

ITT EDUCATIONAL SERVICES INC
Form 8-K
January 22, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

DATE OF REPORT (Date of earliest event reported): January 18, 2010

ITT EDUCATIONAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

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| Delaware (State or other jurisdiction of incorporation) | 1-13144 (Commission File Number) | 36-2061311 (IRS Employer Identification No.) |
|--|--|--|

13000 North Meridian Street
Carmel, Indiana 46032-1404
(Address of principal executive offices) (Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers;
5.02. Compensatory Arrangements of Certain Officers.

The following information is provided pursuant to Sub-item (e) of Item 5.02:

(e) On January 18, 2010, the Compensation Committee of the Registrant's Board of Directors approved the 2010 Executive Bonus Parameters (the "2010 Executive Bonus Parameters") for participation by the Registrant's executives. Bonuses payable to participants will be paid in cash and based on a formula that takes into account the Registrant's ability to achieve specified targets in 2010 in each of four performance categories, each weighted equally:

- The Registrant's diluted earnings per share in 2010.
- The percentage increase in total student enrollment at the Registrant's campuses as of December 31, 2010 compared to the total student enrollment at the Registrant's campuses as of December 31, 2009.
- The Registrant's Free Cash Flow in 2010. Free Cash Flow is defined as the Registrant's net cash flows from operating activities and any change in restricted cash, less capital expenditures, net (excluding facility purchases).
- The percentage of Employable Graduates (as defined below) from the Registrant's campuses' programs of study in the third and fourth calendar quarters of 2009 and first and second calendar quarters of 2010 who either obtain employment by December 31, 2010, or are already employed, in positions that require the direct or indirect use of skills taught in their programs of study. Employable Graduates include all of the graduates from the Registrant's 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 2010 Executive Bonus Parameters establish for each participant a standard bonus target percentage of annualized base salary as of December 31, 2010, ranging from 32% 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, 2010 for each of the Registrant's named executive officers under the 2010 Executive Bonus Parameters. The named executive officers are those executive officers of the Registrant who will be included as such in the Proxy Statement for the Registrant's 2010 Annual Meeting of Shareholders.

| Named Executive Officer | 2010 Standard Bonus Target |
|-------------------------|--------------------------------------|
| | Percentage of Annualized Base Salary |
| Kevin M. Modany | 100% |
| Daniel M. Fitzpatrick | 65% |
| Clark D. Elwood | 65% |
| Eugene W. Feichtner | 60% |
| June M. McCormack | 60% |

The maximum bonus percentage under the 2010 Executive Bonus Parameters ranges from 25% to 200% of the standard bonus target percentage of annualized base salary as of December 31, 2010 and is based 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 will be divided by four. The following table sets forth the maximum bonus percentage associated with each range of weighted average performance points under the 2010 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% |
| 1.00 – 1.25 | 25.0% |

The annual bonus parameters are typically based on the Registrant's primary financial and operating goals for the ensuing year. While the bonus parameters reflect the Registrant's financial and operating goals, as opposed to the individual executive's performance goals, achievement of the Registrant's 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 of the Registrant's Board of Directors may, in its sole discretion, modify the bonus parameters at any time prior to the payment of the annual bonus awards under the parameters. 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 the Registrant's Chief Executive Officer, except for the Chief Executive Officer's annual bonus award, which is made by the Committee without a recommendation from the 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 Compensation Committee may also take into consideration the individual performance of each participant in areas other than the four performance categories in determining the amount of the participant's 2010 annual bonus award.

On January 18, 2010, the Compensation Committee of the Registrant's Board of Directors approved the payment of a 2009 annual bonus award in cash to each of the Registrant's named executive officers, as follows:

| Named Executive Officer | 2009 Annual Bonus Amount |
|-------------------------|--------------------------|
| Kevin M. Modany | \$ 1,450,000 |
| Daniel M. Fitzpatrick | \$ 396,500 |
| Clark D. Elwood | \$ 390,000 |
| Eugene W. Feichtner | \$ 330,000 |
| June M. McCormack | \$ 294,000 |

On January 18, 2010, the Compensation Committee of the Registrant's Board of Directors authorized a salary increase for the Registrant's named executive officers effective March 29, 2010. The following table sets forth the 2010 base salary information for each of the Registrant's named executive officers as of March 29, 2010.

| Named Executive Officer | 2010 Salary |
|-------------------------|-------------|
| Kevin M. Modany | \$ 769,000 |
| Daniel M. Fitzpatrick | \$ 324,000 |
| Clark D. Elwood | \$ 319,000 |
| Eugene W. Feichtner | \$ 295,000 |
| June M. McCormack | \$ 263,000 |

On January 18, 2010, the Compensation Committee of the Registrant's Board of Directors also approved the following executive perquisites in 2010 for the Registrant's named executive officers:

- for Mr. Modany, the use of a company car;
- for Mr. Modany, an allowance to be used for tax return preparation and financial planning of up to 2% of annualized base salary as of March 29, 2010;
- for Messrs. Fitzpatrick, Elwood and Feichtner and Ms. McCormack, an allowance to be used for tax return preparation and financial planning of up to 1% of annualized base salary as of March 29, 2010; and
 - for each of the Named Executive Officers:
 - tickets to sporting, theater and other events;
 - enhanced disability benefits; and
 - an annual physical examination.

The aggregate incremental cost to the Registrant in 2010 for providing all of the 2010 perquisites described above is not expected to exceed \$125,000.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: January 22, 2010

ITT Educational Services, Inc.

By: /s/ Christine G. Long
Name: Christine G. Long
Title: Vice President, Assistant General
Counsel and Assistant Secretary