

ITT EDUCATIONAL SERVICES, INC.

CORPORATE GOVERNANCE GUIDELINES

The following Corporate Governance Guidelines (the "Guidelines") have been adopted by the Board of Directors (the "Board") of ITT Educational Services, Inc. (the "Company") to assist the Board in the exercise of its responsibilities. These Guidelines reflect the Board's commitment to monitor the effectiveness of policy and decision-making both at the Board and management level, with a view to enhancing stockholder value over the long term. These Guidelines are in addition to, and are not intended to change or interpret, any federal or state law or regulation, including the Delaware General Corporation Law, or the Restated Certificate of Incorporation or By-Laws of the Company. The Guidelines are subject to modification from time to time by the Board based on recommendations from the Nominating and Corporate Governance Committee of the Board.

Board Composition

1. Board Membership Criteria

Nominees for director shall be selected on the basis of broad experience, judgment, integrity, ability to make independent inquiries, understanding of the Company's business environment and willingness to devote adequate time to Board duties. The Nominating and Corporate Governance Committee shall identify possible nominees who meet specified objectives in terms of the composition of the Board, taking into account such factors as geographic, occupational, gender, race and age diversity.

2. Selection of New Director Candidates

The Nominating and Corporate Governance Committee is responsible for seeking individuals qualified to become Board members for recommendation to the Board. The entire Board shall nominate members for election to the Board and for filling vacancies on the Board.

3. Extending the Invitation to a New Potential Director to Join the Board

The invitation to join the Board should be extended by the Chairman of the Board on behalf of the entire Board of Directors.

4. Size of Board and Mix of Inside and Outside Directors

In accordance with the Company's By-Laws, the Board fixes by resolution from time to time the number of directors constituting the Board. The Board in recent years has averaged eight members, and the Board periodically reviews the appropriate size of the Board.

As required by the rules of the New York Stock Exchange, independent directors constitute a majority of the Board. The Board is willing to have members of management,

including the Chief Executive Officer, on the Board, though no more than two management directors may serve on the Board at any one time and the Board believes that Board membership is not necessary or a prerequisite to any higher management position in the Company.

5. Independence Definition

As permitted by the rules of the New York Stock Exchange, the Board has adopted categorical standards to assist it in making determinations of independence. These standards incorporate, and are consistent with, the definition of "independent" contained in the New York Stock Exchange listing rules. The standards are as follows:

- (a) The following individuals shall not be deemed an "independent" director of the Company:
 - (i) An individual who is, or has been within the last three years, an employee of the Company.
 - (ii) An individual whose immediate family member is, or has been within the last three years, an executive officer of the Company.
 - (iii) An individual who has received, or whose immediate family member has received, during any 12-month period within the last three years, more than \$120,000 in direct compensation from the Company, other than:
 - (A) director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
 - (B) compensation received by a director for former service as an interim Chairman, Chief Executive Officer or other executive officer of the Company;
 - (C) compensation received by an immediate family member of the director for services as an employee (other than an executive officer) of the Company;
 - (D) bona fide expense reimbursements; or
 - (E) dividend or interest income.
 - (iv) An individual who:
 - (A) is a current employee or partner of a firm that is the Company's internal or external auditor ("Auditor"); or

- (B) was an employee or partner of the Auditor within the last three years and personally worked on the Company's audit within that time.
- (v) An individual whose immediate family member:
 - (A) is a current partner of the Auditor;
 - (B) is a current employee of the Auditor and personally works on the Company's audit; or
 - (C) was an employee or partner of the Auditor within the last three years and personally worked on the Company's audit within that time.
- (vi) An individual who is or has been, or whose immediate family member is or has been, employed within the last three years as an executive officer of another company where any of the Company's present executive officers at the same time serve or served on that company's compensation committee.
- (vii) An individual who is a current employee, or whose immediate family member is a current executive officer, of a company that has made payments to or received payments from the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.
- (viii) An individual who is, or during the Company's last fiscal year has been, an executive officer or a greater than 10% stockholder of any business or professional entity that has made during the Company's last fiscal year, or proposes to make during the Company's current fiscal year, payments to the Company for property or services in excess of 5% of:
 - (A) the Company's consolidated gross revenues for its last full fiscal year; or
 - (B) the other entity's consolidated gross revenues for its last full fiscal year.
- (ix) An individual who is, or during the Company's last fiscal year has been, an executive officer or a greater than 10% stockholder of any business or professional entity to which the Company has made during the Company's last full fiscal year, or proposes to make during the Company's current fiscal year, payments for property or services in excess of 5% of:

- (A) the Company's consolidated gross revenues for its last full fiscal year; or
 - (B) the other entity's consolidated gross revenues for its last full fiscal year.
- (x) An individual who is, or during the Company's last fiscal year has been, an executive officer or a greater than 10% stockholder of any business or professional entity to which the Company was indebted at the end of the Company's last full fiscal year in an aggregate amount in excess of 5% of the Company's total consolidated assets at the end of such fiscal year.
 - (xi) An individual who is, or during the Company's last fiscal year has been, a member of, or of counsel to, a law firm that the Company has retained during the last fiscal year or proposes to retain during the current fiscal year.
 - (xii) An individual who is, or during the Company's last fiscal year has been, a partner or executive officer of any investment banking firm that has performed services for the Company, other than as a participating underwriter in a syndicate, during the last fiscal year, or that the Company proposes to have perform services during the current year.
 - (xiii) An individual who is an executive officer of a tax-exempt organization to which the Company has made charitable contributions that exceed the greater of \$1 million or 2% of the tax-exempt organization's gross revenues in the current or any of the past three years.
- (b) A director will not be deemed "independent" for the purposes of serving on the Company's Audit Committee, if such director:
 - (i) directly or indirectly receives from the Company or any affiliate of the Company any consulting, advisory or other compensatory fee, other than payments of:
 - (A) director's fees and related expenses;
 - (B) fixed amounts of compensation under a retirement plan or deferred compensation plan for prior service that are not contingent in any way on continued service; and
 - (C) any dividends or other distributions on the Company's securities which are owed to the director; and
 - (ii) is an affiliated person of the Company or a Company subsidiary apart from his or her capacity as:

- (A) a director of the Company and/or a Company subsidiary; and/or
 - (B) a member of any committee of the board of directors of the Company and/or a Company subsidiary.
- (c) “Indirect” compensation includes payments to:
- (i) the director’s spouse, minor children or stepchildren, or children or stepchildren sharing a home with the director; and
 - (ii) any entity in which the director is a partner, member, managing director or executive officer, or occupies a similar position, and which provides accounting, consulting, legal, investment banking, financial or other advisory services or any similar services to the Company or a Company subsidiary.
- (d) An “affiliate” is any person or entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company. A person who is not an executive officer, director or 10% shareholder of the Company does not control the Company. A director who is an employee, executive officer, general partner or managing member of an affiliate of the Company is also an affiliate of the Company.
- (e) An “immediate family member” includes a person's spouse, parents, stepparents, children, stepchildren, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than tenants and employees) who shares such person's home.
- (f) References to Company include any parent or subsidiary in a consolidated group with the Company.

6. Selection of Chairman of the Board

The Board should be free to choose its Chairman in any way that seems best for the Company at any given point in time, based on the recommendation of the Nominating and Corporate Governance Committee. Therefore, the Board does not have a policy, one way or the other, on whether or not the role of the Chairman and Chief Executive Officer should be separate or combined and, if it is to be separate, whether the Chairman should be selected from the non-employee directors or be an employee.

7. Directors Who Experience a Change in Professional Responsibility

When a director's employer, employment, occupation, professional responsibility or business association changes during his or her tenure as a director, the director will tender his or her resignation as a member of the Board for consideration by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will make a recommendation to the Board based on the Committee's consideration, and the Board will determine whether to accept the director's resignation.

8. Term Limits

No non-management director may be nominated to a new term, if he or she would have served on the Board after May 9, 2006 for more than four (4) full three-year terms at the time of election, except that, if three (3) or more non-management directors in the class of directors that is up for election at the following annual meeting of shareholders are ineligible to be, or for any other reason will not be, nominated for re-election, the Board may nominate up to two (2) of those non-management directors who would be under age 72 at the time of election to serve one (1) additional three-year term.

9. Director Retirement Age

No director may be nominated to a new term if he or she would be age 72 or older at the time of election.

10. Other Directorships

No director may serve on more than five other public company boards. Directors are encouraged to limit the number of other public company boards on which they serve, taking into account potential board attendance, participation and effectiveness on these boards. Directors should advise the Chairman of the Board and the Chair of the Nominating and Corporate Governance Committee before accepting an invitation to serve on another public company board.

11. Director Responsibilities

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its stockholders. In discharging that obligation, directors should be able to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors. The directors shall also be entitled to have the Company purchase reasonable directors' and officers' liability insurance on their behalf and shall be entitled to the benefits of indemnification to the fullest extent permitted by law and the Company's Restated Certificate of Incorporation, By-Laws and any indemnification agreements.

12. Director Orientation and Continuing Education

All new directors must participate in the Company's orientation program, which should be conducted within two months of a new director's election. This orientation will include presentations by senior management to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Business Conduct and Ethics, its principal officers and its internal and independent auditors and legal counsel. In addition, the orientation will include visits to the Company's headquarters and, to the extent practicable, certain of the Company's other facilities. All other directors are also invited to attend the orientation program.

13. Executive Sessions of Non-Management Directors

The non-management directors of the Company will meet in executive sessions without management at least quarterly. Independent directors of the Company will meet in executive session at least once annually. The presiding director at the executive session meetings shall be chosen by the non-management directors and shall be an independent director.

In order that interested parties may be able to make their concerns known to the non-management directors, the non-management directors shall establish and disclose a method for such parties to communicate directly with the presiding director.

14. Evaluation of the Board

The Board shall conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively. The Nominating and Corporate Governance Committee shall receive comments from all directors and report annually to the Board with an assessment of the Board's performance, to be discussed with the full Board following the end of each fiscal year. The Nominating and Corporate Governance Committee shall lead the evaluation of Board members by examining such factors as experience, business judgment, integrity, time and commitment, shareholdings, teamwork and independence.

15. Board Interaction with Institutional Investors, Press and Customers

The Board believes that, except in extraordinary circumstances, management should speak for the Company. It is suggested that each director shall refer all inquiries from institutional investors, the press or customers to management.

Meeting Procedures

16. Attendance at Meetings

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities.

17. Agenda Items for Board Meetings

The Chairman of the Board and the Secretary of the Corporation will establish the agenda for each meeting of the Board. Each Board member is free to suggest the inclusion of items on the agenda, as well as free to raise at any Board meeting subjects that are not specifically on the agenda for that meeting.

The Board will review the Company's long-term strategic plans and the principal issues that the Company will face in the future during at least one Board meeting each year.

18. Board Material Distributed in Advance

Information and data that are important to the Board's understanding of the business will be distributed in writing to the Board before the Board meets and to each committee before such committee meets. Management will make every attempt to see that this material is concise, informative and clear. Directors shall review this material prior to the meeting.

Committee Matters

19. Names of Committees

The Board will have at all times an Academic Committee, an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The purposes and responsibilities of each of these committees are outlined in the committee charters. The Board may, from time to time, establish or maintain additional committees as necessary or appropriate. The Academic Committee, Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee shall be composed entirely of independent directors.

20. Assignment and Rotation of Committee Members

The Nominating and Corporate Governance Committee is responsible for making recommendations to the Board with respect to the assignment of Board members to various committees and with respect to the Chairs of each committee. After reviewing the Nominating and Corporate Governance Committee's recommendations, the Board shall be responsible for appointing the Chairs and members to the committees on an annual basis.

The Nominating and Corporate Governance Committee shall annually review the committee assignments and shall consider the rotation of Chairs and members with a view toward balancing the benefits derived from continuity against the benefits derived from the diversity of experience and the viewpoints of the various directors.

21. Frequency of Committee Meetings

The committees shall meet at least as often as described in the applicable charter. In addition each committee Chair, in consultation with committee members and management, will determine whether and when to have additional meetings of such committee.

22. Agenda Items for Committee Meetings

The Chair of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda for each meeting.

Compensation

23. Director Compensation

The form and amount of director compensation should come at the suggestion of the Compensation Committee, but with full discussion and concurrence by the Board, and the Compensation Committee will conduct a review of director compensation as appropriate.

The Company believes that compensation for directors should be competitive and should encourage increased ownership of the Company's stock through the payment of a portion of director compensation in Company stock or options to purchase the Company's stock.

The Company believes that all or a substantial portion of the compensation that the Company pays to its directors for their service on the Board should be in the form of shares of the Company's common stock in order to better align the interests of the directors with the long-term interests of the Company's shareholders. In order to encourage a stronger link between director and shareholder interests, each of the Company's independent directors is required to hold all of the shares of the Company's common stock that the director receives as compensation from the Company for the duration of the director's membership on the Board, except in the event that a director suffers unique financial circumstances and the Compensation Committee determines that those circumstances warrant a waiver of the holding requirement.

The Compensation Committee will consider that questions as to directors' independence may be raised when directors' fees exceed what is customary, if the Company makes substantial charitable contributions to organizations in which a director is affiliated, or enters into consulting contracts with (or provides other indirect forms of compensation to) a director.

It is appropriate for the staff of the Company to report from time to time and at least annually to the Compensation Committee on the status of the compensation of the Company's directors in relation to other U.S. companies. In addition, the Compensation Committee has the authority to retain any compensation consultant to be used to assist in the evaluation of director compensation.

24. Transactions With Related Persons

The Board's written policies and procedures for the review, approval or ratification of any current or proposed transaction potentially involving an amount in excess of \$120,000 in which the Company is or will become a participant and in which any related person had, or will have, a direct or indirect material interest ("Transaction") are as follows:

- (a) The Board must be notified in advance or as soon as practicable of the Transaction.
- (b) The notification to the Board should be in writing and contain the following information regarding the Transaction:
 - (i) the name of the related person;
 - (ii) the basis on which the person is a related person;
 - (iii) a detailed description of the related person's interest in the Transaction, including the related person's position(s) or relationship(s) with, or ownership in, a firm, corporation or other entity that is a party to, or has an interest in, the Transaction;
 - (iv) the approximate dollar value of the amount involved in the Transaction;
 - (v) the approximate dollar amount of the related person's interest in the Transaction, which must be computed without regard to the amount of profit or loss;
 - (vi) in the case of an indebtedness Transaction:
 - (A) the largest aggregate amount of all indebtedness outstanding at any time since the beginning of the Company's last fiscal year and all amounts of interest payable on the outstanding indebtedness during the Company's last fiscal year (excluding amounts due from the related person for purchases of goods and services subject to usual trade terms, for ordinary business travel and expense payments and for other transactions in the ordinary course of business);
 - (B) the largest aggregate amount of principal that could be outstanding;
 - (C) a schedule specifying the principal amount that is anticipated to be outstanding from time to time during the Transaction;
 - (D) the term of the indebtedness;
 - (E) the repayment schedule of the principal amount;
 - (F) the total amount of any interest that is anticipated to accrue on the principal amount;
 - (G) the interest rate; and

- (H) the payment schedule of the interest that accrues on the principal amount;
 - (vii) in the case of a lease or other Transaction providing for periodic payments or installments, the aggregate amount of all periodic payments or installments due on or after the beginning of the Company's last fiscal year, including any required or optional payments due during or at the conclusion of the Transaction;
 - (viii) in the case of a Transaction involving a purchase or sale of assets by or to us otherwise in the ordinary course of business, the cost of the assets to the purchaser and, if acquired within two years of the Transaction, the cost of the assets to the seller and related information about the price of the assets; and
 - (ix) any other information regarding the Transaction or related person in the context of the Transaction that a reasonable investor of the Company would consider material in light of the circumstances of the Transaction.
- (c) Upon receipt of the above information, all of the members of the Board (except for any director who is the related person or whose immediate family member is the related person) will review and consider the information and determine whether it is in our and our shareholders' best interests for the Board to approve or ratify the Transaction.
 - (d) The Board is of the general belief that, except in exceptional circumstances, the Company should try to avoid participating in any Transaction, regardless of the Transaction's merit or benefit to the Company or its shareholders, in order to avoid any appearance of a conflict of interest or impropriety that may be perceived from the Company's participation in the Transaction.
 - (e) If the Board approves or ratifies the Company's participation in a Transaction, the Company may participate in the Transaction.
 - (f) If the Board does not approve or ratify the Company's participation in a Transaction:
 - (i) the Company will not participate in the Transaction, if its participation has not yet begun; or
 - (ii) the Company will attempt to end or limit as much as possible its participation in the Transaction without breaching any of its obligations arising from the Transaction.
 - (g) The Company will disclose its participation in any Transaction in accordance with Item 404(a) of Regulation S-K under the 1934 Act.

A “transaction” includes, but is not limited to, any financial transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships, except for:

- (a) any indebtedness transaction in which the related person qualifies as such solely because he or she is a beneficial owner of more than 5% of any class of the Company’s voting securities or is an immediate family member of the beneficial owner;
- (b) any employment relationship or transaction involving any of the Company’s executive officers and any related compensation solely resulting from that employment relationship or transaction, if:
 - (i) the Company reports the compensation arising from the relationship or transaction to the SEC in accordance with Item 402 of Regulation S-K under the 1934 Act; or
 - (ii) the executive officer is not an immediate family member of the related person and the Company would have reported such compensation to the SEC in accordance with Item 402 of Regulation S-K under the 1934 Act as compensation earned for services to the Company if the executive officer was a “named executive officer” of the Company (as that term is defined in Item 402(a)(3) of Regulation S-K under the 1934 Act) and such compensation had been approved as such by the Compensation Committee of the Board;
- (c) any compensation paid to any of the Company’s directors, if the compensation is reported to the SEC in accordance with Item 402(k) of Regulation S-K under the 1934 Act;
- (d) any transaction in which the rates or charges involved in the transaction are determined by competitive bids;
- (e) any transaction that involves the rendering of services as a common or contract carrier or public utility at rates or charges fixed in conformity with law or governmental authority;
- (f) any transaction that involves services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture or similar services; or
- (g) any transaction in which the interest of the related person arises solely from the ownership of a class of the Company’s equity securities and all holders of that class of equity securities received the same benefit on a pro rata basis.

A “related person” means:

- (a) any of the Company's directors or executive officers;
- (b) anyone who has been nominated to be elected one of the Company's directors;
- (c) any beneficial owner of more than 5% of any class of the Company's voting securities; and
- (d) any immediate family member of any of the foregoing persons.

An "immediate family member" means any child, stepchild, parent, stepparent, spouse, sibling, father and mother-in-law, son and daughter-in-law, brother and sister-in-law, and any person (other than a tenant or employee) who shares the household of a director, executive officer, nominee for director, or beneficial owner of more than 5% of any class of the Company's voting securities.

A person who has a position or relationship with a firm, corporation or other entity that engages in a transaction with the Company will not be deemed to have an "indirect material interest" where:

- (a) the interest arises only:
 - (i) from such person's position as a director of another corporation or organization that is a party to the transaction;
 - (ii) from the direct or indirect ownership by such person and all other related persons, in the aggregate, of less than a 10% equity interest in another person (other than a partnership) which is a party to the transaction; or
 - (iii) from both such position and ownership; or
- (b) the interest arises only from such person's position as a limited partner in a partnership in which the person and all other related persons, in the aggregate, have an interest of less than 10%, and the person is not a general partner of and does not hold another position in the partnership.

Access and Advisors

25. Board Access to Management and Employees

Directors shall have full and free access to the Company's management and employees. Any meetings or contacts that a director wishes to initiate may be arranged through the Chief Executive Officer or the Secretary or directly by that director.

Furthermore, the Board welcomes regular attendance at each Board meeting of senior officers of the Company. The Board also encourages management, from time to time, to bring managers into Board meetings who: (a) can provide additional insight concerning the items being discussed because of personal involvement in these areas; and/or (b) have future potential such that management believes they should be given exposure to the Board.

26. Independent Advisors

The Board and each committee have the power to hire independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining approval of any officer of the Company in advance.

Leadership Development

27. Evaluation of Chief Executive Officer

The Compensation Committee will evaluate the Chief Executive Officer's performance annually, and the evaluation should be communicated to the Chief Executive Officer and to the full Board. The evaluation should be based on objective criteria including performance of the business, establishment of long-term strategies, accomplishment of long-term strategic objectives and development of management.

The evaluation will be used by the Compensation Committee in the course of its deliberations when considering the compensation of the Chief Executive Officer.

28. Succession Planning

There should be an annual report by the Chief Executive Officer to the Board on succession planning. The Board should consider and evaluate potential successors to the Chief Executive Officer. There should also be available, on a continuing basis, the Chief Executive Officer's recommendation concerning who should assume that role in the event he or she becomes unable to perform his or her duties.

29. Management Development

There should be a report to the Board by the Chief Executive Officer on the Company's program for management development as appropriate.

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