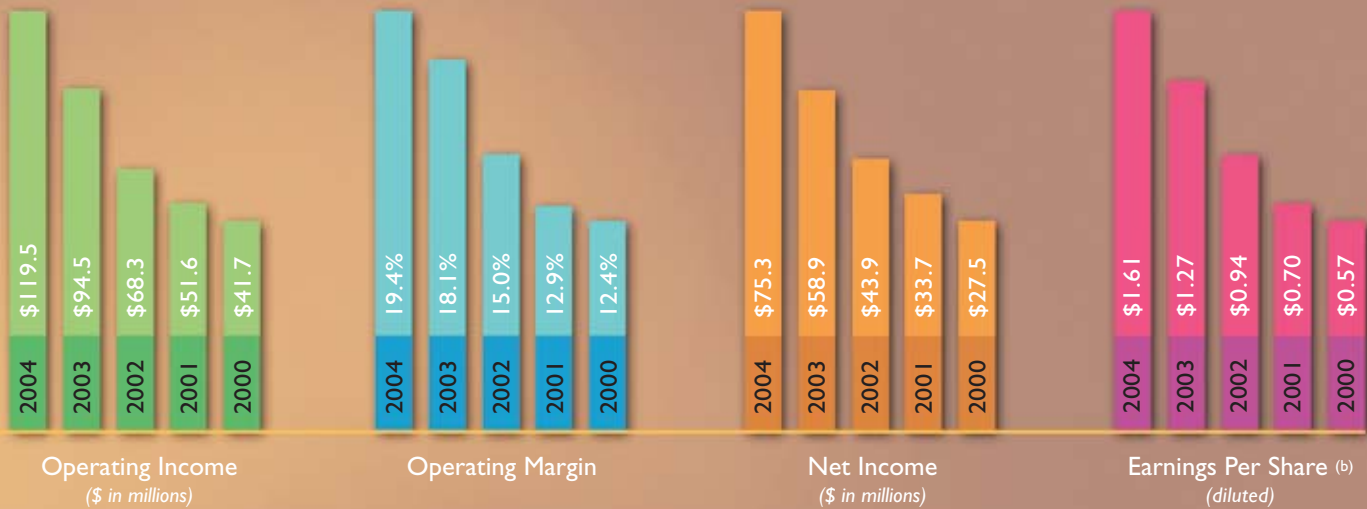
We achieved these strong results notwithstanding the search warrants executed by federal agents on behalf of the U.S. Department of Justice ("DOJ") at our corporate headquarters and ten of our ITT Technical Institutes on February 25, 2004. (Please see the Government Investigations Inquiry and Lawsuits section of the Proxy Statement enclosed.) Our Board of Directors appointed a Special Committee of independent directors in March 2004 to investigate, among other things, the facts and circumstances underlying the DOJ investigation. The Special Committee completed its investigation relating to the conduct and integrity of our senior management and reported to our Board of Directors that it had found no evidence that senior management had engaged in any violations of our policies and procedures or any wrongful or criminal conduct related to the matters that are the subject of the DOJ investigation. The DOJ investigation is ongoing and no formal charges have been filed. We, our Directors and our executive officers, are continuing to work with the DOJ to resolve its investigation.

We are very grateful for the staff and faculty of our colleges, who remained focused on providing a quality education to their students despite the distractions associated with the DOJ investigation. Our achievements in 2004 are a direct result of their commitment and dedication to the mission of ITT Educational Services, Inc.

## TO OUR SHAREHOLDERS

**Rene R. Champagne,**  
Chairman and  
Chief Executive Officer





(a) The reclassification of tuition revenue with respect to students who withdraw reduced revenue and cost of educational services by \$10.8 million in the year ended December 31, 2002, \$10.5 million in the year ended December 31, 2001 and \$11.2 million in the year ended December 31, 2000. The reclassification had no impact on our total consolidated results reported in any period presented.  
 (b) Earnings per share in all prior periods have been restated to reflect the two-for-one stock split declared on May 10, 2002 that became effective June 6, 2002.



During 2004, we continued to implement our 10-Point Growth Plan, which has served as the impetus for our growth in the last few years and which we expect to continue following for the foreseeable future. Some of our key accomplishments in 2004 are as follows:

**Enrollment Growth** • During 2004, new student enrollment at ITT Technical Institutes increased 17.1 percent compared to 2003. Total student enrollment at December 31, 2004 increased 10.8 percent to 40,876 compared to 36,901 at December 31, 2003. Those enrollment numbers and percentages exclude international enrollments and enrollments at two of our institutes that ceased operations at the end of 2004.

**Financial Performance** • Our revenue increased 18.2 percent in 2004 to \$617.8 million compared to \$522.9 million in 2003. We accrued \$25.1 million of special legal and other investigation costs in 2004 associated with the DOJ investigation, the inquiry initiated by the U.S. Securities and Exchange Commission into the allegations being investigated by the DOJ, and the securities class action, shareholder derivative and books and records inspection lawsuits filed against us, certain of our current and former executive officers and each of our Directors (collectively, the "Actions"). We believe that a review of our 2004 financial performance excluding the special legal and other investigation costs may be a useful supplement for investors. The reconciliation to our consolidated statements of income for the non-GAAP financial measures that follow is provided below and on our website at [www.ittesi.com](http://www.ittesi.com).

**Operating income** before special legal and other investigation costs increased 53.1 percent to \$144.7 million compared to \$94.5 million in 2003.

	<b>2004</b>	<b>2003</b>	<b>Increase (Decrease)</b>
Special Legal and Other Investigation Costs	\$25.1	\$0.0	N/A
Operating Income	\$119.5	\$94.5	26.5%
Operating Income Before Special Legal and Other Investigation Costs <sup>(A)</sup>	\$144.7	\$94.5	53.1%

**Operating margin** before special legal and other investigation costs increased 530 basis points to 23.4 percent compared to 18.1 percent in 2003.

	<b>2004</b>	<b>2003</b>	<b>Increase (Decrease)</b>
Special Legal and Other Investigation Costs as a Percent of Revenue	4.1%	\$0.0	N/A
Operating Margin	19.4%	18.1%	130 basis points
Operating Margin Before Special Legal and Other Investigation Costs <sup>(A)</sup>	23.4%	18.1%	530 basis points

**Net income** before special legal and other investigation costs net of tax increased 53.9 percent to \$90.6 million compared to \$58.9 million in 2003.

	<b>2004</b>	<b>2003</b>	<b>Increase (Decrease)</b>
Special Legal and Other Investigation Costs Net of Tax	\$15.3	\$0.0	N/A
Net Income	\$75.3	\$58.9	27.9%
Net Income Before Special Legal and Other Investigation Costs Net of Tax <sup>(A)</sup>	\$90.6	\$58.9	53.9%

**Earnings per share (diluted)** before special legal and other investigation costs increased 52.8 percent to \$1.94 compared to \$1.27 in 2003.

	<b>2004</b>	<b>2003</b>	<b>Increase (Decrease)</b>
Special Legal and Other Investigation Costs Per Share (diluted)	\$0.33	\$0.0	N/A
Earnings Per Share (diluted)	\$1.61	\$1.27	26.8%
Earnings Per Share (diluted) Before Special Legal and Other Investigation Costs <sup>(A)</sup>	\$1.94	\$1.27	52.8%

**Notes for charts showing financial performance excluding the special legal and other investigation costs.**

(A) Given the large amount of legal and other investigation costs accrued in connection with the Actions, we believe that our performance results without these additional costs is a useful measure for our management and might be a useful supplement for investors in comparing our performance absent the legal and other investigation costs associated with the Actions. Although legal and other investigation costs are a regular expense that we incur, the level of legal and other investigation costs facing us as a result of the Actions is much larger than we have previously experienced, and we hope that legal and other investigation costs at this level will not occur in the future. In evaluating our performance, our management uses the following measurements that are not under generally accepted accounting principles ("GAAP") and are, therefore, non-GAAP financial measures. Although the non-GAAP financial measures exclude a cash cost to us, our management compensates for this by also using the GAAP measures. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the measures prepared in accordance with GAAP.

(1) We believe that Operating Income Before Special Legal and Other Investigation Costs provides useful information to our management and investors by improving their ability to compare our Operating Income without the Special Legal and Other Investigation Costs for the fiscal year ended December 31, 2004 with the Operating Income for the corresponding period in 2003. Operating Income Before Special Legal and Other Investigation Costs can be reconciled to Operating Income as shown in the two lines of the table immediately preceding this entry.

(2) We believe that Operating Margin Before Special Legal and Other Investigation Costs provides useful information to our management and investors by improving their ability to compare our Operating Income without the Special Legal and Other Investigation Costs as a percentage of Revenue for the fiscal year ended December 31, 2004 with the Operating Income as a percentage of Revenue for the corresponding period in 2003. Operating Margin Before Special Legal and Other Investigation Costs can be reconciled to Operating Margin as shown in the two lines of the table immediately preceding this entry.

(3) We believe that Net Income Before Special Legal and Other Investigation Costs Net of Tax provides useful information to our management and investors by improving their ability to compare our Net Income without the Special Legal and Other Investigation Costs for the fiscal year ended December 31, 2004 with the Net Income for the corresponding period in 2003. Our effective tax rate was 39.0 percent for each of the fiscal years ended December 31, 2004 and December 31, 2003. Net Income Before Special Legal and Other Investigation Costs Net of Tax can be reconciled to Net Income as shown in the two lines of the table immediately preceding this entry.

(4) We believe that Earnings Per Share (diluted) Before Special Legal and Other Investigation Costs provides useful information to our management and investors by improving their ability to compare our Earnings Per Share (diluted) without the Special Legal and Other Investigation Costs for the fiscal year ended December 31, 2004 with the Earnings Per Share (diluted) for the corresponding period in 2003. Earnings Per Share (diluted) Before Special Legal and Other Investigation Costs can be reconciled to Earnings Per Share (diluted) as shown in the two lines of the table immediately preceding this entry.

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## TO OUR SHAREHOLDERS

*Continued from page 3*

We have no debt. As of December 31, 2004, our cash, cash equivalents, restricted cash and investments were \$356.5 million compared to \$254.2 million as of the same date in 2003. For the 12 months ended December 31, 2004, our bad debt expense as a percent of revenue was 1.9 percent compared to 1.2 percent for the same period in 2003. Our days sales outstanding on December 31, 2004 was 5.7 days compared to 6.0 days on December 31, 2003.

**New School Openings** • We opened a new ITT Technical Institute in both Kansas City, Missouri and Kennesaw (Atlanta), Georgia during the fourth quarter of 2004. We also opened our first learning site in 2004 in Greenwood (Indianapolis), Indiana.

**New Programs of Study** • In 2004, we increased the number of ITT Technical Institutes that offer our new bachelor and associate degree programs in Business Administration, Business Accounting Technology and Criminal Justice in residence on campus, and we also began teaching those programs entirely online over the Internet. Thirty-nine ITT Technical Institutes were teaching one or more of those programs in 2004, and the students enrolled in those programs constituted six percent of our total student enrollment as of December 31, 2004 compared to one percent as of the same date in 2003.

**Bachelor Degree Programs** • At the end of 2004, 52 ITT Technical Institutes offered bachelor degree programs of study. As a result of increased student enrollment in our criminal justice and business bachelor degree programs and the increased number of technology-oriented bachelor degree program offerings at our colleges, students enrolled in bachelor degree programs represented 19 percent of our total student enrollment as of December 31, 2004 compared to nine percent as of December 31, 2003.

**New Delivery Models** • Sixty-two ITT Technical Institutes were using our 2+1 Hybrid Delivery Model as of December 31, 2004, pursuant to which certain program courses are taught in residence on campus and others are taught online over the Internet. We had 22,246 online course registrations as of December 31, 2004 compared to 1,002 as of December 31, 2003. Online course registrations represent the number of online courses that students were registered to take, and exclude any online courses that our international enrollments may have been registered to take.

We believe that the postsecondary education industry offers us multiple opportunities for growth as we continue to execute our 10-Point Growth Plan. Some of the growth initiatives that we are planning for 2005 include the following:

**Geographic Expansion** • We believe we may be able to open three to four new institutes and add up to four new learning sites in 2005. Based on when we estimate receiving the requisite regulatory approvals, we believe that most of our geographic expansion will occur in the second half of 2005.

**New Programs of Study** • We intend to expand the offering of our bachelor and associate degree programs in business and criminal justice to more of our institutes in 2005. We are also researching and developing entirely new programs of study, which may be ready to submit for regulatory approvals in late 2005 or early 2006.

**Bachelor Degree Programs** • We intend to increase the number of ITT Technical Institutes that are approved to offer bachelor degree programs.

**Online Delivery** • We plan to increase our use of online technology through both the 2+1 Hybrid Delivery Model and programs that are taught entirely online.

We believe that the continued execution of our various growth initiatives can help us to produce enrollment and financial results that are in line with our historical growth rates.



Rene R. Champagne, Chairman and CEO



## OFFICERS OF THE COMPANY

*Seated, left to right:*

**Glenn E. Tanner**, Vice President, Marketing  
**Martin A. Grossman**, Senior Vice President, Director of Marketing and Investor Relations  
**Nina F. Esbin**, Senior Vice President, Human Resources  
**Rene R. Champagne**, Chairman and Chief Executive Officer  
**Clark D. Elwood**, Senior Vice President, General Counsel and Secretary  
**Kevin M. Modany**, Senior Vice President and Chief Financial Officer

*Standing, left to right:*

**Gary R. Carlson**, Vice President, Academic Affairs  
**Eugene W. Feichtner**, Senior Vice President, Operations  
**Donald F. Feigert**, Vice President, Recruitment  
**Roger A. Booth**, Vice President, Director of Internal Audit/Safety and Security  
**Jeffrey R. Cooper**, Senior Vice President, Chief Compliance Officer  
**Julie A. Shedd**, Vice President, Controller and Treasurer  
**Martin Van Buren**, Vice President, Information Technology



## BOARD OF DIRECTORS

*Left to right:*

**Rene R. Champagne**, Chairman and Chief Executive Officer, ITT Educational Services, Inc.  
**Rand V. Araskog**, retired Chairman and Chief Executive Officer, ITT Corporation  
**John F. Cozzi**, Managing Director, AEA Investors LLC  
**John E. Dean**, Founding Partner of the law firm Dean Blakey  
**James D. Fowler, Jr.**, retired Senior Vice President and Director, Human Resources, ITT Industries, Inc.  
**Joanna T. Lau**, Chairperson and Chief Executive Officer, Lau Acquisition Corporation  
**Harris N. Miller**, President, Information Technology Association of America  
**Daniel P. Weadock**, President, The International  
**Vin Weber**, Partner, Clark & Weinstock Inc.

	School of Information Technology	School of Electronics Technology	School of Drafting and Design	School of Business	School of Criminal Justice
Masters Degree				✚Master of Business Administration (MBA)	
Bachelor Degree	<ul style="list-style-type: none"> <li>✚Information Systems Security</li> <li>✚Data Communication Systems Technology</li> <li>✚Software Engineering Technology</li> </ul>	<ul style="list-style-type: none"> <li>✚Industrial Automation Engineering Technology</li> <li>✚Electronics and Communications Engineering Technology</li> </ul>	<ul style="list-style-type: none"> <li>✚Digital Entertainment and Game Design</li> </ul>	<ul style="list-style-type: none"> <li>✚Business Administration</li> <li>✚Business Accounting Technology</li> <li>✚Technical Project Management</li> </ul>	<ul style="list-style-type: none"> <li>✚Criminal Justice</li> </ul>
Associate Degree	<ul style="list-style-type: none"> <li>✚Information Technology—Computer Network Systems</li> <li>✚Information Technology—Software Applications and Programming</li> <li>✚Information Technology—Web Development</li> </ul>	<ul style="list-style-type: none"> <li>✚Computer and Electronics Engineering Technology</li> </ul>	<ul style="list-style-type: none"> <li>✚Information Technology—Multimedia</li> <li>✚Computer Drafting and Design</li> </ul>	<ul style="list-style-type: none"> <li>✚Business Administration</li> <li>✚Business Accounting Technology</li> </ul>	<ul style="list-style-type: none"> <li>✚Criminal Justice</li> </ul>

## ITT Technical Institutes 2005

### ABOUT THE COMPANY

**The Company** • ITT Educational Services, Inc. (NYSE:ESI) is a leading provider of technology-oriented postsecondary degree programs in the United States based on revenue and student enrollment. At the end of 2004, the company operated 77 ITT Technical Institutes in 30 states. The

ITT Technical Institute in Indianapolis, Indiana also offers several online degree programs that are available in 47 states. The company is headquartered in Carmel, Indiana, a suburb of Indianapolis. It has offered programs in higher education since 1969.

**Performance** • The company has demonstrated continued growth since going public in 1994. It achieved record revenue of \$617.8 million in 2004, an increase of 18.2 percent compared to 2003 revenue of \$522.9 million. The company's revenue has increased at a 12.7 percent compound annual growth rate (CAGR) since 1994. The net income in 2004 increased 27.9 percent to \$75.3 million compared to \$58.9 million in 2003 and has increased at a CAGR of 26.5 percent since 1994. The operating margin increased 130 basis points to 19.4 percent compared to 18.1 percent in 2003. Earnings per share (diluted) increased 26.8 percent to \$1.61, compared to \$1.27 in 2003. Total student enrollment also increased 10.8 percent to 40,876 students as of December 31, 2004.

**Programs of Study** • ITT Technical Institute programs are career-focused, and most use a combination of theory and practical application to assist students in developing the knowledge and skills used in jobs within their chosen career paths. Each curriculum is developed with the input of employers in that field. Additionally, each ITT Technical Institute has an advisory committee for each field of study comprised of representatives of local employers who assist the institute in assessing and updating curricula, equipment and laboratory design.

**ITT TECHNICAL  
INSTITUTE****ITT Educational Services, Inc. ITT****Alabama**

500 Riverhills Business Park  
Birmingham 35242

**Arizona**

5005 S. Wendler Dr.  
Tempe 85282

1455 W. River Rd.  
Tucson 85704

**Arkansas**

4520 S. University Ave.  
Little Rock 72204

**California**

525 N. Muller Ave.  
Anaheim 92801  
(Los Angeles)

362 North Clovis Ave.\*  
Clovis 93612  
(Fresno)

16916 S. Harlan Rd.  
Lathrop 95330  
(Stockton)

2051 Solar Dr., Suite 150  
Oxnard 93036  
(Los Angeles)

10863 Gold Center Dr.  
Rancho Cordova 95670  
(Sacramento)

670 E. Carnegie Dr.  
San Bernardino 92408  
(Los Angeles)

9680 Granite Ridge Dr.  
San Diego 92123

12669 Encinitas Ave.  
Sylmar 91342  
(Los Angeles)

20050 S. Vermont Ave.  
Torrance 90502  
(Los Angeles)

1530 W. Cameron Ave.  
West Covina 91790  
(Los Angeles)

**Colorado**

500 East 84th Ave., Suite B12  
Thornton 80229  
(Denver)

**Florida**

3401 S. University Dr.  
Fort Lauderdale 33328

6600-10 Youngerman Circle, Suite 10  
Jacksonville 32244

1400 S. International Parkway  
Lake Mary 32746  
(Orlando)

7955 N.W. 12th St., Suite 119  
Miami 33126

4809 Memorial Hwy.  
Tampa 33634

**Georgia**

10700 Abbotts Bridge Rd., Suite 190  
Duluth 30097  
(Atlanta)

1000 Cobb Place Blvd. NW  
Suite 300, Building 300  
Kennesaw 30144  
(Atlanta)

**Idaho**

12302 W. Explorer Dr.  
Boise 83713

**Illinois**

7040 High Grove Blvd.  
Burr Ridge 60527  
(Chicago)

600 Holiday Plaza Dr.  
Matteson 60443  
(Chicago)

1401 Feehanville Dr.  
Mount Prospect 60056  
(Chicago)

**Indiana**

4919 Coldwater Rd.  
Fort Wayne 46825

9511 Angola Court  
Indianapolis 46268

10999 Stahl Rd.  
Newburgh 47630  
(Evansville)

**Kentucky**

10509 Timberwood Circle  
Louisville 40223

**Louisiana**

140 James Dr. East  
St. Rose 70087  
(New Orleans)

**Maryland**

11301 Red Run Blvd.\*  
Owings Mills 21117  
(Baltimore)

**Massachusetts**

333 Providence Hwy. Route 1  
Norwood 02062  
(Boston)

10 Forbes Rd.  
Woburn 01801  
(Boston)

**Michigan**

1905 South Haggerty Rd.  
Canton 48188  
(Detroit)

4020 Sparks Dr. S.E.  
Grand Rapids 49546

1522 E. Big Beaver Rd.  
Troy 48083  
(Detroit)

**Minnesota**

8911 Columbine Rd.  
Eden Prairie 55347  
(Minneapolis)

**Missouri**

1930 Meyer Drury Dr.  
Arnold 63010  
(St. Louis)

13505 Lakefront Dr.  
Earth City 63045  
(St. Louis)

1740 W. 92nd St., Suite 100  
Kansas City 64114

**Nebraska**

9814 M St.  
Omaha 68127

**Nevada**

168 N. Gibson Rd.  
Henderson 89014  
(Las Vegas)

**New Mexico**

5100 Masthead St. N.E.  
Albuquerque 87109

**New York**

13 Airline Dr.  
Albany 12205

2295 Millersport Hwy.  
Getzville 14068  
(Buffalo)

235 Greenfield Pkwy.  
Liverpool 13088  
(Syracuse)

**Ohio**

3325 Stop Eight Rd.  
Dayton 45414

3781 Park Mill Run Dr., Suite 1  
Hilliard 43026  
(Columbus)

4750 Wesley Ave.  
Norwood 45212  
(Cincinnati)

14955 Sprague Rd.  
Strongsville 44136  
(Cleveland)

4700 Richmond Rd.\*  
Warrensville Heights 44128  
(Cleveland)

1030 N. Meridian Rd.  
Youngstown 44509

**Oregon**

6035 N.E. 78th Court  
Portland 97218

**Pennsylvania**

3330 Tillman Dr.  
Bensalem 19020  
(Philadelphia)

760 Moore Road, Suite 150  
King of Prussia 19406  
(Philadelphia)

5020 Louise Dr.  
Mechanicsburg 17055  
(Harrisburg)

105 Mall Blvd., Suite 200 East  
Monroeville 15146  
(Pittsburgh)

Ten Parkway Center  
Pittsburgh 15220

**South Carolina**

Six Independence Pointe  
Independence Corporate Park  
Greenville 29615

**Tennessee**

10208 Technology Dr.  
Knoxville 37932

7260 Goodlett Farms Parkway  
Cordova 38016  
(Memphis)

2845 Elm Hill Pike  
Nashville 37214

**Texas**

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Arlington 76011  
(Dallas)

6330 Highway 290 East, Suite 150  
Austin 78723

2222 Bay Area Blvd.  
Houston 77058 (South)

15621 Blue Ash Dr., Suite 160  
Houston 77090 (North)

2950 S. Gessner  
Houston 77063 (West)

2101 Waterview Pkwy.  
Richardson 75080  
(Dallas)

5700 Northwest Pkwy.  
San Antonio 78249

**Utah**

920 W. Levoy Dr.  
Murray 84123  
(Salt Lake City)

**Virginia**

14420 Albemarle Point Place,  
Suite 100  
Chantilly 20151  
(Northern Virginia)

863 Glenrock Rd., Suite 100  
Norfolk 23502

300 Gateway Centre Pkwy.  
Richmond 23235

7300 Boston Boulevard  
Springfield 22153  
(Northern Virginia)

**Washington**

2525 223rd St. S.E.  
Bothell 98021  
(Seattle)

12720 Gateway Dr., Suite 100  
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13518 E. Indiana Ave.  
Spokane Valley 99216  
(Spokane)

**Wisconsin**

470 Security Blvd.  
Green Bay 54313

6300 W. Layton Ave.  
Greenfield 53220  
(Milwaukee)

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\*Scheduled to open in 2005, provided requisite  
regulatory approvals are obtained.