

APPENDIX W



The University of North Carolina

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Appalachian State
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East Carolina
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Fayetteville State
University

North Carolina
Agricultural and
Technical State
University

North Carolina
Central University

North Carolina
School of
the Arts

North Carolina
State University
at Raleigh

University of
North Carolina
at Asheville

University of
North Carolina
at Chapel Hill

University of
North Carolina
at Charlotte

University of
North Carolina
at Greensboro

University of
North Carolina
at Pembroke

University of
North Carolina
at Wilmington

Western Carolina
University

Winston-Salem
State University

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MEMORANDUM

TO: Committee on Educational Planning, Policies, and Programs

FROM: Erskine Bowles

DATE: March 23, 2006

SUBJECT: Licensure of ITT Technical Institute to offer degree programs in
Charlotte, North Carolina

The Board of Governors of The University of North Carolina is charged under North Carolina General Statute Section 116-15 with responsibility for licensing nonpublic educational institutions to conduct post-secondary degree activity in North Carolina. On February 8, 1974, the Board adopted its rules and standards for licensing nonpublic educational institutions to confer degrees. Following several refinements of the rules and standards, the Board on November 12, 2004 approved the present revision in compliance with 1984 amendments to G.S. 116-15 and in recognition of the growing importance of distance learning in the delivery of instruction.

On May 14, 2004, General Administration received an application and related documents submitted by ITT Technical Institute for seven new proposed degree programs:

Associate of Applied Science degree in:

- Computer and Electronics Engineering Technology
- Information Technology - Computer Network Systems
- Information Technology - Multimedia

Bachelor of Science degree in:

- Business Accounting Technology
- Business Administration
- Criminal Justice
- Information Systems Security

Dr. Howard-Vital identified and appointed a Team of Examiners to examine the application and to conduct a site visit to the Indianapolis campus of ITT Technical Institute. Specific team members were appointed because of their expertise in specific disciplines relating to the application.

On September 23-24, 2004, the team of examiners visited Indianapolis, IN. For the site visit of the team of examiners, Dr. Howard-Vital requested that the team examine the application for the proposed degree programs to determine if the proposed curriculum and plans for hiring faculty were in compliance with licensure standards and write a report of their findings for the Board of Governors with a recommendation to grant, or not to grant, a license to the institution. Moreover, the team was instructed to employ the *Rules and Standards* for review of the application and site visit.

A Preliminary Report to the President of The University of North Carolina Team of Examiners for the Licensure Visit to ITT Educational Services Inc.'s Proposed Associate and Bachelor's Degree Programs at a Proposed ITT Technical Institute in Charlotte, North Carolina was forwarded to General Administration by the chair of the team of examiners on November 11, 2004. The preliminary report was sent to representatives of ITT Technical Institute to review for errors of fact or omissions by Dr. Howard-Vital. Additionally, Dr. Howard-Vital requested that the institutional representatives respond to the 29 recommendations contained in the report, as soon as possible. The institution's responses and corrections of facts were forwarded to General Administration on May 12, 2005. The team replied to the proposed institution's responses on June 16, 2005 and indicated their overall satisfaction with the responses. The team recommended that the institution be licensed to conduct the proposed degree programs subject to compliance with the recommendations outlined in the Summary.

General Administration acknowledges the team's recommendations and underscores the importance of hiring quality faculty to obtain a good quality education. Because of the nature of investigations by the Department of Justice and the SEC which go to the heart of consumer protection, General Administration requires that a team visit the Charlotte campus in one year and no later than eighteen months to determine continued compliance with the *Rules and Standards*. Moreover, General Administration obtained a letter of agreement, signed by the president of ITT, Kevin Modany, in which the institution agrees to participate in an external audit for five years after licensure, should the Board act in this manner. The external audit is in addition to regular site visits outlined in the *Rules and Standards*. Under the aforementioned conditions, staff recommends licensure.

Thus, I recommend to the Committee on Educational Planning, Policies, and Program of the UNC Board of Governors that a regular license be issued to ITT Technical Institution to conduct the proposed degree programs in Charlotte, North Carolina, subject to annual reports and external audits. After one year has elapsed following licensure, ITT Technical Institute will be reviewed, again, to judge whether the institution continues to maintain standards for licensure.

Enclosure: Summary

Summary - ITT Educational Services, Inc. and the Indianapolis ITT Technical Institute

Background

ITT Educational Services, Inc (ITT/ESI) provides technology-oriented postsecondary degree programs. As of May 15, 2005, ITT Educational Services (ESI) operated 79 ITT Technical Institutes in 31 states, focusing primarily in career-focused fields of study. Approximately 40,000 students are enrolled at ITT. The organization is headquartered in Carmel, Indiana. ITT has been continuously active in higher education in the United States since 1969. Shares are traded on the New York Stock Exchange.

ITT Educational Services institutions offer educational programs that lead to associate and/or bachelor degrees in career areas involving technology such as information technology, electronic technology, drafting and design, business and criminal justice. The institution states it offers a blend of traditional academic content and applied learning concepts. Students attend classes year-round with brief breaks between terms. In most programs, classes are four to five-hour sessions three days a week.

The Indianapolis ITT is one of the three original ITT Educational Services, Inc. ITT Educational Services, Inc is authorized by the state in which it operates, and it is accredited by the Accrediting Council for Independent Colleges and Schools (ACICS), which is recognized by the U.S. Department of Education.

Overview of Investigations by Department of Justice and U.S. Securities and Exchange Commission

On February 2004, ITT Educational Services, Inc. was served with a search warrant by the U.S. District Court in Texas. On February 25, 2004, federal agents executed search warrants at ITT's corporate headquarters and select ITT Technical Institutes nationwide. Subpoenas were also issued to some ITT employees. The search warrants and subpoenas sought broad categories of documents including figures and rates for placement, retention, graduation, attendance, recruitment and admissions materials, student grades, graduate salaries, transferability of credits to other institutions, and personnel records. No formal charges were filed. ITT states that the U.S. Department of Justice (DOJ) was investigating claims alleging falsification of records relating to student attendance, grades and academic progress, graduate job placement statistics, fraudulent misrepresentations regarding the transferability of credits, graduation rates, and graduates' salaries.

Similarly, on March 4, 2004, ITT was notified by the Fort Worth, Texas regional office of the U.S. Securities and Exchange Commission (SEC) that it had initiated an inquiry into the allegations being investigated by the DOJ.

On July 29, 2005, the U.S. Securities and Exchange Commission (SEC) advised ITT in a letter that the SEC had terminated its investigation with regard to the company and recommended that no enforcement action be taken against the company. The company did not pay any fines or penalties in connection with the termination of the SEC's investigation.

On September 14, 2005, The United States District Court for the Southern District of Indiana dismissed all of the claims against all of the defendants in the consolidated securities class action lawsuit filed against ITT/ESI and ten of its current and former directors and executive officers under the caption: *City of Austin Police Retirement System, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc., et al.* Additionally, on September 16, 2005, the Superior Court of Hamilton County, Indiana, dismissed all of the claims against all of the defendants in the consolidated shareholder derivative lawsuit filed against ITT/ESI, thirteen of its current and former directors and executive officers and its independent registered public accounting firm under the caption: *In Re ITT Educational Services, Inc. Derivative Litigation*.

A more detailed account written by ITT concerning the investigations is in **Appendix A**. In 2005, ITT also settled a case in California initiated by former employees. The California settlement occurred after an investigation into student financial aid records and as a result of the settlement, the State of California dismissed charges against ITT.

Because of the aforementioned investigations, there were discussions in General Administration about the application of ITT; and in February 2006, Dr. Howard-Vital requested that ITT sign a letter of agreement indicating that the institution would submit to an external audit performed by an independent audit company to review specific areas including student records, procedures regarding admission, financial aid, grade procedures, and attendance policies for five years after licensure, should it be granted by the Board of Governors. The areas to be reviewed include those operations that have been investigated by the DOJ and SEC elsewhere. On March 1, 2006, General Administration received from ITT the letter of agreement signed by Kevin Modany, President of ITT Educational Services. A copy of the letter of agreement and areas to be audited for the next five years are in **Appendix B**.

Application and Site Visit

On July 1, 2004, General Administration received an application to offer degree programs in Charlotte, North Carolina from ITT Educational Services, Inc. The application and supporting documentation stated that ITT proposed to offer Associate of Applied Science degrees in Computer and Electronics Engineering Technology, Information Technology - Computer Network Systems, and Information Technology - Multimedia. Additionally, the institution proposed to offer the Bachelor of Science degree in Business Accounting Technology, Business Administration, Criminal Justice, and Information Systems Security. (The initial application included a Bachelor of Science degree in Electronics and Communications Engineering Technology but ITT requested that it be withdrawn during the application process.)

Dr. Michelle Howard-Vital, Associate Vice President for Academic Affairs of The University of North Carolina reviewed the application and appointed a team of examiners to evaluate compliance with the licensure standards contained in The University of North Carolina Board of Governors' *Rules and Standards: Licensing Nonpublic Institutions to Conduct Degree Activity in North Carolina* (at this time the 1998 revised Rules and Standards were in use).

On September 23-24, 2004, a team of examiners visited the Indianapolis campus of ITT Technical Institute. The corporate headquarters of ITT Educational Services are located nearby. At the time of the visit, there were 77 ITT Technical Institutes in 30 states. The Indianapolis ITT Technical Institute is one of the three original schools of ITT Educational Services, Inc.

Either prior to the visit or during the visit, many items were reviewed by the team of examiners including the following: the licensure application submitted to document compliance with the licensure standards; draft of the 2004 Charlotte ITT Technical Institute Catalog; promotional brochures; course syllabi; library resources, both print and electronic; instructional resources; computer resources; educational facilities; audited financial statements; faculty credentials; budget information; and the 2003-04 Faculty Manual.

During the visit, the team of examiners met with the following representatives of ITT Educational Services, Inc. and the Indianapolis ITT Technical Institute. From ITT Educational Services, Inc. (Corporate Headquarters), the team met with Rene R. Champagne, Chairman; Chief Executive Officer and President, Kevin M. Modany; Senior Vice President and Chief Financial Officer, Eugene W. Feichtner; Senior Vice President, Operations Officer, Kathryn Closter; Corporate Librarian, Laura Vest, Regulatory and Legislative Affairs Representative; Phil Yeager, National Director of Career Services; Fawzi Ben Messaud, Corporate Curriculum Manager; Andrea Worrell, Corporate Curriculum Manager; Bill Perkins, Corporate Curriculum Manager; and Wen Liu, Corporate Curriculum Manager. From the Indianapolis ITT Technical Institute, the team met with James Horner, Director, Michael McCloughan; Director of Online Programs, Carol Kelley; Dean, Lisa L. Schmidt, Registrar; Martha Watson, Director of Recruitment, Brett Benson; Director of Career Services; Michele Hurst, Director of Finance, Jackie Osting, Librarian; Greg Craddock, Chair, School of Drafting and Design; Carlos Smith, Chair, School of Information Technology; Ernest G. Arney, Jr., Instructor, Computer and Electronics Engineering Technology Program; Ryan Gough, Instructor, Information Technology Programs and Information Systems Security Program; Gary J. Hughes, Instructor, Computer and Electronics Engineering Technology Program, Gil Michelini, Instructor, Information Technology Programs; and five currently enrolled students.

The primary goal of the visit was to review ITT Technical Institute's compliance with the fifteen licensure Standards for the proposed degree programs. As is delineated in the *Rules and Standards*, ITT Technical Institute was required to demonstrate that it would be in compliance with the standards, and that it would continue to be in compliance with the standards, for the proposed site in Charlotte, North Carolina.

The team of examiners included Dr. Richard E. Neel (Chair), Dean Emeritus, Belk College of Business Administration, and Professor of Economics Emeritus, The University of North Carolina at Charlotte, Charlotte, North Carolina; Dr. Jack T. Hogue, Associate Dean for Student Affairs, Belk College of Business Administration, and Associate Professor of Business Information Systems and Operations Management, The University of North Carolina at Charlotte, Charlotte, North Carolina; Dr. Eric K. Patterson, Assistant Professor of Computer Science, Department of Computer Science, University of North Carolina at Wilmington, Wilmington, North Carolina; Charles J. Popovich, Head Librarian, Business Library, and Associate Professor, Ohio State University, Columbus, Ohio; Dr. George Wilson, Professor of

Criminal Justice, North Carolina Central University, Durham, North Carolina and Dr. Michelle Howard-Vital, Associate Vice President for Academic Affairs, The University of North Carolina, Chapel Hill, North Carolina, Ex Officio.

As stated, the application provided information on the proposed degree programs, described by the institution as follows:

Associate of Applied Science in Computer and Electronics Engineering Technology

This proposed degree prepares graduates for entry-level careers in the fields of modern electronics and computer technology in areas such as aviation, communications, computers, consumer products, defense, and research and development. The program content focuses on circuits, systems, and specialized techniques used in electronics and computer technology career fields and students are exposed to a combination of classroom theory and practical application in a laboratory environment.

Associate in Applied Science in Information Technology - Computer Network Systems

The proposed degree in information technology (IT) encompasses several computer-based systems and application areas. The objective of the IT program is to provide a broad-based foundation in the area of IT and a concentration in one of four IT options. In addition to technical knowledge, the program focuses on the need for graduates to be able to communicate, handle multi-tasking situations, and to assess user needs when developing computer-based solutions. The Information Technology-Computer Network Systems program can prepare graduates to perform tasks associated with installing, upgrading and maintaining computer network systems in typical LAN/WAN environments.

Associate of Applied Science in Information Technology - Multimedia

The proposed Information Technology-Multimedia program is offered to prepare graduates to perform tasks associated with designing and creating interactive multimedia communications. Information Technology-Multimedia consists of a core foundation in computing and general education courses, followed by studies in multimedia applications.

Bachelor of Science in Business Accounting Technology

This proposed program blends accounting concepts and skills, financial applications and elements of business with accounting technology, such as business data interchange, migration and network technologies. This blend offers students experience in a practitioner-oriented program so they can function in a variety of business atmospheres. The proposed program includes instruction in computerized accounting, basic accounting principles and financial accounting applications. Students will have the opportunity to create, analyze and interpret financial data and statements. The proposed program also includes content in business data networks, business information systems, business organization, business law, human resources management, and professional communications.

Bachelor of Science in Business Administration

This proposed program includes focuses that offer a foundation for business knowledge and skills, and emphasizes the impact of global information age in business. The business focus offers an introduction to the functional areas of business. The management focus offers theory and application in supervision techniques, management principles and practices, and business strategy and policy. This focus is framed with a capstone course in business strategic management. The marketing focus offers marketing principles and practices with emphasis on consumer behavior, market research, and marketing on the Internet. The proposed program also offers instruction in teamwork, technology, problem-solving, leadership, multi-cultural management issues, and general education.

Bachelor of Science in Criminal Justice

This proposed program focuses on the fundamentals of the criminal justice system and criminal justice skills. It offers a foundation in criminal law, legal procedures, criminal evidence, and criminology. The curriculum is designed to offer a balance of theory and application used in the field. The proposed program offers an interdisciplinary study of the mechanisms of social control, criminology, and criminal justice in American society.

Bachelor of Science in Electronics and Communications Engineering Technology

The purpose of this proposed program is to prepare graduates for career opportunities in a variety of entry-level positions involving electronics engineering technology. Courses in this proposed program offer a foundation in electronic circuitry and communications engineering technology through the study of subjects such as circuit analysis, circuit design, data and network communications, digital communications in the presence of noise, calculus, and additional general education coursework.

Bachelor of Science in Information Systems Security

This proposed program will prepare individuals with the knowledge of information systems security to work in infrastructure teams. Students will study the essentials of information security and the security aspects of common information technology platforms. The curriculum covers a range of topics from analysis, design, implementation of security systems, security monitoring, countermeasures, and ongoing administration. Students will be exposed to techniques used to deploy and manage security systems and configure security solutions.

Results of Team Visit

On November 11, 2004, the team of examiners submitted its *Preliminary Report to the President The University of North Carolina from the Team of Examiners for the Licensure Visit to ITT Educational Services Inc.'s Proposed Associate and Bachelor's Degree Programs at a Proposed ITT Technical Institute in Charlotte, North Carolina*, to General Administration. The Preliminary Report was transmitted to ITT Technical Institute by Dr. Howard-Vital for

corrections of fact and errors of omission. General Administration received ITT's response to the November 11th Preliminary Report on May 12, 2005.

The team's report contained 29 recommendations. The first group of recommendations covers curriculum issues. The team requested that ITT provide documentation that it is authorized in the State of Indiana to offer online courses. The institution stated that the "State of Indiana had approved the institution to offer select programs in an online format, which makes them available to students throughout the country." The team replied that this response was satisfactory.

In several recommendations, the team required curricular changes in the Bachelor of Science in Business Administration and the Bachelor of Science in Criminal Justice. The institution responded by adding a recommended corporate finance course to the Bachelor of Science in Business Administration, and by clarifying the focus of another course. The team responded that the institution's changes were satisfactory. Similarly, the team recommended that the course entitled *Gangs and Juvenile Justice* be renamed to *Juvenile Justice*. The institution agreed to this recommendation and changed the name. The course formerly entitled *Correctional Programs: Probation and Parole* was also changed to *Community Corrections*, at the recommendation of the team of examiners. The team replied that these responses were satisfactory.

The team of examiners also required that ITT increase the number of courses in its general education curriculum to meet the requirements in the *Rules and Standards*. The institution responded that it will add the additional courses needed to be in compliance with North Carolina Standards. ITT also noted that during the application process, it has removed the Electronic and Communications Engineering Technology program from its list of program offerings. In another recommendation, the team stated that ITT should provide a catalog that clearly presented the general education requirements for prospective students. The institution stated that it has revised its catalogue regarding the general education curriculum. Moreover, the team of examiners stated that ITT should require at least one physical science, social science, or humanities course to the core requirements. The institution agreed to include at least one course in the sciences/and or life sciences. These responses were acceptable to the team.

Because of concerns expressed by the majority of students, who were interviewed, the team of examiners recommended that ITT investigate the quality and accuracy of customized texts used in classes. The institution responded that it has examined its use of customized texts, and it will employ other more widely recognized vendors.

The team also requested that ITT Educational Services, Inc. provide to General Administration documentation that it is in compliance with all pertinent safety and health laws and ordinances, prior to the start of the first classes at the Charlotte ITT Technical Institute. The institution stated that once it has obtained approval from the Board of Governors, it would finalize plans to secure a location and send a copy of the Certificate of Occupancy to General Administration.

Several recommendations involved the library and learning resource center. The team recommended that ITT further encourage faculty input in the Virtual Library resource, hire a librarian with a master's degree in Library Science from an ALA accredited library school,

purchase specific databases, and include faculty representation on the ITT Technical Institute Learning Resource Center Committee. ITT Educational Services responded that it would further encourage faculty input in the Virtual Library by including a library resource request form on the faculty page of the Virtual Library. ITT stated that it was its intention to comply with all licensure standards, and it would hire a staff librarian who holds the appropriate master's degree. Moreover, the institution stated that the Library and Learning Resources Committee will increase its efforts to collaborate with faculty to evaluate resource collections. The team of examiners recommended that ITT require Mergent Online databases for researching companies and industries around the world. The institution responded that it had a similar database, but that it would research Mergent thoroughly to determine if it is still needed. These responses were acceptable to the team of examiners.

There were also several recommendations that involved the faculty credentials. General Administration reiterates the team's recommendations concerning qualified faculty. It is essential that ITT utilize faculty in its bachelor's degree courses who hold at least the master's degree or the equivalent in the field of specialization in which they are teaching. Moreover, 25 percent of the faculty teaching in baccalaureate programs should hold an earned doctorate in the appropriate field. Furthermore, General Administration underscores the need for faculty to have a signed contract that outlines the terms and conditions of employment. ITT affirms its intention to follow the *Rules and Standards* for faculty credentials and letters of employment. Along with faculty with appropriate expertise, General Administration will monitor faculty credentials on all site visits and requests for new locations.

In its final recommendations, the team recommended that ITT follow the established protocol for securing students' records. A copy of a letter from the North Carolina Department of Cultural Resources supports the institution's assertion that it has followed the appropriate protocol. Similarly, the team recommended that ITT obtain the tuition guaranty bond, as required by the *Rules and Standards*. The institution responded that it would obtain a tuition guaranty bond, as soon as the location and authorization is finalized. It is essential that the institution follow the team's recommendation and send a copy of its independent audit statement to General Administration. The institution states that it intends to send the statement, upon completion of the first fiscal year. These responses were acceptable to the team of examiners.

The team concludes its report by stating that it recommends licensure of ITT Educational Services, subject to implementation of the recommendations.

Statement of Concluding Recommendations

The team of examiners recommends that ITT Educational Services, Inc. be licensed to establish an ITT Technical Institute at Charlotte, North Carolina to offer the following degree programs subject to compliance with all of the recommendations contained in this report.

- I. Associate of Applied Science degree in:
 - Computer and Electronics Engineering Technology
 - Information Technology - Computer Network Systems
 - Information Technology – Multimedia

II. Bachelor of Science degree in:

- Business Accounting Technology
- Business Administration
- Criminal Justice
- Information Systems Security

The team of examiners further recommends, if licensure is granted, that a team of examiners visit the Charlotte ITT Technical Institute one year from the start of the initial classes to review compliance with the recommendations contained in this report, as well as compliance with the fifteen licensure Standards.

Recommendation of General Administration

Staff in General Administration acknowledges the recommendations of the team of examiners and underscores the importance of hiring quality faculty to obtain a good quality education. Because of the nature of investigations by the Department of Justice and the Security and Exchange Commission which go to the heart of consumer protection, General Administration requires that a team visit the Charlotte campus in one year and no later than eighteen months to determine continued compliance with the Standards. Moreover, General Administration has obtained a letter of agreement, signed by the president of ITT, Kevin Modany, in which the institution agrees to participate in an external audit for five years after licensure, should the Board act in this manner. The external audit is in addition to regular site visits outlined in the *Rules and Standards*. Under the aforementioned conditions, staff recommends licensure.

Appendix A

February 25, 2004 Federal agents executed search warrants at our corporate headquarters and at ten of our 79 ITT Technical Institutes nationwide. On that same date, our Directors and executive officers and some of our other employees each received a federal grand jury subpoena that was issued, along with the search warrants, by the U.S. District Court, Southern District of Texas, located in Houston, Texas.

March 4, 2004 We were notified by the Fort Worth, Texas regional office of the U.S. Securities and Exchange Commission ("SEC") that it had initiated an inquiry into the allegations being investigated by the Department of Justice ("DOJ").

March 30, 2004 The court ordered a consolidation of two separate shareholder derivative lawsuits filed on or about February 27, 2004.

April 29, 2004 A consolidated complaint in a shareholder derivative lawsuit was filed against five of our current and former executive officers, ten of our current and former Directors and Pricewaterhouse Coopers ("PWC"), our independent registered public accounting firm, in the Superior Court of Hamilton County, Indiana under the following caption: *In Re ITT Educational Services, Inc. Derivative Litigation*.

June 18, 2004 The court ordered a consolidation of 13 separate securities class action lawsuits filed from February 26, 2004 through April 23, 2004.

July 7, 2004 We received a derivative demand letter pursuant to Del. Ct. Ch. R. 23.1 on behalf of Arthur Stein, a purported shareholder, demanding that our Board of Directors commence a civil action against each of our current Directors, one former Director and four of our current and former executive officers to recover for our benefit the amount of damages sustained by us as a result of the misconduct alleged in the letter.

August 19, 2004 A consolidated complaint in a securities class action lawsuit was filed against us and ten of our current and former Directors and executive officers in the U.S. District Court for the Southern District of Indiana under the following caption: *City of Austin Police Retirement System, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc., et al.*

September 7, 2004 A shareholder derivative lawsuit was filed against five of our current and former executive officers, ten of our current and former Directors and PWC, in the U.S. District Court for the Southern District of Indiana under the following caption: *Alaska Electrical Pension Fund Derivatively on Behalf of ITT Educational Services, Inc. v. Rene R. Champagne, et al.*

November 17, 2004 A shareholder derivative lawsuit was filed against ten of our current and former Directors, in the Chancery Court of New Castle County, Delaware under the following caption: *Albert Reitan, derivatively on behalf of nominal defendant ITT Educational Services, Inc. v. Rand V. Araskog, et al.*

December 1, 2004 The court dismissed the *In Re ITT Educational Services, Inc. Derivative Litigation* consolidated complaint without prejudice and gave the plaintiffs 30 days to replead their complaint.

December 8, 2004 The parties agreed to stay the *Alaska Electrical Pension Fund Derivatively on Behalf of ITT Educational Services, Inc. v. Rene R. Champagne, et al.* action pending the entry of a final judgment in the *In Re ITT Educational Services, Inc. Derivative Litigation* action, except that the stay will be lifted if a subsequently filed shareholder derivative lawsuit is filed in the Southern District of Indiana and the defendants are unable to enter into a similar stay of that action.

January 3, 2005 The plaintiffs filed an amended consolidated complaint to *In Re ITT Educational Services, Inc. Derivative Litigation*.

March 31, 2005 In response to the parties' request, the court issued an order staying the *Albert Reitan, derivatively on behalf of nominal defendant ITT Educational Services, Inc. v. Rand V. Araskog, et al.* action until the entry of a final judgment in the *City of Austin Police Retirement System, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc. et al.* action.

June 24, 2005 The DOJ issued a letter advising us that its investigation of us had not revealed evidence sufficient to continue the investigation of us, or any of our senior management (defined as the executives at our headquarters) as targets or subjects. We will continue to cooperate with the DOJ as its investigation of the conduct of other individuals continues.

July 29, 2005 The U.S. Securities and Exchange Commission (SEC) advised the company in a letter that the SEC had terminated its investigation with regard to the company and recommended that no enforcement action be taken against the company. The company did not pay any fines or penalties in connection with the termination of the SEC's investigation.

September 14, 2005 The United States District Court for the Southern District of Indiana dismissed without prejudice all of the claims against all of the defendants in the consolidated securities class action lawsuit filed against ITT/ESI and ten of its current and former directors and executive officers under the caption: *City of Austin Police Retirement System, Individually*

Appendix B

Procedures to be Performed

Enrollment Procedures:

1. Select a combination of 15 active and inactive students from the Charlotte, North Carolina school and ensure each student has a signed enrollment agreement.
2. Ensure the charges per the enrollment agreement as signed agree to the student account by reconciling the charges to the student's ledger card and the SBS A/R report as of 12/31/XX.

Retention Procedures:

1. Obtain the Charlotte, North Carolina school's 12/31/XX retention report. Select 15 students from the report and agree the enrollment status to the attendance records in Pinnacle during the time period specified within the report.

Graduation Procedures:

1. Obtain the Charlotte, North Carolina school's graduation rate calculation. Select 15 students from the graduation calculation and obtain the students transcript.
2. Review each student transcript and ensure the courses completed agree to the required courses as outlined in the Charlotte, North Carolina school's course catalog.
3. Review the student transcript to ensure the student earned the required credit hours as outlined in the Charlotte, North Carolina school's course catalog.
4. Ensure the student's accumulative GPA meets the graduation requirement outlined in the Charlotte, North Carolina school's course catalog.

Student Grade Procedures:

1. Obtain and evaluate ITT's attendance policy and procedures. Select a combined 15 students from the SBS active/inactive accounts receivable report and compare the grade files between Pinnacle and IRIS/Exeter. Ensure the grades posted on the student transcript agree to the grade report in Pinnacle.
2. Review the files and determine that any grades changes are appropriate and approved.

Attendance Procedures:

1. Select 15 students from the Charlotte, North Carolina school's active and inactive accounts receivable report. Obtain the students ledger card and compare the last day of attendance from the ledger card to the attendance record report in Pinnacle.
2. Ensure the last day of attendance reported in IRIS/Exeter (ledger card) matches the last day the student is marked present in Pinnacle.
3. If any changes were recorded to the attendance record, ensure the change was valid and approved.

Title IV Funding Procedures:

1. Obtain the Internal Audit Student Financial Aid testing performed on the Charlotte, North Carolina school. Reperform the work of ITT Internal Audit on 4 active and 4 inactive students to ensure the school is in compliance with the regulations set forth in the 2000 Department of Education Audit Guide. The three specific areas of testing Student Financial Aid include the following:
 - Student Eligibility - review to ensure student is eligible to receive funding
 - Disbursements - review to ensure ITT properly applied the Title IV funding to the students account and proper entrance/exit interviews were conducted
 - Return of Title IV funds - review to ensure refunds were issued for the proper amount and timely

and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc., et al. The plaintiffs have until October 14, 2005 to file an amended complaint.

September 16, 2005 The Superior Court of Hamilton County, Indiana dismissed with prejudice all of the claims against all of the defendants in the consolidated shareholder derivative lawsuit filed against ITT/ESI, thirteen of its current and former directors and executive officers and its independent registered public accounting firm under the caption: *In Re ITT Educational Services, Inc. Derivative Litigation*.

October 24, 2005 The *City of Austin Police Retirement System, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc., et al* action was dismissed with prejudice. All of the defendants intend to defend themselves vigorously against the allegations in the complaint filed in the *Albert Reitan, derivatively on behalf of nominal defendant ITT Educational Services, Inc. v. Rand V. Araskog, et al.* action.

January 4, 2006 The plaintiffs in *Re ITT Educational Services, Inc. Derivative Litigation* filed a notice of appeal to the Indiana Court of Appeals.

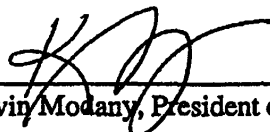
February 1, 2006 The court dismissed without prejudice all of the claims against all of the defendants in the *Alaska Electrical Pension Fund Derivatively on Behalf of ITT Educational Services, Inc. v. Rene R. Champagne, et al* Action.

**Letter of Agreement between ITT Educational Services and The Board of Governors
of The University of North Carolina.**

We agree that:

- the external audit procedures shall be performed by an audit company that is independent and has not, or does not, perform other audits for ITT Educational Services
- the audit categories should include those areas and procedures delineated in Attachment 1 of the aforementioned document; more specifically enrollment procedures, retention procedures, graduation procedures, student grade procedures, attendance procedures and Title IV funding procedures
- the auditor shall employ a statistically valid sample whose results could be easily projected to the population as a whole. The North Carolina State Auditor typically uses a sample that would have a 90 percent confident, 10 percent tolerance, and 1 percent expected error. Using these criteria, applied to a population of 300 students, the audit would include 39 students in its sample size.
- ITT will perform such an audit for five years after its licensure date in North Carolina
- The audit findings shall be forwarded to General Administration of The University of North Carolina within 48 hour after ITT receives the findings.
- ITT will have an opportunity to respond to any unfavorable audit findings within 30 days.

By signing I acknowledge and agree to uphold the terms of this agreement.

BY  _____
Kevin Modany, President of ITT Educational Services