Post-Secondary Education

Coverage Report

"Market Intelligence for Industry Players" **Q2 2010**

Capstone Partners
Investment Banking Advisors

CCA
Career College Association
Allied Plus Member

Post-Secondary Education
Coverage Report

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Market Overview

Over the last two years, the demand for post-secondary education ("PSE") has flourished in the U.S. Driven by workforce demands either to retool or augment job skills during the economic downturn, for-profit career colleges continue to play an increasingly important role in providing students of all backgrounds access to higher education and specialized career training.

According to the National Center for Education Statistics (NCES), overall undergraduate enrollment in degree-granting PSE institutions increased from 13.2 million students in 2000 to 16.4 million in 2008 and is projected to reach 19.0 million students in 2019. Fueled by the jump in enrollment at private institutions, overall undergraduate enrollment increased by 24% between 2000 and 2008. Enrollment in public institutions increased from 10.5 million students in 2000 to 12.6 million in 2008 – a 20% increase. Private institutions experienced a higher rate of growth over this period, increasing population from 2.6 million students in 2000 to 3.8 million in 2008 – a 46% increase. Most of the growth in private enrollment over this time period occurred among for-profit institutions. From 2000 to 2008, enrollment at private for-profit four-year institutions more than quadrupled, from 0.2 million to 0.9 million students. Likewise, two-year institutions experienced enrollment increases from 5.9 million to 7.0 million students from 2000 to 2008 and is expected to reach 8.2 million students by 2019.

With the growing demand for higher education, total PSE revenues for 2008 were estimated at $406.3 billion and are expected to top $509.0 billion by 2012. The for-profit sector is a significant contributor to the overall growth in the PSE market. Revenues among career colleges grew 18.7% annually since 1996, reaching an estimated $25.2 billion in 2008. In 1996, career college revenues represented only 1.7% of total PSE revenues; this figure has increased to 6.2% as of 2008. Growth in this segment is expected to moderate to a pace of 9.0% annually through 2012, reaching an estimated $35.6 billion, or 7.0%, of the total PSE market.

Regulatory Environment

As the economic climate as undoubtedly benefited the broader industry, the highly regulated for-profit PSE market is experiencing heightened scrutiny for over-promising and under-delivering. Some critics say that schools have exploited the recession as a lucrative recruiting device while tapping a larger pool of federal student aid. As a result, the federal government has proposed discriminatory policy initiatives that could significantly impact the state of the for-profit higher education market. The new regulations, which pertain to issues such as incentive compensation, gainful employment and student financing, can be potentially harmful to for-profit education providers.

Gainful Employment

The Higher Education Act of 1965 requires for-profit colleges to provide "an eligible program of training to prepare students for gainful employment in a recognized occupation" but does not currently define gainful employment. During negotiated rulemaking for Higher Education 2009-10, the U.S. Department of Education (DOE) proposed defining gainful employment by establishing an 8% debt-service-to-income threshold based on median student debt for recent college graduates with income based either on the Bureau of Labor Statistics (BLS) 25th percentile wage data or actual earnings of the college's graduates. Loan payments would be based on the standard 10-year repayment plan for the unsubsidized Stafford loan program. For programs that failed to satisfy this standard, the DOE proposed an alternative that requires a loan repayment rate for recent college graduates of 90%. Institutions that fail to meet the proposed gainful employment standard could lose eligibility for federal financial aid. Critics of the proposal have uncovered several flaws in the proposed criteria for gainful employment, including:

- The 8% debt-to-service income threshold significantly impacts bachelor degree programs and would also eliminate many associate degree programs at for-profit colleges.
- The 90% loan repayment rate would be the equivalent of requiring colleges to have a two-year cohort default rate (CDR) of less than 2.3% for students who graduated. The national average CDR was 6.7% for the FY2007 cohort and 7.2% for the FY2008 cohort.
- The thresholds are based on median debt at graduation, meaning that half the students will have debt above the threshold.
- The proposed use of the BLS wage data is biased toward lower income data.
- The proposed linkage of programs with specific occupations precludes for-profit colleges from offering programs in the liberal arts or fields of study that are not career-specific.

The following table uses 2007 U.S. Census Bureau data for median income figures for associate's and bachelor's degree recipients age 25-34 to calculate the monthly loan payment based on the 8% threshold. This data is used to calculate the equivalent loan balances on an unsubsidized Stafford loan, which is then used to calculate the percentage of college graduates who graduate with less debt based on the 2007-08 National Postsecondary Student Aid Study. If the percentage of students is much less than 50%, it suggests that most colleges will experience difficulty in reaching the 8% threshold.

Implications of 8% Debt-to-Income Threshold	Associate's Degree	Bachelor's Degree
Median Income	$35,535	$42,092
Monthly Loan Payment at 8% of Income	$236.90	$280.61
Equivalent Loan Balance (6.8%, 10 year)	$20,586	$24,384
Percentage of Graduates with Less Debt		
For-Profit Colleges	60.4%	28.2%
Non-Profit Colleges	62.4%	54.1%
Public Colleges	87.2%	68.7%

Gainful Employment (continued)

The low percentage for bachelor's degree recipients at for-profit colleges suggests that the 8% threshold, if implemented, would eliminate all bachelor's degree programs at for-profit colleges. Although associate's degree programs at for-profit colleges do not seem to be as negatively impacted, the 8% threshold is still likely to eliminate many such programs. If non-profit colleges were subjected to the same restrictions, many associate's and bachelor's degree programs at non-profit colleges would not be able to satisfy the proposed standard.

In summary, the gainful employment proposal has little effect on shorter certificate and diploma programs and instead targets longer bachelor's and doctorate degree programs as well as higher priced programs such as culinary and vehicle repair programs. The proposal also targets lower paying associate's degree careers such as medical assistants, healthcare billing & coding and teaching assistants. Critics of the proposal argue that the proposal will ultimately limit students from attending colleges of their choice. Although the rule is meant to reduce student debt and/or curb high tuition prices, the proposal, as it currently stands, will limit students in some careers from obtaining federal loans and grants that come from Title IV federal funding. As such, the students will either be unable to attend the schools of their choice or they will be forced to use more costly and restrictive lending.

The DOE is expected to publicly unveil the draft rules in early June. Final regulations are expected to be released by November and become effective by July of 2011.

Incentive Compensation

In 1992, Congress banned schools participating in federal student aid programs from paying commissions, bonuses or other incentive payments to individuals based on their success in enrolling students or securing financial aid. Congress instituted this incentive compensation ban to eliminate abusive recruiting practices in which schools enrolled unqualified students who then received federal student aid funds. In 2002, the DOE issued regulations (commonly referred to as "safe harbors") that allowed for 12 activities or payment arrangements that schools could use without violating the ban against incentive compensation.

As of January of 2010, the DOE was reviewing these safe harbor regulations as part of a negotiated rule making process to maintain or improve federal student aid programs. The Higher Education Opportunity Act mandated that the Government Accountability Office (GAO) conduct a study on the DOE's enforcement of the incentive compensation ban in light of the safe harbors and report on the number of violations substantiated by the Secretary of Education since 1998, the nature of these violations and the names of the institutions involved. The GAO found that between 1998 and 2009, the DOE substantiated incentive compensation violations at 32 schools. Many of the violations involved payments by schools to their staff in the form of bonuses or commissions for successfully enrolling students in the school, while a smaller number involved payments to third party contractors or non-cash rewards to staff for successfully enrolling students.

As of February of 2010, a panel representing institutions, consumers and government interests was unable to reach agreement on whether to revise or delete the safe harbors or to take a different approach to prevent violations of the ban. If the proposed regulatory changes are to become effective on July 1, 2011, the DOE must publish final regulations no later than November 1, 2010.

Student Lending

On February 1, 2010, President Obama released his FY2011 budget and requested a 7.5% increase in discretionary spending on education (from $46.2 billion to $49.7 billion) to support his goal for the U.S. to have the highest proportion of college graduates in the world by 2020. On March 30, 2010, President Obama signed into law the Health Care and Education Reconciliation Act of 2010, which represents a historic investment in higher education. The legislation strengthens the Pell Grant program, invests in community colleges, extends support for Historically Black Colleges and Universities and other Minority Serving Institutions and helps student borrowers manage their student loan debt.

According to the non-partisan Congressional Budget Office, the legislation eliminates fees the government pays to banks that provide loans to college students and uses the estimated $60 billion savings in the next 10 years primarily to expand Pell Grants. More grants will be available to low-income students, and the annual maximum scholarship will increase with inflation starting in 2013, increasing from the current $5,550 to an estimated $5,975 by 2017. The changes are expected to help meet the growing demand for Pell Grants and plug a potential shortfall in the program. According to the DOE, there were 7.7 million Pell Grant recipients in 2009, at a cost of $28 billion. The cost is expected to grow to $32 billion in 2010 and to $34 billion by 2011.

The Shift to Direct Lending

Under the Reconciliation Act, federal student loans will no longer be made by private lenders under the Federal Family Education Loan (FFEL) Program beginning July 1, 2010. Instead, all new federal student loans will come directly from the Education Department under the Direct Loan Program, which currently makes up about 30% of such loans. These direct loans will be delivered and collected by private companies under performance-based contracts with the Education Department.

While existing loans are not affected, students who have FFELP loans in place will have to complete new entrance counseling and master promissory notes before starting their next semester with the switch to direct lending. Campuses across the country are gearing up to meet the July 1 deadline to revamp their student loan programs. Schools will have to beef up financial literacy and contact with students who are delinquent because the DOE is not fully equipped to handle all the services that the lenders provided. According to the DOE, as of May of 2010, only approximately one-third of schools are prepared for the end of FFELP.

The legislation also affects third-party student loan companies like Sallie Mae. Supporters of the legislation maintain that the overhaul of the federal student loan system and the end of government-subsidized third-party lending will save taxpayers billions of dollars and shift what had previously been bank subsidies into other education-based programs. At the same time, however, the elimination of FFELP means that companies like Sallie Mae will have to transition away from being originators of federal student loans to providers of federal student loan services – handling borrower payments, repayment plans and collections.

Sallie Mae, Nelnet, Great Lakes Educational Loan Services and the Pennsylvania Higher Education Assistance Agency (PHEAA) are the four student loan companies that won contracts with the DOE to service $550 billion in current outstanding federal student loans as well as future federal student loans originated under the Federal Direct Loan program. To help employees at FFELP-based student loan companies like Sallie Mae, the Education Department has created a $50 million fund to aid in transitioning workers from loan origination to loan servicing.

Cohort Default Rates

Cohort default rates (CDRs) are calculated annually for every college and university that participates in the federal student aid program. The DOE released the first draft of CDRs for students who graduated or left school in FY2008, which showed a 0.5 percentage point increase from the 2007 cohort, from 6.7% in 2007 to 7.2% in 2008. Borrowers from both public and non-profit institutions had a slight increase in their CDRs, but the biggest jump occurred at for-profit schools, which had a 0.9 percentage point gain, from 11.0% in 2007 to 11.9% in 2008. The overall increased rates were not surprising as the FY2008 included borrowers who entered repayment during some of the worst parts of the recession, which means fewer graduates finding jobs and those that did earning less than anticipated.

		Cohort	
Sector	**2006**	**2007**	**2008**
Public	**4.7%**	**5.9%**	**6.2%**
< 2 Years	6.4%	7.5%	6.9%
2-3 Years	8.4%	9.9%	10.3%
4+ Years	3.4%	4.3%	4.6%
Private Nonprofit	**2.5%**	**3.7%**	**4.1%**
< 2 Years	10.0%	12.6%	14.3%
2-3 Years	6.1%	8.1%	8.2%
4+ Years	2.4%	3.6%	3.9%
For-Profit	**9.7%**	**11.0%**	**11.9%**
< 2 Years	10.9%	12.0%	12.5%
2-3 Years	11.1%	12.5%	12.9%
4+ Years	8.4%	9.8%	11.2%
Other	1.2%	2.2%	2.2%
Total	**5.2%**	**6.7%**	**7.2%**

Source: U.S. Department of Education

While these two-year rates have been used for years, Congress recently made changes in the Higher Education Opportunity Act of 2008 to expand the cohort default rate window from two years to three years with the goal of providing better information about the longer-term borrowing prospects for students at individual schools. To compensate somewhat for the effect of the change in definition of the cohort default rate, section 436(a) of the law replaces the 25% threshold in effect for FY1994 through FY2011 with a 30% threshold for FY2012 onward. Before Congress passed this law, the DOE ran an analysis of the potential impact of expanding the cohort default rate window from two years to three years (and four years) on FY2004 cohort default rates. This data has never been officially released, but publications obtained a copy of the aggregate data and published a summary of the impact of the changes. The data implies that a three-year cohort default rate window would increase cohort default rates by 69% overall and by 53% for public colleges, 57% for private colleges and 94% for proprietary colleges. As a result, several schools have had to significantly augment existing financial aid staffing in order to manage graduated students for an additional year.

Occupational Growth

PSE institutions that train students in high growth occupational fields are poised to continue to experience steady growth in the future. According to the BLS, the top 20 occupations with the largest numerical growth over the 2008 to 2018 period account for more than one-third of all new jobs for the period (5.8 million jobs combined). The health service industry as well as education, sales and food service industries are projected to experience the largest increases in job levels. Seven of the top 20 occupations only require on-the-job training while the rest of the occupations require some level of post-secondary education and/or previous work experience in a related field. The table below lists the top 20 occupations with the largest numerical growth for the 2008-2018 period.

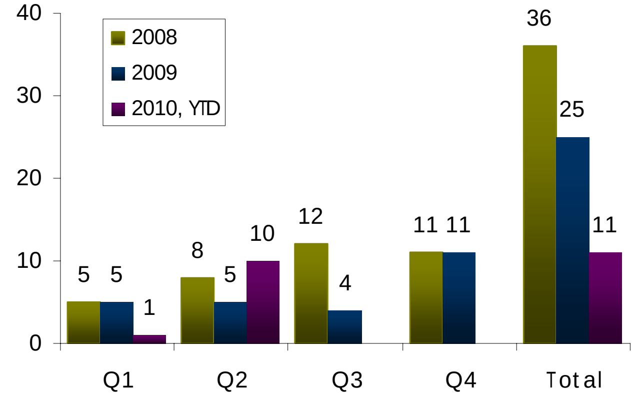
Occupation	Numerical Change	Percent Change (2008-18)	Wages (2008 Median)	Education / Training
Registered nurses	581,500	22	$62,450	Associate degree
Home health aides	460,900	50	20,460	Certificate / Associate
Customer service representatives	399,500	18	29,860	On-the-job training
Food preparation and serving workers	394,300	15	16,430	On-the-job training
Personal and home care aides	375,800	46	19,180	Certificate / Associate
Retail salespersons	374,700	8	20,510	On-the-job training
Office clerks, general	358,700	12	25,320	Certificate / Associate
Accountants and auditors	279,400	22	59,430	Bachelor's degree
Nursing aides, orderlies, and attendants	276,000	19	23,850	Postsecondary vocational
Postsecondary teachers	256,900	15	58,830	Doctoral / Master’s
Construction laborers	255,900	20	28,520	On-the-job training
Elementary school teachers	244,200	16	49,330	Bachelor's / Master’s
Truck drivers, heavy and tractor-trailer	232,900	13	37,270	Certificate
Landscaping and groundskeeping workers	217,100	18	23,150	On-the-job training
Bookkeeping, accounting & auditing clerks	212,400	10	32,510	Certificate
Executive secretaries & administrative assistants	204,400	13	40,030	Certificate
Management analysts	178,300	24	73,570	Bachelor's degree
Computer software engineers, applications	175,100	34	85,430	Bachelor's degree
Receptionists and information clerks	172,900	15	24,550	On-the-job training
Carpenters	165,400	13	38,940	On-the-job training

Source: BLS Occupational Outlook Handbook, 2010-11 Edition

M&A Activity

In 2008, there were 36 U.S. and Canada-based merger & acquisition transactions in the post-secondary education industry. Despite the strong performance of PSE companies during the recessionary period and the continued interest of strategic and financial players to invest in these companies, M&A activity slowed down slightly in 2009, with only 25 transactions in the space – a result of the credit crunch and the uncertainty surrounding the economy. Despite the decrease in the number of transactions in 2009, the net dollar value of the transactions more than quadrupled for the year, a result of large transactions such as the acquisition of BPP Holdings by Apollo Global ($500+ million) and the acquisition of Heald College by Corinthian Colleges ($300+ million). M&A activity in 2010 remains steady, at 11 transactions for the year thus far.

PSE Transactions by Quarter*



Source: Capital IQ, Capstone Research

* Based on announced date and includes PSE M&A transactions in the U.S. and Canada only

* YTD = year-to-date through June 1, 2010

Notable Transactions (by announced date)

Despite the market conditions, both financial sponsors and strategic players continue to express significant interest and acquire companies in the PSE industry. These transactions have been focused on expanding program offerings, penetrating new geographic markets, adding online capabilities or simply solidifying an entry into the market.

ABRY Partners invests in B&H Education (d/b/a Marinello Schools of Beauty) (May 2010) – ABRY Partners' investment in B&H Education represents their first foray into post-secondary education. B&H Education owns and operates over 40 locations under the name Marinello Schools of Beauty located in Southern California, Nevada, Arizona Oregon and Utah and offers training in cosmetology, esthetics, massage therapy and spa technology. As part of the transaction, previous investors Quad Partners and Gemini Investors rolled a smaller portion of their equity into the new entity.

Laureate Education acquires National Hispanic University (April, 2010) – Laureate's acquisition of National Hispanic University (NHU) is consistent with Laureate's strategy to focus on educating the growing and underserved Hispanic population in the United States. Based in San Jose, CA and accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges, NHU offers a diverse portfolio of undergraduate and certificate programs in business, education and information technology.

Career Education Corp acquires the International University of Monaco (April, 2010) – CECO expands its international footprint through its acquisition of the International University of Monaco (IUM), an independent institution based in the Principality of Monaco that offers bachelor's, master's and doctoral programs in such areas as finance, international business, and luxury goods and services. The transaction is another example of an American for-profit education company consolidating its position in the European market (the Apollo Group bought the UK's BPP just last year).

Excellere Partners acquires MedTech College (December, 2009) – Excellere formed JTC Education Holdings in 2009 to pursue a buy and build investment strategy within the PSE industry. With the addition of MedTech, a provider of allied health education in Indiana and Kentucky, JTC maintains a footprint of ten campuses within six states in the Midwest and mid-Atlantic regions. With the addition of MedTech, JTC serves over 3,500 students, with 90% of its students enrolled in healthcare and wellness disciplines, including nursing.

JLL Partners invests in American Sentinel University (December, 2009) – JLL's growth equity investment in American Sentinel University (ASU) is an example of the growing acceptance of the online delivery model. ASU is an online, for-profit post-secondary educational institution that provides associates, bachelors and masters degrees in healthcare, business and informatics. JLL's $9.0 million investment will allow ASU to execute its growth strategy going forward.

Sverica International acquires Career Quest Learning Centers (December, 2009) – Career Quest is Sverica's second platform investment in the PSE industry and is consistent with the private equity firm's strategy of investing in businesses with strong fundamental growth drivers and attractive unit economics. Career Quest is a Michigan-based nationally accredited career college with two campuses located in Lansing and Jackson. Career Quest is focused on preparing students for work and offers a variety of vocational programs in administration, allied health and information technology.

BC Partners acquires ATI Enterprises (November, 2009) – The acquisition of ATI Enterprises is BC Partners' entry to the U.S. education market. ATI, which was previously owned by The Riverside Company, is a Dallas-based operator of 24 career training centers located in Texas, Florida, Oklahoma, Arizona and New Mexico. ATI serves 15,000 students and offers diplomas, certificates, and associate degree programs in allied health, wellness, skilled trades, business and information technology.

Education Affiliates acquires MedVance Institute (November, 2009) – MedVance is an addition to Education Affiliates' growing PSE portfolio. The transaction is indicative of the growing interest in schools that specialize in allied health training. Based in Cookville, TN, MedVance has 10 campuses throughout the country and offers allied programs such as medical assistant, medical billing and coding specialist, medical office administration, practical nursing, radiologic technology, surgical technology and medical laboratory technology.

Corinthian Colleges acquires Heald Capital (October, 2009) – According to Corinthian's Chief Executive Officer, Heald brings Corinthian an increased presence in Northern California, Oregon and Hawaii, a growth platform for campus-based and online regionally accredited programs and a third strong brand. Heald is a regionally accredited institution that provides training in healthcare, business, legal, information technology and other growing fields, primarily through associate degree programs. Headquartered in San Francisco, CA, Heald operates 11 campuses and had approximately 12,900 students as of December 31, 2009. Corinthian completed the acquisition of Heald in January of 2010.

Princeton Review acquires Penn Foster Education Group (October, 2009) – The Princeton Review's acquisition of Penn Foster creates one of the largest and most diverse providers of post-secondary education services in the U.S. Penn Foster is one of the oldest and largest online career education companies in the nation. The company operates three accredited educational institutions (Penn Foster College, Penn Foster Career School, and Penn Foster High School) that collectively serve more than 223,000 students in over 150 countries.

Selected PSE M&A Transactions

Announced Date	Target	Acquiror	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EV / LTM EBITDA
5/3/10	B&H Education, Inc.	ABRY Partners	Owns and operates Marinello Schools of Beauty providing training in cosmetology, esthetics, massage therapy and spa technology	--	--	--
5/7/10	E & K Vocational Nursing Program, Inc.	ATI Enterprises, Inc.	Offers vocational nurse training program	--	--	--
4/20/10	National Hispanic University	Laureate Education	An educational institution that offers undergraduate and certificate programs in business, education and information technology	--	--	--
4/15/10	International University of Monaco	Career Education Corp (NasdaqGS:CECO)	An educational institution that offers undergraduate, graduate, professional, and research programs focusing on business studies and language education	--	--	--
4/12/10	Bohecker College	Fortis	For-profit college based in Cincinnati, OH that offers programs in medical assisting, medical billing and nursing	--	--	--
3/4/10	Franklin Pierce Law Center	The University of New Hampshire, Durham	Offers diploma certificates and degrees in law	--	--	--
1/13/10	Delta Connection Academy, Inc.	Lincolnshire Management, Inc.	Operates as a pilot training school	--	--	--
12/30/09	MedTech College	JTC Education Holdings (Excellere Partners)	Provider of allied health education, operating four campuses in Indiana and Kentucky	CF	CF	CF
12/18/09	American Sentinel University	Education Affiliates (JLL Partners)	Online, for-profit post-secondary educational institution that provides Associates, Bachelors, and Masters degrees in healthcare, business, and informatics	CF	CF	CF
12/7/09	Career Quest Learning Centers, Inc.	Sverica International	Trains and prepares students for employment in administration, allied health and IT careers	--	--	--
11/30/09	The Refrigeration School, Inc.	Tulsa Welding School, Inc.	A technical education company that trains students in technical services related to heating, ventilation, air conditioning and refrigeration	--	--	--
11/9/09	ATI Enterprises, Inc.	BC Partners	Operates career training centers and schools in Texas, Florida, New Mexico, Arizona, and Oklahoma	$660.2	2.9x	9.4x
11/9/09	MedVance Institute	Education Affiliates, Inc.	Offers a complete range of diploma and degree-granting medical and allied health-related career training programs	CF	CF	CF
11/4/09	Piccolo International University	FL-EX Holdings, Inc.	Offers online undergraduate degree programs and certificates in business-related disciplines	--	--	--
10/19/09	Heald Capital LLC	Corinthian Colleges Inc. (NasdaqGS:COCO)	Regionally accredited private career college with 11 campuses that offers degrees in healthcare, business, legal, information technology and other growing fields	$325.0	1.8x	8.4x
10/16/09	Penn Foster Education Group, Inc.	Princeton Review Inc. (NasdaqGM:REVU)	Provides accredited career-focused degree and vocational programs in the fields of allied health, business, technology, education, and select trades	$170.0	1.9x	9.9x
9/18/09	Vatterott Educational Centers Inc.	TA Associates, Inc.	Provides degrees and certificate programs in the business, medical, technical, trades, court reporting and culinary fields	CF	CF	CF
7/6/09	Ashworth College	Sterling Partners	Offers associates, bachelor's and master's diploma, certificate and degree programs to students worldwide	--	--	--
6/7/09	BPP Holdings plc	Apollo Global, Inc.	Provides professional and academic education for individual and corporate clients in the United Kingdom and internationally	$530.0	2.0x	11.2x
6/5/09	American Institute of Allied Health, Inc.	ATI Enterprises, Inc.	A massage school that provides training in massage therapy and body work techniques	--	--	--
5/20/09	Americas Best Real Estate Education Corp	360Training.com	Provides personalized distance education courses for the real estate, appraisal, and property management professions	--	--	--
4/23/09	Daniel Webster College	ITT Educational Services Inc.	Offers professional and technology-based programs of study at the associate, baccalaureate and master degree levels	--	--	--
4/2/09	Florida Technical College	EduK Group	A private, two-year junior college with four campuses in Florida that offers programs in healthcare, computers and programming, design and business	--	--	--
3/2/09	Javelin Learning Systems, Inc.	Excellere Partners	Offers career training and certification focused on a variety of allied health-related occupations	--	--	--
1/20/09	Baran Institute of Technology	Lincoln Educational Services Corporation	Offers associate and diploma programs in the fields of automotive, skilled trades, health sciences and culinary arts	$25.3	--	--
1/20/09	Clemens College	Lincoln Technical Institute, Inc.	Offers accelerated Associate of Science degrees in hospitality management and culinary arts management	$2.8	--	--

	Revenue	EBITDA
Mean	**2.6x**	**10.1x**
Median	**2.0x**	**10.5x**
Harmonic Mean	**2.3x**	**10.1x**

CF = confidential; LTM = last twelve months; EV = enterprise value

Transactions highlighted in yellow have been completed by Capstone Partners

Source: Capstone Research, Capital IQ, company public filings and press releases

Public Company Trading & Operating Data

Company	Price 6/1/10	% 52 Wk High	Market Cap	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Margin	1-Yr Rev Growth	EV / LTM Revenue	EV / LTM EBITDA
American Public Education, Inc.	$40.35	85.4%	$ 741.6	$ 656.1	$ 163.1	$ 49.6	30.4%	39.4%	4.0x	13.2x
Apollo Group Inc.	$51.40	66.9%	7,792.0	7,367.2	4,470.4	1,325.1	29.6%	27.7%	1.6x	5.6x
Bridgepoint Education, Inc.	$21.00	76.4%	1,146.4	924.4	526.1	131.2	24.9%	99.6%	1.8x	7.0x
Capella Education Co.	$84.41	86.1%	1,415.6	1,224.8	359.4	90.2	25.1%	26.8%	3.4x	13.6x
Career Education Corp.	$27.47	76.6%	2,247.6	1,827.7	1,933.5	332.0	17.2%	17.8%	0.9x	5.5x
Corinthian Colleges Inc.	$12.85	63.3%	1,132.4	1,204.2	1,634.6	279.6	17.1%	33.1%	0.7x	4.3x
DeVry, Inc.	$56.60	76.1%	4,032.0	3,579.6	1,804.7	430.7	23.9%	34.5%	2.0x	8.3x
Education Management Corporation	$20.70	76.7%	2,957.0	4,068.5	2,377.3	535.8	22.5%	24.6%	1.7x	7.6x
Grand Canyon Education, Inc.	$24.72	86.9%	1,129.8	1,060.6	295.8	72.7	24.6%	63.4%	3.6x	14.6x
ITT Educational Services Inc.	$97.89	80.3%	3,380.9	3,209.2	1,415.1	558.8	39.5%	32.4%	2.3x	5.7x
Lincoln Educational Services Corp.	$22.79	80.8%	593.5	597.0	586.4	130.3	22.2%	42.5%	1.0x	4.6x
New Oriental Education & Technology Group	$90.55	90.0%	3,418.3	3,047.3	359.2	88.9	24.7%	31.4%	NM	NM
Strayer Education Inc.	$242.11	92.3%	3,368.7	3,224.7	545.4	199.6	36.6%	28.7%	NM	16.2x
Universal Technical Institute Inc.	$23.74	88.7%	572.5	480.8	396.5	58.0	14.6%	15.1%	1.2x	8.3x

	Margin	1-Yr Rev Growth	EV / LTM Revenue	EV / LTM EBITDA
Mean	**25.2%**	**36.9%**	**2.0x**	**8.8x**
Median	**24.7%**	**31.9%**	**1.7x**	**7.6x**
Harmonic Mean	**23.5%**	**29.9%**	**1.5x**	**7.3x**

EV = enterprise value
LTM = last twelve months as of March 31, 2010
NM = not meaningful (revenue multiple is greater than 5.0x; EBITDA multiple is greater than 30x)

Source: Capital IQ as of June 1, 2010

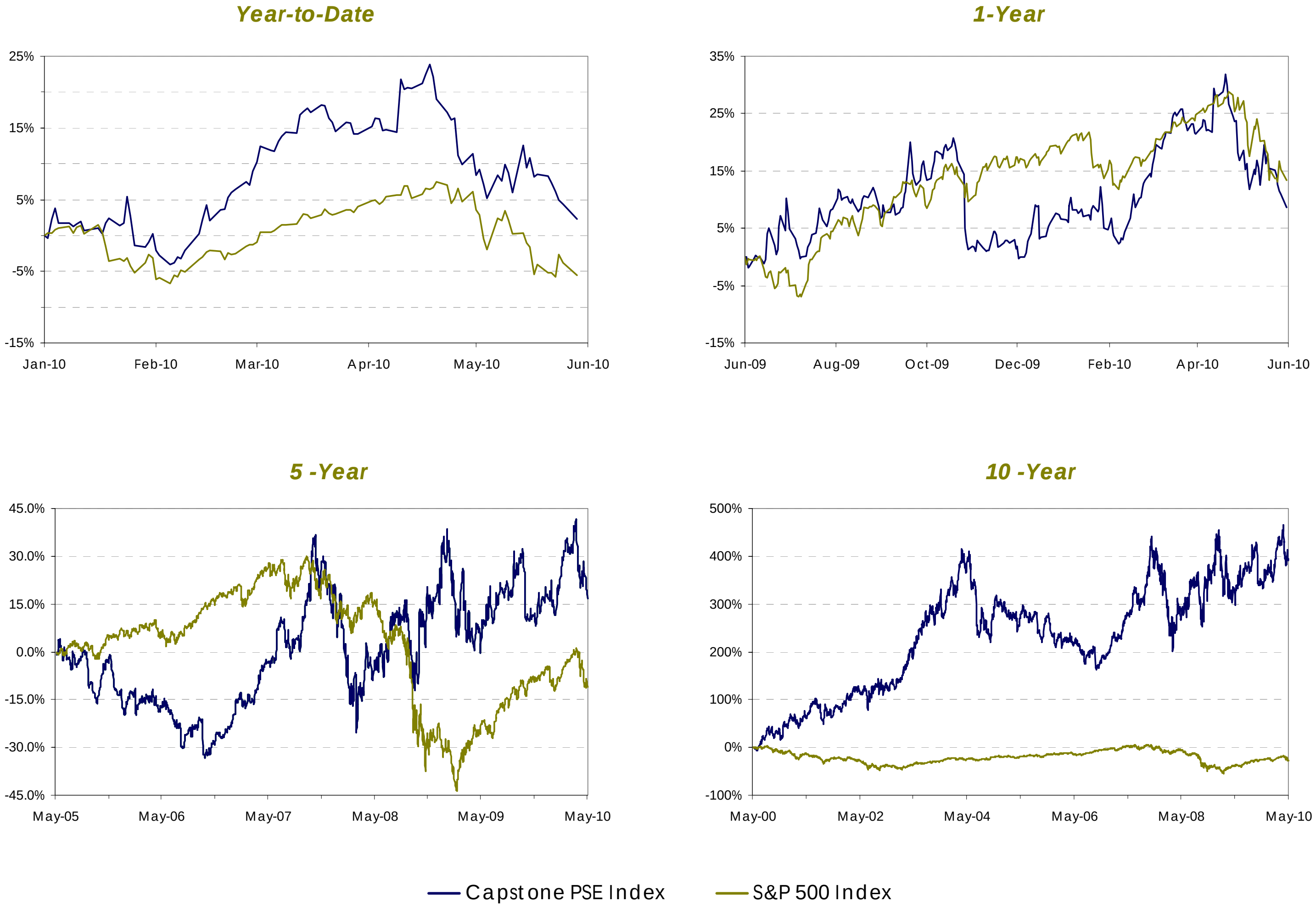
Public Company Analysis

- Average year-over-year revenue growth for the Capstone PSE peer group was 36.9%, driven by continued growth in student enrollment. Each company achieved double-digit revenue growth rates, with Bridgepoint Education at the highest (99.6%) and Universal Technical Institute (UTI) at the lowest (15.1%). Revenue growth for Career Education Corp (CEC) has been trending upward, from -0.5% in FY2008 to 10.6% in FY2009 to 17.8% for the last twelve months ended March 31, 2010. Similarly, UTI achieved 15.1% in revenue growth for the last twelve months ended March 31, 2010 versus the 6.7% revenue growth in FY2009 and -2.8% trend in FY2008.

- EBITDA margins remain strong at an average of 25.2% for the peer group, ranging between 14.6% (UTI) and 39.5% (ITT Educational Services). ITT was able to achieve a robust profit margin due to operational efficiencies and strong enrollment growth at its schools. Likewise, online schools such as Grand Canyon University and Bridgepoint Education achieved high profit margins due to the scalability and cost efficiencies inherent in their online delivery models.

- The Peer Group is currently trading at an average of 2.0x LTM revenue and 8.8x LTM EBITDA. Strayer Education is outperforming the PSE peer group, trading at 16.2x LTM EBITDA, driven by the company's competent management team, minimal degree of regulatory exposure and strong enrollment trends from new campus openings. On the other hand, Corinthian Colleges is underperforming (trading at 4.3x LTM EBITDA) due to concerns about regulatory issues, comparatively high CDRs and slow enrollment growth. Similarly, Lincoln Educational Services Group is trading at 4.6x LTM EBITDA due to concerns pertaining to the company's rising student default rates, evolving entrance standards and the uncertainty of the regulatory environment.

The Capstone PSE Index



Source: Capital IQ as of June 1, 2010

Market Outlook

- The Capstone PSE Index has consistently outperformed the S&P 500 index over the 2010 YTD and 10-year time horizons while the 1-year and 5-year analyses demonstrate more variance for both indices.

- Given the counter-cyclicality nature of the education market, the PSE Index tends to over-perform during periods of downturns in the U.S. economy. This is evident in the 5-Year trend graph as the PSE Index experienced a surge in growth during the recession in the past few years. Overall, within the past 10 years, the PSE Index has experienced tremendous growth driven by the growing acceptance of the for-profit education and distance learning business models.

- Despite the recent apprehension surrounding the credit and regulatory markets, the PSE Index continues to be strong. Companies such as Bridgepoint Education, Inc. (who has reported triple-digit earnings growth for seven consecutive quarters) and Strayer Education, Inc. are leading the growth in the PSE Index. The PSE Index will undoubtedly be affected by the imminent release of the draft proposed regulation on gainful employment.

Historical Success in Education

Capstone's Post-Secondary Education Group has become one of the most active practices in the industry and has completed transactions with leading schools, strategic acquirers and private equity groups.

American Sentinel University
Has secured financing from
JLL

Piccolo Educational Systems, Inc.
Divestiture
TeamEdu

Pacific College of Oriental Medicine
has been acquired by
Quad Partners

Heald College
has been acquired by
A PRIVATE EQUITY INVESTOR GROUP

Ogle
has recapitalized with
Liberty Partners

Shelton's Salon and Day Spa
has been acquired by
Liberty Partners

Martin's College of Cosmetology
has been acquired by
Regis

Synergy salon systems
has been acquired by
Regis

R
has recapitalized with
Huron Capital Partners

Rockport College Maine
has been acquired by
A NON-PROFIT EDUCATION CORPORATION

The Maine Photographic Workshops
has been acquired by
A NON-PROFIT EDUCATION CORPORATION

valuation advisory
WEST TENNESSEE BUSINESS COLLEGE

HEFC
has been acquired by
CFS Collegiate Funding Services

Blaine! The School
has been acquired by
Regis

Pierre's School of Cosmetology
has been acquired by
Regis

Instruction Set
Strategic Venture
Kaplan

The Capstone Education Team

John Ferrara, President and Managing Partner
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John Ferrara, the founder and principal shareholder of Capstone, serves as the firm's President and Managing Partner. He also heads up the Post-Secondary Education industry practice. John was formerly a Regional Managing Partner with Andersen Corporate Finance, where he founded the Boston office and held various national and global leadership positions. He started his career in Lehman's Brothers' M&A group in New York, London and Riyadh, later becoming a founding member of Rodman & Renshaw's M&A practice in New York. After a break to compete in Australia's semi-professional baseball league, John joined The Deloitte Consulting Group in Los Angeles. While with Deloitte, he focused on turnaround and interim management engagements. He earned an MBA in Entrepreneurial Studies from The Anderson School at UCLA and the London School of Economics, during which time he founded and operated a corporate finance advisory boutique, JG Atlas Advisors, and its related investment arm, Atlantis Capital Partners. He holds dual BA degrees from Wesleyan University and is qualified as a General Securities Principal.

Jacob Voorhees, Director and Principal
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Jacob is a founding member of Capstone Partners as well as the firm's Post-Secondary Education Group. He focuses on asset positioning, strategy articulation, due diligence and negotiations coordination. Formerly, Jacob was with Andersen Corporate Finance LLC, where he focused his efforts on the software and direct marketing industries. He started his career in New York City with Rabobank International, a multi-national Dutch investment bank headquartered in Utrecht, the Netherlands. While at Rabobank International, Jacob worked in the mergers and acquisitions group focusing on cross-border transactions in the consumer products, food and beverage industries. Jacob holds dual BS degrees from Cornell University and is qualified as a General Securities Representative.

David DeSimone, Director
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David joined Capstone Partners in 2005 and is responsible for working with clients on mergers and acquisitions, private placements, divestitures, and recapitalizations. David has completed two financing transactions in the education space and specializes in the online education sector. Prior to joining the firm, David was a Vice President at Boenning & Scattergood, a Philadelphia-based middle market investment bank, where he worked with clients across a variety of industries and developed the firm's technology practice. David also worked at Needham & Company where he focused on mergers and acquisitions and equity offerings for middle-market technology and biotechnology companies. David received a BA in Government from Harvard University. He is registered with FINRA and is qualified as a General Securities Representative.

The Capstone Education Team

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Matt is responsible for the business development and market intelligence efforts for the PSE team. Prior to joining Capstone, Matt was a manager in the sales division of EMC Corporation, where he was responsible for global account management and delivering technology solutions across a variety of industries, including the healthcare, financial services, oil and gas, telecommunications, media, manufacturing and public sectors. Prior to EMC, Matt worked at GravityPeople, a technology services firm headquartered in San Francisco. Matt also served as a sales representative for a number of years within the healthcare and life sciences industries. Matt earned his MBA from Boston College and received a BA from Middlebury College.

Sophea Chau, Associate
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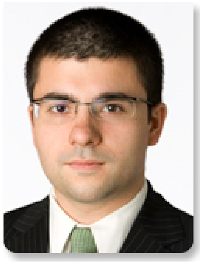
Sophea works closely with senior team members while executing a variety of corporate finance transactions and supporting business development initiatives within the Business Services group. Prior to joining Capstone, Sophea was an analyst at FTN Midwest Securities, a full-service investment banking firm based in Cleveland. While working in their New York office, she focused on M&A advisory for middle-market companies in a variety of industries, including healthcare, pharmaceutical services and marketing & advertising. Her responsibilities included providing financial and valuation analysis, performing due diligence, and drafting all marketing materials related to a wide range of M&A transactions. Sophea holds a BA in Economics from Columbia University.



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Scott Leach joined Capstone in 2006. Prior to joining Capstone, Scott worked as a Consultant in the Consulting Services Group at Thomson Financial developing custom financial models for institutional investment banking and hedge fund clients across all sectors. Scott holds a Bachelor of Arts in Philosophy, Political Science, and Economics from the University of Pennsylvania. He is registered with FINRA and is qualified as a General Securities Representative.

Capstone Partners LLC is a leading national investment banking advisory firm dedicated to serving the transaction needs of middle market companies. The firm provides corporate sale & divestiture, merger & acquisition, private placement and valuation advisory services. Capstone focuses on the outsourced services, technology solutions, and manufacturing & distribution industries and maintains sector teams in both education and healthcare. The firm also maintains an active merchant banking capability through Capstone Ventures to co-invest in support of its clients' transactions.

Capstone Partners
Investment Banking Advisors

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