

Business Services

Class Notes

Monthly Insights on the Education Market

Education Services

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Research

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HIGHLIGHTS

Ed Indices Last Month

K-12	+1.3%
Higher Education	-0.1%
Publishing	+2.1%
Corporate Learning	+0.5%
Education Composite	+1.5%

Ed Indices YTD

K-12	-10.2%
Higher Education	-8.9%
Publishing	+25.8%
Corporate Learning	+18.5%
Education Composite	+15.0%

Market Statistics (Dec)

NASDAQ	-0.7%
S&P 500	+1.3%
Dow Jones	+2.0%
Russell 2000	+2.7%

S&P 500 P/E Ratios

2006E	16.3x
2007E	15.4x

This Month in Class Notes

What the potential impact of the new Democrat-controlled Congress might be on education...

Regional accreditation body SACS decides to keep Career Education's AIU on probation for another year; a number of schools are under review by the Department of Education...

Apollo identifies discrepancies found during its internal option grant investigation...

DeVry reports solid fall enrollment numbers at both DeVry undergraduate and Keller Graduate programs...

Earnings reports for Plato, Universal Technical Institute, and Scholastic...

During the month of December, we initiated coverage of Bright Horizons Family Solutions with a Neutral rating and \$40 price target.

K-12 and Higher Ed Stocks End the Year in the Red

On the whole, 2006 proved to be a challenging year for K-12 and post-secondary education stocks. Within K-12, several stocks were down double-digits including ProQuest (-63%), Educate (-40%), Plato Learning (-32%), and LeapFrog (-19%). These underperformers were only partially offset by a 21% increase in Nobel Learning Communities given its small market cap. Other companies within the index were up or down only modestly for the year. Higher education stocks did not fare much better as a 40% increase in DeVry shares and low double-digit gains at Corinthian Colleges, Strayer Education, and ITT were offset by large declines in Apollo (-36%), UTI (-28%), and Career Education (-27%). On the flipside, our educational publishers (+26%) and corporate training (+19%) indices both outperformed the S&P 500 in 2006.

During December, our K-12 index increased a modest 1% as strength in the thinly traded Nobel Learning Communities (+10%) was offset by a 25% decline in ProQuest shares following news that the company would have to restate results for 2001-2004 and that 2006 would be below previous expectations.

Higher education stocks were flat during the month as modest increases in Lincoln Educational shares (+9%), UTI (+8%), and DeVry (+7%) were offset by a 12% pullback in shares of eCollege.com which continued to drift down following disappointing earnings reported in November.

Within the educational publishers index, a 2% increase was led by a 9% increase in shares of Scholastic as the company reported better-than-expected F2Q07 results on December 19. Other stocks were up or down only modestly.

Growth in corporate training stocks continued to decelerate in December as strength in shares of Saba Software (+15%) was offset by a 14% decline in shares of SumTotal Systems.

Please refer to Appendix - Important Disclosures and Analyst Certification on page 22.

IMPACT OF THE ELECTIONS CONTINUED

As discussed in the last issue of Class Notes, the recent midterm elections in the U.S. returned the Democratic Party to the majority in the U.S. House of Representatives and Senate. In the last month, the Democrats have publicly announced plans that may have a significant impact on education policy. One major announcement came from the incoming chairmen of the appropriations committees in the House (Rep. David Obey (D, WI)) and Senate (Sen. Robert Byrd, (D, WV)). The chairmen announced that they planned to freeze spending at the F2006 levels for the F2007 budget. Congress had previously passed a continuing resolution that left the F2007 budget at F2006 level from the beginning of the fiscal year on October 1 until February 15. The need for the decision arose from the Senate's decision to not schedule votes for any of the 11 appropriations bills before the election. The Democrats decided to punt on the budget in order to focus on the F2008 budget which President Bush will send to Congress in February. The freeze in the level of spending will affect Pell Grants which were scheduled to increase by \$100, the first increase in five years. The chairmen also announced the F2007 budget would be bereft of academic earmarks, a popular way to fund academic research. In the F2006 budget, legislators doled out an estimated \$1.5 billion in earmarks.

Rep. George Miller (D, CA), the incoming chairman of the House Committee on Education and the Workforce, discussed his agenda for education in a press conference entitled "Strengthening America's Middle Class." Rep. Miller reiterated the Democrats' plan to cut interest rates in half for federally-subsidized college loans. The plan would increase federal spending, but would not fall under the budget freeze which only applies to discretionary spending. However, Rep. Miller and other leading Democrats are still searching for funding to support the plan. Rep. Miller also would like to increase Pell Grants, expand Head Start, and introduce universal pre-school. Rep. Miller expressed support for the reauthorization of the No Child Left Behind Act and for increasing the funding available to school to help improve performance.

Before leaving for the holiday break, the Republican-led Congress passed legislation that extended a number of tax breaks including two breaks related to higher education. The first tax deduction is for "qualified higher education expenses" and applies to taxpayers that do not itemize deductions. Congress extended the deduction to 2007 and retroactively applied it to 2006. The tax break is estimated to cost \$3.5 billion over the next 10 years. The second higher education tax break is a corporate tax credit for investments in university research and development and was extended through 2007.

ELEMENTARY & SECONDARY

PLATO Learning Reports F4Q06 Results

PLATO reported F4Q06 revenues of \$23.8 million, down 29% from \$33.7 million in F4Q05. Orders for the quarter totaled \$25.7 million versus \$33.1 million for F4Q05. Management provided a number of reasons for the decline in revenue including the decrease in total orders, a higher rate of attrition in perpetual product orders, the timing of new products and features, an inexperienced sales force, and longer-than-expected ramp period for sales of the new supplemental classroom product. Management boasted about progress in the company's new strategy of selling subscription courseware products as orders grew by 160% y/y in F4Q06 and were up almost 200% for the year.

EPS decreased to a net loss of \$0.07 per share excluding \$9.8 million in charges, down from \$0.09 in F4Q05 excluding \$16.1 million in charges. Excluding impairment charges, gross margin fell 480bps to 57.5% due to lower license fees and service revenues which were partially offset by lower service costs and higher gross margins on subscriptions. Operating expenses excluding one-time charges declined 16% y/y due to reduced variable costs as revenue declined, the cost reduction program, and lower bad debt expense.

Management provided F2007 guidance of total order growth of 10% to 15% with the growth expected to occur in the last three quarters. Revenue is expected to decline by 6% to 11% due to the switch to a subscription model from a perpetual license model. Management believes that the net loss in 2007 will improve by 15% to 30%. The company expects the transition to a subscription model to be complete in F2008.

LeapFrog Restructures the Schoolhouse Division

LeapFrog announced that the Schoolhouse division will switch its focus to developing reading curriculum products and selling and supporting LeapPad and its successor products to schools. The changes are part of an effort to return the division to profitability in 2007. The company also announced a headcount reduction of 60 people which is expected to reduce operating expenses by 50% and cause the company to take a \$3 million charge in 4Q06. Due to the changes, Jessie Woolley-Wilson, the former head of Schoolhouse, decided to leave LeapFrog and will be replaced by Mike Lorion, formerly of Apple and Palm Computing.

Policy and Advocacy Groups Debate NCLB Fixes

The debate over the reauthorization of No Child Left Behind (NCLB) has already begun with the recent midterm election wins by the Democratic Party. Major party leaders such as Senator Edward Kennedy and Rep. George Miller (both drafters of NCLB) have already publicly voiced support for the reauthorization. After the election, many policy and advocacy groups have taken public positions on NCLB and possible changes well in advance of the reauthorization. One problem with NCLB for some critics is how each state can set its own measures to judge proficiency. These advocates would like private groups to set a national standard that all states would have to follow. Another area of concern is the use of growth models to hold schools accountable for the amount of learning done within a school year. Some advocates believe the use of growth models will help to separate out previously-learned abilities from actual learning done at a school. However, critics point out that growth models allow schools to meet low expectations. Similar concerns exist around a proposal to raise the caps on the number of students in special populations such as children with

learning disabilities or students in English as a second language programs that are not counted against schools in the adequate yearly performance measure.

Sanctions for poorly-performing schools remains an area of concern as less than 1% of eligible students chose to transfer and only 17% of eligible students used free tutoring available to them. Some critics would like the federal government to allow transfers to private schools and another group proposed setting up schools of choice run by private high-performing schools that would operate outside the school district's control with funding by federal money. Other critics would like NCLB to differentiate failing schools between those schools that are improving and those that are failing to make a requisite amount of progress.

The major focus of NCLB is at the primary education level since 85% of Title I funding goes to elementary students. The Bush administration and other groups have already made public the view that NCLB should expand into high school. Possible expansions include increasing the number of measures of performance for high schools and strengthening the current provisions that relate to high school graduation rates. Other measures include funding for Advanced Placement courses and International Baccalaureate programs.

Controversy Over Title I Funding

According to an article in the Washington Post, a study conducted by the Education Trust, a Washington D.C.-based nonprofit group, suggests that Title I is directing more money to wealthy children and school districts than poor children. Title I is a \$13 billion federal program which was designed to provide a more equitable education for students from low-income families. The study claims that on average, the highest-poverty school districts get \$825 less per student each year in local and state funding than the wealthiest districts. Goodwin Liu, a law professor at the University of California at Berkeley and co-author of the study, suggests that the formula for Title I funding should be changed so that a larger share is directed towards states with a higher poverty level. Senator Edward Kennedy (D-Mass.), who will be chairman of the Senate's education committee, said he would be willing to evaluate the funding policy.

Task Force to Focus on Math, Science, and Innovation

The National Governors Association (NGA) announced the creation of a task force focused on *Innovation America*, an initiative aimed at improving America's competitiveness in technology and innovation. Part of the task force's efforts will be on K-12 science, technology, engineering, and math education. The task force will be led by NGA Chair Janet Napolitano (Gov. Arizona), who introduced the *Innovation America* initiative earlier in the year, and NGA Vice Chair Tim Pawlenty (Gov. Minnesota). Other governors on the task force include Kathleen Sebelius (Kansas), Matt Blunt (Missouri), Edward Rendell (Pennsylvania), and Jon Huntsman, Jr. (Utah). A number of prominent business and academic leaders are also members of the task force including the presidents of Georgia Institute of Technology and Arizona State University, and leaders of companies such as JPMorgan Chase, Dupont, Microsoft, and eBay.

GED Test-Takers Increase Slightly, but Still Low

A report by the GED (General Educational Development) Testing Service entitled, "Who Passed the GED Tests? 2005 Statistical Report," indicates a 2.2% increase in the number of GED test-takers in 2005 to 690,874. Despite the modest increase, the number of GED candidates remains near the all time low of 665,927 in 2004, down from 800,000 prior to 2002. In 2005, the number of candidates that passed the exam increased to 423,714, a 62% pass-rate, from 405,724 in 2004, a 61% pass-rate.

Following complaints that GED-holders lacked basic writing skills, the test was revamped in 2002. More changes to the test are set for 2011, according to Sylvia Robinson, who took over as GED Testing Service Executive Director in April. The GED testing services is planning a significant marketing campaign in 2007 to try to boost the number of test-takers.

State & Local Round-Up

California Governor Arnold Schwarzenegger is pushing for schools to make information such as enrollment numbers, test scores, and individual school budgets available to the public by posting the data on the internet. Opponents argue that the endeavor would be expensive given most of the data would have to be transformed into a reader-friendly format. Some schools have also expressed concern that parents would begin to question every aspect of the budget.

A Superior Court judge struck down legislation that would have given **Los Angeles** Mayor Antonio Villaraigosa authority over the L.A. Unified School District, arguing that the law violated several provisions of the state Constitution and the Los Angeles City Charter. Governor Schwarzenegger originally signed the bill and expressed his continued support. The mayor indicated he was considering asking the California Supreme Court to review the case immediately.

The **Florida** Education Association, a union representing over 130,000 teachers, has filed a lawsuit to block a performance pay plan for teachers. State lawmakers included a \$147.5 million teacher bonus plan called Special Teachers Are Rewarded (STAR) in the budget last May which laid out how school districts should distribute the funds for the top 25% of elementary, middle, and high school teachers in districts that participated. Hillsborough County was the first district to get the STAR plan approved and several other districts are in the approval process.

Utah Gov. Jon Huntsman proposed increasing the state budget by 6.7% to \$20.7 billion in F2007, with \$4.6 billion set aside for education. Huntsman is proposing \$3.4 billion for K-12 education, including \$7.5 million for all-day kindergarten for low-income students, \$25 million for a one-time teacher bonus, \$28.7 million to drive the student-teacher ratio down to 20-to-1 in kindergarten through third grade, and a 7% increase in per-student spending. Utah has historically had one of the lowest spend-per-student ratios in the U.S. He is also recommending that \$1.2 billion be spent on colleges and universities, including \$38.2 million for higher-education employee raises.

A committee of educators, business leaders and lawmakers put together by **Virginia** Governor Timothy Kaine called the Start Strong Council is recommending starting a pilot program to make state-funded preschool available to all 4-year-olds. The pilot will initially target 1,000 children, but Kaine would like offer to free preschool all of the 100,000 preschool students and estimates the cost would be roughly \$300 billion per year. Publicly funded preschool is currently offered to approximately 27,000 disadvantaged children in Virginia. Opponents argue the cost would be much higher than Kaine estimates and that public funding is not necessary for middle- or upper-class children.

Washington Gov. Christine Gregoire has proposed a \$197 million math and science initiative and intends to push for changes to the math section of the state's assessment test, which 49% of the state's sophomores failed last spring. Increased spending would allow school districts to hire more teachers in these subject areas and devote more resources to failing students. According to media reports, she also

favors all-day kindergarten and increased spending on K-3 students to reduce class size.

OTHER ELEMENTARY & SECONDARY NEWS

Vendor	Announcement	Details
Public Companies		
Collegiate Pacific Inc. (BOO)	Declared dividend.	Collegiate Pacific announced that its Board of Directors approved and declared a quarterly cash dividend of \$0.025 per share on the company's common stock for F2Q07, which ends December 31, 2006.
ProQuest Company (PQE)	Announced sale.	ProQuest announced that the company has agreed to sell its ProQuest Information and Learning segment for approximately \$222 million to Cambridge Information Group.
	Received extension.	ProQuest announced that NASDAQ granted the company another extension to file additional information. The extension will last until January 18.
Nobel Learning Communities, Inc. (NLCI)	Completed acquisition.	Nobel Learning Communities has completed the acquisition of Discovery Isle Child Development Center, Inc., a preschool provider in Southern California, for \$12 million.
School Specialty Inc. (SCHS)	Appointed new director.	School Specialty appointed Jacqueline F. Woods to its Board of Directors. Woods is the retired President of ATT Ohio, formerly SBC Ohio, and currently is a senior consultant at a media relations firm and active on several corporate and civic boards.

Source: Company reports and Robert W. Baird & Co.

POST-SECONDARY

Career Education: AIU to Remain on Probation; Others under DOE Review

Career Education announced that the Southern Association of Colleges and Schools (SACS) extended the probationary status of American InterContinental University (AIU) by one year. In December 2005, SACS initially placed AIU on probation because it failed to prove that it was in compliance with 15 standards and requirements of the body's *Principles of Accreditation*. The company anticipates receiving additional information on the reasons for extending probation from SACS in January. AIU remains accredited while it is on probation.

According to SACS, an institution can be on probation for two years only. At the end of the two years, SACS must remove the institution from its membership, restore membership or extend accreditation for "good cause" for one year. If accreditation is continued for "good cause," the institution must appear before SACS after each year for a similar hearing.

Career Education also announced in an 8-K that a number of schools are under program review by the Department of Education. The new schools under review are Gibbs College (Boston, New York, Vienna, VA), Lehigh Valley College, Brooks Institute of Photography, California Culinary Academy, Sanford-Brown Institute-Atlanta, and AIU. The Cooking and Hospitality Institute of Chicago, Briarcliffe College, and the Gibbs schools in Livingston and Piscataway, NJ remain under program review. Last month, Career Education announced that it intends to sell 13 schools, and the Gibbs schools and Lehigh Valley College were among those named. The sale of any school will have to be approved by the Department of Education and the appropriate state regulators.

Apollo's Internal Option Investigation Completed – Discrepancies Found

Apollo announced that the Special Committee presented its final findings on stock option practices after a seven-month investigation. The committee found the following:

Apollo did not properly apply accounting standards to certain stock option grants. The company used the reported grant date as a measurement date despite acquiring approvals for the grants after the grant date and only having incomplete lists of recipients and award amounts on the reported grant date. As previously announced, the company may face a significant tax liability due to the tax treatment of certain stock grants. Management misapplied Internal Revenue Code Section 162(m) to stock option awards in previous years and may need to restate results in prior years.

Management prepared and kept erroneous documentation on the date of stock awards. The committee found three instances in which the grant date may have been selected retroactively, but the committee could not find sufficient evidence to support the allegations. In two cases, the stock price was at a relative low price and little evidence exists to show that grant was made on the grant date. In the other case, the committee found evidence that a grant date may have been selected the next day. The Special Committee also reported that certain former officers of the company may have tried to cover up deficiencies in the grant approval process. Recall that CFO and Treasurer Kenda Gonzales and Chief Accounting Officer Dan Bachus both resigned in November.

In addition, Apollo revealed that a review of its actual bad debt write-off experience from F2000 to F2006 showed that the company had understated the allowance for doubtful accounts on August 31 by a pretax amount of \$34 million. Management is still deciding over which years to allocate the amount, but believes that a significant portion of the \$34 million will be recorded in prior years.

Apollo also announced that the Chair of the Compensation Committee, John Norton III, resigned from the board of directors and was replaced on the board by Sue Redman. Ms. Redman is currently Senior Vice President and CFO of Texas A&M University. Dino J. DeConcini, a current member of the company's board of directors, has been appointed to the Compensation Committee and will serve as Chair.

Apollo also disclosed that it will not be able to file its F3Q06 10-Q and F2006 10-K by the extended deadline of December 29 and had applied to NASDAQ for a further extension. Recall that Apollo previously had announced that it has received a NASDAQ Staff Determination letter dated November 15 indicating that the company was not in compliance with filing requirements for listing. NASDAQ ruled to stay delisting and to allow Apollo to submit additional information to the Listing Committee until February 2, 2007.

DeVry Announces Solid Enrollment Numbers

DeVry reported the total number of undergraduate students for the fall 2006 term increased 5% to 40,434, an improvement from 3% growth in the summer term and above our expectation of 4% growth. New undergraduate students increased 12% to 11,930, in line with growth in the summer term. The number of graduate coursetakers, which are the number of courses taken by a student, increased 9% to 13,920, down slightly from the 11% growth reported for September. Growth in online coursetakers continued to slow to 33%, or 32,369 coursetakers, from 36% growth in the summer term and 50% growth in the fall 2005 term. Management indicated strong enrollment figures are coming from the working adult segment.

DeVry University uses a three-semester calendar while Keller Graduate School splits the three semesters into six sessions that each last two months. DeVry Online for undergraduates and graduates operate on the same calendar as the on-campus undergraduate and on-campus graduate programs, respectively. Ross University uses a three-term calendar, but with more traditional start and end dates, most recently reporting September enrollment at the F1Q07 earnings release in October.

UTI Reports F4Q06 Results

UTI reported F4Q06 revenues of \$88.7 million, up 6% from \$83.9 million in F4Q05. Revenue growth was driven by higher tuition fees and average enrollment which increased 1% to 16,278 from 16,169. Average enrollment grew 6% in F2006 to 16,291 students from 15,390 in F2005. Starts fell 3% to 16,000 in F2006 and declined by the same percentage in F4Q06, but improved on a sequential basis. The summer/fall session show rate deteriorated 360bps y/y due to strong local economies, inadequate financing for certain students, and internal process problems. The company's persistence rate improved 100bps, the average program length increased by a half month to 16 months, and the completion rate remained around 70%.

EPS decreased to \$0.16 including equity-based compensation in F4Q06 from \$0.32 without equity-based compensation in F4Q05. Equity-based compensation expense after taxes for F4Q06 was \$1.0 million or \$0.03 per share. Operating margin declined to 7.1% (including equity-based compensation) in F4Q06 from 17.2% in F4Q05. The decrease was driven by lower-than-expected student population, equity-

based compensation (260bps), and increased advertising costs due to a shift back to TV (370bps).

The company completed its F2006 share repurchase program by buying 1.4 million shares for total cost of \$30 million over the course of the year. The company is evaluating a larger plan for F2007 which may be financed by cash from operations or by a sale/lease back or mortgage on two company-owned properties with an estimated book value of \$75 million.

Jack Larson Steps Down as Chairman of Career Education

Career Education announced that Jack Larson, Chairman, former CEO, and founder of Career Education, resigned his position as chairman of the board of directors. Recall that Mr. Larson stepped down as President and CEO in September as the board made a decision to split the roles and have Mr. Larson focus his attention on the longer-term strategic vision of the company. Interim CEO Roger Dowdell has assumed the role of interim chairman. The search for a permanent CEO is ongoing. To reward his service to the firm, the board named Mr. Larson to the honorary position of chairman emeritus.

David Moore Retires from Corinthian Colleges

David Moore, Chairman, former CEO, and a founder of Corinthian Colleges, announced his retirement as chairman of the board. Mr. Moore will continue to serve as a member of the board. The board selected Terry Hartshorn, an independent director, as Mr. Moore's replacement.

Intel Reduces Tuition Benefit Options for Employees

Intel announced that it will no longer provide education subsidies to employees unless the schools they attend have business programs accredited by the Association to Advance Collegiate Schools of Business and engineering programs accredited by the Accrediting Board for Engineering and Technology. Schools meeting Intel's new requirement total approximately 200, down from about 300, and institutions that were dropped include those operated by the Apollo Group and DeVry. Last year, Intel spent \$25 million on its tuition program and currently about 5% of its employees are enrolled.

Higher Proportion of Post-Secondary IT Work Being Outsourced

According to an *Educause* survey, colleges and universities are outsourcing a higher proportion of information-technology operations. Among the 959 colleges surveyed during the 2004-2005 fiscal year, 57% contract various IT functions from independent vendors, up from 53% last year. This is the second consecutive year the proportion has increased. Also, 49% of respondents have purchased an enterprise-resource-planning system to handle responsibilities such as payroll and document storage, compared to 44% a year ago.

Private Loans Go Boom

A new study by the Institute for Higher Education Policy examines the increasing share gains made by private loans. Private loans captured 19% of the market in 2004, up from 4% in 1994. The majority of private loans go to undergraduates (83%) yet professional students are more likely hold a private loan (24% of all professional students versus 5% for undergraduate and graduate students). Slightly less than 80% of undergraduates with private loans also have federal Stafford loans, giving credence to the theory that the increase in private loans stems from the government loan limits not keeping pace with rising college costs. The study's authors were surprised that 20% of undergraduates held private loans without a government loan

due to the belief that the private loan would be either easier to obtain or cheaper than the government loan.

Increase in U.S. Higher Education Institutions Fueled by For-Profits

The National Center of Education Statistics (NCES) issued a new report, "Postsecondary Institutions in the United States: Fall 2005 and Degrees and Other Awards Conferred: 2004-05" based on the most recent data from the Integrated Postsecondary Education Data System (IPEDS). The IPEDS data show that the number of postsecondary institutions in the U.S. increased to 6,441 in 2005-2006 from 6,383 in 2004-2005. The growth took place within the for-profit sector, which grew to 2,569 from 2,481 while public non-profit schools decreased to 2,010 from 2,027 and private non-profit schools declined to 1,862 from 1,875. The number of degrees conferred increased 3.6% at four-year schools and 2.7% at two-year institutions. For-profit schools accounted for much of the growth as the number of four-year degrees increased 20% and the commercial schools' share improved to 5.8% from 5.0%. Tuition continued to climb as average tuition and fees increased 17% for in-state undergraduates, 14% for in-district community college students, 12% at private non-profit schools, and 11% for students in four-year degree programs at for-profit colleges.

State & Local Round-up

Kentucky Gov. Ernie Fletcher announced that some of the projects he vetoed earlier in the year will be approved, thanks to a budget surplus. Many of the previously vetoed programs are aimed at public universities and community colleges, including expansion and renovation projects. Separately, Fletcher is requesting that a "comprehensive assessment" be conducted on the affordability of college in Kentucky and availability of need-based aid given tuition at Kentucky's public schools has increased 145% over the last 10 years.

Officials of the University of **Maryland** system are considering redesigning large undergraduate classes by adding online materials or teaching the classes entirely online in an effort to not only improve costs, but improve the quality of classes. Classes under consideration include Social Psychology, Intro to African-American Literature, and Approaches to Cultural Materials in the Hispanic World. The pilot is expected to begin with several sections of the courses in spring 2008 with a potential full rollout to all sections by fall 2008.

OTHER POST-SECONDARY NEWS

Vendor	Announcement	Details
Public Companies		
DeVry, Inc. (DV)	Announced new location.	DeVry University announced the opening of a new campus in Memphis in March 2007. The campus will offer undergraduate and graduate programs.
Education Realty Trust, Inc. (EDR)	Provided 2007 guidance.	Management expects FFO per potentially dilutive share/unit of \$0.88 to \$0.92 for 2007, a 7% to 10% improvement over updated 2006 estimated FFO of \$0.82 to \$0.84. The guidance is based on projected revenues of \$116.8-\$122.7 million and total acquisitions for the year of \$100.0 - \$150.0 million.
EVCI Career Colleges Holding Corp. (EVCI)	Received extension.	EVCI received a 180-day extension from NASDAQ to regain compliance with \$1.00 bid price per share listing requirement.
Laureate Education, Inc. (LAUR)	Appointed new Chief Accounting Officer	Laureate Education appointed Gary J. Wojtaszek, Senior Vice President and Treasurer, to also serve as Chief Accounting Officer. Wojtaszek has held a variety of financial management positions with Agere Systems, Delphi Automotive, and General Motors.
Whitney Information Network, Inc. (RUSS)	Fired executives.	Whitney Information Network announced the termination of employment of Nicholas S. Maturo, President and Chief Operating Officer, and Rance Masheck, Vice President, Sales and Marketing of EduTrades, Inc. (a subsidiary). Mr. Masheck was fired due to false claims made about his trading record.

Source: Company reports and Robert W. Baird & Co.

INTERNATIONAL

Canadian Higher Education Unprepared to Compete Globally

According to a Canadian government report, Canada is suffering from a shortage of properly educated and trained citizens. By their estimates, about 70% of new jobs require some level of post-secondary education while only 44% of the country's residents meet this standard. The Canadian Council on Learning, the report's author, suggests that the government create a national plan on higher education with targets for such areas as funding and graduation rates in an attempt to attain higher levels of skilled workers. Currently, post-secondary education is controlled by provinces that do not jointly create nation-wide standards or targets.

Adult Students Declining in England

The Department for Education and Skills in England reported that the number of students decreased 14% in 2005-6 to 3.63 million versus the prior year. The decline was driven by a 17% decrease in the number of adult learners, offset by a 2% increase in students under 19 years old. Ministers suggest that the decrease is due to a change in funding priorities away from adult education courses towards more skill-oriented education aimed at younger students. As a result, 134 colleges in England have reported eliminating adult education classes, cutting staff, and lowering budgets.

Gap Between Rich and Poor Widening in Israel

A report about the fiscal growth of Israel published by the Adva Center, a company focused on analyzing social issues, indicated that the gap between rich and poor has widened. Specific to education, the report showed that the number of 17-year-olds that did not earn a high-school diploma increased in 2005 to 55% from 52% in 2004, with the majority of those not finishing coming from poorer neighborhoods. Of the students that did finish, 28% of those from the highest socio-economic ranking were accepted to universities, while only 10.5% of students from the lowest socio-economic ranking were accepted.

PUBLISHING

Scholastic Reports F2Q07 Results

Scholastic posted F2Q07 revenue of \$735.5 million (+6%) versus \$696.7 million in F2Q06. The increase in revenue was driven by growth at Children's Book (+4%), International (+14%), and Media, Licensing and Advertising (+9%) and offset by a slight decrease at Educational Publishing (-2%). Growth in Children's Book was driven by a slower-than-expected decline in School Book Club revenue, increased number of book fairs, and continuities revenue. Media, Licensing and Advertising revenue growth derived from higher advertising and software sales, partially offset by lower production revenue from fewer-than-planned television episodes. The slight decline in Educational Publishing revenue was driven by lower school spending on supplemental education materials, partially offset by a 7% increase in educational technology revenue.

EPS increased to \$1.75 from \$1.58 in F2Q06 due to higher revenues, improved margins at the divisions, and the effects of the cost reduction program. Management continues to expect F2007 revenue of \$2.1 to \$2.2 billion, EPS of \$1.55 to \$1.85, and free cash flow of \$75 to \$85 million.

OTHER PUBLISHING NEWS

Vendor	Announcement	Details
Pearson plc (PSO)	Sold unit.	Pearson announced the sale of the majority of Pearson Government Solutions to Veritas Capital Partner for \$600 million. Pearson Government Solutions designs, builds and operates solutions to provide information, benefits and services to its clients' customers.
The Reader's Digest Association, Inc. (RDA)	Set shareholder meeting date.	The Reader's Digest Association announced that the special meeting of the shareholders will take place on February 2. The meeting will vote on a buyout offer by Ripplewood Holdings of \$17 per share.
	Disclosed previous offer.	The Reader's Digest Association disclosed that Ripplewood Holdings had previously offered \$18.50 a share in March 2006 and reoffered the same price in July 2006. The company agreed to Ripplewood's formal offer of \$17 per share in November.
Reed Elsevier (RUK)	Announced acquisition.	Elsevier announced the acquisition of Syngress Publishing, Inc., making the combined company the leading provider of computer security books in the information technology market.
	Announced Harcourt acquisition.	Harcourt Assessment acquired Edformation, Inc., a private company that develops software for special education teachers, curriculum specialists and school psychologists.

Source: Company reports and Robert W. Baird & Co.

CORPORATE

CORPORATE NEWS

<i>Vendor</i>	<i>Announcement</i>	<i>Details</i>
Public Companies		
Digital Learning Management Corporation (DGTL)	Announced sale.	Digital Learning Management announced that the company has agreed to sell 85% of the company to Changchun Yongxin Dirui Medical Co., Ltd, a China corporation. The deal is expected to close in February.
GP Strategies Corporation (GPX)	Acquired Sandy Corporation.	GP Strategies entered into an agreement to acquire Sandy Corporation, a custom product sales training provider and part of the ADP Dealer Services division of Automatic Data Processing, Inc. General Physics agreed to pay \$11.7 million, consisting of \$6.7 million in cash, and approximately \$5.0 million of assumed liabilities to complete contracts.
SkillSoft PLC (SKIL)	Received approval.	SkillSoft announced that it had received notification from the Federal Trade Commission of early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 for the proposed acquisition of Thomson NETg.
Sonic Foundry, Inc. (SOFO)	Closed secondary offering.	Sonic Foundry announced that it closed a public offering of 3 million shares at \$3.75 per share, raising \$11.3 million. Robert W. Baird & Co. acted as sole underwriter for the offering.
SumTotal Systems (SUMT)	Introduced new product.	SumTotal released ToolBook Translation System to help employers translate e-learning content into multiple languages.

Source: Company reports and Robert W. Baird & Co.

SHORT INTEREST

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

In December, the greatest increases in short interest were John Wiley & Sons (+39%), Princeton Review (+24%) and Apollo Group (+16%). The biggest decreases were Plato Learning (-62%), Reader's Digest Association (-44%), and Career Education (-22%). The companies with the greatest days-to-cover (high short interest relative to average daily volume) were Renaissance Learning at 51.5 days (from 36.4 days in November due to lower average volume), eCollege.com at 36.9 days (from 29.3 days), and Learning Tree International at 27.1 days (from 23.2 days). Companies with the lowest days-to-cover were John Wiley & Sons at 0.7 days (from 2.0 days), Plato Learning at 0.8 days (from 2.5 days), and SkillSoft at 0.9 days (from 1.4 days).

SHORT INTEREST

Company	Ticker	Short Interest	% Change M/M	Avg Vol	Days to Cover	Last Month
K-12 Education						
Bright Horizons Family Solutions, Inc.	BFAM	1,240,514	-6%	182,525	6.8	4.6
Educate, Inc.	EEEE	1,026,204	-8%	74,401	13.8	8.9
Leapfrog Enterprises, Inc.	LF	3,077,658	-6%	496,745	6.2	6.2
Plato Learning, Inc.	TUTR	82,132	-62%	98,066	0.8	2.5
Princeton Review, Inc.	REVU	124,277	24%	58,024	2.1	13.0
ProQuest Company	PQE	3,168,361	-4%	172,250	18.4	12.2
Renaissance Learning, Inc.	RLRN	1,676,589	2%	32,545	51.5	36.4
School Specialty, Inc.	SCHS	2,404,969	14%	441,738	5.4	10.1
Post-secondary Education						
Apollo Group, Inc.	APOL	8,499,617	16%	3,102,687	2.7	1.3
Blackboard, Inc.	BBBB	3,119,376	-3%	191,646	16.3	10.0
Career Education Corp.	CECO	6,536,259	-22%	1,156,565	5.7	4.7
Corinthian Colleges, Inc.	COCO	9,390,569	15%	1,092,365	8.6	10.1
DeVry, Inc.	DV	3,386,004	0%	410,275	8.3	8.2
eCollege.com	ECLG	3,910,069	-16%	105,826	36.9	29.3
ITT Educational Services, Inc.	ESI	1,647,276	-7%	423,960	3.9	4.1
Laureate Education, Inc.	LAUR	2,382,247	-9%	275,185	8.7	10.8
Lincoln Educational Services Corp.	LINC	147,836	-16%	22,369	6.6	7.7
Strayer Education, Inc.	STRA	1,347,683	-17%	179,070	7.5	4.7
Universal Technical Institute, Inc.	UTI	2,187,929	13%	283,880	7.7	11.5
Educational Publishers						
John Wiley & Sons, Inc.	JWA	285,030	39%	437,350	0.7	2.0
McGraw-Hill Companies, Inc.	MHP	2,713,381	0%	1,371,255	2.0	2.2
Pearson, plc.	PSO	120,445	-15%	84,105	1.4	1.3
Reader's Digest Association Inc.	RDA	5,819,728	-44%	2,473,865	2.4	18.2
Scholastic Corp.	SCHL	3,213,426	10%	293,816	10.9	12.1
Corporate Training						
Learning Tree International, Inc.	LTRE	1,111,066	3%	40,946	27.1	23.2
SkillSoft, plc.	SKIL	653,780	-15%	758,832	0.9	1.4
SumTotal Systems, Inc.	SUMT	434,961	-1%	80,510	5.4	1.4

Source: NASDAQ

UPCOMING EVENTS

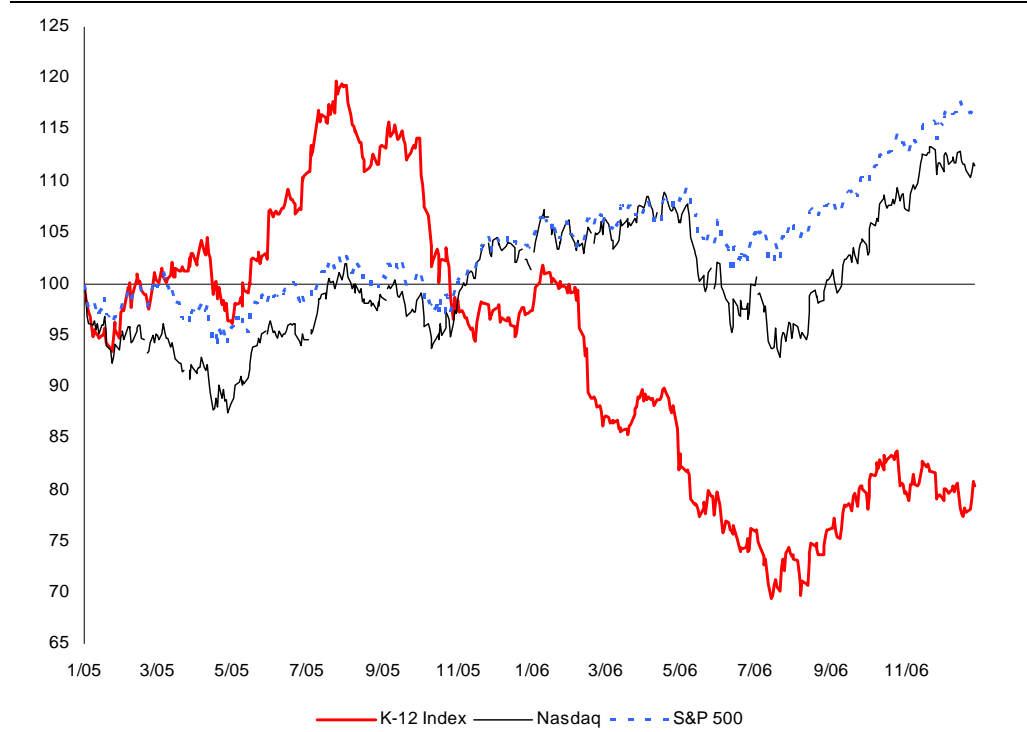
UPCOMING EARNINGS ANNOUNCEMENTS AND COMPANY EVENTS

Company	Quarter/Event	Date	Consensus Estimate	Time (ET)
New Oriental Education and Technology Group Inc. (EDU)	F2Q07	1/16/07	\$(0.01)	8:00
Peoples Educational Holdings, Inc (PEDH)	F2Q07	1/16/07	NA	11:00
eCollege (ECLG)	2007 Financial Plans	1/17/07	NA	4:30
DeVry Inc. (DV)	F2Q07	1/25/07	\$0.23	4:30
Apollo Group (APOL)	F1Q07	TBA	\$0.62	TBA

Source: Company reports, Street Events, Robert W. Baird & Co. estimates+

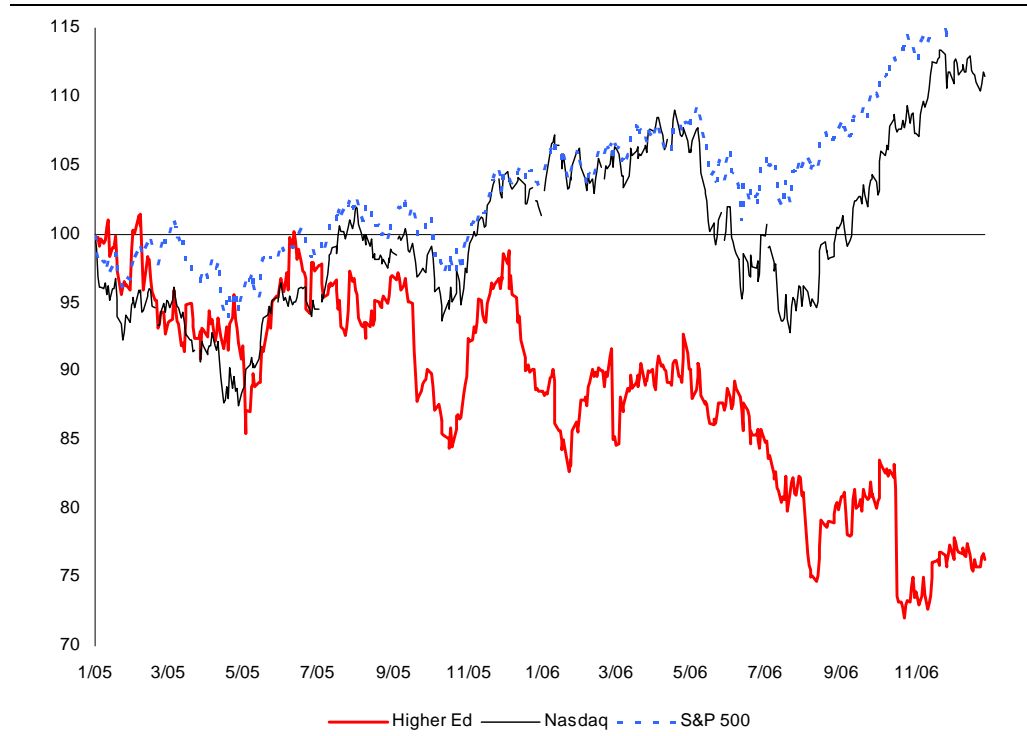
STOCK INDICES

K-12 INDEX VS S&P & NASDAQ



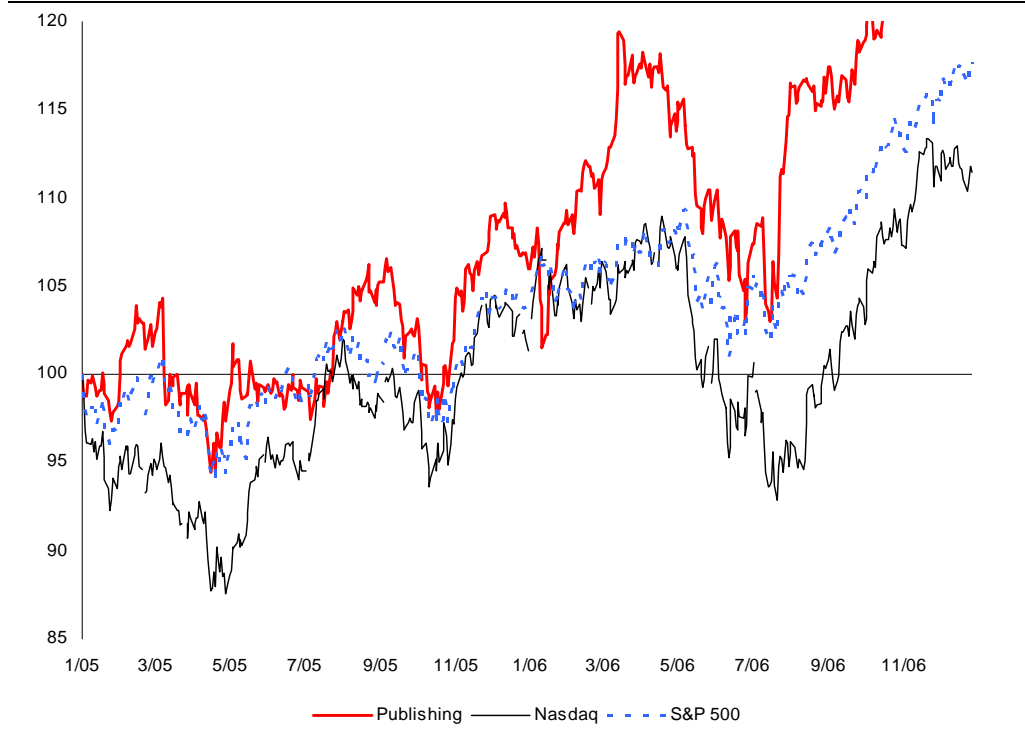
Source: FactSet

POST-SECONDARY INDEX VS S&P & NASDAQ



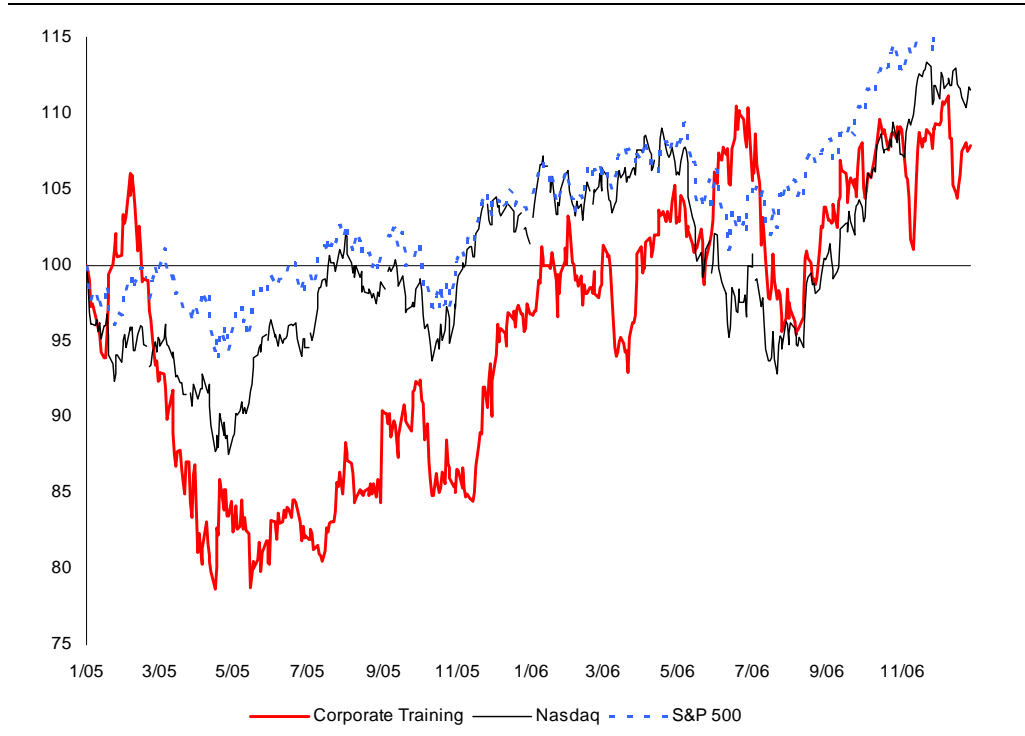
Source: FactSet

PUBLISHING INDEX VS S&P & NASDAQ



Source: FactSet

CORPORATE TRAINING INDEX VS S&P & NASDAQ



Source: FactSet

Education Universe – Comparable Company Analysis

\$ millions, except per share amounts

Company	Ticker	FY End	Rating	Price Target	Price 12/31/06	52-week range		Performance			Avg. Daily Volume (000s)	Market Cap.	Debt/Cap	ROE (ttm)	Book Value Per Share	Dividend Yield	
						High	Low	1 Mo.	3 Mo.	YTD							
K-12 Education																	
Bright Horizons Family Solutions, Inc.	BFAM	December	Neutral	\$40	\$38.66	\$44.98	\$31.80	+5%	-7%	+4%	266	\$1,011	2%	18.8	7.90	0	
Educate, Inc.	EEEE	December	Neutral	\$8	\$7.12	\$13.47	\$5.06	-3%	-11%	-40%	103	\$306	35%	1.2	4.99	0	
Leapfrog Enterprises, Inc.	LF	February	NR	–	\$9.48	\$12.72	\$6.71	+6%	+20%	-19%	454	\$594	0%	-20.4	6.76	0	
Nobel Learning Communities, Inc.	NLCI	June	NR	–	\$11.45	\$11.61	\$8.70	+10%	+11%	+21%	1	\$93	12%	11.2	5.72	0	
Plato Learning, Inc.	TUTR	October	NR	–	\$5.41	\$10.23	\$4.87	+7%	-15%	-32%	86	\$128	0%	-16.4	5.36	0	
Princeton Review, Inc.	REVU	December	NR	–	\$5.28	\$6.49	\$5.00	-0%	+2%	+3%	33	\$146	8%	-16.6	1.77	0	
ProQuest Company	PQE	December	NR	–	\$10.45	\$30.15	\$8.96	-25%	-20%	-63%	369	\$312	65%	19.0	10.61	0	
Renaissance Learning, Inc.	RLRN	December	NR	–	\$17.73	\$20.15	\$10.23	+5%	+24%	-6%	39	\$518	0%	17.0	2.91	1.40	
School Specialty, Inc.	SCHS	April	Neutral	\$38	\$37.49	\$39.60	\$30.12	+1%	+6%	+3%	261	\$825	34%	4.7	25.84	0	
Scientific Learning, Inc.	SCIL	December	NR	–	\$5.49	\$6.09	\$3.82	-1%	+5%	-3%	6	\$93	0%	NM	-0.04	0	
K-12 Index (Market Cap Weighted)								+1%	+3%	-10%							
Post-secondary Education																	
Apollo Group, Inc.	APOL	August	Neutral	\$37	\$38.97	\$63.26	\$33.33	+0%	-21%	-36%	3,475	\$6,743	0%	63.0	3.93	0	
Blackboard, Inc.	BBBB	December	Outperform	\$36	\$30.04	\$33.17	\$22.78	+5%	+13%	+4%	243	\$843	5%	-2.1	4.75	0	
Career Education Corp.	CECO	December	Neutral	\$26	\$24.78	\$42.59	\$17.60	-2%	+10%	-27%	1,273	\$2,347	1%	19.4	10.00	0	
Corinthian Colleges, Inc.	COCO	June	Neutral	\$12	\$13.63	\$15.36	\$10.50	+6%	+26%	+16%	922	\$1,177	4%	9.3	4.61	0	
DeVry, Inc.	DV	June	Neutral	\$26	\$28.00	\$28.75	\$18.50	+7%	+32%	+40%	362	\$1,980	4%	8.6	8.27	0	
eCollege.com	ECLG	December	NR	–	\$15.65	\$25.73	\$10.96	-12%	-2%	-13%	127	\$348	5%	6.5	4.52	0	
ITT Educational Services, Inc.	ESI	December	NR	–	\$66.37	\$70.99	\$55.70	-3%	+0%	+12%	385	\$2,746	0%	56.2	3.09	0	
Laureate Education, Inc.	LAUR	December	Outperform	\$60	\$48.63	\$55.22	\$40.52	-6%	+2%	-7%	257	\$2,500	14%	9.3	20.00	0	
Lincoln Educational Services Corp.	LINC	December	Neutral	\$14	\$13.49	\$18.45	\$11.92	+9%	-18%	-5%	26	\$343	7%	13.7	5.52	0	
Strayer Education, Inc.	STRA	December	Neutral	\$116	\$106.05	\$118.88	\$87.07	-4%	-2%	+13%	214	\$1,523	0%	31.0	11.45	0.92	
Universal Technical Institute, Inc.	UTI	September	NR	–	\$22.21	\$37.71	\$17.00	+8%	+24%	-28%	213	\$594	0%	27.6	4.05	0	
Post-Secondary Index (Market Cap Weighted)								-0%	-0%	-9%							
Educational Publishers																	
John Wiley & Sons, Inc.	JWA	April	NR	–	38.76	\$41.80	\$31.60	-3%	+8%	-1%	215	\$2,218	9%	25.1	7.52	1.13	
McGraw-Hill Companies, Inc.	MHP	December	NR	–	68.51	\$69.25	\$46.37	+3%	+18%	+33%	1,198	\$24,266	1%	30.0	6.14	1.25	
Pearson, plc.	PSO	December	NR	–	15.17	\$15.37	\$11.81	+3%	+7%	+28%	95	\$12,112	26%	8.5	7.62	3.60	
Reader's Digest Association Inc.	RDA	June	NR	–	16.74	\$16.98	\$11.90	-0%	+29%	+10%	1,404	\$1,590	33%	-56.5	1.54	3.09	
Reed Elsevier, plc.	RUK	December	NR	–	44.23	\$46.21	\$35.78	+1%	-1%	+18%	21	\$13,751	0%	29.6	5.66	2.67	
Scholastic Corp.	SCHL	May	NR	–	36.23	\$36.18	\$24.99	+9%	+16%	+27%	306	\$1,531	27%	5.3	25.02	0	
Education Publishers Index (Market Cap Weighted)								+2%	+11%	+26%							
Corporate Training																	
GP Strategies Corp.	GPX	December	NR	–	\$8.30	\$8.45	\$6.60	+6%	+11%	+2%	31	\$131	8%	11.3	4.91	0	
Healthstream, Inc.	HSTM	December	NR	–	\$3.95	\$5.14	\$2.25	+0%	+14%	+70%	28	\$87	0%	9.9	1.27	0	
Learning Tree International, Inc.	LTRE	September	NR	–	\$8.89	\$14.19	\$7.19	-3%	+9%	-31%	50	\$147	0%	1.5	3.68	0	
Saba Software, Inc.	SABA	May	NR	–	\$6.23	\$7.14	\$4.00	+15%	+18%	+53%	129	\$177	5%	-22.8	1.83	0	
SkillSoft, plc.	SKIL	January	NR	–	\$6.21	\$6.86	\$4.60	-1%	-3%	+13%	522	\$633	0%	17.9	1.15	0	
SumTotal Systems, Inc.	SUMT	December	NR	–	\$6.05	\$7.77	\$4.20	-14%	-19%	+34%	187	\$156	8%	-21.2	2.91	0	
Corporate Training Index (Market Cap Weighted)								+0%	+2%	+19%							
Total Education Index								+1%	+7%	+15%							
S&P500					SPX	1,418.30	1,432	– 1,219	+1%	+6%	+14%						

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

Education Universe – Comparable Company Analysis

\$ millions, except per share amounts

Company	Ticker	Revenue				EPS			Price/Earnings			EV/ EBITDA (TTM)	Price/ Sales	FCF TTM	FCF (TTM) Yield	Price/ Book			
		F2005A	% Change	F2006E	% Change	C2005A	C2006E	C2007E	C2005A	C2006E	C2007E								
K-12 Education																			
Bright Horizons Family Solutions, Inc.	BFAM	625.3	13%	698.4	12%	1.29	1.51	1.80	29.9x	25.7x	21.5x	11.5	1.5	22.2	2.2%	4.89			
Educate, Inc.	EEEE	330.4	10%	357.2	8%	0.52	0.03	0.30	13.7x	NM	24.1x	16.8	0.9	(1.7)	-0.6%	1.43			
Leapfrog Enterprises, Inc.	LF	649.8	1%	511.7	-21%	0.28	(1.72)	(0.45)	33.9x	NM	NM	16.8	1.0	48.4	8.2%	1.40			
Nobel Learning Communities, Inc.	NLCI	164.2	6%	181.9	11%	0.37	NA	NA	31.0x	NA	NA	6.6	0.5	4.4	4.8%	2.00			
Plato Learning, Inc.	TUTR	121.8	-14%	82.1	-33%	(0.39)	(0.50)	(0.37)	NM	NM	NM	11.4	1.4	7.6	5.9%	1.01			
Princeton Review, Inc.	REVU	130.5	15%	142.4	9%	(0.16)	(0.15)	0.10	NM	NM	52.8x	50.2	1.1	(3.9)	-2.7%	2.98			
ProQuest Company	PQE	NA	NA	115.0	NA	(1.88)	(2.19)	0.26	NM	NM	40.2x	4.4	0.6	22.5	7.2%	0.99			
Renaissance Learning, Inc.	RLRN	116.3	2%	111.0	-5%	0.80	0.45	0.65	22.2x	39.4x	27.3x	17.4	4.5	14.8	2.9%	6.09			
School Specialty, Inc.	SCHS	1,002.5	10%	1,015.7	1%	1.48	1.27	2.23	25.3x	29.6x	16.8x	11.4	0.8	51.2	6.2%	1.45			
Scientific Learning, Inc.	SCIL	40.3	30%	39.9	-1%	0.31	(0.02)	0.16	17.7x	NM	34.3x	NA	2.5	(1.3)	-1.4%	NM			
K-12 Average									24.8x	31.5x	31.0x	16.2	1.5		3.3%	2.47			
Post-secondary Education																			
Apollo Group, Inc.	APOL	2,251.5	25%	2,476.3	10%	2.60	2.42	2.49	15.0x	16.1x	15.6x	8.1	2.7	435.4	6.5%	9.93			
Blackboard, Inc.	BBBB	135.7	22%	182.0	34%	0.95	(0.41)	0.40	31.6x	NM	74.4x	58.4	5.0	17.6	2.1%	6.33			
Career Education Corp.	CECO	2,034.6	18%	1,968.4	-3%	2.32	1.54	1.40	10.7x	16.1x	17.7x	5.3	1.2	217.4	9.3%	2.48			
Corinthian Colleges, Inc.	COCO	963.6	20%	966.6	0%	0.57	0.41	0.52	23.9x	33.4x	26.2x	11.8	1.2	49.6	4.2%	2.96			
DeVry, Inc.	DV	781.3	0%	843.3	8%	0.46	0.74	0.93	61.4x	37.9x	30.2x	15.8	2.3	98.1	5.0%	3.39			
eCollege.com	ECLG	102.9	15%	115.6	12%	0.50	102.9	0.76	31.3x	27.1x	20.5x	14.6	3.0	13.0	3.7%	3.46			
ITT Educational Services, Inc.	ESI	688.0	11%	755.1	10%	2.36	2.69	3.16	28.1x	24.7x	21.0x	12.7	3.7	136.5	5.0%	21.51			
Laureate Education, Inc.	LAUR	875.8	36%	1,130.7	29%	1.66	2.00	2.50	29.3x	24.3x	19.4x	13.8	2.3	9.9	0.4%	2.43			
Lincoln Educational Services Corp.	LINC	299.2	15%	323.0	8%	0.76	0.62	0.75	17.7x	21.8x	18.1x	7.6	1.1	2.5	0.7%	2.44			
Strayer Education, Inc.	STRA	220.5	20%	263.7	20%	3.26	3.58	4.20	32.5x	29.6x	25.2x	16.4	6.1	48.2	3.2%	9.27			
Universal Technical Institute, Inc.	UTI	310.8	22%	360.8	16%	1.19	0.90	0.72	18.7x	24.5x	30.9x	9.5	1.7	(0.7)	-0.1%	5.48			
Post-Secondary Average									27.3x	25.5x	27.2x	15.8	2.8		3.6%	6.33			
Educational Publishers																			
John Wiley & Sons, Inc.	JWA	1,044.2	7%	1,182.1	13%	1.56	1.66	1.66	24.8x	23.3x	23.3x	10.2	2.0	177.2	8.0%	5.15			
McGraw-Hill Companies, Inc.	MHP	6,003.6	14%	6,257.6	4%	2.27	2.48	2.86	30.2x	27.6x	24.0x	12.9	3.9	1,251.2	5.2%	11.17			
Pearson, plc.	PSO	7,040.2	-7%	8,168.5	16%	0.59	0.73	0.83	25.7x	20.8x	18.3x	8.3	1.6	781.2	6.5%	1.99			
Reader's Digest Association Inc.	RDA	2,389.7	0%	2,478.1	4%	0.89	0.83	0.92	18.9x	20.3x	18.2x	13.4	0.7	27.8	1.7%	10.88			
Reed Elsevier, plc.	RUK	9,854.1	7%	10,279.0	4%	2.17	2.58	2.80	20.4x	17.2x	15.8x	NA	1.4	NA	NA	7.82			
Scholastic Corp.	SCHL	2,283.8	10%	2,176.3	-5%	1.65	1.71	2.17	21.9x	21.2x	16.7x	7.4	0.7	179.6	11.7%	1.45			
Education Publishers Average									1.70	1.81	2.02	23.7x	21.7x	22.2x	10.4	1.7		6.6%	6.41
Corporate Training																			
GP Strategies Corp.	GPX	175.56	-9%	179.4	2%	0.29	0.42	0.62	28.6x	19.8x	13.4x	8.8	0.7	16.6	12.7%	1.69			
Healthstream, Inc.	HSTM	27.36	36%	31.6	15%	0.09	0.12	0.18	43.9x	32.9x	21.9x	13.7	2.8	4.5	5.2%	3.12			
Learning Tree International, Inc.	LTRE	151.56	0%	NA	NA	0.07	0.12	NA	122.6x	72.6x	NA	8.3	1.0	(2.1)	-1.4%	2.42			
Saba Software, Inc.	SABA	71.15	69%	103.4	45%	(0.07)	0.21	0.42	NM	29.5x	14.9x	NA	2.2	(5.0)	-2.8%	3.41			
SkillSoft, plc.	SKIL	215.57	2%	225.2	4%	0.17	0.21	0.27	37.4x	30.0x	23.4x	11.4	2.8	31.7	5.0%	5.39			
SumTotal Systems, Inc.	SUMT	74.97	36%	109.7	46%	(0.07)	0.24	0.41	NM	25.7x	14.9x	165.4	1.6	0.0	0.0%	2.08			
Corporate Training Average									68.0x	38.2x	17.9x	41.5	1.8		3.1%	3.02			
Total Education Average									30.3x	27.6x	24.9x	19.4x	2.0x		3.9%	4.64			
S&P500		SPX					76.28	85.60	92.06	18.6x	16.6x	15.4x							

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

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APPENDIX – IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Robert W. Baird & Co. and/or its affiliates expect to receive or intend to seek investment banking related compensation from the company or companies mentioned in this report within the next three months.

Investment Ratings: Outperform (O) - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. **Neutral (N)** - Expected to perform in line with the broader U.S. equity market over the next 12 months. **Underperform (U)** - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

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