

Business Services

Class Notes

Monthly Insights on the Education Market

Education Services

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Research

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HIGHLIGHTS & STOCK REVIEW

Ed Indices Last Month

K-12	-1.3%
Higher Education	-0.6%
Education Publishing	+2.5%
Corporate Learning	+8.3%

Ed Indices YTD

K-12	+1.0%
Higher Education	+15.9%
Education Publishing	+3.0%
Corporate Learning	+26.4%

Market Statistics (Month)

NASDAQ	+0.2%
S&P 500	+1.0%
Dow Jones	+0.7%
Russell 2000	+0.9%

S&P 500 P/E Ratios

2007E	15.3x
2008E	14.2x

This Month in Class Notes

Laureate files proxy statement outlining the board's logic for accepting the buyout offer as a third large holder, Blackrock, publicly comes out against the deal...

Earnings from Laureate, Lincoln, Leapfrog, eCollege, Scholastic, Skillsoft, and GP Strategies...

This month we are highlighting Nobel Learning Communities, a provider of private-pay education and supplemental services for students in preschool through 12th grade....

Corporate Learning Stocks Continue to Outperform

During the month of March, corporate learning stocks continued the solid stock performance experienced in January and February and publishing stocks rebounded from a decrease in February while K-12 and higher education stocks gave back some of the gains. The education publishing and corporate learning indices outperformed the NASDAQ and S&P during the month.

Stocks within our K-12 index decreased 1% during the month of March as shares of Scientific Learning (+18%) and Nobel Learning (+14%) continued appreciate, but were offset by a 17% decline in shares of Plato Learning and 6% decline in shares of Bright Horizons Family Learning. Year-to-date, the K-12 index is up 1%.

Higher education stocks decrease slightly during the month, depreciating 1% on average despite strength across the board, led by a 19% increase in shares of New Oriental Education & Technology Group. However, the gains were offset by a 7% decline in Apollo Group shares. Year-to-date, the higher education index is up 16%.

During the month of March, the education publishing index increased 3% following 25% appreciation during 2006. A 12% increase in shares of Pearson and a 4% appreciation in shares of Reed Elsevier were partially offset by decreases in the other five companies in our index. Year-to-date, the publishing index is up 3%.

Growth in corporate learning stocks continued, albeit at a slower pace (8%) from the 13% appreciation experienced in January, but faster than February (4%). Solid earnings from SkillSoft resulted in the stock increasing 18% during the month and Healthstream bounced back from a weak February to gain 15% together with more modest increases at GP Strategies and Learning Tree International, was enough to offset the 8% decrease in shares of SumTotal and the 10% decline in Saba shares. Year-to-date, the corporate learning index is up 26%.

POLICY REVIEW

President Bush persisted in his public advocacy for the reauthorization of No Child Left Behind this year as Republicans continued to lead the backlash against the law. President Bush began March by stumping for NCLB reauthorization with changes, but he warned against excessive changes including weakening compliance requirements. Over 57 GOP lawmakers endorsed the A-Plus Act, a piece of legislation that would fundamentally gut NCLB by allowing states to receive federal aid even if a state opted out of all of the testing requirements. The group of 57 included party heavyweights such as House Minority Whip Roy Blunt (R, MO), Senator Mel Martinez (R, FL), chairman of the Republican National Committee, and presidential hopeful Senator Sam Brownback (R, KS). Critics such as Senator John Cornyn (R, TX), a co-sponsor of Senate version of the bill, view NCLB as a federal encroachment on state and local control of education. Democrats joined the White House in attacking the A-Plus Act for removing the accountability standards.

The Department of Education released its proposed regulatory changes on accretor oversight into post-secondary student outcomes. The proposed changes include three options for measuring the success in educating students, stopping schools from refusing transfer credits based on the type of accreditation of the student's previous school, and increasing the amount of and type of data the accrediting agencies make public. One proposed change is to force the agencies to measure ability of programs to prepare students for the workforce by establishing minimum standards for completion rates, job placement rates, and pass rates on licensing and professional certification exams for vocational and bachelors programs that for professions that require a license or certificate to work in. For other programs, the proposed changes would allow agencies to use one of three options to measure outcomes. The first is the establishment by the agency of "specific quantitative and qualitative measures of student achievement and an expected level of performance" for all schools it accredits. The second option is the development of metrics for schools with similar missions or programs. The third option involves allowing each institution to create a set of measures at the program level with the accrediting agency monitoring performance against the metrics.

During the a three-day meeting between the DOE and accrediting bodies, the agencies complained that the DOE had overstepped the bounds of the Higher Education Act. The agencies also claimed that the proposed regulations would set explicit federal standards. Regional accrediting bodies and many officials from traditional colleges were unhappy about the push by the DOE to measure study outcomes and collect additional information from colleges. However, the DOE has consistently held that the setting of performance measures and the measuring of student outcomes will become part of the responsibility of accrediting bodies.

ELEMENTARY & SECONDARY

School Specialty Appoints COO

School Specialty announced the appointment of Tom Slagle to President and Chief Operating Officer, effective March 15. Mr. Slagle spent 11 years at Cardinal Health, most recently as Group President, Supply Chain Services - Medical. During School Specialty's F3Q07 conference call in February, the company announced it had a candidate in place but that an announcement would not be made until mid-March. The COO position has been vacant since David Vander Zanden left the role of COO to take over as CEO in March 2002.

LeapFrog Enterprise Reports 4Q06 Results

LeapFrog Enterprise reported 4Q06 revenue of \$183 million, down from \$248 million in 4Q05 due to lower sales of the LeapPad family of products and the FLY PenTop computer. The company reported a net loss of (\$0.73) versus \$0.23 in 4Q05 due to the effort to reduce company and retailer inventory levels which are at the lowest year-end levels since 2001. Management forecasts a decline in revenue in 2007 as the company continues to develop its new line of products which are expected to launch in 3Q07. However, the company expects a lower EPS loss in 2007 than in 2006 due gross margin improvement from the inventory reduction effort.

Milken Plans to Sell Stake in Knowledge Universe

Knowledge Universe has hired Goldman Sachs and Credit Suisse to manage a private placement of up to \$1 billion. Michael Milken and his partners are attempting to diversify the ownership in the company which has invested in over 50 companies, mostly private. Knowledge Universe owns 19% of Nobel Learning Communities and purchased KinderCare Learning Centers in January 2005 for \$1 billion. KinderCare is now part of Knowledge Learning Corporation which operates 2,000 early-childhood education centers, mostly under the KinderCare brand, and serves over 200,000 children in 39 states and Washington, DC. Milken plans to use the investment to pay down debt and to make new investments.

OTHER ELEMENTARY & SECONDARY NEWS

Financial and M&A Activity

Educate obtained a waiver from its bank syndicate to cover violations of financial covenants within the term loan and revolving credit facility that occurred in 4Q06 and 1Q07.

Nobel Learning Communities announced the conversion of all of the company's Series F convertible preferred stock into shares of the common stock.

PLATO Learning reported F1Q07 revenue of \$17 million versus \$24 million in F1Q06 and EPS of (\$0.19) versus (\$0.14) in the same period the prior year.

Princeton Review announced that the company would postpone filing its 2006 10-K due to delays in restating prior year results to correct the accounting of its Series B-1 preferred stock.

Report Finds Fickle Funding for Preschool Education

In its annual report on preschool funding, "The State of Preschool 2006: State Preschool Yearbook," the National Institute for Early Education Research (NIEER) found that states are equally as likely to cut public funding for preschool education as they are to increase funding. There were only twelve states that did not offer publicly funding preschool programs in 2005-2006 and the total number of students in pre-K programs grew by 130,709 to 942,766. However, only two states, Oklahoma (70%) and Georgia (51%) enrolled more than half of the four-year olds in their state. Spending per child in real dollars decreased to \$3,482 from \$4,171 in 2001-2002 and nominal spending per child fell in 14 states. Only two states (Alabama and North Carolina) met all 10 of the organization's quality benchmark and six others met nine of the ten.

New Study Reports on Child Care Impact on Vocabulary and Behavior

The latest analysis of a National Institute of Health (NIH)-funded study on child care found that high-quality early child care has a small positive impact on vocabulary in fifth grade and a longer amount of time spent in early child care has a small negative impact on behavior that can last until the sixth grade. The researchers used data from the National Institute of Child Health and Human Development (NICHD) Study of Early Child Care and Youth Development, a study of child care in the United States that began to follow babies born in 1991. The study contains data on the quality, quantity, and type of child care the children received from birth until they were 54 months old. The children were tracked and evaluated on academic achievement and cognitive functioning through fifth grade and social development through sixth grade. The researchers discovered that the impact of high quality early child care on vocabulary did not depend on the amount of time the child had spent in child care or the type of care. Children in center care in early childhood were more likely to score higher on teacher reports of aggression and disobedience regardless of the quality of the center-based care. The study noted that the children were "within the normal range of behavior and were not considered clinically disordered." The authors offered a number of explanations for the impact on behavior including lack of time or training at centers to provide behavior modification.

State & Local News

Florida legislators are voting on two bills that will replace the teacher merit program that the state created last year. The Special Teachers Are Rewarded (STAR) program received \$147.5 million in last year's state budget to give rewards of 5% to 25% of teachers based primarily on student results on exams. Many teachers complained that the STAR program rewarded too few teachers and some school districts refused to implement the plan. The Senate bill would increase the number of teachers rewarded to between 20% and 80% of the teachers in a district while the House bill would keep the current plan for 2006-2007 academic year and change it next year to include the recommendations of principals.

Missouri took control of the St. Louis school district after the state school board revoked the district's accreditation. The district failed to meet multiple state accreditation standards including graduation rates and upper-level test scores in math and language arts. The school board for the district also created a \$24.5 million deficit five years having a \$52 million surplus. Control of the district will handed over to a three-person panel to be led by Rick Sullivan, a nominee of Governor Blunt. The other two positions will be nominated by Mayor Francis Slay and Lewis Reed, president-elect of the city's Board of Alderman. Mr. Sullivan owns a development company and has limited experience in education.

The largest teacher's union in **New York** launched an advertising campaign against a proposal by Governor Elliot Spitzer to increase the number of charter schools in the states. The New York State United Teachers union aimed the campaign at lawmakers in Albany. The proposal would raise the number of charter school allowed in the state to 250 from 100, the limit set 10 years ago. The union is lobbying for a smaller expansion and a 5% cap on the percentage of students in charter schools in a district. The cap will not permit any new charter schools to be located in Buffalo or Albany where charter schools enroll more than 10% of students.

Management from Edison Schools claimed that the school budget crisis in **Philadelphia** may force the company to reduce the number of schools it manages and cut back on the number of services the company provides. Edison is the largest of the six educational management organizations that earned contracts in the Philadelphia school district during the 2002 takeover by the state. The six organizations will receive \$18 million in funding in 2006-2007 with \$9.4 million going to Edison, but the current budget plans call for a \$12 million cut next year. The chief executive of the school district, Paul Vallas, argued that Edison should be able to operate with a lower amount of funding as other charter schools with lower funding levels have performed at or above the level of the Edison Schools.

Utah officials discussed a potential expansion of the state's virtual online offering to include K-8. The state's online high school has 22,000 students taking one or more courses. The proposed K-8 school would also be offered to all students that are in traditional public schools, charter schools, or are home-schooled. However, the curriculum would be provided by an outside content provider and would be based on Utah academic requirements. The online K-8 school would also require a higher degree of parental involvement. The proposed school may face competition from another proposal before the state education board for an online virtual charter school.

Opponents of the **Utah** school voucher plan have collected at least 32,000 signatures on the petition to place a referendum on the plan on an election ballot. The group which includes the state branches of the teachers' unions, employee and administrator associations, the PTA, and the NAACP, has until April 9 to collect 92,000 signatures from registered voters. Voucher plan supporters have begun to mobilize against the campaign.

K-12 SHORT INTEREST

Company	Ticker	Short Interest	% Chg M/M	% of Float	Avg Vol	% Chg M/M	Days to Cover	Last Month
K-12 Education								
Bright Horizons Family Solutions, Inc.	BFAM	1,676,276	16%	7%	211,370	69%	7.9	11.5
Educate, Inc.	EEEE	1,468,237	21%	3%	357,653	18%	4.1	4.0
Leapfrog Enterprises, Inc.	LF	4,209,961	29%	13%	455,936	9%	9.2	7.8
Plato Learning, Inc.	TUTR	201,899	46%	1%	77,929	13%	2.6	2.0
Princeton Review, Inc.	REVV	1,013,792	-5%	6%	18,084	-83%	56.1	9.8
Renaissance Learning, Inc.	RLRN	1,700,472	7%	28%	42,855	42%	39.7	52.7
School Specialty, Inc.	SCHS	2,677,865	-3%	14%	167,860	3%	16.0	16.9

Source: NASDAQ

Above are short interest data for select publicly traded K-12 companies. The table includes the number of short interest shares as of March 15, the percent change versus the previous month, average daily volume, days-to-cover ratio (short interest divided by average volume) and the previous month's days-to-cover ratio.

Overall, the number of short interest shares increased in March versus February. The largest increase was Leapfrog to 4.2 million shares, up 29% from 3.2 million shares in January. The increase in short interest followed the weak results and lowering of sales expectations for 2007 in the beginning of March. Volume was up 9% to 455,936, slightly mitigating the impact on days to cover which rose to 9.2 days from 7.8 days.

Other sizable increases in the number of short interest shares include Plato Learning with a 46% increase, Educate (+21%), and Bright Horizons (+16%). Despite the increase in short interest shares, days-to-cover for Bright Horizons decreased to 7.9 from 11.5. Princeton Review took over as the highest days-to-cover ratio in the K-12 space at 56.1 days due to an 83% reduction in volume, followed by Renaissance Learning (39.7 days) and School Specialty (16.0 days). Plato Learning has the shortest days-to-cover ratio with 2.6 days, followed by Educate (4.1 days) and Bright Horizons (7.9 days).

K-12 INDEX VS S&P 500 AND NASDAQ



Source: FactSet

POST-SECONDARY

Laureate Reports Confusing 4Q06 Results

Laureate reported 4Q06 revenue of \$347 million (+25% y/y), above our estimate and the consensus of \$332 million. Gross margin decreased 120bps y/y to 26.9% and was below our 28.7% estimate. As a percentage of revenue, G&A expense increased 90bps y/y to 3.9%. As a result, operating margin declined 210bps versus the prior year, and was 120bps below our estimate. The company reported adjusted 4Q06 EPS of \$1.15, up \$0.30 versus the prior year and above our estimate of \$1.11 and the consensus estimate of \$1.10. The reported EPS of \$1.02 was negatively impacted by \$0.13 due to the change in accounting for minority share ownership purchase agreements.

As part of the company's acquisition strategy, Laureate typically buys a majority interest in a target school and enters into one of four types of put and call arrangements with the minority owner for the rest of the school. The arrangements allow or force Laureate to buy the remainder of the school. Laureate reexamined the accounting for minority share ownership purchase agreements in 4Q06 and found that an error had been made in the initial accounting determinations. Management determined that the cumulative effect was immaterial for restatement of prior years. The prior year adjustments were taken in 4Q06.

Total enrollment increased 13% to 243,800. By segment, campus-based enrollment improved 11% to 210,700 and online enrollment expanded by 20% to 31,136. Latin America grew 12% to 189,900 students with Central America closing at 94,900 students (+15% y/y) and South America finishing with 82,600 students (+9% y/y). Europe improved 6% to 20,800 students.

Management reiterated previous 2007 revenue guidance of \$1.275-\$1.375 billion (growth of 11% to 20%). The company expects 2007 EPS of \$1.63 to \$1.73 including an impact from minority share ownership purchase agreements of (\$0.51) and expense of (\$0.31) related to the potential merger agreement. Management provided 1Q07 revenue guidance of \$265 million to \$290 million, implying growth of 13% to 23%, and EPS of (\$0.79) to (\$0.81) including an impact from minority share ownership purchase agreements of (\$0.60) and expense of (\$0.15) related to the potential merger agreement.

The company also filed an 8-K in which the company announced that the board had voted to change independent auditor to PricewaterhouseCoopers from Ernst & Young. Laureate also disclosed that management determined that in 2005 and 2006, Laureate did not maintain effective internal control over financial reporting related to the accounting for income taxes which resulted in a material weakness.

Laureate Files Preliminary Proxy Concerning Buyout

Laureate filed its preliminary proxy statement, detailing the buyout offer. As we reported in the February issue of Class Notes, the company announced in January that it had entered a definitive agreement to be acquired by its founder/CEO, Doug Becker, and an investor consortium for \$60.50/share. Management had previously encouraged shareholders to reserve judgment on the offer until the proxy has been filed. The company used the proxy to defend itself and the board from shareholder complaints about the price and process (see below). In the proxy, the company disclosed that during the "go shop" period, the board received no bids despite contacting 67 potential acquirors, consisting of 58 financial parties and nine strategic parties. This outcome reinforces our belief that a higher bid from another acquiror

seems unlikely despite the shareholder displeasure with the current offer price. It has also revealed that Mr. Becker and the company entered a cooperation agreement which implies that Mr. Becker can and will mostly leave the company within a year if the merger agreement fails to be consummated.

Select Equity, T. Rowe Price, and Blackrock have all sent letters to the independent board members of Laureate stating that they will not support the management-led buyout transaction at \$60.50/share. As we reported last month, T. Rowe Price, Laureate's second largest shareholder, filed a Schedule 13D which included a letter to the independent board members of Laureate stating that it will not support the management-led buyout transaction at \$60.50 per share. The letter goes on to detail that T. Rowe believes the \$60.50 offer price is "significantly below the true long-term value of the company and urge[s] the board to reconsider its acceptance of the offer." In March, Blackrock also sent a letter to the board in which the firm agreed with the Select Equity analysis and also will also vote against the transaction. Combined with Select Equity, the T. Rowe and Blackrock decisions mean that 18% of the outstanding shares have been pledged to vote against the deal.

Lincoln Reports 4Q06 Results

Lincoln reported 4Q06 revenue increased 5% to \$86.1 million, below our estimate of \$88 million and the consensus estimate of \$87 million. Revenue related to the Euphoria and New England Institute of Technology at Palm Beach acquisitions constituted \$1.1 million and \$4.3 million, respectively, of the revenue increase. Organic revenue declined 1% due to lower average student population offsetting tuition increases. EPS came in at \$0.37 versus 4Q05 EPS of \$0.48, below our estimate of \$0.39 and in line with the consensus estimate. EPS was negatively impacted by \$0.02 as a result of the acceleration of the rebranding effort. In addition, the decrease in EPS was due to higher advertising expenses, increased in response to sluggish student starts due to a stronger employment market, and various growth initiatives reaching normal operating capabilities at a slower rate than expected.

Lincoln had average student enrollment of 18,840 students during 4Q06, flat versus 4Q05. Same-school average student enrollment was 17,539, a 7% decrease over the 4Q05 average of 18,804. During the quarter, student starts increased 7% and organic starts were down 4%. Enrollment was negatively impacted by lower show rate in 3Q06 for high school and media recruiting students

Recently named President and COO Shaun McAlmont outlined six key initiatives within recruitment that Lincoln will focus on in 2007, including improving the call center, targeting military veterans, establishing a national admissions team, increasing training for admission reps, hiring a SVP of Recruiting and Sales, and improving the high school recruitment efforts. All of these initiatives are intended to improve the show rate, particularly for high school students. With respect to marketing, management is focused on five areas: introduced new marketing and sales collaterals based on the rebranding initiative, development of a new website, new TV, print, and web advertising targeted at current Generation Y students, focused and performance-based media buys, and year-round marketing support of the high school recruitment efforts. The company expects these efforts, together with initiatives which began in 2006 (e.g., opening the Queens campus, expanding the Grand Prairie facility, adding more degree programs), to help improve starts. In 2007, Lincoln also plans to continue the replication of programs in order to better utilize capacity.

Management provided 2007 revenue guidance of \$340-\$350 million (+6% to 9% y/y) and EPS in the range of \$0.62 to \$0.68. For 1Q07, management expects revenue of \$76 million to \$78 million (+1% to 3% y/y) and EPS of (\$0.05) to (\$0.10). In 2Q07,

management currently predicts revenue of \$76 million to \$79 million (+1% to 9% y/y) and breakeven EPS.

Lincoln Reorganizes Corporate Structure

Lincoln realigned its corporate structure by creating two newly formed, distinct business units: the Lincoln Tech Group and the Lincoln Education Group. Debbie Ramentol was named President of the Lincoln Tech Group and will be responsible for the 10 campuses in which the primary focus is automotive and skilled trades (generally larger campuses). Ed Abrams was named President of the Lincoln Education Group and will be responsible for the other 27 campuses and the online division. Previously, both were senior vice presidents in charge of a group of schools based on the schools' geographic location. In our discussions with management, we learned that the company is not hiring or firing any employees as a result of the realignment.

DeVry Announces Voluntary Separation Program

DeVry announced a voluntary separation program that will cover 285 employees at the 22 University Campuses as part of the company's efforts to address problems with cost structure and real estate utilization. Depending on the number of employees that accept, the company expects to incur a total of \$3-\$4 million in pre-tax expenses in F3Q07 (March) and F4Q07 (June), due to severance and extended healthcare benefits coverage. Management anticipates annual savings going forward to be equal to or greater than the expected pre-tax expenses.

Career Education Appoints Permanent CEO

Career Education announced the appointment of Gary McCullough as CEO and to the board of directors. Mr. McCullough most recently held the position of president of Abbott Laboratories' Ross Products Division, a producer of adult nutritionals and infant formulas with \$2.6 billion in annual sales. Prior to joining Abbott in 2003, Mr. McCullough served as senior vice president-Americas for the Wm. Wrigley Jr. Company and held brand and general management roles at Proctor & Gamble. Former interim chairman and CEO Robert Dowdell will serve as non-executive chairman of the board of directors. At the Robert W. Baird Business Solutions Conference at the end of February, Mr. Dowdell stated his intention to stay on as Chairman and interim COO to assist with the completion of the initiatives that he started.

eCollege 4Q06 Results

eCollege reported 4Q06 revenue of \$13.9 million for its eLearning division, up 26% from \$11.0 million in 4Q05. The company is currently attempting to sell its Datamark division and reported its operating results as discontinued operations. The revenue improvement in eLearning stemmed from growth at existing clients and from signing new large clients. Gross margin improved to 72.4%, up from 70.4% due to improved leverage from flat costs, partially offset by increased software amortization and IT costs. Sales and marketing expenses decreased 5% as higher marketing expenses were offset by lower account management expenses. As a percentage of revenue, G&A declined to 20.1% from 23.6% due to lower compensation expenses. Operating margin improved to 28.2% from 18.4%. As a result, EPS increased to \$0.11 from \$0.05. Management reiterated its previous guidance for 1Q07 of revenue of \$14.7 million to \$14.9 million and EPS of \$0.06 to \$0.07.

OTHER POST-SECONDARY NEWS

Personnel Changes

Apollo Group announced the resignation of Daniel Diethelm from the board of directors. Mr. Diethelm joined the board in 2006 and served on the Special Committee that conducted the investigation of backdated stock options.

Blackboard announced that Arthur Levine will not be standing for re-election as a director when his term expires in 2007. Mr. Levine has been a director since 1999.

Corinthian Colleges appointed Steve Quattrociochi as president, CCI Online, a unit of the Online Learning Division. Mr. Quattrociochi will manage Corinthian's online programs, which offer 15 degree programs. Mr. Quattrociochi previously worked at Princeton Review, mostly recently as executive vice president and general manager of the Test Preparation Services division.

New Oriental Education appointed Louis Hsieh to the board of directors. Mr. Hsieh will continue to serve as the company's CFO.

Corporate Developments

Blackboard hosted its annual BbWorld Europe users conference in Nice, France. Over 170 educational institutions attended the conference.

ITT Educational Services opened a new campus in Charleston, SC and a new campus in Baton Rouge, its 89th and 90th campuses. Classes at both campuses are expected to begin in June.

New Oriental Education entered into an agreement with Thomson Learning for the exclusive right to distribute Thomson's "ELT Advantage: Online Courses for Teachers" in China for five years.

Miscellaneous

Career Education Corporation announced that the United States District Court for the Northern District of Illinois dismissed, with prejudice, a class action lawsuit alleging that the officers and directors of the company engaged in securities fraud. Courts had previously dismissed two similar complaints by the same plaintiffs for failure to state a claim for securities fraud.

DOE Retreats from IPEDS Expansion

In the wake of concerns from the higher education lobbyists and researchers, the Department of Education announced that it will reduce the proposed expansion of the Integrated Postsecondary Education Data System (IPEDS). As we discussed in the March edition of Class Notes, the DOE had begun the process of increasing the amount and type of information that it requires colleges to report to IPEDS. The plan proposed that schools would be required by 2008-2009 to report on accountability including reporting the use of student learning assessment systems. The DOE also wanted additional financial aid data such as type and amount of data received, dependency status, living arrangements, and in-state status at public schools. The proposal was created by the National Center for Education Statistics (NCES) without input from the DOE policy office. The revised proposal will eliminate some of the additional information requests which could include reporting on the assessment systems.

Nelnet Settlement Under Fire from Congress

Two separate groups of U.S. Representatives sent letters to Secretary Margaret Spellings criticizing the decision by the Department of Education concerning National Education Loan Network (Nelnet). As discussed in the January edition of Class Notes, the Office of Inspector General believed that Nelnet was improperly using a loophole to receive an estimated \$278 million in subsidy payments on loans in excess of market-based rates. The department reached a settlement with Nelnet such that Nelnet would not receive any allowance payments for loans after July 1, 2006, but would retain the payments received prior to that date. The first group of lawmakers to send a letter consisted of 10 Republican fiscal hawks led by Congressmen Jeff Flake (R, AZ) and Tom Petri (R, WI) who asked Secretary Spellings to provide justification for why the improper subsidy payments were not recollected and used in a more appropriate manner such as reducing the deficit.

The second letter came from ten Democrats including Representatives George Miller (D, CA), Chairman of the House Education and Labor Committee, Ruben Hinojosa (D, TX), Chairman of the Subcommittee on Higher Education, Lifelong Learning, and Competitiveness, and Dale Kildee (D, MI), Chairman of the Subcommittee on Early Childhood, Elementary, and Secondary Education. The Democrats expressed similar concerns about the decision and asked Secretary Spellings to provide information concerning oversight over other lenders in the program and the reasoning for Nelnet settlement.

U.S. Degree Attainment Waning

Jobs for the Future recently released a report that warned that the percentage of the U.S. population with a post-secondary degree has fallen behind other developed nations. The report, "Hitting Home: Quality, Cost, and Access Challenges Confronting Higher Education Today," argues that for developed nations to stay competitive, over 55% of their population will need to have at least an associate degree. Approximately 40% of Americans between the ages of 25 and 34 currently hold an associate degrees or higher versus over 50% in Canada, Korea, and Japan. The report also argues that the gap will continue to expand in the future and that America needs to increase the number of annual graduates by over 37% to overcome the shortfall. To make the 37% goal, the group believes that the U.S. higher education system will need to increase the number of minority students, students from low income families, and the students from non-traditional age groups (i.e., working adults).

Study Examines Graduation Rates and Community Colleges

A new study on graduation rates by researchers at scholars at the Community College Research Center of Teachers College, Columbia University, examined the validity of using of the Student Right-to-Know (SRK) graduation rates to measure community college performance. Some community colleges advocates have argued that the SRK rates are more appropriate for the use of evaluating four-year colleges, the rates undervalue the success and value of community colleges, and that the community colleges serve a larger number of part-time students that takes longer to graduate. Using national longitudinal surveys of college students, the study agreed that SRK rates "yield a biased and potentially misleading picture of individual community college student outcomes." Next, the authors created a series of measures that avoided the flaws in the SRK rate and used the measures to rank 28 Florida community colleges. The authors discovered that the alternative measures did not provide a substantial different set of rankings than the rankings generated by using the SRK rate. This outcome led the authors to conclude that the SRK rankings can be used to generate "a reasonable first approximation of relative college performance."

DOE Unveils New Site to Help With Financial Aid

Secretary Margaret Spellings announced that the Department of Education has created a new tool to help students and families with planning for college. The new tool, the FAFSA4caster, can calculate eligibility for federal student aid, reduce the time necessary to complete the Free Application for Federal Student Aid (FAFSA), and is expected to simplify the financial aid process. The tool represents a first step in fulfilling a recommendation by Commission on the Future of Higher Education that students should be notified about aid eligibility earlier than spring of their senior year. The FAFSA4caster is available at www.federalstudentaid.ed.gov.

Traditional Colleges Will Challenge For-Profits' Online Dominance

A new study by Eduventures claims that traditional non-profits institutions will challenge the dominance of for-profits in the online space. The study, *Online Higher Education Market Update, Part I*, noted that for-profit schools enrolled only 5% of all students in 2004, but accounted for 37% on online students and Eduventures predicts that share will decrease to 2008. However, the reports also expects the number of online students to increase 2.13 million in 2008 (11.5% of all students) from 1.5 million at the end of 2006 (+24% versus 2005). Total online tuition increased to \$8.1 billion in 2006 from \$6.22 billion in 2005.

An interesting outcome from the report is the importance of geography to online students as the study showed that that 64% of students enrolled in an online program lived within the same geographic area as the institution offering the program, and 36% of them lived within 50 miles of it. The report found that only 27% of online students live in an area of the country separate from the institution in which they are enrolled. A survey conducted by Eduventures discovered that 63% of consumers willing to consider an online program preferred the provider to have a physical presence at least within their state.

Two Colleges Change Financial Aid Packages

Davidson College in North Carolina announced that the school will no longer include loans as part of the financial aid packages for incoming students. The liberal arts colleges had last year limited the amount of loans to \$3,000 per year, down from a sliding scale that maxed out \$19,000 over four years. The administration decided to forego the use of loans to increase the school's attractiveness to low-income students. The school believed that many low-income students did not apply in the past due to a perceived need for large amount of loans to afford the school's relative high cost (\$41,000 for 2006-2007). The move away from loans is expected to cost the school \$5.5 million for the next school year. The move by Davidson was preceded by an announcement by Hamilton College that the school would no longer grant "merit" awards. Hamilton will only reward aid based only on financial need. The school is believed to be one of the first schools that used merit awards to renounce the practice.

State & Local News

A new report, "**California** Community Colleges: Making Them Stronger and More Affordable" warns that many Californians cannot afford to attend community colleges despite the state having the lowest tuition rates in the country. The authors argue that tuition only accounts for 5% of the costs of most community college students due to the rising costs of housing, food, health care, child care, transportation, textbooks, and supplies. In order to better serve low income students, the report recommends that the state increase grants for non-tuition expenses and increase tuition to improve retention and graduation rates.

New York Attorney General Andrew Cuomo announced the preliminary results of his office's investigation into the student loan industry. AG Cuomo charged higher education institutions with entering into "an unholy alliance" with banks and lenders that "may often not be in the students' best interest." As reported in the March issue of Class notes, AG Cuomo sent a letter to 60 colleges and universities and loan companies, asking the recipients to detail any arrangements between the institutions and how preferred lender lists were complied. The preliminary results uncovered a number of "problematic practices" including financial kickbacks to colleges dependent on the percentage of the loans that are directed to the lenders, lenders giving all-expense-paid trips or other benefits like computer systems to financial aid officers, and credit lines and funds for schools from lenders for placement on the preferred lender lists. In a letter sent to presidents at every college in New York and selected other schools across the county, AG Cuomo suggested that the schools disclose the any ties or similar practices to students.

On March 30, AG Cuomo accelerated his investigation by sending draft settlement letters to a number of colleges. The settlement letter included the requirements of reimbursing borrowers for the money given to the school by lenders and of signing a code of conduct regarding lending practices and preferred lender lists. The total number of schools that received the letter was not clear at the time of publication. On April 2, AG Cuomo announced that his office has completed settlement agreements with Citibank and five institutions (New York University, Syracuse, St. John's, Fordham, and the University of Pennsylvania). Citibank will pay \$2 million to fund a program to educate students and parents about the student loan industry. The five schools will repay \$5.2 million collectively to borrowers and will accept the code of conduct. Three other schools (the State University of New York system, St. Lawrence University, and Long Island University) agreed to follow the conduct code.

POST-SECONDARY SHORT INTEREST

Company	Ticker	Short Interest	% Chg M/M	% of Float	Avg Vol	% Chg M/M	Days to Cover	Last Month
Post-secondary Education								
Apollo Group, Inc.	APOL	8,512,661	22%	6%	1,553,743	-31%	5.5	3.1
Blackboard, Inc.	BBBB	4,009,430	17%	16%	220,641	-35%	18.2	10.2
Capella Education Co.	CPLA	191,222	50%	1%	49,204	4%	7.9	2.7
Career Education Corp.	CECO	5,805,087	1%	7%	1,578,253	-10%	3.7	3.3
Corinthian Colleges, Inc.	COCO	10,642,170	23%	13%	825,010	-4%	12.9	10.0
DeVry, Inc.	DV	3,098,011	31%	5%	348,463	-43%	8.9	3.9
eCollege.com	ECLG	3,409,316	3%	20%	127,096	-45%	26.8	14.4
ITT Educational Services, Inc.	ESI	N/A	N/A	N/A	N/A	N/A	N/A	3.7
Laureate Education, Inc.	LAUR	1,172,158	-6%	3%	436,491	-42%	2.7	1.7
Lincoln Educational Services Corp.	LINC	213,336	30%	9%	59,803	24%	3.6	3.4
Strayer Education, Inc.	STRA	1,256,358	-11%	9%	110,286	-10%	11.4	11.6
Universal Technical Institute, Inc.	UTI	2,321,894	7%	10%	252,067	-17%	9.2	7.2

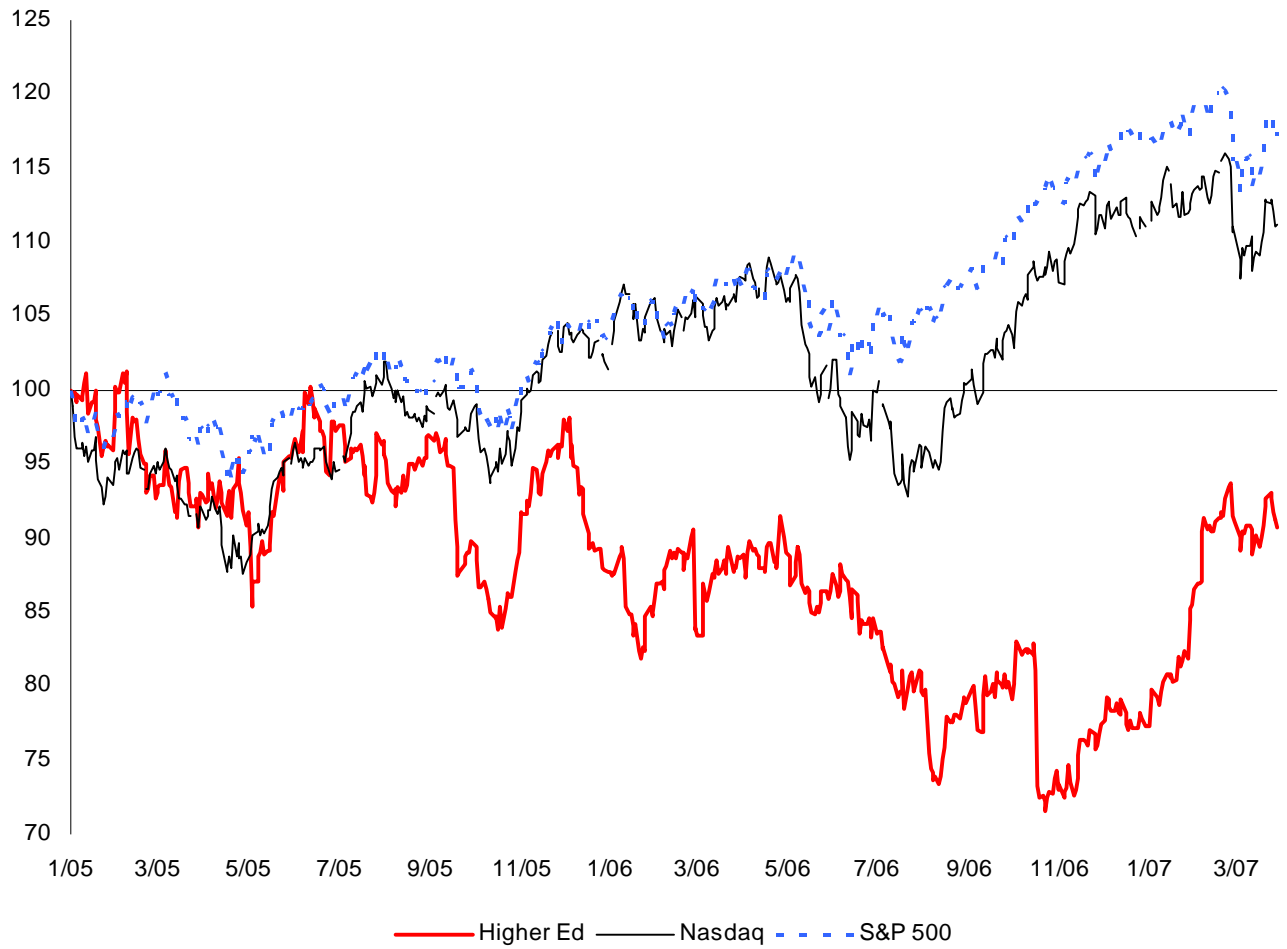
Source: NASDAQ

Above are short interest data for select publicly traded post-secondary education companies. The table includes the number of short interest shares as of March 15, the percent change versus the previous month, average daily volume, days-to-cover ratio (short interest divided by average volume) and the previous month's ratio.

Short interest shares increased at nine and declined at two post-secondary companies as the stocks continued to rally since the beginning of the year. Apollo Group had the largest increase in short interest shares to 8.5 million, up 22% from 7.0 million in February. The increase in short interest shares along with a 31% decrease in volume caused the company's days-to-cover ratio to increase to 5.5 days from 3.1 days. DeVry increased 31% to 3.1 million shares while Lincoln grew 30% to 213,336. Short interest shares in Strayer decreased 11% to 1.3 million.

For the most part, days-to-cover ratios increased in March, as average volume was lower for most companies. Within the post-secondary sector, eCollege continues to have the highest days-to-cover ratio at 26.8 days (up from 14.5), followed by Blackboard (18.2 days). Companies boasting the lowest days-to-cover ratio are Laureate (2.7 days), Lincoln (3.6 days), and Apollo (5.5 days).

POST-SECONDARY INDEX VS S&P 500 AND NASDAQ



Source: FactSet

INTERNATIONAL

China Extends Control over Private Higher Ed

The Chinese Ministry of Education issued a new regulation admonishing privately run schools to focus on the public interest instead of profits. The regulation stated that the tuition collected by school should be spent on education and facility improvements. Also, the regulation called for annual audits of private schools and warned schools that the ministry would punish institutions that engaged in fraudulent or misleading advertising. The penalty for fraudulent or misleading advertising is a fine up to 30,000 yuan (roughly \$3,845) and a suspension of new enrollments.

Students Riot in Greece over Higher Education Reform

Students, teachers, and labor union members rioted in Athens after the Greek Parliament passed an education bill that limits the number of years allowed for the completion of a degree and would restrict university asylum laws. The bill passed in spite the non-participation of three opposition parties including the socialist party which had originally supported the bill. Opposition to the education bill and a separate proposal to allow the establishment of private schools interrupted campus operations across the country for the last year.

England Promises Increase in Education Spending

Chancellor Gordon Brown unveiled the education budget for the next three fiscal years during which time the budget will increase on average by 5.3% or 2.5% adjusted for inflation. The outlay on education is expected to be £63.7 billion in 2007-2008, £66.9 billion in 2008-2009, £70.0 billion in 2009-2010, and £74.4 billion in 2010-2011, up from £29 billion in 1997. The increase in funding will used to increase the number of student receiving one-on-one tutoring to 600,000, to double the number of apprenticeships to 500,000, and grow the number of students in higher education to 1.2 million.

EDUCATION PUBLISHING

Scholastic Reports F3Q07 Results

Scholastic reported F3Q07 revenue of \$497 million, up 2% from \$488 million in F3Q06. Revenue growth was driven by 3% revenue increase in Children's Book Publishing and Distribution and 5% improvement in International revenue, partially offset by a 12% decline in Media, Licensing and Advertising revenue. Gross margin grew to 51.2% versus 49.8% in F3Q06 due to improved efficiencies. Operating margin increased to -1.5% from -3.6% due to the gross margin expansion and overhead expenses decreasing due to the cost reduction plan. As result, EPS improved to (\$0.18) from (\$0.37). Management lowered F2007 guidance for revenue of \$2.1 billion to \$2.2 billion and EPS of \$1.40 to \$1.60.

NYSE Halts Trading in ProQuest

ProQuest shares stopped trading on the NYSE on March 28. Because the company did not anticipate filing its 10-K for 2005 with SEC by April 2, NYSE judged that the company was not in compliance with the exchange's listing requirements. The company's shares are expected to be quoted in the Pink Sheets. The company anticipates that the ongoing audit into prior fiscal periods will be completed in time for ProQuest to file the restated 2005 10-K in 2Q07.

OTHER EDUCATION PUBLISHING NEWS

Financial and M&A Activity

Reader's Digest announced the completion of the Ripplewood-led buyout of the company at \$17 per share for a total value for \$2.4 billion

Personnel Changes

Reader's Digest announced the appointment of Mary Berner as CEO after the close of the Ripplewood-led buyout. Ms. Berner was formerly an officer at Conde Nast and President and CEO of Fairchild Publications.

EDUCATION PUBLISHING SHORT INTEREST

Company	Ticker	Short Interest	% Chg M/M	% of Float	Avg Vol	% Chg M/M	Days to Cover	Last Month
Educational Publishers								
John Wiley & Sons, Inc.	JWA	337,977	13%	1%	106,511	6%	3.2	3.0
McGraw-Hill Companies, Inc.	MHP	2,713,136	31%	1%	2,067,136	29%	1.3	1.3
ProQuest Company	PQE	2,402,370	-3%	9%	237,113	0%	10.1	10.4
Pearson, plc.	PSO	215,259	44%	0%	133,672	-26%	1.6	0.8
Scholastic Corp.	SCHL	3,340,207	11%	15%	249,689	-23%	13.4	9.2

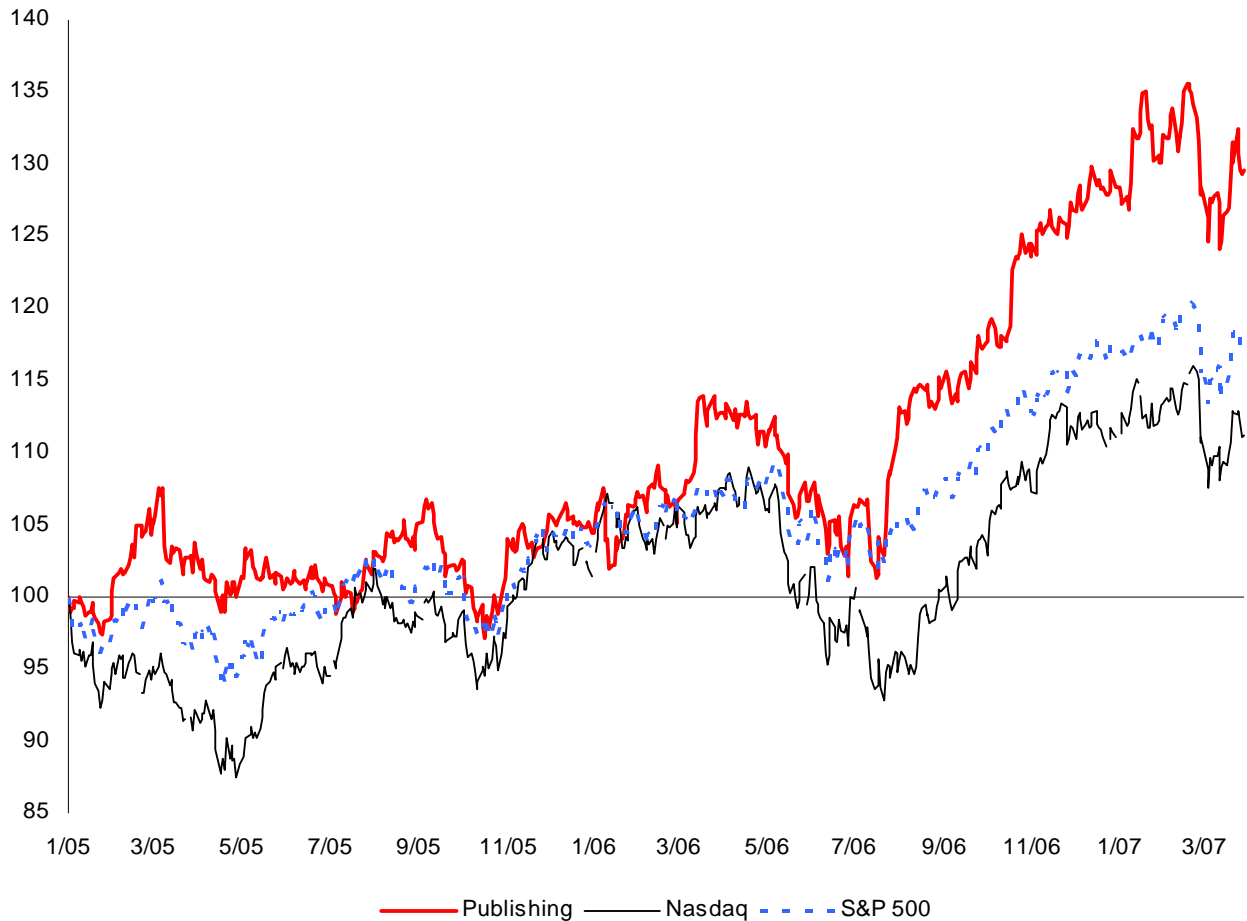
Source: NASDAQ

Above are short interest data for select publicly traded education publishing companies. The table includes the number of short interest shares as of March 15, the percent change versus the previous month, average daily volume, days-to-cover ratio (short interest divided by average volume), and the previous month's ratio.

With the exception of ProQuest, all of the companies in our education publishing index experienced an increase in the number of short interest shares, led by Pearson which increased 44% to 215,259 shares (the second month with an increase over 40%), McGraw-Hill, which grew 31% to 2.7 million, and John Wiley, which increased

13% to 337,977 shares. Scholastic experienced the largest increase in days-to-cover ratio given the increase in short interest shares as well as a large decrease in average volume for the month. At 13.4 days, it now has the highest ratio in the education publishing group, followed by ProQuest at 10.1 days. McGraw-Hill took over as the company with the lowest days-to-cover ratio of 1.3 days as the increase in short interest shares was offset by a 29% spike in volume.

PUBLISHING INDEX VS S&P 500 AND NASDAQ



Source: FactSet

CORPORATE TRAINING

Skillsoft Reports F4Q07 Results

Skillsoft reported F4Q07 (January) revenue of \$58 million, up 5% from \$55 million in F4Q06. Revenue growth was driven by a 9% increase in Multi-Modal Learning revenue to \$57 million. Gross margin improved to 88% versus 85% in F4Q06 as the impact of the amortization of intangible assets decreased to 1% from 3%. Operating margin improved to 17% from 7% due to the gross margin improvement and operating expenses decreasing as percentage of revenue to 29% from 22%. As result, EPS increased to \$0.08 from \$0.04. Management provided F2008 guidance for revenue of \$234 million to \$242 million and EPS of \$0.30 to \$0.33. For F1Q08, the company expects revenue of \$56.5 million to \$58.5 million and EPS of \$0.05 to \$0.06.

GP Strategies Reports 4Q06 Results

GP Strategies posted 4Q06 revenue of \$45.4 million, up 2.6% versus 4Q05. The increase in revenue was driven by a \$3.1 million increase in the Manufacturing & BPO segment, partially offset by a \$2 million decrease in the Process, Energy & Government segment. Gross margin improved to 15% from 14% a year ago and SG&A increased as percentage of revenue to 7.6% from 6.9%. As a result, EPS fell to \$0.11 from \$0.25 (including a \$0.16 gain due to a litigation settlement).

OTHER CORPORATE TRAINING NEWS

Financial and M&A Activity

FranklinConvey announced the redemption of its remaining \$37.3 million of Series A Preferred Stock. The redemption price is \$25 plus accrued dividends through the redemption date of April 4.

Plateau Systems, a provider of software for developing, managing and optimizing organizational talent, announced that it has acquired NuvoSoft Inc., a privately held provider of web-based compensation management software.

Corporate Developments

Intrepid Learning Solutions launched the Enterprise Learning Performance Assessment, a consulting methodology and benchmarking toolset to help clients evaluate the current state of their learning organization.

SunGard Higher Education announced the launch of Banner Performance Reporting and Analytics, a solution that provides administrators with access to information and reporting tools to help set performance goals, measure progress, and document outcomes. SunGard also unveiled the Banner Enrollment Management Suite, introducing a technology-assisted recruiting, admissions, and retention tool for enrollment managers.

CORPORATE TRAINING SHORT INTEREST

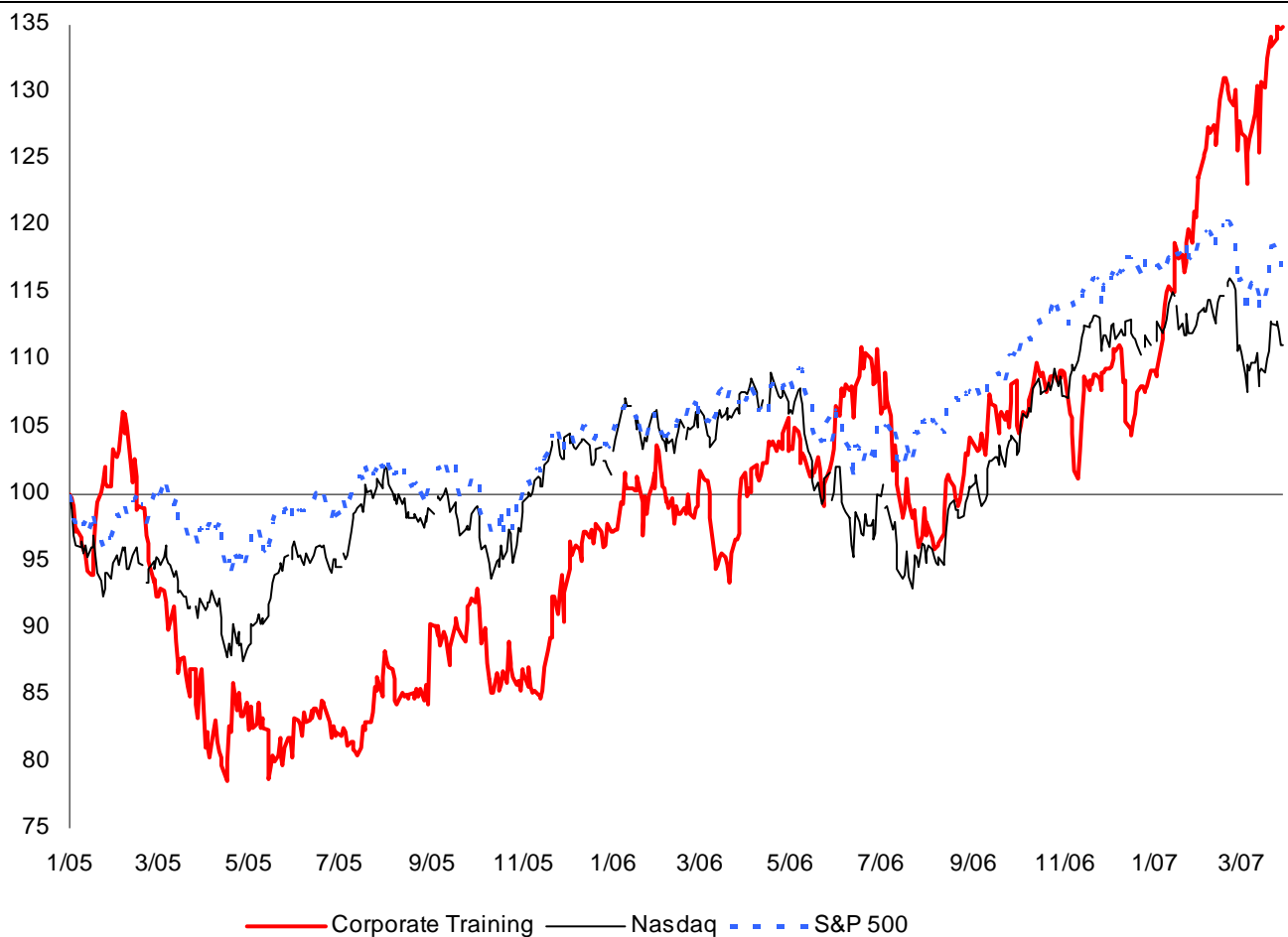
Company	Ticker	Short Interest	% Chg M/M	% of Float	Avg Vol	% Chg M/M	Days to Cover	Last Month
Corporate Training								
Learning Tree International, Inc.	LTRE	759,208	-2%	9%	26,732	-75%	28.4	7.4
SkillSoft, plc.	SKIL	853,946	2%	1%	559,279	15%	1.5	1.7
SumTotal Systems, Inc.	SUMT	428,018	9%	2%	192,619	74%	2.2	3.6

Source: NASDAQ

Above are short interest data for select publicly traded corporate training companies. The table includes the number of short interest shares as of March 15, the percent change versus the previous month, average daily volume, days-to-cover ratio (short interest divided by average volume) and the previous month's days-to-cover ratio.

Learning Tree International short interest shares increased 3% during the month to 782,176. Volume fell 4%, causing the days-to-cover ratio increase to 30.5 days from 28.4 days the prior month. SkillSoft short interest shares decreased 34% to 559,963 and days-to-cover declined up to 0.9 days. Short interest shares of SumTotal increased 8% to 462,499 and days-to-cover decreased to 3.3 days.

CORPORATE TRAINING INDEX VS S&P 500 AND NASDAQ



Source: FactSet

Nobel Learning Communities Inc. (NLCI - NASDAQ)

Nobel Learning Communities is a provider of private-pay education and supplemental services for students in preschool through 12th grade. The company's core business is the operation of private-pay preschools, elementary schools, and middle schools. The company also provides education-based enrichment opportunities, summer camps, and programs for learning challenged students and special purpose high schools. Nobel's schools operate under a number of localized brands including Chesterbrook Academy, Merryhill School, Evergreen Academy, and Paladin Academy. The company owns 151 schools in 13 states with the capacity to serve 24,000 students.

INVESTMENT SUMMARY

Attractive Market. Approximately 85% of the families of Nobel students are dual income with an average income of \$80,000. The Bureau of Labor Statistics predicts that the number of women entering the workforce between 2002 and 2012 will increase 10.5% in the 20- to 24-year-old age group and 7.5% for women between 25 and 34 years old. In addition, the number of children under five years old is expected to increase from 24.4 million in 2005 to approximately 25.6 million in 2010 and 26.8 million in 2015.

Market Position. Unlike other for-profit providers of pre-primary and primary education such as Edison, Nobel Learning is not dependent on public funding as 96% of tuition is paid by parents. Thus, Nobel's private-pay model is not at the whim of fluctuations in state and local spending. The company's schools may even benefit from downturns in public spending as parents' willingness to pay for private education could increase due to a decline in education quality at their local public school.

Curriculum Development. Nobel develops its own curriculum based on concepts of multi-sensory, integrated and age-appropriate learning. The curriculum at the preschool is geared towards preparing children for success in elementary school, providing the company with a unique marketing tool versus public preschools and childcare centers.

Recent Turnaround. The current management team led by CEO George Bernstein has stabilized the company over the last three years. Nobel's core business suffered from a lack of attention in the period from F1999 to F2003 as the previous management team invested in ancillary programs. Management believes that the company is now poised to grow after undergoing a viability year (F2004), a year of stabilization (F2005), and an investment year (F2006).

STATISTICAL PROFILE

Price (3/30/07): \$15.35 Dividend: \$0.00
 52-Wk. Range: \$9 -15 Yield: 0.0%
Rating: Not Rated
Suitability Rating: Not Rated

FY: June	2005	2006	2007E*
EPS	\$0.29	\$0.45	\$0.58
P/E Ratio	52.9	34.1	26.5
Cal EPS	\$0.38	\$0.65	N/A
P/E Ratio	40.4	23.6	N/A

*First Call consensus

Projected 3-Year EPS Growth Rate:	N/A
Book Value (12/30/06):	\$5.93
Market Capitalization (millions):	\$130
Debt/Total Capitalization (12/30/06):	30.5%
Return on Equity (12/30/06):	15.9%
Return on Invested Capital (12/30/06):	13.0%
Institutional Ownership:	28%
Insider Ownership:	30%
Shares Outstanding (millions):	9.6
Average Daily Trading Volume:	9,473
Headquarters:	West Chester, PA
IPO/Founded:	1993/1983
CEO:	George Bernstein
CFO:	Thomas Frank
COO:	Patricia Miller

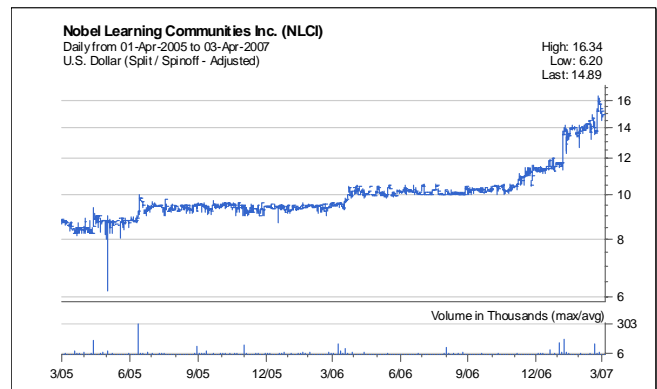


Chart Courtesy of FactSet Research Systems

Education Universe – Comparable Company Analysis

\$ millions, except per share amounts

Company	Ticker	FY End	Rating	Price Target	Price 03/30/07	52-week range		Performance				Avg. Daily Volume (000s)	Market Cap.	Debt/Cap	ROE (ttm)	Book Value Per Share	Dividend Yield	
						High	Low	1 Mo.	3 Mo.	2006	2007 YTD							
K-12 Education																		
Bright Horizons Family Solutions, Inc.	BFAM	December	Neutral	\$40	\$37.75	\$44.98	\$31.80	-6%	-2%	+4%	-2%	182	\$985	2%	18.8	7.90	0%	
Educate, Inc.	EEEE	December	Neutral	\$8	\$7.66	\$8.97	\$5.06	-2%	+8%	-40%	+8%	258	\$329	35%	1.2	4.73	0%	
Leapfrog Enterprises, Inc.	LF	February	NR	-	\$10.70	\$11.56	\$6.71	+3%	+13%	-19%	+13%	372	\$675	0%	-35.0	6.76	0%	
Nobel Learning Communities, Inc.	NLCI	June	NR	-	\$15.35	\$16.34	\$9.30	+14%	+34%	+21%	+34%	12	\$124	NA	16.5	5.65	0%	
Plato Learning, Inc.	TUTR	October	NR	-	\$4.20	\$10.23	\$3.70	-17%	-22%	-32%	-22%	79	\$100	0%	-19.1	5.29	0%	
Princeton Review, Inc.	REVV	December	NR	-	\$5.37	\$6.49	\$4.72	+4%	+2%	+3%	+2%	47	\$148	11%	-16.2	1.77	0%	
Renaissance Learning, Inc.	RLRN	December	NR	-	\$13.17	\$18.80	\$10.23	-2%	-26%	-6%	-26%	36	\$385	0%	12.5	2.91	1.40%	
School Specialty, Inc.	SCHS	April	Neutral	\$39	\$36.11	\$40.31	\$30.12	-3%	-4%	+3%	-4%	176	\$763	36%	4.7	25.84	0%	
Scientific Learning, Inc.	SCIL	December	NR	-	\$7.64	\$7.72	\$3.82	+18%	+39%	-3%	+39%	12	\$129	0%	NM	-0.04	0%	
K-12 Index (Market Cap Weighted)								-1%	+1%	-6%	+1%							
Post-Secondary Education																		
Apollo Group, Inc.	APOL	August	Neutral	\$47	\$43.90	\$56.30	\$33.33	-7%	+13%	-36%	+13%	1,809	\$7,596	0%	62.5	4.45	0%	
Blackboard, Inc.	BBBB	December	Outperform	\$38	\$33.63	\$35.55	\$22.78	+1%	+12%	+4%	+12%	295	\$950	4%	-2.1	4.75	0%	
Capella Education Co.	CPLA	December	NR	-	\$33.54	\$35.70	\$23.29	+3%	+38%	-3%	+38%	43	\$515	0%	NA	2.41	0%	
Career Education Corp.	CECO	December	Neutral	\$27	\$30.50	\$42.59	\$17.60	+3%	+23%	-27%	+23%	1,534	\$2,934	1%	15.4	10.20	0%	
Corinthian Colleges, Inc.	COCO	June	Neutral	\$13	\$13.75	\$15.36	\$10.50	-1%	+1%	+16%	+1%	796	\$1,187	4%	8.0	4.63	0%	
DeVry, Inc.	DV	June	Neutral	\$30	\$29.35	\$29.90	\$19.75	+6%	+5%	+40%	+5%	445	\$2,079	2%	9.3	8.48	0.34%	
eCollege.com	ECLG	December	NR	-	\$17.95	\$25.73	\$10.96	+3%	+15%	-13%	+15%	172	\$400	0%	8.2	4.52	0%	
ITT Educational Services, Inc.	ESI	December	NR	-	\$81.49	\$84.38	\$58.50	+2%	+23%	+12%	+23%	348	\$3,344	4%	57.5	2.28	0%	
Laureate Education, Inc.	LAUR	December	Neutral	\$60	\$58.97	\$62.15	\$40.52	-1%	+21%	-7%	+21%	562	\$3,033	12%	9.6	21.22	0%	
Lincoln Educational Services Corp.	LINC	December	Outperform	\$14	\$14.21	\$18.45	\$11.35	+19%	+5%	-5%	+5%	48	\$361	7%	13.7	5.52	0%	
New Oriental Educ. & Tech. Group	EDU	May	NR	-	\$40.53	\$44.80	\$20.60	-4%	+21%	+32%	+21%	406	\$1,013	2%	NA	6.08	0%	
Strayer Education, Inc.	STRA	December	Outperform	\$139	\$125.00	\$126.19	\$92.59	+6%	+18%	+13%	+18%	110	\$1,787	0%	30.5	11.87	1.00%	
Universal Technical Institute, Inc.	UTI	September	NR	-	\$23.08	\$30.26	\$17.00	-2%	+4%	-28%	+4%	241	\$584	0%	22.1	3.85	0%	
Post-Secondary Index (Market Cap Weighted)								-1%	+15%	-7%	+16%							
Educational Publishers																		
John Wiley & Sons, Inc.	JWA	April	NR	-	38.08	\$41.80	\$31.60	-1%	-1%	-1%	-1%	101	\$2,179	4%	23.1	7.52	1.13%	
McGraw-Hill Companies, Inc.	MHP	December	NR	-	62.34	\$69.98	\$47.80	-3%	-8%	+32%	-8%	2,004	\$22,066	0%	30.5	7.36	1.07%	
Pearson, plc.	PSO	December	NR	-	17.45	\$17.48	\$12.51	+12%	+16%	+27%	+16%	142	\$13,932	23%	14.9	7.62	3.60%	
ProQuest Company	PQE	December	NR	-	9.20	\$22.50	\$7.90	-16%	-12%	-63%	-12%	328	\$275	68%	19.0	10.61	0%	
Reed Elsevier, plc.	RUK	December	NR	-	48.60	\$50.54	\$37.41	+4%	+10%	+17%	+10%	30	\$15,183	0%	37.9	5.66	2.67%	
Scholastic Corp.	SCHL	May	NR	-	31.16	\$37.08	\$24.99	-10%	-13%	+26%	-13%	366	\$1,325	24%	5.6	23.67	0%	
Education Publishers Index (Market Cap Weighted)								+3%	+3%	+25%	+3%							
Corporate Training																		
GP Strategies Corp.	GPX	December	NR	-	\$9.10	\$9.78	\$6.60	+2%	+10%	+2%	+10%	43	\$144	7%	7.8	4.91	0%	
Healthstream, Inc.	HSTM	December	NR	-	\$4.30	\$5.14	\$2.50	+15%	+9%	+70%	+9%	31	\$94	0%	9.4	1.27	0%	
Learning Tree International, Inc.	LTRE	September	NR	-	\$11.22	\$12.66	\$7.19	+0%	+26%	-31%	+26%	35	\$185	0%	1.5	3.68	0%	
Saba Software, Inc.	SABA	May	NR	-	\$6.55	\$7.75	\$4.88	-10%	+5%	+53%	+5%	141	\$187	3%	-24.0	1.76	0%	
SkillSoft, plc.	SKIL	January	NR	-	\$8.36	\$8.44	\$4.82	+18%	+35%	+13%	+35%	585	\$853	0%	21.6	1.15	0%	
SumTotal Systems, Inc.	SUMT	December	NR	-	\$7.98	\$8.87	\$4.85	-8%	+32%	+34%	+32%	144	\$206	7%	-17.2	2.91	0%	
Corporate Training Index (Market Cap Weighted)								+8%	+26%	+17%	+26%							
S&P500					SPX	1,420.86	1,462	1,219	+1%	+0%	+14%	+0%						

Sources: SEC documents, FirstCall, FactSet, Robert W. Baird Estimates for APOL, BBBB, BFAM, CECO, COCO, DV, EEEE, LAUR, LINC, SCHS, and STRA

Education Universe – Comparable Company Analysis

\$ millions, except per share amounts

Company	Ticker	Revenue				EPS			Price/Earnings			EV/EBITDA (TTM)	FCF TTM	FCF (TTM) Yield	Price/Sales	Price/Book			
		F2006E	% Change	F2007E	% Change	C2005A	C2006E	C2007E	C2005A	C2006E	C2007E								
K-12 Education																			
Bright Horizons Family Solutions, Inc.	BFAM	697.9	12%	768.9	10%	1.29	1.52	1.77	29.2x	24.8x	21.3x	11.5	22.2	2.3%	1.4	4.78			
Educate, Inc.	EEEE	354.7	7%	367.8	4%	0.52	(0.15)	0.09	14.7x	NM	89.1x	32.6	(1.7)	-0.5%	0.9	1.62			
Leapfrog Enterprises, Inc.	LF	485.0	-25%	577.3	19%	0.28	(2.31)	(0.58)	38.2x	NM	NM	NA	48.4	7.2%	1.3	1.58			
Nobel Learning Communities, Inc.	NLCI	NA	NA	NA	NA	0.37	0.52	NA	41.5x	29.8x	NA	7.7	4.5	3.6%	0.7	2.72			
Plato Learning, Inc.	TUTR	90.7	-26%	74.8	-18%	(0.39)	(0.52)	(0.49)	NM	NM	NM	20.3	3.8	3.8%	1.2	0.79			
Princeton Review, Inc.	REVV	140.7	8%	NA	NA	(0.16)	(0.34)	NA	NM	NM	NA	52.1	(3.9)	-2.6%	1.1	3.03			
Renaissance Learning, Inc.	RLRN	111.5	-4%	118.1	6%	0.80	0.41	0.60	16.5x	32.1x	22.0x	12.4	14.8	3.8%	3.4	4.52			
School Specialty, Inc.	SCHS	1,015.7	1%	1,089.8	7%	1.48	1.27	2.23	24.3x	28.5x	16.2x	10.8	51.2	6.7%	0.7	1.40			
Scientific Learning, Inc.	SCIL	50.1	24%	61.1	22%	0.31	0.01	0.21	24.6x	764.0x	36.4x	NA	(1.3)	-1.0%	3.1	NM			
K-12 Average									27.0x	175.8x	37.0x	21.1		2.6%	1.6	2.56			
Post-Secondary Education																			
Apollo Group, Inc.	APOL	2,476.3	10%	2,612.9	6%	2.60	2.44	2.51	16.9x	18.0x	17.5x	9.3	369.6	4.9%	3.0	9.87			
Blackboard, Inc.	BBBB	183.1	35%	234.9	28%	0.95	(0.39)	0.37	35.4x	NM	90.8x	62.3	17.6	1.9%	5.7	7.08			
Capella Education Co.	CPLA	213.6	43%	246.9	16%	NA	1.06	1.02	NA	31.6x	32.9x	NA	NA	NA	2.9	13.93			
Career Education Corp.	CECO	1,785.6	-12%	1,664.1	-7%	2.32	1.81	1.33	13.1x	16.8x	23.0x	7.6	146.9	5.0%	1.6	2.99			
Corinthian Colleges, Inc.	COCO	966.6	0%	976.2	1%	0.57	0.36	0.48	24.2x	37.9x	28.9x	13.5	(1.7)	-0.1%	1.2	2.97			
DeVry, Inc.	DV	843.3	8%	947.1	12%	0.46	0.74	0.93	64.3x	39.8x	31.7x	15.5	97.3	4.7%	2.3	3.46			
eCollege.com	ECLG	63.4	-38%	75.9	20%	0.50	0.29	0.42	35.9x	61.9x	43.1x	25.9	13.0	3.3%	7.7	3.97			
ITT Educational Services, Inc.	ESI	853.1	24%	957.2	12%	2.36	2.72	3.21	34.5x	30.0x	25.4x	14.9	121.2	3.6%	4.4	35.69			
Laureate Education, Inc.	LAUR	1,145.8	31%	1,331.5	16%	1.66	1.92	1.99	35.5x	30.8x	29.6x	15.5	42.1	1.4%	2.6	2.78			
Lincoln Educational Services Corp.	LINC	323.0	8%	348.0	8%	0.76	0.62	0.75	18.6x	22.9x	19.0x	8.0	2.5	0.7%	1.1	2.57			
New Oriental Educ. & Tech. Group	EDU	127.4	33%	160.4	26%	NA	NA	0.87	NA	NA	46.6x	NA	NA	NA	10.5	6.67			
Strayer Education, Inc.	STRA	263.6	20%	313.0	19%	3.26	3.61	4.22	38.3x	34.6x	29.6x	19.2	48.6	2.7%	6.8	10.53			
Universal Technical Institute, Inc.	UTI	347.1	12%	362.1	4%	1.19	0.92	0.80	19.4x	25.0x	28.8x	10.1	(6.6)	-1.1%	1.7	6.00			
Post-Secondary Average									30.6x	31.8x	34.4x	18.4		2.4%	4.0	8.35			
Educational Publishers																			
John Wiley & Sons, Inc.	JWA	1,230.0	18%	1,606.5	31%	1.56	1.47	1.42	24.4x	25.9x	26.8x	9.4	177.2	8.1%	2.0	5.06			
McGraw-Hill Companies, Inc.	MHP	6,255.1	4%	6,766.2	8%	2.27	2.50	2.90	27.5x	24.9x	21.5x	11.7	1,122.4	5.1%	3.5	8.47			
Pearson, plc.	PSO	8,266.5	17%	8,247.0	0%	0.59	0.76	0.85	29.6x	23.1x	20.6x	9.4	781.2	5.6%	1.6	2.29			
ProQuest Company	PQE	115.0	NA	NA	NA	(1.88)	(2.41)	(0.30)	NM	NM	NM	4.2	22.5	8.2%	0.5	0.87			
Reed Elsevier, plc.	RUK	10,279.0	9%	NA	NA	2.17	2.69	2.89	22.4x	18.1x	16.8x	NA	NA	NA	1.6	8.59			
Scholastic Corp.	SCHL	2,184.4	-4%	2,448.7	12%	1.65	1.62	2.14	18.9x	19.3x	14.6x	6.4	(0.4)	0.0%	0.6	1.32			
Education Publishers Average									1.35	1.39	1.87	24.5x	22.3x	24.1x	8.2		5.4%	1.6	4.43
Corporate Training																			
GP Strategies Corp.	GPX	247.5	41%	282.5	14%	0.29	0.40	0.59	31.4x	22.8x	15.5x	9.4	16.6	11.5%	0.8	1.85			
Healthstream, Inc.	HSTM	44.9	64%	51.7	NA	0.09	0.11	0.19	47.8x	39.1x	22.6x	15.3	4.5	4.8%	3.0	3.39			
Learning Tree International, Inc.	LTRE	162.4	7%	NA	NA	0.07	0.12	NA	154.8x	91.6x	NA	12.5	(2.1)	-1.1%	1.2	3.05			
Saba Software, Inc.	SABA	102.9	45%	118.8	15%	(0.07)	0.13	0.30	NM	50.2x	21.8x	NA	(5.1)	-2.7%	1.9	3.72			
SkillSoft, plc.	SKIL	240.1	11%	260.7	9%	0.17	0.23	0.32	50.4x	37.2x	26.5x	15.8	31.7	3.7%	3.8	7.26			
SumTotal Systems, Inc.	SUMT	131.9	76%	150.0	14%	(0.07)	0.25	0.47	NM	31.9x	17.1x	222.5	0.0	0.0%	1.9	2.74			
Corporate Training Average									84.3x	50.0x	19.9x	55.1		2.7%	2.1	3.67			
S&P500		SPX					76.28	88.18	92.64	18.6x	16.1x	15.3x							

Sources: SEC documents, FirstCall, FactSet, Robert W. Baird Estimates for APOL, BBBB, BFAM, CECO, COCO, DV, EEEE, LAUR, LINC, SCHS, and STRA

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