RITTENHOUSE CAPITAL PARTNERS

Postsecondary Industry Review

February 2007

Looking Back on 2006

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Industry Information

Please visit our website at www.rittenhousecapital.com for copies of this review and other industry information.

Highlights

- 2006 was a year of mixed returns for investors, as the public companies had erratic results due to earnings and execution disappointments.
- The going private transactions for Education Management Corp. and Concorde Career Colleges gave private equity investors a new way to allocate money to the sector.
- The U.S. public college system is still not serving all segments of the market adequately.
- The industry is encountering growing pains. Acquisition driven schools such as Career Education and Corinthian are rationalizing and refocusing their operations. CECO announced plans to sell 13 underperforming schools while COCO closed or combined 17 locations in 2006.

Outlook

- We believe market pressures and more sophisticated investors will drive a move toward upgrading management and controls in the industry.
- For-profit opportunities should grow as demographic trends show increasing numbers of non-traditional students.
- Public colleges' growing cost and accountability pressures will drive changes and hopefully innovation, as well as new for-profit opportunities.

Postsecondary Education 2006 Year End Review

The stock market had a good year in 2006 with the Dow Jones Industrials gaining 16.3% and the NASDAQ rising 9.5%. In January, The Wall Street Journal recently stated, "*As for 2007, most strategists predict the market will rise between 5% and 10%, as interest rates stay low and the economy experiences steady and somewhat subdued growth.*"

In contrast, the postsecondary industry results were erratic, with some clear winners and losers. Most industry research analysts are bullish on the industry long-term due to projected growth, profitable business models and the strong barriers to entry provided by its regulatory framework.

The past year saw continuing change and turmoil in the industry. While there was no one major event or new initiative in the industry there were many transactions and noteworthy events that show an industry in transition. In general, we have an industry that grew too fast and lacked the management and systems to properly manage and rationalize such growth.

In speaking with industry investors and management there is growing awareness of the need to improve mid-level school management, better understand program and geographic peculiarities and better manage and control sales and marketing programs and expenditures.

We started the year with 12 publicly traded schools and ended the year with 11, the result of an IPO for Capella Education and the buyouts of Education Management Corp. and Concorde Career Colleges. Of the 11 public companies in the industry, we have not included EVCI as it has dropped from an enterprise of $75 million last year to a current one of less than $20 million with little in the way of shareholder value.

For the nine public companies we ended 2006 with that were public at the beginning of the year, five averaged losses of 20.6% and the other four averaged gains of 20.3%. A detailed stock price performance graph is included at the end of this review for 2006 stock price performance. It clearly shows that for those schools with the greatest stock price decline, there where specific earnings and performance issues which resulted in precipitous price declines on more than one occasion.

The key issues in 2006 that led to some of the poor stock price performance included slow or declining student growth, rising marketing costs and management inability to effectively execute or articulate a long-term growth strategy. The following tables contain the relative performance data.

2006 Stock Price Performance

Symbol	Company	Stock Price 29-Dec-06	Stock Price 30-Dec-05	2006 Return
APOL	Apollo Group	$ 38.97	$ 60.46	-35.54%
CECO	Career Edu Corp	24.78	33.72	-26.51%
COCO	Corinthian College	13.63	11.77	15.80%
CPLA	Capella Education *	24.25	20.00	21.25%
DV	DeVry Inc.	28.00	20.00	40.00%
ESI	ITT Education	66.37	59.11	12.28%
LAUR	Laureate Education	48.63	52.51	-7.39%
LINC	Lincoln Education	13.49	14.26	-5.40%
STRA	Strayer Education	106.05	93.70	13.18%
UTI	Univeral Tech. Inst.	$ 22.21	$ 30.94	-28.22%
DOW	Dow Industrials	12,463.15	10,717.50	16.29%
NASDAQ	Nasdaq	2,415.29	2,205.32	9.52%
** CPLA went public on November 9, 2006 at $20.00 per share.*				
Average Losses (APOL,CECO,LAUR,LINC, UTI)				-20.61%
Average Gains (COCO,DV,ESI,STRA)				20.32%

Source: Company information, Yahoo Finance

2006 Stock Price Performance

Symbol	Company	Stock Price 29-Dec-06	Stock Price 30-Dec-05	2006 Return
BBBB	Blackboard Inc.	$ 30.04	$ 28.98	3.66%
BLKB	Blackbaud, Inc.	26.00	17.08	52.22%
ECLG	eCollege.com	15.65	18.03	-13.20%
DOW	Dow Industrials	12,463.15	10,717.50	16.29%
NASDAQ	Nasdaq	2,415.29	2,205.32	9.52%

Source: Company information, Yahoo Finance

We ended the year with public companies trading at an average revenue multiple of 2.1x and average EBITDA multiple of 9.5x, a decrease from 2005 where they ended in the 2.8x and 12.0x ranges, respectively.

In the case of education software and services companies, Blackbaud was the big gainer, with Blackboard staying flat and eCollege losing ground after announcing its intent to sell Datamark, due to its unpredictable growth prospects. Trading multiples ended at 4.9x revenues and 22.9 EBITDA in line with where we were in December 2005, 4.7x and 21.0x.

Reports and Events of Note

We found the following reports and events noteworthy over the last year. They highlight the opportunities and obstacles being faced by the industry (both non-profits and for-profits) and provide interesting insights and data. The following are brief summaries of these reports and events and our take on their impact.

Career Education Announced its Intention to Sell 13 Underperforming Schools

"We believe that the net result of these decisions will be a stronger operation and a more effective focus on what we do best: preparing students for careers they are passionate about through our high-quality boutique schools, our gold-standard brands, and our flexible, student-centered product offerings."
- CECO Company press release November 15, 2006

On November 15, 2006 Career Education announced it would sell 13 of its schools, which include the Gibbs division with nine locations. These locations accounted for approximately $206 million of the Company's $2 billion in revenues in 2005.

CECO has dramatically grown its school business over the years with numerous acquisitions (16 between 1999 and 2003) and aggressive marketing tactics. In August the company reported declining revenues and write-offs that surprised the market, highlighting its operational issues.

Our Take

Several schools grew very quickly and is obvious today that some of them misunderstood the subtle differences in local markets and program mixes. In many cases corporate oversight used a "one size fits all" strategy and applied the same rules to all schools in their system. As overall market growth has slowed the problems associated with these initiatives surfaced. In addition, large companies, which grew through acquisition, found themselves with too many brands and technology platforms to effectively manage or scale. Cross-pollinating programs between different platforms and achieving operating synergies also proved harder than expected.

We expect to see more closings and selective divestitures in the years to come as company management better segments and manages their businesses.

Education Management and Concorde Career Colleges go Private in 2006

Private equity investors take EDMC and CCDC private using substantial leverage.

Valuation Multiples – CCDE and EDMC

	Announced	Closed	Price	Equity Value to TTM Sales	Equity Value to TTM EBITDA
Concorde Career Colleges	6/22/2006	9/1/2006	$98.9	1.1	12.2
Education Management Corp.	3/3/2006	6/1/2006	$3,161.9	2.9	11.6

Source: Harris Nesbitt Equity Research

Concorde and Education Management represent two ends of the spectrum. Concorde was underperforming and rumored to have been looking for strategic options and not well liked by investors. EDMC on the other hand was perceived to be well run and an industry leader, having completed 14 acquisitions since 1999. In both situations private equity investors found the industry fundamentals appealing and were able to lever the companies approximately 5 – 7x their EBITDA, hoping to attain appealing returns.

Going private transactions such as these typically are for underperforming companies that need to pursue a deal to be fixed, or companies and business sectors that the market does not understand and as such tend to undervalue.

Many were surprised the U.S. Department of Education did not put more restrictions on the transactions or limited the leverage utilized by the acquirors based upon its prior history in reviewing the private sales of schools to investor groups.

As evidence of the growing investor interest in going private transactions, on January 29th Laureate Education announced that its board accepted an offer from senior management and an investor group to take the company private at $60.50 per share or $3.8 billion. The price represents a 12% premium over the prior day closing price and a 24% premium over its year-end 2006 closing price and approximately a 3.1x revenue and 16.0x EBITDA multiple to enterprise value.

Our Take

There has been a dramatic pick up in bankers and investors trying to find the next going private opportunity. Gating factors will include regulatory standing, management team capabilities and the actions required to get the target company on the proper margin and growth curve. Note that both Concorde and EDMC had little in the way of regulatory issues. We believe this activity signals that the public markets are uncertain of the long-term value of for-profit colleges, as the industry is dealing with a basic realignment of business models, strategy and management talent.

The University of Illinois Global Campus

Online for-profit initiative is announced and later revamped after faculty pushback.

In July 2006, The University of Illinois released a report on its Global Campus Initiative outlining how it planned to establish a for-profit, online division. The new online division was expected to primarily utilize adjuncts and have limited faculty oversight. In addition, it was to be a for-profit entity and over time was expected to seek its own accreditation. Below is an excerpt from the report.

"U.S. post-secondary education is in the midst of a ***sea change****. The public is demanding greater access to higher education at the same time* ***taxpayer support*** *for public universities, student financial aid, and basic research* ***has weakened*** *and* ***accountability*** *has increased. Competition for top graduate students is emerging from Europe and third-world giants like India and China who are investing heavily in their universities. And,* ***for-profit institutions are growing rapidly*** *by offering quality degree and certificate programs in innovative, responsive formats, often through the convenience of the Internet.*

The establishment of the Global Campus will enable the University to:

- *Provide* ***greater access*** *to higher education for nontraditional learners.*
- *Serve more students and meet the growing* ***demand for online learning*** *worldwide.*
- ***Generate new revenues*** *for the benefit of University academic activities.*
- *Promote the University as* ***a leader*** *in educational innovation, quality, service and access."*

On January 12, 2007, Inside Higher Ed reported that many faculty leaders and professors opposed the plan as proposed. It went on to say that in a recent email to the colleges, it was announced that the program would be renamed the Global Campus Partnership, to reflect the involvement of academic departments. It was also confirmed that the entity would now be a non-profit entity, would not seek its own accreditation and would fall under direct faculty control.

Another similar model, UMass Online reported it generated $23 million in tuition last year, serving over 21,000 students, up from $3 million in tuition in 2001.

Our Take

The majority of public colleges and universities will continue to face financial pressures, as state and federal funding levels fail to meet their growing costs. Other than the small universe of top schools with large endowments, most need to look beyond endowments to meet such shortfalls. Innovative schools will prosper by finding new ways to generate revenues and resulting cash surpluses to meet these shortfalls and also fund new initiatives. Institutions and faculties who do not adapt to the changing environment and fail to understand and manage their financial house will face mounting financial pressure over the long term.

Income of U.S. Workforce Projected to Decline if Education Levels Do Not Improve

Personal per capita income in the U.S., which increased 41% for the period 1980 – 2000, is projected to decline over the next 20 years if we do not improve our education system to serve all racial, ethnic and economic groups more evenly.

In November 2006, the National Center for Public Policy and Higher Education released a policy alert that outlined the following:

- The U.S. workforce is becoming more diverse.
- The racial/ethnic groups that are the least educated are the fastest growing.
- If current population trends continue and states do not improve the education of all racial/ethnic groups, the skills of the workforce and the incomes of U.S. residents are projected to decline over the next two decades.

The report went on to say *"Substantial increases in those segments of America's young population with the lowest level of education, combined with the coming retirement of the baby boomers—the most highly educated generation in U.S. history— are projected to lead to a drop in the average level of education of the U.S. workforce over the next two decades, unless states do a better job of raising the educational level of all racial/ethnic groups."*

It seems that as we look at the state of postsecondary education in the U.S. all agree that education is a key driver of our economic growth and that there has been and will continue to be dramatic growth of the population of "non-traditional students" as depicted in the chart below.

Undergraduate Enrollments Trends

	Percentage of Students		
Demographic Characteristic	**1970**	**2001**	**% Increase**
Part-Time Students	28%	39%	39%
Enrolled in 2-Year Colleges	31%	46%	48%
Minority Representation (1976)	18%	32%	78%
Age 25 and Older	20%	29%	45%

Source: Digest of Education Statistics 2003, RCP estimates, NCES.

Our Take

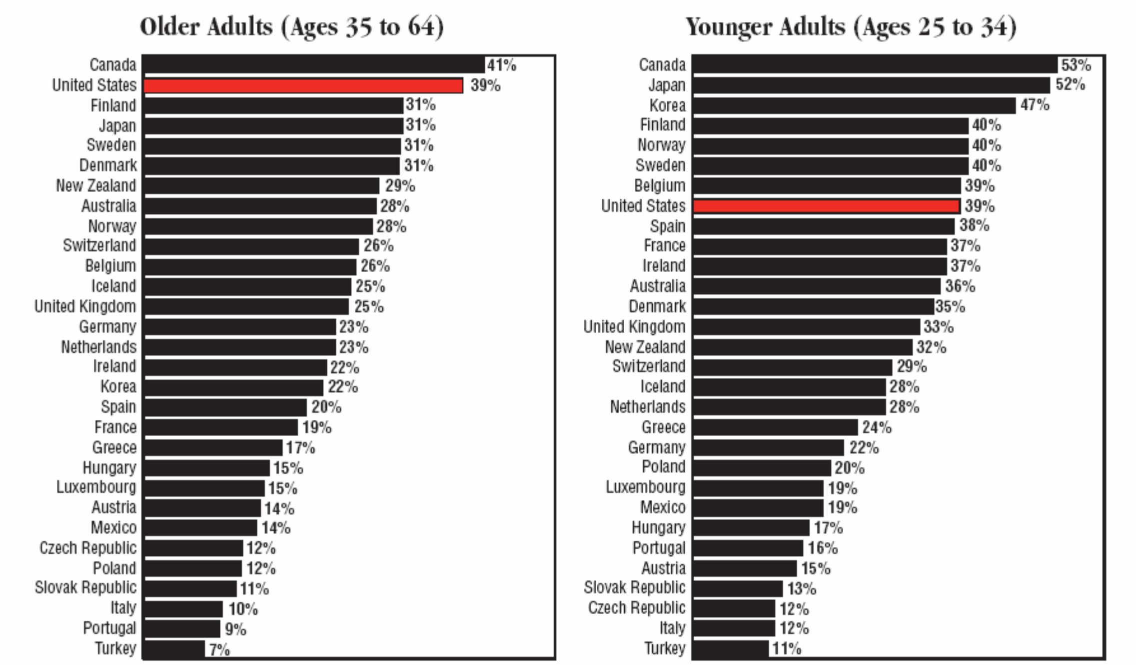
The U.S. tends to adapt and react to economic realities. This fact will drive employers and students to demand more from the education system and create opportunities for innovative systems and schools to better serve these growing non-traditional student populations. Expect to see more debate in the future on education levels and economic disparities in the workforce.

Growing Acknowledgement of Declining International Education Ranking

While the U.S. education system continues to make minimal improvement, many foreign nations are surpassing it as they embrace the value of education and its critical role in economic growth.

Recent OECD data implies that while the "Baby Boomer" population may have been our best educated generation, later generations are not improving their academic achievement levels versus the rest of the international community. Looking at younger adults in the U.S. we see that many nations have shown dramatic improvement in their education levels and seem to also have positive growth momentum.

Educational Attainment 2003



Source: Organisation of Economic Co-operation and Development (OECD). Data represent the percentage of adults with an associate's degree or higher in 2003.

Statistics as depicted above show that the U.S. has plateaued and to a degree has probably developed a false sense that we have, and will continue to have, the best education system in the world. There are similar trends developing in the K-12 market as well.

Our Take

The data in both the K-12 and postsecondary sector is creating a consensus among educators and politicians that our system needs to adapt and make changes to better serve the growing diverse student population in the country. Parents (and politicians to a lesser extent) too often have either very high expectations or are not engaged, but for the most part do not understand the underlying issues. The probable result – a lot of debate among all the constituents – and change, albeit slow.

The Commission on the Future of Higher Education

*"While our universities are known as the best in the world, 90-percent of the fastest-growing jobs require post-secondary education and only one-third of Americans have a degree," **– Margaret Spellings, U.S. Secretary of Education - September 26, 2006***

In September 2005, the U.S. Department of Education formed the Commission on the Future of Higher Education (*sometimes referred to as the "Spellings Commission"*) to develop a comprehensive strategy for postsecondary education to address the economic and workforce issues developing in the country. The Commission conducted meetings around the country and had lively debates on topics such as affordability, transfer of credit, accountability, accreditation, financial aide and related workforce issues. There were over 24 issues papers and reports issued with a final report issued in September 2006, after the issuance of several draft reports that had to be toned down to get consensus support. The draft versions of the report make for good reading and clearer insights into some of the real issues than does the final version

After the third draft report the remaining holdout of the members was David Ward, president of the American Council on Education. In an August 10, 2006 press release Ward stated:

"However, as I review the final draft report in its entirety, I regret that I cannot sign it as a commissioner nor fully support it."

"Beyond my disagreement over some recommendations, it is in the end my belief that our solutions should be built upon the strengths of higher education rather than on inferences that could project a false sense of crisis. I would have preferred more emphasis on "best practices" both in public policies and in the conduct of higher education".

The final report had the following six recommendations:

- The U.S. commit to an unprecedented effort to expand higher education access and success by improving student preparation and persistence, addressing nonacademic barriers and providing significant increases in aid to low-income students.
- The entire student financial aid system be restructured and new incentives put in place to improve the measurement and management of costs and institutional productivity.
- Higher education must change from a system primarily based on reputation to one based on performance. We urge the creation of a robust culture of accountability and transparency throughout higher education.
- America's colleges and universities embrace a culture of continuous innovation and quality improvement by developing new pedagogies, curricula, and technologies to improve learning, particularly in the area of science and mathematical literacy.
- The development of a national strategy for lifelong learning that helps all citizens understand the importance of preparing for and participating in higher education throughout their lives.
- Increased federal investment in areas critical to our nation's global competitiveness.

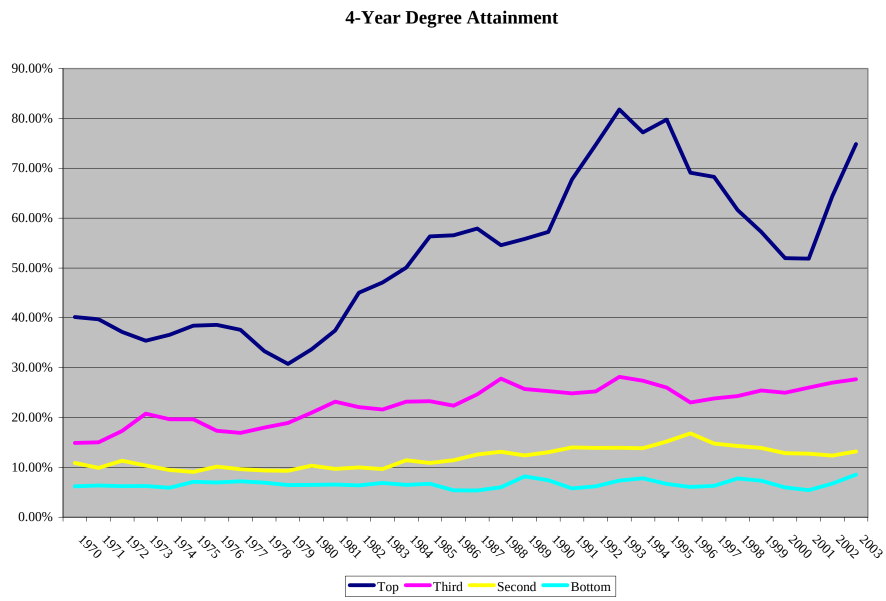
Our Take

The 19 member Commission, composed of a diverse set of individuals, did a thorough job identifying, evaluating and debating issues. The final report, while watered down, stressed key issues. Unfortunately, as with the "A Nation at Risk" Report in 1983, we suspect this report will prove to be correct years after we fail to fully embrace it as a nation.

The Income Gap Dilemma

If you are a student in the bottom income quartile in the U.S. your chance of completing a 4-year college by the time you are 24 is less than 10%.

Thomas G. Mortenson, Senior Scholar at The Pell Institute for the Study of Opportunity in Higher Education in Washington, D.C. and an independent higher education policy analyst who publishes "Postsecondary Education OPPORTUNITY" does a great job of tracking and analyzing industry data. The chart below depicts four-year degree attainment by family income quartiles (see below for 2003 quartile levels) by the age of 24.



Quartile	Income Level
Top	Above $95,040
Third	Between $62,629 and $95,040
Second	Between $35,902 and $62,628
Bottom	Up to $35,901

***Source:* www.postsecondary.org**

The data presented here further supports the risk of education and income inequality on the country's long-term economic growth. The data and trends should play a key role in the future debates on Pell and other government grants as well as the basis upon which state and federal grant monies are allocated among institutions.

Our Take

With the growing minority population in our country and educational institutions it seems highly likely that schools must find ways to better meet the needs of all classes of students. Future federal and state funding will begin to be reallocated to better serve the growing population of "non-traditional students." In general, for-profit schools have been better at serving this non-traditional student base than public or non-profit universities.

What Have We Learned?

One size does not fit all

As the industry evolves and we see the student base diversify, it is obvious that schools need to find ways to cost effectively serve the growing groups of "non-traditional students". To date, for the most part, schools have basically served the student body as a homogeneous population, assuming all students are alike and have the same learning goals and skills. We believe that schools who identify student and market needs and provide courses and education programs to meet their specific needs will succeed.

Growth without rationalization is a recipe for disaster

We have seen explosive growth in for-profit schools and serious negative impacts to financial results in those cases where the companies failed to understand how to manage growth, integrate and rationalize acquisitions, differentiate geographic markets and understand student program demands. An obvious example was the demise of Decker College, in late 2005, where 3,700 students enrolled in an online construction focused school. This rapid student growth took place with little evaluation of the programs and their efficacy.

For-profit colleges and universities will be facing growing pressure from the public system

The initiatives at institutions such as The University of Illinois, UMass Online and Rio Salado show that public universities can deliver cost effect education online and present real competition to the for-profit sector.

From the Rio Salado Website:

At Rio Salado, students:
- Enroll every other week — 26 times a year.
- Pay $51 to $135 per credit hour.
- Receive support 24 hours a day, seven days a week through the Instructional Help Desk, Technology Help Desk and tutors on cell phones.

At Traditional U., students:
- Enroll twice a year, plus summer sessions.
- Pay a range of $130 to $400 per credit hour.
- Receive support 8 a.m. to 5 p.m. Monday through Friday.

For-profit Postsecondary education is an appealing long term investment opportunity

The public education system will be under growing pressure to better serve the changing student population in the U.S. The system will not be a first mover and will not willingly change or adjust its current system, as it has been very successful in the past and does a very good job for a large part of our population (albeit a declining one). For-profit schools have a very large opportunity to assist our education system in managing costs, improving accountability and meeting the critical needs of the many students who need education to upgrade their earnings potential.

Publicly Traded Stock Data

Postsecondary Schools and Software and Service Providers

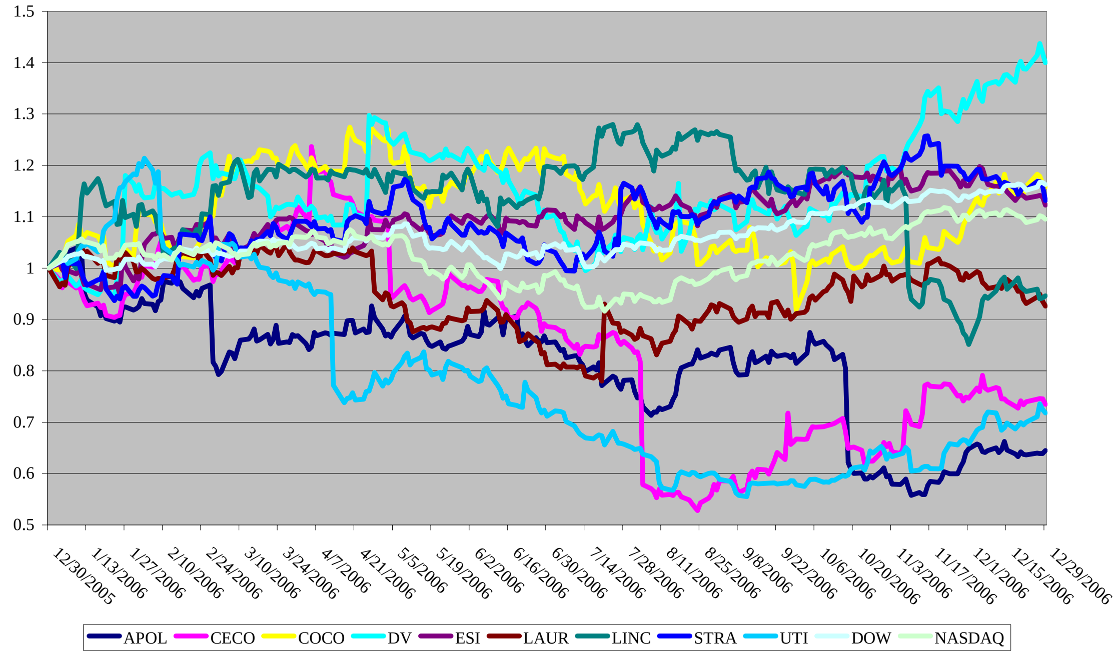
Symbol	Company	Stock Price 12/29/2006	52 Week Hi	52 Week Low	TTM Sales	Market Cap	Enterprise Value	EBITDA	Enterprise Value to Rev.	Enterprise Value to EBITDA	EBITDA Margin
APOL	Apollo Group	$ 38.97	$ 63.26	$ 33.33	$ 2,480	$ 6,740	$ 6,380	$ 811	2.6 x	7.9 x	32.70%
CECO	Career Edu Corp	24.78	42.59	17.60	2,010	2,350	1,920	378	1.0 x	5.1 x	18.82%
COCO	Corinthian College	13.63	15.36	10.50	962	1,180	1,130	95	1.2 x	11.9 x	9.86%
CPLA	Capella Education*	24.25	23.29	25.01	171	373	296	25	1.7 x	11.8 x	14.66%
DV	Devry Inc.	28.00	28.75	18.50	862	1,980	1,900	119	2.2 x	16.0 x	13.77%
ESI	ITT Education	66.37	70.99	55.70	734	2,750	2,560	193	3.5 x	13.3 x	26.25%
LINC	Lincoln Educational	13.49	18.45	11.92	317	343	358	51	1.1 x	7.0 x	16.19%
STRA	Strayer Education	106.05	118.88	87.07	251	1,520	1,400	91	5.6 x	15.4 x	36.25%
UTI	Universal Tech. Inst.	$ 22.21	$ 37.71	$ 17.00	$ 347	$ 626	$ 584	$ 61	1.7 x	9.6 x	17.52%
Subtotal					$ 8,135	$ 17,862	$ 16,528	$ 1,824	2.0 x	9.1 x	22.42%
Average					$ 904	$ 1,985	$ 1,836	$ 203	2.3 x	10.9 x	22.42%
LAUR	Laureate Education	$48.63	$55.22	$40.52	$ 1,080	$ 2,500	$ 2,740	$ 211	2.5 x	13.0 x	19.52%
Total					$ 9,215	$ 20,362	$ 19,268	$ 2,035	2.1 x	9.5 x	22.08%

** CPLA went public on November 9, 2006 at $20.00 per share*

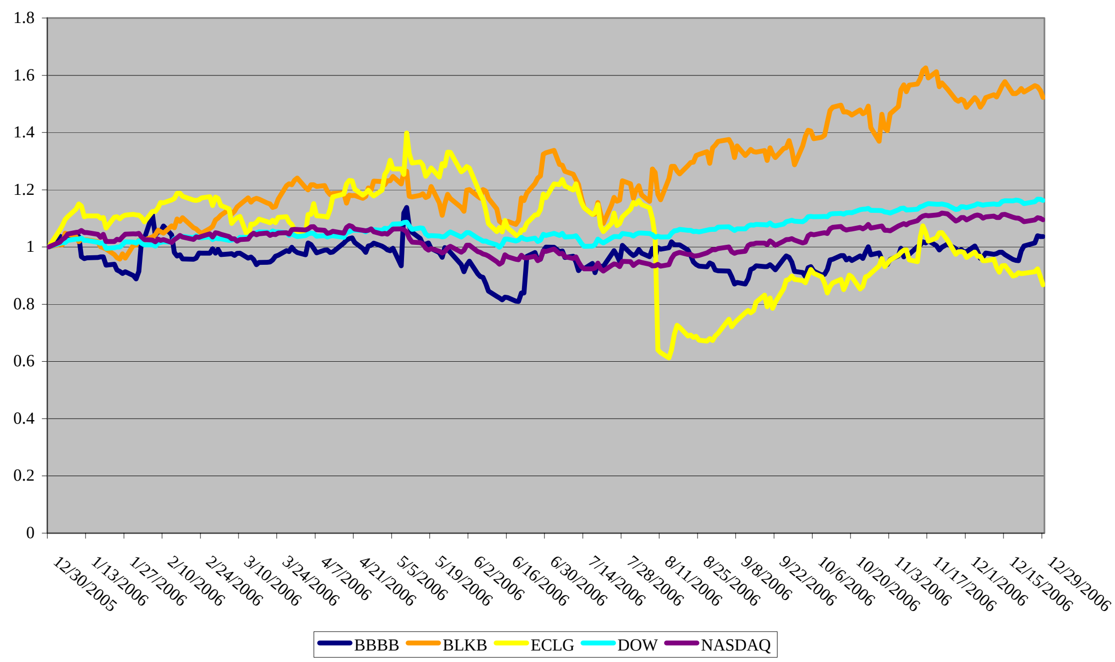
Symbol	Company	Stock Price 12/29/2006	52 Week Hi	52 Week Low	TTM Sales	Market Cap	Enterprise Value	EBITDA	Enterprise Value to Rev.	Enterprise Value to EBITDA	EBITDA Margin
BBBB	Blackboard, Inc	$ 30.04	$ 33.17	$ 22.78	$ 167	$ 843	$ 849	$ 23	5.1 x	36.3 x	13.98%
BLKB	Blackbaud, Inc.	26.00	27.96	16.09	185	1,140	1,090	56	5.9 x	19.5 x	30.22%
ECLG	eCollege.com	$ 15.65	$ 25.73	$ 10.96	$ 116	$ 349	$ 341	$ 20	2.9 x	17.0 x	17.30%
Total					$ 469	$ 2,332	$ 2,280	$ 99	4.9 x	22.9 x	21.22%
Average					$ 156	$ 777	$ 760	$ 33	4.6 x	24.2 x	21.22%

Source: Company information and Yahoo Finance

2006 Relative Stock Performance
Postsecondary



2006 Relative Stock Performance
Education Software & Services



Source: Company information and Yahoo Finance