

# Post-Secondary Education

Research Coverage Report

*"Market Intelligence for Industry Players"*

*Q2 2006*



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Investment Banking Advisors



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## MARKET OVERVIEW

*The post-secondary market represents about \$300 billion and has grown more than 6% annually over the last decade. The for-profit segment represents approximately \$18 billion.*

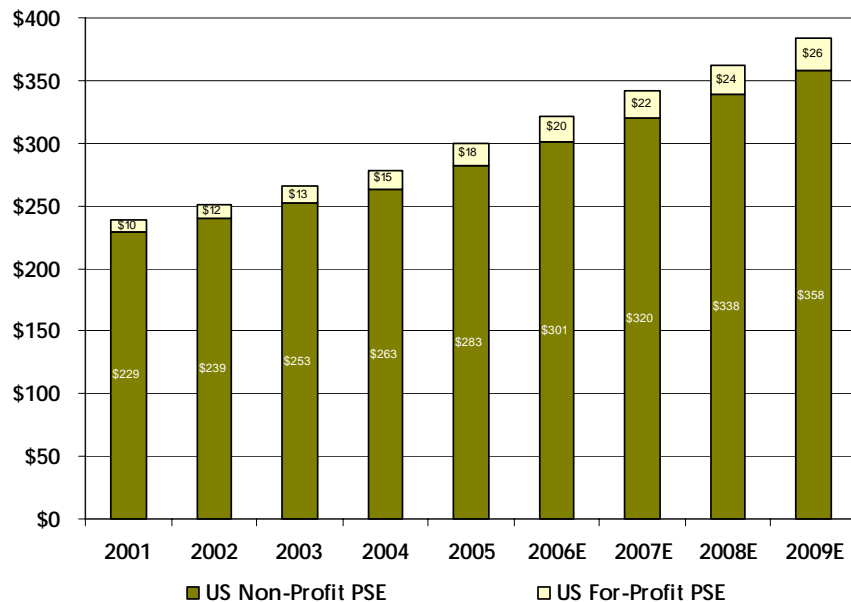
Since Capstone initiated coverage of the post-secondary education (PSE) market in Q2 of 2005, the industry has experienced unprecedented growth and significant consolidation. An expanding pool of potential students; a widening income gap between post-secondary educated and non-educated individuals; increased federal funding; and positive economic and demographic trends continue to drive market expansion. In the near term, Capstone expects these conditions to persist, creating a positive market environment over the next decade.

### MARKET SIZE

According to the US Department of Education, education spending was approximately \$900 billion in 2003, or 8% of GDP. The post-secondary market represents about \$300 billion and has grown more than 6% annually over the last decade. Of this, approximately \$18 billion relates to for-profit institutions, which have grown in excess of 15% annually through a combination of tuition price increases, expanded enrollment and additional campus locations.

Based on Department of Education estimates, total enrollment in degree-granting institutions reached 16 million in 2001. Capstone estimates enrollment to be approximately 17 million in 2005, growing between 1% and 2% annually. Of this, approximately 800,000 attend private, for-profit institutions.

**Exhibit A**  
**Post-Secondary Education Market**



Source: US Department of Education and Capstone Partners research.

## MARKET GROWTH

Capstone estimates that for-profit PSE revenue will increase to over \$26 billion by 2009, growing at a CAGR of 11%, versus 7% for the overall PSE market. The level of for-profit growth is a function of steady increases in both enrollment and tuition.

**Exhibit B**  
**Expected PSE Market Growth – 2005 to 2009**

Category	Private, For-Profit Estimated Growth	Overall PSE Industry Estimated Growth
Enrollment	6.0%	1.0%
Tuition Increases	5.0%	5.5%
Total Revenue Growth	11.0%	6.5%

Source: US Department of Education and Capstone Partners research.

Capstone estimates that for-profit PSE revenue will increase to over \$26 billion by 2009, growing at a CAGR of 11%, versus 6.5% for the overall PSE market.

This growth will result in continued share gains by for-profit institutions. In 2003, for-profit institutions represented approximately 5% of total PSE revenue. This is expected to increase to almost 7% by 2009.

Capstone believes that a majority of this market growth will be driven by increased demand for employees in six major professional occupation groups: information technology; allied health; cosmetology; esthetics; culinary arts; and allied trade professionals.

## INDUSTRY DRIVERS & MARKET OUTLOOK

### An Expanding Pool of Potential Students

The number of high school graduates is projected to increase significantly over the next three years, presenting an opportunity for for-profit providers to further penetrate the traditional 18 to 24 year-old market. The US Department of Education is projecting that the number of high school graduates will grow at a 2.3% CAGR through 2008. The percentage of high school graduates who pursue higher education is also expected to increase.

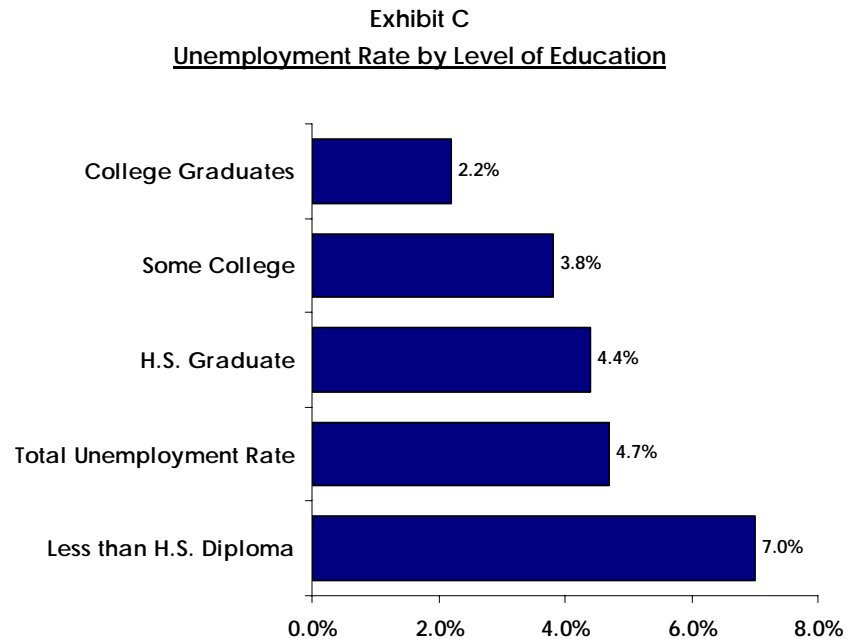
The expected growth in college-aged population is due in part to Baby Boomer demographic effects. According to the US Census Bureau, there are approximately 45 million children of Baby Boomer households ("echo boomers") that are expected to enter the education and employment markets over the next several years. The entry of these potential students, coupled with the increase in non-traditional students, is expected to drive market growth of more than 10% over the next several years. After 2008, the growth rate is projected to level off as the "echo boomers" filter through the system.

In addition to the increase in the 18 to 24 year old bracket, the adult learner population (aged 25 and older) has experienced significant growth in recent

years, driven by Baby Boomer population demographics; the growing availability of flexible, higher education options; and increased social acceptability for mid-life career changes or enhancement. Overall, the adult learner pool has expanded from 28.0% of the college population in 1970 to 40.0% in 2006. Currently the US adult learner population is estimated at over 6.5 million students (*American Council on Education*). For-profit occupational education has also become increasingly acceptable for both students and employers. With strong retention, placement rates, and customer satisfaction (both from employers and students), for-profit schools have proven to be an attractive and economical alternative to traditional collegiate and university educational institutions.

#### Value Proposition for Education Remains Solid

The value proposition associated with higher education degrees remains firmly intact. Individuals who complete higher levels of education have proven to be more employable and continue to command higher salaries. Exhibit C below illustrates employment rates by level of completed education.



Source: US Bureau of Labor Statistics – April 2006

The rise in enrollment rates is a direct result of the growing economic value of post-secondary education. According to the U.S. Census Bureau, in 2003, the average income of degree recipients was \$51,688 – nearly twice the average income of \$27,280 generated by high school graduates.

In addition to increased earning potential, the cost of a traditional college education vis-à-vis household income growth has motivated many students to explore lower cost post-secondary options. The College Board estimates that between the 1995 and 2005 academic years, average annual tuition increased approximately 54.0% for four-year public institutions and approximately 37.0% for four-year private institutions. Since 2000, in real terms, median annual household income has declined by \$1,669, or 3.8%. This dynamic creates an opportunity for career-oriented schools offering two-year, diploma, and certificate programs to address education market demand at a lower cost.

**Federal Dollars Driving Enrollment through Student Aid Programs**

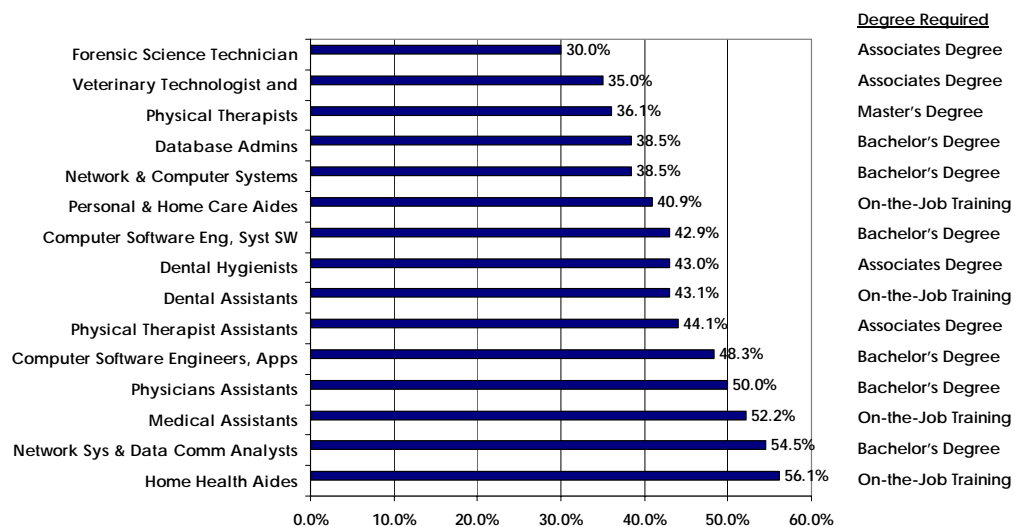
While tough economic conditions have limited the funding provided by state and local governments, the federal government continues to increase its education spending. In 2005, federal spending on education reached \$71.4 billion, up from \$38.4 billion in 2000. This represents a total increase of 85.9% and a CAGR of over 13.0%. The College Board estimates that total student aid from federal, state and institutional sources grew 7.9% in the 2004–2005 school year, reaching \$128.8 billion – an increase of 153.5% over the last decade.

*The US economy continues to shift from a manufacturing-based economy to one that is more reliant on service-related companies and occupations. These occupations more often require advanced degrees and a higher level of education.*

**Evolving Economic Base**

The US economy continues to shift from a manufacturing-based economy to one that is reliant on service-related companies and occupations. These occupations more often require advanced degrees and a higher level of education. Of the top 15 fastest growing occupations in the US over the next 10 years, most require a higher level of PSE or advanced degrees.

**Exhibit D**  
**Fastest Growing US Occupations – 2004 to 2014**



Source: Monthly Labor Review, November 2005 – US Department of Labor

*Capstone expects larger competitors to continue to seek geographic expansion, both within the U.S. and internationally.*

## PSE CONSOLIDATION OUTLOOK

The PSE industry represents a significant long-term growth opportunity, and large, public players have begun to accelerate their industry consolidation. In the past 18 months, there has been significant M&A activity within the market, and we expect this activity to continue over the next 12 to 24 months. The ability to add complimentary program offerings and to better achieve geographic diversification will continue to drive consolidation activity over this time period.

### Larger Players Will Broaden Educational Offerings

Many large for-profit education companies have expanded their program scope and potential revenue opportunity by adding new degree offerings. Although this can be done through green field operations, Capstone believes that most larger competitors will continue to look to M&A to broaden their curricula. Companies with emerging industry coverage and niche products will be at the top of many buyer target lists.

### Private Equity Sponsors Fuel Activity

The role of private equity sponsors will continue to drive M&A activity across all sectors of the PSE landscape. Current valuations for smaller schools with values less than \$50 million are being supported largely by the demand from private equity buyers. Private equity investors are aware of the attractive characteristics in PSE and are eagerly seeking investment opportunities.

### Geographic Diversification Strategy

Over the past 18 months, providers such as Devry and Corinthian have made acquisitions to further diversify their geographic footprint. Capstone expects larger competitors to continue to seek geographic expansion, both within the US and internationally. Smaller providers in states with above average population growth (Florida, Texas, Arizona and California) will be of particular interest to larger consolidators. These regional schools not only provide revenue diversity, but can also add significant growth potential for acquirers seeking new investment opportunities. Larger schools with consolidation experience will be better prepared to leverage internal integration processes and successfully cross-utilize, standardize and replicate acquired curricula.

International expansion is in its nascent stages, but the overseas for-profit PSE market presents a large growth opportunity that remains largely untapped. Nations with significant growth prospects and dense populations, such as India and China, have attracted significant interest from large for-profit schools. The increased frequency of offshore IT outsourcing has also increased the demand for technology-related programs abroad. In recent years, providers such as Laureate Education and Regis Corp. have actively expanded overseas.

### Allied Health & Information Technology Programs Driving Growth

Over the past several years, job growth in both the allied health and information technology (IT) fields has driven strong enrollment in industry-related schools and professional training programs. Enrollment growth is expected to track near-term employment trends in these fields. The healthcare industry, which is the largest sector in the economy, accounting for approximately 15.0% of U.S. GDP and 11.3 million employees, is expected to experience rapid job growth over the next ten years. Demand for allied health workers is at an all time high, and U.S. healthcare expenditures continue to rapidly increase - rising from \$246 billion in 1980 to approximately \$1,548 billion in 2002. The U.S. Department of Health and Human Services projects expenditures to rise to approximately \$3,080 billion by 2012, growing at a CAGR of 8.2%. By 2012, the healthcare sector is expected to increase as a percentage of U.S. GDP to 17.7%.

*Over the past several years, job growth in both the allied health and information technology fields has driven strong enrollment in related schools and professional training programs.*

Driven by aging Baby Boomers, advances in medical science, and increased medication usage, healthcare-related expenditures are expected to be a major driver of national job growth in the coming years. Currently 14.0% of all jobs created in the US are in the healthcare industry. According to the U.S. Bureau of Labor Statistics, by 2014, jobs in the healthcare sector are projected to increase by 28.4% compared to only 13.0% for all other industry categories combined. Home health aide positions are expected to lead sector growth, increasing by a projected 56.1% by 2014.

**Exhibit E**  
**Projected Growth of Allied Health Jobs**

(In 000's)			
Program Area	2004 Jobs	2014 Jobs	% Change
Home Health Aids	624	974	56.1%
Medical Assistant	387	589	52.2%
Pharmacy Technician	267	382	43.1%
Dental Assistant	147	216	46.9%
Physician Assistants	62	93	50.0%
Physical Therapist Assistants	59	85	44.1%
<b>Total</b>	<b>1,546</b>	<b>2,339</b>	<b>51.3%</b>
<b>All Health Care Occupations</b>	<b>10,297</b>	<b>13,217</b>	<b>28.4%</b>
<b>All U.S. Occupations</b>	<b>145,612</b>	<b>164,540</b>	<b>13.0%</b>

Source: Monthly Labor Review, November 2005 - US Department of Labor

Similar growth is projected in IT, as demand for skilled workers continues to increase. According to the US Department of Labor, of the 15 fastest growing occupations through 2014, five are IT-related. Historically, there has been a lower supply of business-related IT personnel, resulting in salary levels that tend to be at the high end of the range addressed by most career-oriented schools. The increasing importance of technology in the workplace, coupled with its growing

complexity, continues to drive demand for skilled IT workers and related program growth.

#### **Valuations Are Stabilizing**

Valuation multiples have begun to stabilize after several months of expansion. The 6-10 larger acquisition targets remaining will, if traded, drive multiples higher. However, schools with \$2-7 million EBITDA will likely see multiples of 5.0x to 7.0x, depending upon the nature and interest of the buyer. We see large school transactions commanding multiples of 10.0x or greater.

## HIGHLIGHTED INDUSTRY SEGMENTS

Capstone has identified several PSE industry segments that are expected to experience consistent M&A activity for the remainder of 2006 and well into 2007. We expect significant growth in the IT, allied health, cosmetology, esthetics, culinary arts, and allied trades segments. With aggressive acquisition strategies, leading for-profit competitors will continue to consolidate and attempt to solidify market leadership in these segments of the market.

### INFORMATION TECHNOLOGY



Some areas of IT education include computer engineering and programming; network and computer maintenance and management; and web page and computer-aided design. Our overall growth thesis is that constant technological disruption, evolution, and expansion makes IT training an increasingly attractive segment of the market.

### GROWTH TRENDS AND DRIVERS

Capstone expects the IT training segment to expand rapidly. Competitive pressures continue to drive businesses to improve technological efficiencies. Organizations will need more IT specialists to implement organizational change and enhance business performance. Increasing systems management, data integration, and security requirements will also drive the need for IT specialists. Employment trends indicate that computer support specialists, software engineers, and programmers are projected to be some of today's most appealing jobs and fastest growing occupations through 2014. Job seekers selecting or changing careers see constant demand for applicants with sophisticated IT and computer-related skills. Due to the steady barrage of new concepts, the evolution of software and hardware and the convergence of technology and communications, the importance of qualified IT personnel has increased exponentially over the last 10 years. PSE programs focused on this segment of the market play an important role in maintaining a large number of qualified IT personnel to satisfy demand.

### M&A OUTLOOK

As IT continues to expand into new areas and new categories, education and certification needs will continue to grow. Companies with a broad array of IT educational offerings are expected to receive significant attention from for-profit industry leaders. Approximately 37% of the last two years' PSE transactions have had an IT training and education component. We expect continued activity that will result in several transactions in the second half of 2006 and 2007.

## ALLIED HEALTH



The Allied Health segment is a broad category that includes: dental assistance, dental hygiene, medical billing, medical transcription, pharmacy assistance, radiology, respiration therapy, physical therapy, sonography, surgical assistance and veterinary assistance, among others. Rapid technological advances and an aging population continue to drive job growth in many of these areas.

### GROWTH TRENDS AND DRIVERS

Today, hospitals and other healthcare organizations face two main issues: 1) there is a relative shortage of allied and general health workers; and 2) allied health schools have enrollment limitations for each program, and many do not have sufficient churn to satisfy current demand. The allied health industry employs approximately 4.9 million professionals or 38% of the total healthcare workforce in the US. This number is expected to grow to over 6.5 million or 40.5% of the overall industry by 2014. At this rate, the supply of students coming to market in high demand areas (including occupational therapy, physical therapy, respiratory therapy, radiography, nuclear medicine, sonography and speech/language pathology) cannot match expected demand. To leverage their current cost structure, hospitals, nursing homes, pharmacies and other healthcare organizations are more frequently hiring people with two or three-year degrees rather than higher paid professionals, a trend which is also increasing the demand for allied health graduates. For example, instead of paying for more expensive professional therapists, employers are hiring less expensive assistants who provide specialized expertise and resources at a lower cost. In a nursing home, one physical therapist can be leveraged by four assistants, which enables it to improve its cost structure and increase margins.

### M&A OUTLOOK

The demand for health care professionals shows no signs of receding. As record levels of applicants continue to apply, larger for-profit PSE companies are expected to increase their presence in the allied health segment. Capstone believes that larger players, such as Concorde and Kaplan, will focus on allied health expansion to help drive top-line growth. Given the segment's robust financial characteristics, we also believe that financial buyers will be particularly active in allied health.

## COSMETOLOGY



The cosmetology segment includes hair styling, personal care, barbering, manicure and pedicure, and skin and increased significantly over the past four years to over 1.6 million.

### GROWTH TRENDS AND DRIVERS

The cosmetology industry has experienced robust growth over the last several years. In 2005, there were an estimated 600,000 salon positions filled in the U.S., and the average salary ranged from \$35,000 to \$50,000 per year. The demand for cosmetology workers appears to be outstripping supply, as 75% of salon owners reported have difficulty finding qualified personnel to fill open positions. Capstone expects this trend to continue, and with this, we expect to observe increased demand for cosmetology-related program offerings.

### M&A OUTLOOK

As Baby Boomers continue to age, the demand for cosmetology services is expected to continue to increase. Capstone expects this market growth to accelerate demand for trained, cosmetology professionals. In an effort to capture market share in this high growth segment and diversify geographic footprint, companies like Regis, Marinello, and Empire have been extremely aggressive in pursuing quality cosmetology schools. In 2005, we have witnessed significant acquisition activity, and while we expect a similar level of deal activity to persist through 2006 and 2007, valuations have been trending slightly downward.

### SPA/ESTHETICS



Spa/esthetics education includes paramedical esthetic, skin care, spa treatment, and spa management training. Employment levels are at a record high and are expected to continue to grow at a rapid pace over the next several years.

### GROWTH TRENDS AND DRIVERS

The spa industry generates more than \$10 billion a year in revenue. According to the International Spa Association, Americans make around 136 million spa visits per year, at an average cost approximately \$75 per treatment. The Association estimates the number of spa openings in the US rose 12% from 2002 to 2004, with the fastest-growing segment being medical spas or wellness clinics, which offer various treatments, including massage therapy, facials and manicures.

Segment growth is driven by a number of industry trends, including increased demand for Eastern/Asian-influenced spa services, medical healing products and food/plant-based treatments. Moreover, many people no longer consider spa services as discretionary "pampering", but as an important component of their regular health regimen. Though growth rates are already strong, Capstone believes this segment is in the early stages of growth. Increased consumer demand that translates into accelerated job growth will focus large, for-profit players' attention on this area.

### M&A OUTLOOK

Capstone believes that the spa/esthetics segment will follow a similar consolidation trend to that of cosmetology. We believe that large, for-profit players have already begun to examine the segment's potential revenue opportunities and are evaluating long-term investment strategies. We believe that acquisition activity could begin as early as Q3 2006, but expect more robust activity in early 2007.

## CULINARY ARTS AND HOSPITALITY



The culinary arts and hospitality segment includes nutrition, baking and pastry, catering, food and culture and food service operations training. Demand for culinary graduates, in general, is robust across all specialties. Demand is far greater than the supply of workers, however, and the market continues to face a shortage of qualified employees.

### GROWTH TRENDS AND DRIVERS

The restaurant industry employs 12.5 million people (or 9% of the US workforce), making it the nation's largest employee segment outside of government. This total is expected to reach 14.4 million by 2016, creating demand for an additional 1.9 million employees. With full-service restaurant sales at an all-time high, many restaurants struggle to meet their need for trained personnel. Given these market dynamics, we expect enrollment in culinary training to increase exponentially over the next few years.

### M&A OUTLOOK

With 13 consecutive years of positive restaurant revenue growth, reaching an estimated \$511 billion in 2006, we expect continued growth in the industry. Within the industry, full-service restaurant revenue has grown faster than any other segment. Given continued industry growth and the robust demand for trained professionals, schools are expected to experience significantly increased enrollment rates. We expect larger, for-profit PSE companies to expand into this segment over the next two years. We believe that near-term consolidation rates will be lower but expect activity to increase in late 2006 and 2007.

## ALLIED TRADES



The allied trades segment is comprised of construction, precision production, carpentry, construction management, plumbing, welding, collision repair, automotive aviation mechanics and HVAC. The main challenge in this segment has been finding an adequate supply of qualified technicians. The lack of professionals continues to increase the demand for trade schools and specialized post-secondary educational program offerings.

### GROWTH TRENDS AND DRIVERS

The multi-billion dollar allied trades segment has seen a significant rise in demand over the last four years. Due to a lack of awareness about the high worker demand, there are often empty seats at many post-secondary career and technical training programs. Currently, many mechanics and installers learn the trade informally on the job, but because of the increasing sophistication of heating, air-conditioning and refrigeration systems, employers prefer to hire those with technical school or apprenticeship training. As technology continues to evolve and become more complex, higher levels of education will be necessary for trade workers to learn basic trade skills and the apparatus that supports them. Though the allied trades segment is in the early stages of development, we believe this area will experience significant growth over the next several years.

### M&A OUTLOOK

Through the second quarter of 2006, there have been only a small number of significant deals in the segment, including Corinthian's acquisition of A.M.I. and Lincoln Educational Services' acquisition of New England Institute of Technology. We believe that there will be an acceleration in segment M&A activity over the next two years. Given the growing demand, Capstone expects large, diversified, for-profit PSE companies will inevitably focus more acutely on allied trades consolidation. Though the industry is still emerging, we believe that smaller, private companies with a strong growth and profitability trajectory will attract the attention of the larger strategic buyers and financial investors.

## RECENT NOTABLE M&A TRANSACTIONS

Date	Target	Buyer	Target Description
5/15/2006	Delta Educational Systems, Inc.	Gryphon Colleges Corporation	Provider of associate degree and diploma programs in fields, including healthcare, information technology and business.
3/30/2006	New England Institute of Technology at Palm Beach, Inc.	Lincoln Educational Services Corporation (Nasdaq:LINC)	Provider of associate, bachelor and diploma degrees in the automotive, IT, health sciences, culinary and design fields.
3/3/2006	Education Management Corporation (Nasdaq:EDMC)	Goldman Sachs Group, Providence Equity Partners	Provides private post-secondary education through traditional classroom settings, as well as through online instruction at its Art Institutes, Argosy University, Brown Mackie College, and South University campuses.
1/12/2006	Connecticut School of Broadcasting, Inc.	CSFB Private Equity , DLJ Growth Capital Partners, L.P.	Provides courses in broadcasting, radio and television production.
12/14/2005	Euphoria Institute of Beauty Arts and Sciences	Lincoln Educational Services Corporation (Nasdaq:LINC)	Provider of degree programs in cosmetology, esthetics, hair design, nail technology, make-up and medical esthetics.
12/1/2005	Tri-State Computer Institute	Education Affiliates LLC	Provider of vocational computer education courses.
9/22/2005	CDI Education Corporation	Polar Bear Corporate Education Solutions Inc.	Provider of post-secondary and corporate education activities in Canada.
7/19/2005	American Career Training Institute, Inc.	Equus Resources, Inc.	Provider of courses in home inspection, mortgage finance, real estate appraisal and real estate sales.
7/1/2005	Martins College of Cosmetology	Regis Corp.	Provides training programs in hair care, skin care, nail technology and esthetics.
6/30/2005	Technical Career Institutes, Inc.	EVCI Career Colleges Holding Corp.	Provides technological education in electronics, computer, accounting, office, new media, climate control and building maintenance technologies.
6/20/2005	Professional Career Development Institute, LLC	CSFB Private Equity	Provides courses in accounting, bridal consulting, plumbing, photography, pharmacy technician, motorcycle repair, floral design, property management, web design, tax preparation, interior decoration, gourmet cooking and real estate appraisal.
6/9/2005	Salem College	The Palmer Group	Provider of graduate and undergraduate degrees in humanities, arts, mathematics, social sciences and natural sciences.
5/2/2005	Pierre's School of Cosmetology	Regis Corp.	Provider of degree programs in cosmetic services and cosmetology.
3/8/2005	Ross Learning Inc.	Huron Capital Partners, L.L.C.	Provider of medical education and employment programs.
1/7/2005	Capella Education Co.	InSight Venture Partners, Maveron, L.L.C. , Technology Crossover Ventures	Provides online post-secondary education services in business, organization and management, education, psychology, human services and IT.
1/4/2005	Education Corporation of America	Willis Stein & Partners, L.L.C.	Provider of non-degree, associates, bachelors, and masters degree programs in the areas of allied health, business, IT, interior design, culinary arts, and automotive repair.
11/18/2004	Florida Career College	TA Associates, Inc.	Provides training and testing services in the field of allied health and IT.
11/4/2004	The Marco Group, Inc.	Education Affiliates LLC	Provider of vocational and professional training focused on healthcare, offering certificates and degrees to medical technicians truck driving, business administration and IT.
10/12/2004	Educational Services of America, Inc.	Trimaran Capital Partners	Provider of educational services to children with learning disabilities and emotional handicaps.
9/16/2004	Walden e-Learning, Inc.	Laureate Education Inc.	Provider of undergraduate and graduate degree programs to working professionals through distance learning.
6/18/2004	A.M.I., Inc.	Corinthian Colleges, Inc.	AMI provides diploma programs for motorcycles, marine and personal watercraft technicians.
6/1/2004	Blaine Beauty Career Schools	Regis Corp.	Provides training courses in cosmetology, esthetics, and nail designing.

Note: Highlighted selections indicate Capstone Partners transactions.

## TRANSACTION DETAIL

On average, companies have paid 1.7x LTM (last twelve months) revenue and 7.5x LTM EBITDA for PSE-related assets.

### **Gryphon Colleges Corporation acquires Delta Educational Systems**

May 15, 2006 – Gryphon Colleges announced the acquisition of Delta Educational Systems from Huron Capital Partners; terms of the deal were not disclosed. Delta Educational Systems operates as an educational services company offering associate degree and diploma programs in fields including healthcare, information technology, and business.

### **Lincoln Educational Services acquires European New England Institute of Technology at Palm Beach, Inc.**

March 30, 2006 – Lincoln Educational Services Corporation announced the acquisition of New England Institute of Technology at Palm Beach, Inc. for approximately \$42.5 million. NEIT provides associate, bachelor and diploma degrees in the automotive, IT, health sciences, culinary and design fields.

### **Goldman Sachs and Providence Equity Partners acquire Education Management Corp.**

March 3, 2006 – Goldman Sachs and Providence Equity Partners announced the acquisition of Education Management Corp. for \$3.4 billion or 2.9x LTM revenue and 12.2x LTM EBITDA. EDMC provides private post-secondary education in North America through its Art Institutes, Argosy University, Brown Mackie College and South University schools.

### **CSFB and DLJ acquire Connecticut School of Broadcasting**

January 12, 2006 – CSFB and DLJ announced the acquisition of Connecticut School of Broadcasting for an undisclosed amount. CT School of Broadcasting provides training in broadcasting, radio and television performing, broadcast studio operations, audio production, broadcast journalism, speech radio and television acting, video production and radio and television sports broadcasting.

### **Lincoln Educational Services acquires Euphoria Institute of Beauty Arts and Sciences**

December 14, 2005 – Lincoln Educational Services announced the acquisition of Euphoria Institute of Beauty Arts and Sciences for an estimated \$10.0 million. Euphoria offers degree programs in cosmetology, esthetics, hair design, nail technology, make-up and medical esthetics.

### **Tri-State Computer Institute is acquired by Education Affiliates, LLC**

December 1, 2005 – Education Affiliates announced the acquisition of Tri-State Computer Institute for an undisclosed amount. Tri-State Computer Institute offers vocational computer education courses in the Ohio, Pennsylvania and New York tri-state area.

**Polar Bear Corporate Education Solutions acquires CDI Education Corp.**

September 22, 2005 – Polar Bear Corporate Education Solutions announced the acquisition of CDI Education Corp. from Corinthian Colleges Inc. for an estimated \$16.2 million or 0.5x revenue. CDI Education Corp. offers training solutions to individuals and employers in the fields of information technology, business management and health care throughout Canada.

**Equus Resources acquires American Career Training Institute Inc.**

July 19, 2005 – Equus Resources announced the acquisition of American Career Training Institute Inc. for an undisclosed amount. American Career Training Institute, Inc. provides career-oriented education programs for adult students offering various courses, including home inspection, mortgage finance, real estate appraisal and real estate sales.

**Regis Corp. acquires Martin's College of Cosmetology**

July 1, 2005 – Regis Corp. announced the acquisition of Martin's College of Cosmetology for an undisclosed amount. Martin's College of Cosmetology offers training programs in hair care, skin care, nail technology and esthetics in the Midwest.

**EVCI Career Colleges Holding Corp. acquires Technical Career Institutes, Inc.**

June 30, 2005 – EVCI announced the acquisition of Technical Career Institutes for \$16.0 million or 0.5x LTM revenue and 6.7x LTM EBITDA. Technological education offers services in electronics, computer, accounting, office, new media, climate control and building maintenance technologies.

**CSFB Private Equity acquires Professional Career Development Institute, LLC**

June 20, 2005 – CSFB Private Equity announced the acquisition of Professional Career Development Institute for an undisclosed amount. PCDI provides courses in accounting, bridal consulting, plumbing, photography, pharmacy technician, motorcycle repair, floral design, property management, web design, tax preparation, interior decoration, gourmet cooking, and real estate appraisal.

**The Palmer group acquires Salem College**

June 9, 2005 – The Palmer Group announced the acquisition of Salem College from Informatics Holdings Ltd. for an undisclosed amount. Salem College provides graduate and undergraduate degrees in humanities, arts, mathematics, social sciences, and natural sciences.

**Regis Corp. acquires Pierre's School of Cosmetology**

May 2, 2005 – Regis Corp. announced the acquisition of Pierre's School of Cosmetology for an undisclosed amount. Pierre's offers degree programs in cosmetic services and cosmetology in northern New England.

**Huron Capital Partners acquires Ross Learning**

March 8, 2005 – Huron Capital Partners announced the acquisition of Ross Learning for an undisclosed amount. Ross Learning, Inc. provides medical education and employment programs across various locations in Michigan, Georgia, and Florida.

**InSight Venture Partners, Maveron, L.L.C., and Technology Crossover Ventures acquire Capella Education Co.**

January 7, 2005 – InSight Venture Partners, Maveron, L.L.C., and Technology Crossover Ventures announced the acquisition of Capella Education Co. for \$62.5 million, or 0.5x LTM revenue and 3.8x LTM EBITDA. Capella University provides online post-secondary education services offering a variety of bachelor's, master's, and doctoral degree programs primarily targeted to working adults.

**Willis Stein & Partners LLC acquires Education Corporation of America**

January 4, 2005 – Willis Stein announced the acquisition of Education Corporation of America for an undisclosed amount. Education Corporation of America operates Virginia College, a post-secondary educational institution in the southern U.S. It offers non-degree, as well as associate's, bachelor's, and master's degree programs in the areas of allied health, business, information technology, interior design, culinary arts and automotive repair at campuses and online.

**Empire acquires Learning Institute for Beauty Sciences (“LIBS”)**

December 5, 2004 - Empire Education Group acquired Learning Institute for Beauty Sciences (LIBS) for an undisclosed amount. Empire partnered with Key Principal Partners to purchase the cosmetology training school. LIBS operates three locations in metropolitan New York and two campuses in Boston, Massachusetts.

**TA Associates acquires Florida Career College**

November 18, 2004 - Florida Career College announced that TA Associates and the management of the institution have acquired the college through FCC Holding Inc. in a recapitalization transaction valued at \$53 million. The recapitalization will support management's continued strategy to expand into new educational programs and new campus locations. TA Associates and management will also seek to make complementary acquisitions on an opportunistic basis. Florida Career College provides training and testing services in the fields of allied health and information technology.

**Education Affiliates ("EA") acquires Marco Group**

November 4, 2004 - EA announced that it has acquired Marco Group for \$52 million. EA is a new platform company created by JLL Partners Inc. to acquire for-profit postsecondary schools. JLL provided the entire purchase consideration of \$52 million. JLL has earmarked up to \$100 million of equity funding for its build out. Marco Group acquires and operates vocational and professional training schools. Its schools include Technical Career Institute; Allied Medical and Technical Careers; All State Career; Bohecker's Business College; National Institute of Technology; and Florida Career Institute.

**Laureate Education acquires Walden University**

September 16, 2004 - Laureate Education, Inc. announced that it has acquired the remaining 49% interest in Walden University for gross proceeds of \$108 million from Walden's minority shareholders. Walden University offers correspondence courses for graduate level students. Its curriculum offers Ph.D. and other graduate-level, regionally accredited degree programs in management, education, and the social and behavioral sciences. Its affiliate Walden Institute also offers online graduate level courses.

**Corinthian Colleges, Inc. acquires A.M.I., Inc. ("AMI")**

June 18, 2004 - Corinthian Colleges, Inc. announced that it has signed a definitive agreement to acquire substantially all of the assets of AMI and its one campus. The purchase price was approximately \$11 million which included the assumption of approximately \$460,000 in mortgage debt. Corinthian expects to fund the acquisition with available cash and borrowings through its previously announced \$235 million credit facility. Upon completion of the acquisition, AMI will be integrated into Corinthian's Titan Schools, Inc. technical division. AMI provides diploma programs for motorcycles, marine, and personal watercraft technicians.

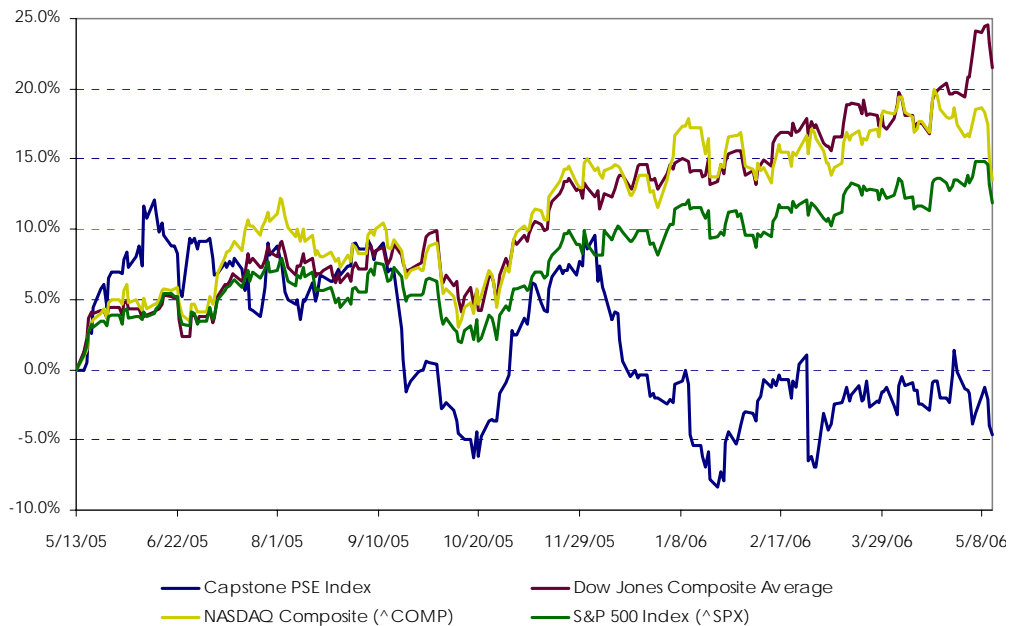
**Regis Corp. acquires Blaine Beauty Schools**

June 1, 2004 - Regis Corporation entered the beauty school business with the acquisition of Blaine Beauty Career Schools. The acquisition is expected to add \$13 million in annualized revenue and to add one penny per share to earnings in fiscal year 2005.

## MARKET PERFORMANCE

Over the past year, the PSE Index has underperformed the Dow Jones Composite, NASDAQ 100 and the S&P 500. Prior to the most recent twelve month period, the PSE index had widely outperformed the major market indices over similar periods in 2003 and 2004. The \$18 billion postsecondary for profit industry has faced significant challenges over the past year resulting in the loss of market value. The industry has witnessed slowing growth rates and regulatory concerns have accelerated after some well-publicized incidences of mismanagement. Capstone believes that several providers in this space are positioned to thrive in the industry over the next couple of years and that current valuations present an opportunity for investors to achieve higher returns on purchased assets. Over the next 6 to 12 months, we believe PSE companies will return to premium valuations.

### THE CAPSTONE PSE INDEX



The Capstone PSE Index is comprised of Apollo Group Inc. (APOL), Career Education Corp. (CECO), Concorde Career Colleges Inc. (CCDC), Corinthian Colleges Inc. (COCO), DeVry Inc. (DV), Education Management Corp. (EDMC), ITT Educational Services Inc. (ESI), Laureate Education Inc. (LAUR), Regis Corporation (RGS), Strayer Education Inc. (STRA) and Universal Technical Institute Inc. (UTI).

## PUBLIC COMPANY OPERATING DATA

(\$ in millions, except per share data)

Company	Stock Price	Market Cap	LTM Revenue	LTM EBITDA	EPS	Cash & Equiv.	Total Debt
Apollo Group Inc.	\$52.46	9,063.6	2,409.3	830.7	\$2.58	\$20.5	(\$118.3)
Career Education Corp.	\$31.43	3,086.0	2,052.7	452.9	\$2.31	\$99.0	(\$471.8)
Concorde Career Colleges Inc.	\$14.51	79.6	90.9	7.5	\$0.73	\$15.6	(\$15.6)
Corinthian Colleges Inc.	\$13.55	1,167.2	970.3	110.4	\$0.38	\$97.6	(\$51.9)
DeVry Inc.	\$24.30	1,719.0	821.0	124.5	\$0.60	\$162.4	(\$17.4)
Education Management Corporation	\$42.53	3,223.0	1,133.5	249.0	\$1.62	\$394.0	(\$388.9)
ITT Educational Services Inc.	\$63.72	2,787.5	704.2	184.0	\$2.51	\$6.7	(\$277.6)
Laureate Education Inc.	\$46.06	2,363.4	931.8	184.6	\$1.45	\$0.0	\$53.2
Regis Corp.	\$34.49	1,574.8	2,388.4	294.5	\$2.16	\$116.8	\$480.1
Strayer Education Inc.	\$106.60	1,528.5	231.4	81.5	\$3.47	\$50.7	(\$126.2)
Universal Technical Institute Inc.	\$25.22	710.0	323.0	67.4	\$1.30	\$79.8	(\$79.8)

## PUBLIC COMPANY TRADING MULTIPLES

(\$ in millions, except per share data)

Company	Market Cap	TEV	TEV/LTM Total Revenue	TEV/LTM Total EBITDA	P/LTM Basic EPS
Apollo Group Inc.	\$9,063.6	\$8,945.3	3.7x	10.8x	20.4x
Career Education Corp.	\$3,086.0	\$2,614.3	1.3x	5.8x	13.6x
Concorde Career Colleges Inc.	\$79.6	\$63.9	0.7x	8.6x	19.9x
Corinthian Colleges Inc.	\$1,167.2	\$1,115.3	1.1x	10.1x	35.3x
DeVry Inc.	\$1,719.0	\$1,701.6	2.1x	13.7x	40.7x
Education Management Corporation	\$3,223.0	\$2,834.1	2.5x	11.4x	26.3x
ITT Educational Services Inc.	\$2,787.5	\$2,509.9	3.6x	13.6x	25.4x
Laureate Education Inc.	\$2,363.4	\$2,489.2	2.7x	13.5x	31.7x
Regis Corp.	\$1,574.8	\$2,054.9	0.9x	7.0x	15.9x
Strayer Education Inc.	\$1,528.5	\$1,402.3	6.1x	17.2x	30.7x
Universal Technical Institute Inc.	\$710.0	\$630.2	2.0x	9.4x	19.4x

High	6.1x	17.2x	40.7x
Low	0.7x	5.8x	13.6x
Mean	2.4x	11.0x	25.4x
Harmonic Mean	1.6x	10.0x	22.8x
Median	2.1x	10.8x	25.4x

**Apollo Group Inc.**  
**(NASDAQ:APOL)**

*The Company has focused the building of its business through the expansion of its University of Phoenix subsidiary.*

**Key Performance Indicators**

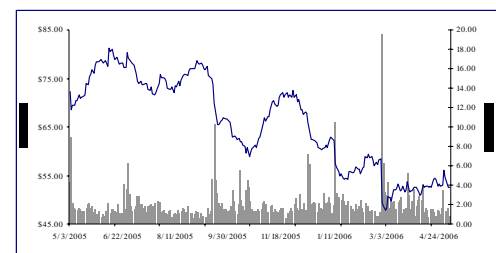
Stock Price:	\$52.51
52-Week Range:	\$47.27 - \$82.54
52-Week % Change:	-36.4%
Shares Outstanding(mm):	172.77
Market Cap(mm):	\$9,065
Enterprise Value(mm):	\$8,947
Total Cash(mm):	\$118.3
Debt(mm):	\$0.0
Revenue(mm):	\$2,409
EBITDA(mm):	\$830.7

Apollo Group, Inc., through its subsidiaries, provides higher education programs for working adults. It offers 19 degree programs in business, criminal justice, education, health, human services, information technology, management, and nursing. The company's subsidiaries include The University of Phoenix, Inc., Institute for Professional Development, The College for Financial Planning Institutes Corporation, and Western International University, Inc. The company, through The University of Phoenix, offers professional education programs, including continuing education for teachers, custom training, environmental training, and programs leading to certification in the areas of business, technology, and nursing. Its Institute for Professional Development provides program development and management consulting services, including degree program design, curriculum development, market research, student recruitment, accounting, and administrative services to regionally accredited private colleges and universities. The company's other subsidiary, The College for Financial Planning, offers the certified financial planner professional education program certification, as well as regionally accredited graduate degree programs in financial planning, financial analysis, and finance.

**Position and Strategy**

Apollo is the largest private institution of higher education in the U.S., and therefore the largest publicly held, for-profit postsecondary education company. The company is meeting the educational needs of working adults, especially with its online offering. Its recent growth has been strong, including an average of 28% revenue growth over the last four years. Return on capital is high, and free cash flow is strong even within a period of impressive revenue growth. We believe that its strong historical performance, strong management and high educational standards will continue to drive organic growth. Historically, Apollo has chosen a build versus buy strategy but with its organic revenue growth slowing (11% and 10% estimated 2006 and 2007 revenue growth) we think the company may rethink this strategy and become more active in the M&A marketplace.

**Stock Price Performance**



**Recommendation Trends**

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	1 7%	1 7%	1 7%	4 28%
<b>Buy</b>	2 14%	2 14%	2 14%	1 7%
<b>Hold</b>	10 71%	9 64%	9 64%	6 43%
<b>Sell</b>	0 0%	0 0%	0 0%	0 0%
<b>Strong Sell</b>	1 7%	2 14%	2 14%	2 14%

**Career Education Corp.**  
**(NASDAQ:CECO)**

*Due to the maturation of some of the company's end markets, we believe that CECO will look to broaden its offerings through acquisition.*

**Key Performance Indicators**

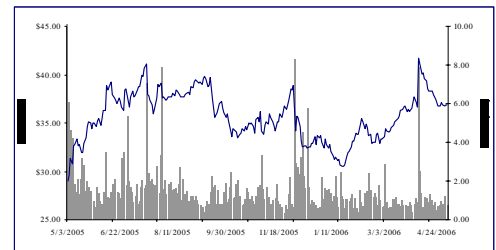
Stock Price:	\$36.50
52-Week Range:	\$28.73 - \$42.59
52-Week % Change:	-14.3%
Shares Outstanding(mm):	98.2
Market Cap(mm):	\$3,623
Enterprise Value(mm):	\$3,236
Total Cash(mm):	\$404.4
Debt(mm):	\$17.0
Revenue(mm):	\$2,035
EBITDA(mm):	\$452.9

The company owns and operates over 80 campuses offering private, post-secondary education to some 100,000 students. Located across the US, as well as in Canada, France, the UK, and the United Arab Emirates, CECO schools offer a variety of career oriented study programs, including visual communication and design (desktop publishing, interior design), culinary arts, information technology, business, and health education. The schools offer associate, bachelors, masters, and doctoral degrees, as well as certificate programs. The SEC announced it was opening a formal investigation of Career Education's record keeping in June 2004, and the company said in September that a criminal probe by the Justice Department is also underway. The investigations are focused on allegations that several campuses falsified records to maintain access to federal student loan money, which accounts for about half of the company's revenue.

**Position and Strategy**

Since 1998, CECO had been actively acquiring a variety of schools across a road spectrum of curricula and geographies. In 2004, acquisition activity has slowed considerably for CECO in large part due to the SEC/ JD investigations, and the company didn't make any acquisitions in 2005 and 2006 YTD. However, in 2003 the Company made a number of acquisitions that focused on adding a broader allied health and business curriculum. Additionally, CECO has made another foray into the international market in February 2003 with the addition of INSEEC in Paris, France. Due to the maturation of some of the company's end markets, we believe that CECO will look to broaden its offerings through acquisition.

**Stock Price Performance**



**Recommendation Trends**

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	1 7%	1 7%	1 7%	4 28%
<b>Buy</b>	0 0%	1 7%	1 7%	2 14%
<b>Hold</b>	11 78%	9 64%	9 64%	7 50%
<b>Sell</b>	0 0%	0 0%	0 0%	0 0%
<b>Strong Sell</b>	2 14%	3 21%	3 21%	3 21%

## Concorde Career Colleges Inc. (NASDAQ:CCDC)

Concorde will entertain acquisition opportunities across the entire postsecondary education spectrum, but will most likely maintain its discipline in terms of curriculum and geography.

### Key Performance Indicators

Stock Price:	\$15.99
52-Week Range:	\$13.38 - \$17.64
52-Week % Change:	8.2%
Shares Outstanding(mm):	5.5
Market Cap(mm):	\$88
Enterprise Value(mm):	\$73
Total Cash(mm):	\$14.5
Debt(mm):	\$0.0
Revenue(mm):	\$88
EBITDA(mm):	\$7.5

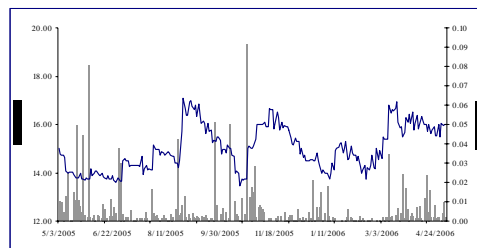
Concorde Career Colleges is a high-quality, fast-growing, PSE company with a strong focus in the allied health education market, one of the most attractive sectors within the for-profit, post-secondary landscape. The company provides vocational training primarily in the healthcare field, including courses in medical and dental assisting, nursing, insurance coding, respiratory therapy, and radiology. Taught in a classroom format, Concorde's programs last from five to 18 months and offer clinical and laboratory experience, as well as externships before graduation. In addition, the company provides short-term courses in areas such as certification test preparation, home health aide, and clinical lab assistant. The company has 12 campuses in seven states with about 5,700 students.

### Position and Strategy

The company's strategy is to tailor its offerings to appeal to high school graduates and adults looking for convenient programs to gain entry level jobs in allied health. Jobs in the healthcare sector are projected to grow significantly faster than the economy, with a 25% increase projected between 2000 and 2010. With an exclusive focus on health programs, Concorde provides a unique opportunity to leverage growth in

the sector. Operating only 12 campuses in seven states, Concorde offers tremendous potential for multiple campus expansion for years to come. In June of 2002, Concorde acquired Extended Health Education in Arlington, Texas. This deal is evidence of the Company's consistent focus on the allied health segment and its core geographic area. Jack Brozman has indicated he would like to make additional acquisitions in the area of allied health. Concorde will entertain acquisition opportunities across the entire post-secondary education spectrum, but will most likely maintain its discipline in terms of curriculum and geography. We would not be surprised to see Concorde as an acquisition target for some of the larger players profiled in this report.

### Stock Price Performance



### Recommendation Trends

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	1 100%	1 100%	1 100%	1 100%
<b>Buy</b>	0 0%	0 0%	0 0%	0 0%
<b>Hold</b>	0 0%	0 0%	0 0%	0 0%
<b>Sell</b>	0 0%	0 0%	0 0%	0 0%
<b>Strong Sell</b>	0 0%	0 0%	0 0%	0 0%

**Corinthian  
Colleges Inc.  
(NASDAQ:COCO)**

*Since 2000, Corinthian has completed 10 transactions and shows signs of continued activity.*

**Key Performance Indicators**

Stock Price:	\$14.84
52-Week Range:	\$11.40 - \$16.99
52-Week % Change:	-12.7%
Shares Outstanding(mm):	86.0
Market Cap(mm):	\$1,262
Enterprise Value(mm):	\$1,210
Total Cash(mm):	\$97.6
Debt(mm):	\$45.8
Revenue(mm):	\$970
EBITDA(mm):	\$110.4

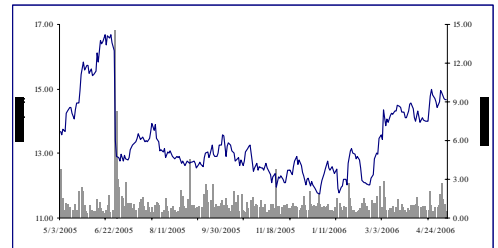
One of the largest for-profit, post-secondary education companies in the US, Corinthian Colleges focuses on career-oriented curricula. The company operates about operating 97 schools in 25 states in the U.S. and 34 schools in seven provinces in Canada. More than 66,000 students are enrolled in the institutions, which include Florida Metropolitan University (FMU), Bryman College, Rhodes College, and the National Institute of Technology. The majority of students are enrolled in associate's degree or diploma programs, but the company's FMU campus also offers bachelors and master's degrees. Additionally, Corinthian Colleges offers degrees in 12 online programs. The company's diploma programs offer training for entry-level health care, information technology, and automotive technology jobs. The remainder of students enrolled at the company's colleges is in degree programs in areas such as business administration, criminal justice, and court reporting. Corinthian Colleges also operates several training centers that provide ongoing professional education and short-term certificate programs.

**Position and Strategy**

The company has grown both through increasing enrollments at existing schools and through acquisitions. Since 2000, Corinthian has completed 13 transactions and shows signs of continued activity.

Its August 2003 acquisitions of Career Choices, East Coast Aero Tech, and CDI Education added more than 70 colleges and training centers. Corinthian added A.M.I. International Training Center, a motorcycle and water craft technician training school, to its roster of schools in 2004. In September of 2005 the company sold its Canadian corporate training division, CDI Education to Polar Bear Corporate Education solutions for \$16 million.

**Stock Price Performance**



**Recommendation Trends**

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	3 30%	2 18%	2 18%	2 20%
<b>Buy</b>	0 0%	0 0%	0 0%	0 0%
<b>Hold</b>	5 50%	7 63%	7 63%	7 70%
<b>Sell</b>	1 10%	1 9%	1 9%	0 0%
<b>Strong Sell</b>	1 10%	1 9%	1 9%	1 10%

## DeVry Inc. (NYSE:DV)

*DeVry's acquisition activity to date has been concentrated on building a larger presence in the financial professional exam preparation market... We look for DeVry to accomplish necessary diversification through strategic acquisitions.*

### Key Performance Indicators

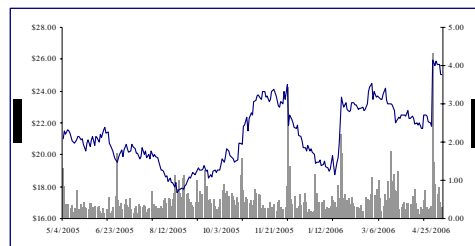
Stock Price:	\$24.92
52-Week Range:	\$17.40 - \$27.75
52-Week % Change:	18.7%
Shares Outstanding(mm):	70.5
Market Cap(mm):	\$1,766
Enterprise Value(mm):	\$1,749
Total Cash(mm):	\$162.4
Debt(mm):	\$145.0
Revenue(mm):	\$821
EBITDA(mm):	\$124.5

DeVry University is celebrating its 75<sup>th</sup> anniversary this year. Currently the company operates 81 campuses in the U.S. and one Canadian location in Calgary that offer undergraduate programs in technology- and business-related fields, as well as seven master's degrees through Keller Graduate School of Management. Several undergraduate and graduate programs are also offered online. Additionally, DeVry owns Ross University, which runs a medical school and a veterinary school in the Caribbean, and it prepares potential accountants and financial analysts for their professional exams through Becker Professional Review programs. Becker operates at 250 locations worldwide. DeVry University enrolls some 40,000 students in its undergraduate programs each year. Keller Graduate School enrollment grew, however, to more than 10,000 students. The company's student population is generally older than those at traditional colleges; nearly 50% of students are older than 25. Ross University, which DeVry acquired in 2003, enrolls about 3,300 students annually. Students take academic coursework at the university, and then complete their degrees with clinical training at US teaching hospitals and affiliated veterinary colleges.

### Position and Strategy

DeVry has recently been active in the acquisition markets completing two deals in 2005. The company acquired Deaconess College of Nursing for \$5 million and through its Becker CPA Review subsidiary, acquired Gearty CPE, a provider of finance based continuing education. Gearty was the fifth acquisition the company has made in the financial training space since through Becker. Through these acquisitions Becker has added test preparation programs for the Chartered Financial Analyst exam and Certified Management Accountant exam. Currently, both DeVry and Ross have stated that programmatic expansion is critical. We look for DeVry to continue to work towards accomplishing diversification through strategic acquisitions in the next year.

### Stock Price Performance



### Recommendation Trends

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	2 18%	2 16%	2 16%	2 16%
<b>Buy</b>	0 0%	0 0%	0 0%	0 0%
<b>Hold</b>	9 82%	9 75%	9 75%	9 75%
<b>Sell</b>	0 0%	0 0%	0 0%	0 0%
<b>Strong Sell</b>	0 0%	1 8%	1 8%	1 8%

## Education Management Corp. (NASDAQ:EDMC)

In March of 2006 EDMC was acquired by Goldman Sachs and Providence Equity Partners in the largest PSE transaction to date at an estimated \$3.3 billion.

### Key Performance Indicators

Stock Price:	\$42.43
52-Week Range:	\$24.21 - \$42.57
52-Week % Change:	70.8%
Shares Outstanding(mm):	75.4
Market Cap(mm):	\$3,207
Enterprise Value(mm):	\$2,818
Total Cash(mm):	\$394.0
Debt(mm):	\$5.1
Revenue(mm):	\$1,133
EBITDA(mm):	\$249.0

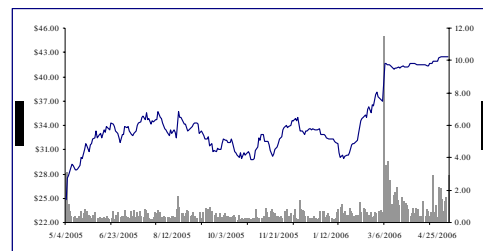
Education Management Corporation (EDMC) operates 71 primary campus locations in 24 states and two Canadian provinces, which offer certifications as well as associate through doctoral degrees in fields such as graphic design, health sciences, and Web site administration. EDMC’s education institutions boast a total student enrollment of nearly 60,000. The company’s 31 Art Institutes offer degrees and diplomas in creative fields such as media arts, design, culinary arts, and fashion. The Company delivers education to students through traditional classroom settings, as well as through online instruction. The company primarily offers academic programs through four educational institutions: 1) The Art Institutes offer programs in the media arts, design, fashion, and culinary arts. In addition to the physical campuses, The Art Institute online offers a suite of bachelor’s, associate’s, and diploma degree programs in the creative fields. 2) Argosy University offers doctoral and master’s programs in clinical psychology, counseling, and education. Argosy also offers doctoral, master’s, and bachelor’s degree programs in business administration; bachelor’s degrees in psychology; and associate’s degree programs in various health sciences fields. 3) South University offers undergraduate and graduate degree programs in business, legal studies, information technology, and

health sciences fields. 4) American Education Centers offer bachelor’s and associate’s degree programs in health sciences, business, information technology, legal studies, and design technologies. As of June 30, 2004, the company had 67 primary campus locations in 24 states and 2 Canadian provinces. EDMC was organized as a Pennsylvania corporation in 1962 and is headquartered in Pittsburgh, Pennsylvania.

### Position and Strategy

In March of 2006 EDMC was acquired by Goldman Sachs and Providence Equity Partners in the largest PSE transaction to date at an estimated \$3.3 billion. The transaction is expected to be completed this summer and is subject to approval by the U.S. Department of Education.

### Stock Price Performance



### Recommendation Trends

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	1 14%	2 29%	4 50%	4 50%
<b>Buy</b>	0 0%	0 0%	1 12%	1 12%
<b>Hold</b>	6 86%	5 71%	3 38%	3 38%
<b>Sell</b>	0 0%	0 0%	0 0%	0 0%
<b>Strong Sell</b>	0 0%	0 0%	0 0%	0 0%

**ITT Educational Services Inc. (NYSE:ESI)**

*ITT has opted to build its business through the addition of new schools rather than through acquisition.*

**Key Performance Indicators**

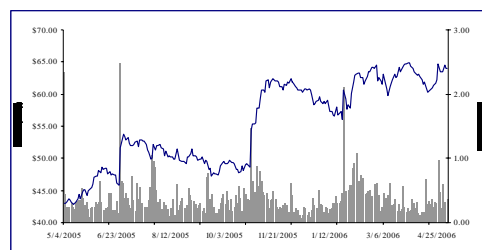
Stock Price:	\$63.90
52-Week Range:	\$41.58 - \$65.10
52-Week % Change:	48.6%
Shares Outstanding(mm):	43.7
Market Cap(mm):	\$2,798
Enterprise Value(mm):	\$2,520
Total Cash(mm):	\$277.6
Debt(mm):	\$0.0
Revenue(mm):	\$704
EBITDA(mm):	\$184.0

**Position and Strategy**

Despite some recent legal issues growth has been strong, with enrollment growing 10.8% in the first quarter alone of 2005. ITT is pursuing its growth strategy by building its business through the addition of new schools rather than through acquisition. Each year the Company adds between three and four campus locations and plans to do so for 2006.

The largest US provider of technical education, ITT Educational Services offers mainly associate's and bachelor's degree programs to approximately 43,000 students through 84 ITT Technical Institutes in 32 states. The company's schools have traditionally offered a range of technology-focused degrees in areas such as computer-aided design, engineering technology, and information technology. However, ITT also offers some business degrees, including a master's of business administration (MBA). Some programs, including the MBA, are offered exclusively online, while students earn other degrees through combinations of classroom and online courses. ITT has recently benefited from funding cuts at state universities. The combination of rising tuition costs and class shortages at those institutions is making career college a more attractive option for post-secondary education. In response to increasing enrollment rates ITT is expanding both the number and types of programs it offers. The company has plans this year to open 5-6 new colleges and 5-6 learning centers for a total of 10-12 new locations versus 7 new locations in 2005 and 3 new locations in 2004. Its distance learning programs have grown as well, with enrollment in Q1 2006 of 36,073 registrations, an increase of 42% year-over-year.

**Stock Price Performance**



**Recommendation Trends**

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	4 44%	4 44%	4 44%	4 50%
<b>Buy</b>	1 11%	1 11%	1 11%	1 12%
<b>Hold</b>	3 33%	3 33%	3 33%	3 38%
<b>Sell</b>	1 11%	1 11%	1 11%	0 0%
<b>Strong Sell</b>	0 0%	0 0%	0 0%	0 0%

**Laureate Education Inc. (NASDAQ:LAUR)**

*The Company followed up an aggressive acquisition strategy in 2004 by purchasing two international schools in 2005 and divesting its Wall Street Training Institute schools.*

**Key Performance Indicators**

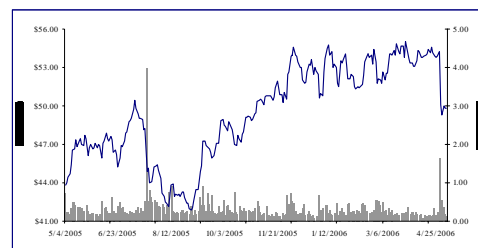
Stock Price:	\$48.68
52-Week Range:	\$41.39 - \$55.22
52-Week % Change:	11.1%
Shares Outstanding(mm):	51.3
Market Cap(mm):	\$2,554
Enterprise Value(mm):	\$2,680
Total Cash(mm):	\$109.9
Debt(mm):	\$163.0
Revenue(mm):	\$932
EBITDA(mm):	\$184.6

Laureate Education, formerly Sylvan Learning Systems, provides adult career education through online and campus based programs in the Americas and Europe. Laureate's educational institutions offer bachelor's, master's, and doctoral degrees to a combined enrollment of more than 130,000. Students can earn degrees in areas such as business, education, hospitality management, law, and medicine. Its online courses are geared to working adults in the US, while its campuses are mostly in Europe and Latin America. Laureate's Canter unit provides professional development and training programs for teachers. In 2003 Laureate (then Sylvan) sold its K-12 education units to Educate, Inc. in order to focus on post-secondary education. The company also dissolved Sylvan Ventures, which invested in firms focused on emerging education and training technologies. Laureate is establishing a collection of private universities around the world. Strong profits have allowed the company to expand its operations aggressively. In 2005 Laureate continued its international expansion by adding Cyprus College in Nicosia, Cyprus and Universidade Anhembi Morumbi in Brazil.

**Position and Strategy**

The Company followed up an aggressive acquisition strategy in 2004 by purchasing two international schools in 2005 and divested its Wall Street Training Institute schools. In addition to its activity over the most recent year, Laureate has demonstrated its commitment to the international sector through the purchase of three schools outside the United States since 2002. We expect more activity from Laureate in 2006 and early 2007.

**Stock Price Performance**



**Recommendation Trends**

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	5 45%	5 45%	5 42%	5 42%
<b>Buy</b>	2 18%	2 18%	2 16%	2 16%
<b>Hold</b>	4 36%	4 36%	5 42%	5 42%
<b>Sell</b>	0 0%	0 0%	0 0%	0 0%
<b>Strong Sell</b>	0 0%	0 0%	0 0%	0 0%

## Regis Corporation (NYSE:RGS)

Regis is committed to building a \$100 million cosmetology training business. In 2005 the company followed up on this commitment by acquiring three cosmetology training schools.

### Key Performance Indicators

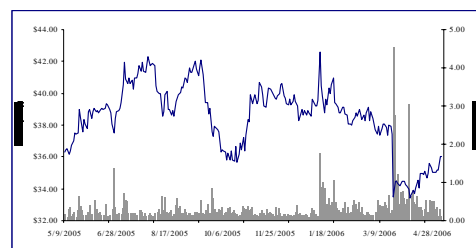
Stock Price:	\$35.25
52-Week Range:	\$32.16 - \$43.49
52-Week % Change:	-3.0%
Shares Outstanding(mm):	45.6
Market Cap(mm):	\$1,603
Enterprise Value(mm):	\$2,083
Total Cash(mm):	\$116.8
Debt(mm):	\$596.9
Revenue(mm):	\$2,388
EBITDA(mm):	\$294.5

Regis is the world's largest operator of hair salons, operating nearly 10,900 North American and international salons, 24 beauty career schools, and 90 hair restoration centers. Formats range from mall-based to Wal-Mart-based. Names include Regis Salons, Trade Secret, and SmartStyle. Regis also runs a variety of store formats in strip malls, including more than 1,700 Supercuts and nearly 800 Cost Cutters salons. It has more than 2,000 locations in France, Italy, Spain, and the UK. Hair products, sold under its own label and other brands, account for about 30% of sales. Despite its size, Regis commands only a small percentage of the highly fractured US market. It has been sweeping up market share through acquisitions both internationally and in the US (over 250 deals since the early 1990s, adding over 8,700 salons). Regis is the largest salon franchisor in Europe after acquisitions in 2002 that included Jean Louis David (nearly 1,200 salons). In December 2004, Regis acquired Hair Club for Men and Women a wholly-owned subsidiary for \$210 million in cash. Regis projects that Hair Club, a leader in the hair loss industry, adding some \$115 million in revenue to the company for fiscal year 2006. In 2005 the company completed three transactions in the U.S. acquiring three Scot-Lewis Crystal, Inc. schools as well as Martin's College of Cosmetology and Pierre's School of Cosmetology.

### Position and Strategy

Regis has been an active buyer in the beauty category. Over the last few years it has built a substantial salon business through acquisition. In 2004 it completed the acquisition of Blaine and announced its entrance in the post-secondary education market. In 2005 the company followed up on this commitment by acquiring three cosmetology training schools.

### Stock Price Performance



### Recommendation Trends

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	0 45%	0 0%	1 33%	1 33%
<b>Buy</b>	1 25%	0 0%	1 33%	1 33%
<b>Hold</b>	2 50%	3 100%	1 33%	1 33%
<b>Sell</b>	0 0%	0 0%	0 0%	0 0%
<b>Strong Sell</b>	1 25%	0 0%	0 0%	0 0%

## Strayer Education Inc. (NASDAQ:STRA)

Over the past four years, management has executed an excellent growth strategy. We expect organic growth to continue, but look for a more diverse growth strategy to emerge, including acquisitions.

### Key Performance Indicators

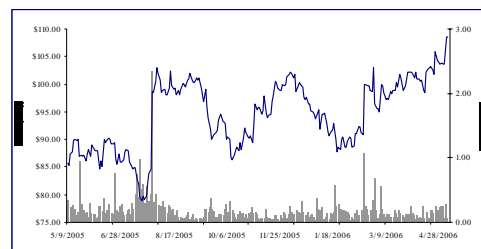
Stock Price:	\$106.06
52-Week Range:	\$77.24 - \$111.31
52-Week % Change:	23.8%
Shares Outstanding(mm):	14.4
Market Cap(mm):	\$1,487
Enterprise Value(mm):	\$1,368
Total Cash(mm):	\$119.8
Debt(mm):	\$0.0
Revenue(mm):	\$221
EBITDA(mm):	\$81.5

The company's Strayer University offers its programs through 37 campuses in Pennsylvania, Delaware, Maryland, Washington, D.C., Virginia, North Carolina, South Carolina, Tennessee, Georgia, and Florida. The company has approximately 27,000 students enrolled in its various programs, comprised of mostly working adults seeking associate, bachelor, and master degrees in fields such as accounting, business administration, computer information systems, and computer networking. It also offers Internet based classes through its Strayer Online division. In addition, the firm owns Education Loan Processing, which finances, buys, and services student loans (mostly for the university) and oversees the Strayer Education Loan Program. The Company through Strayer University, provides undergraduate and graduate degrees in various fields of study. The company's graduate programs include Master of Business Administration, Master of Education, Master of Public Administration Master of Science, and Executive Graduate certificate programs. Its undergraduate programs include Bachelor of Science, Associate in Arts, Undergraduate Diploma programs, and Undergraduate Certificate programs. The company is headquartered in Arlington, Virginia.

### Position and Strategy

Management has pursued a strategy to rollout new schools with high returns on capital. The company has done exactly that, opening 5 campuses in 2004 after opening 5 campuses in 2003, 3 campuses in each of 2002 and 2001, and 1 campus in 2000. In 2005 the company opened 5 campuses, with two in Tampa, FL, and one each in Greensboro, NC, Columbia, SC and Atlanta, GA. Over the past four years, management has executed an excellent growth strategy. We expect organic growth to continue, but look for a more diverse growth strategy to emerge, including acquisitions. We believe Strayer will look to leverage its strong currency and balance sheet to continue to build an industry leading PSE company.

### Stock Price Performance



### Recommendation Trends

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	3 38%	3 38%	3 38%	3 38%
<b>Buy</b>	0 0%	0 0%	0 0%	0 0%
<b>Hold</b>	5 62%	5 62%	5 62%	5 62%
<b>Sell</b>	0 0%	0 0%	0 0%	0 0%
<b>Strong Sell</b>	0 0%	0 0%	0 0%	0 0%

## Universal Technical Institute Inc. (NYSE:UTI)

2006, however, could be an interesting year for UTI. With its unique position in the Allied Trades sector and with Wall Street analysts supporting the company's currency, we believe that UTI could take advantage of its position to acquire quality schools that are emerging in the allied trades sector.

### Key Performance Indicators

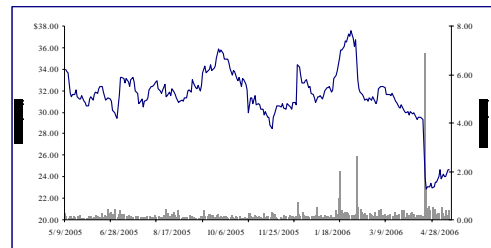
Stock Price:	\$24.23
52-Week Range:	\$20.55 - \$37.71
52-Week % Change:	-28.7%
Shares Outstanding(mm):	28.1
Market Cap(mm):	\$674
Enterprise Value(mm):	\$594
Total Cash(mm):	\$79.8
Debt(mm):	\$0.0
Revenue(mm):	\$323
EBITDA(mm):	\$67.4

Universal Technical Institute (UTI) is the largest provider of associate degrees, diplomas, and certificate programs in the areas of automotive, diesel, collision repair, motorcycle, and marine, enrolling over 14,000 students. The company provides undergraduate degrees and certificate programs at twelve campuses in eight states, including Arizona, California, Florida, Illinois, North Carolina, Pennsylvania, Massachusetts and Texas. UTI also offers advanced manufacturer-branded training for sponsors such as Porsche, Mercedes-Benz, and Ford at 22 additional locations. Undergraduate programs last 12-18 months, and tuition ranges from \$18,000 to \$34,000. The Company operates under three distinct brands: Universal Technical Institute (UTI), NASCAR Technical Institute (NTI) and Motorcycle Mechanics Institute (MMI). Management sizes its market share in automotive at approximately 11% for new jobs. NTI was founded in 2002 in partnership with NASCAR and is the only school of its kind in the U.S. MMI was founded in 1973 and has partnerships with all major motorcycle manufacturers, enjoying a market share of 80%.

### Position and Strategy

With the exception of the MMI acquisition in 1998, the company has not been acquisitive in the past and has relied for its growth on new campus openings and program transplants. With internal rates of return of 50%+ on new campuses, this option has always been more appealing to the company than acquisitions. Management has looked at acquisitions, but has not yet found one that would meet its ROI requirements or strategic objectives. 2006, however, could be an interesting year for UTI. With its unique position in the Allied Trades sector and with Wall Street analysts supporting the company's currency, we believe that UTI could take advantage of quality schools that are emerging in the allied trades sector. We believe that UTI could be a formidable buyer if it desires to expand through acquisition.

### Stock Price Performance



### Recommendation Trends

	Current	Last Month	2 Months Ago	3 Months Ago
<b>Strong Buy</b>	2 33%	2 40%	2 40%	2 40%
<b>Buy</b>	0 0%	0 0%	0 0%	0 0%
<b>Hold</b>	4 67%	3 60%	3 60%	3 60%
<b>Sell</b>	0 0%	0 0%	0 0%	0 0%
<b>Strong Sell</b>	0 0%	0 0%	0 0%	0 0%

### **Analyst Certification and Representation Disclaimer**

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Capstone Partners LLC is a leading national investment banking advisory firm dedicated to serving the needs of middle-market businesses. Headquartered in Boston, the firm maintains transactional and research resources in the technology & media, business services and specialty products industries.

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