

# Business Services

## Class Notes

Monthly Insights on the Education Market

### Education Services

November 2009

## Research

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# HIGHLIGHTS & STOCK REVIEW

## Ed Indices Last Month

K-12	-2%
Higher Education	-13%
E-Learning	-4%
International	+6%
Corporate Learning	-7%

## Ed Indices YTD

K-12	+31%
Higher Education	-7%
E-Learning	+10%
International	+65%
Corporate Learning	+46%

## Market Statistics (Oct)

NASDAQ	-4%
S&P 500	-2%
Dow Jones	+0%
Russell 2000	-4%

## S&P 500 P/E Ratios

2009E	18x
2010E	15x

## This Month in Class Notes

*The House Committee on Education and Labor held its highly anticipated hearing entitled "Ensuring Student Eligibility Requirements for Federal Aid" while the DOE announced committee members for the upcoming negotiated rulemaking session...*

*According to research by the Rockefeller Institute of Government, state budgets troubles are likely to far outlast the current recession...*

*For-profits implemented annual tuition increases of 6.5% in F2009, in line with public institutions, according to The College Board's "Trends in College Pricing 2009"...*

*Apollo received notification the SEC has commenced an informal inquiry into the company's revenue recognition practices, dragging down post-secondary stocks...*

*Corinthian announced an agreement to acquire regionally accredited Heald College for \$395M in cash, while Princeton Review plans to acquire Penn Foster Education Group, an online career education company for \$170M in cash...*

*Earnings releases from Renaissance Learning, Ambassadors Group, Apollo, Capella, Corinthian, DeVry, ITT Educational Services, Strayer, and New Oriental...*

*This month we highlight Corinthian Colleges (COCO – NASDAQ,) a leading provider of post-secondary education, with a variety of career-oriented diploma and degree programs. We currently rate Corinthian Neutral with a \$19 price target.*

## Apollo Drags Down Higher Ed Stocks

Higher ed, e-Learning, and corporate learning all underperformed the S&P, while international outperformed and K-12 was in line. Year-to-date, the higher ed and e-Learning indices have underperformed the broader indices, while our other education indices have outperformed.

The K-12 index decreased 2% in October, primarily reflecting declines in School Specialty and Nobel Learning. Nobel Learning shares declined 11% on top of a 15% decrease in September. School Specialty shares contracted 6% as state budgets remain under pressure. Year-to-date, K-12 is up 31%.

The higher education index decreased 13% in October with 11 of the 12 companies declining, led by Apollo which decreased 22%. Stocks sold off following Apollo's announcement that the SEC launched an informal inquiry into the company's revenue recognition policy and investors were focused on the upcoming negotiated rulemaking session. The index is down 7% year-to-date.

The e-Learning index decreased 4% during the month, led by a 10% decline at Rosetta Stone on no new news. Year-to-date the e-Learning index is up 10%.

Performance in the international index improved 6% in October, the seventh consecutive month of gains. Increases in Brazilian stocks Anhanguera (+21%) and Kroton (+19%) offset a 14% decrease in shares of ChinaCast and 13% decline in shares of New Oriental. Year-to-date the international index is up 65%.

Corporate training stocks decreased 7% last month with declines in all three companies in our index. Year-to-date, the corporate training index is still up 46%.

# POLICY REVIEW

## **House Education Committee Holds Hearing**

Last month, the House Committee on Education and Labor held its highly anticipated hearing entitled "Ensuring Student Eligibility Requirements for Federal Aid." The purpose of the hearing was to examine how non-profit and for-profit colleges and universities administer and enforce student eligibility requirements for federal financial aid programs. We believe the tone of the hearing was fairly negative with much focus paid to trying to determine if for-profits are "gaming the system." The hearing was a result of a Government Accountability Office (GAO) report released September 21 titled "Proprietary Schools; Stronger Department of Education Oversight Needed to Help Ensure Only Eligible Students Receive Federal Student Aid," which turned out to be relatively benign, in our opinion, as many of the report's findings were either already known or widely expected. The witness list included Robert Shireman - DOE Deputy Undersecretary for Higher Education, Mary Mitchelson - Acting Inspector General of the DOE, George Scott - GAO Director of Education, Workforce, and Income Security and author of the report, as well as Harris Miller – Career Colleges Association President and CEO).

### *Prepared Testimony*

The prepared testimony of the panel of witnesses was largely as expected. Mr. Scott reiterated the findings of the report (playing audio evidence of institutions visited by investigators). Importantly, no company was named, as some investors had feared. Mr. Shireman's testimony largely highlighted risk factors used by the DOE to monitor schools as well as provided further details on issues to be addressed in upcoming negotiated rulemaking sessions.

Ms. Mitchelson's testimony was skewed most negatively towards proprietary institutions, in our opinion. Mitchelson focused on three areas in her written comments: Ability-to-Benefit testing (ATB), online high school diploma mills, and eligibility problems associated with distance education, commenting that the OIG has a "number of efforts underway in each of these areas," including 15 open ATB-related investigative matters. Next, Mitchelson's testimony focused on the OIG's investigations to identify and prosecute diploma mills. Her testimony included past instances where the OIG has obtained lists of suspected high school diploma mills. Finally, Mitchelson discussed the need for additional oversight to determine whether students in distance education are "regular students" and actually in attendance, rather than those "just completing sufficient online activity to receive disbursement of federal loans." The OIG has focused on investigating fraud within distance education (29 investigations since 2005); however, she stated that community colleges are the primary target of this type of fraud.

Finally, Mr. Miller stressed that there is not room for cheating in the process. He had strong words for the individuals at fault stating that the CCA and its member "hate" diploma mills and support increased oversight of ATB testing procedures. However, he was quick to point out that a few bad apples do not signal widespread problems. Additionally, he discussed the important role of the for-profit sector which caters to individuals typically ignored by traditional schools.

### *Question and Answer Session*

Questions and comments from committee members varied in level of criticism and tone. While some members stressed their level of concern with the GAO report's findings, others were more favorable toward career colleges and the role they serve. Chairman Miller began the question and answer session by probing where there are additional problems with the sector and if some students were purposely "gaming the system." Miller went on to compare the sub-prime student loan market to that of the

housing market debacle and stated that institutions who are haphazardly offering loans to students should be monitored more closely, including developing "a watch list for certain institutions." Rep. Ruben Hinojosa (D-TX), who commissioned the report, after commenting that he was "troubled" by some of the GAO report's findings, asked what is needed to better police these cases and if any legislative changes are necessary to the HEA. Shireman pointed to the negotiated rulemaking process as the primary way the DOE will address the report's findings.

**Negotiated Rulemaking Committee**

The Department of Education (DOE) announced the committee members for the upcoming negotiated rulemaking session, beginning the first week in November. The program integrity team includes two representatives from the DOE and 14 other post-secondary education stakeholders including students, colleges, and accreditors. A representative from Kaplan Higher Education will represent for-profits schools, and the National Accrediting Commission of Cosmetology Arts and Sciences will represent national accreditors. The members work to reach consensus on regulations through the process, which the DOE typically closely follows when forming regulations around the Higher Education Act. However, if consensus is not reached, the DOE can set regulations without input from the committee. The program integrity committee is focused on topics such as incentive compensation, gainful employment, ability to benefit, and satisfactory academic progress.

**NEGOTIATED RULEMAKING COMMITTEE MEMBERS**

Team I—Program Integrity Issues		
	Primary	Alternate
U.S. Department of Education	Carney McCullough and Fred Sellers	
Students	Rich Williams U.S. PIRG (Public Interest Research Group)	Angela Peoples United States Student Association
Consumer Advocacy Organizations	Margaret Reiter Attorney	Deanne Loonin National Consumer Law Center
2-year Public Institutions	Richard Heath Anne Arundel Community College	Joan Zanders Northern Virginia Community College
4-year Public Institutions	Phil Asbury University of North Carolina-Chapel Hill	Joe Pettibon Texas A & M University
Private, Nonprofit Institutions	Todd Jones Association of Independent Colleges and Universities of Ohio	Maureen Budetti National Association of Independent Colleges and Universities
Private, For-Profit Institutions	Elaine Neely Kaplan Higher Education Corporation	David Rhodes School of Visual Arts
College Presidents	Terry Hartle ACE	
Admissions Officers	David Hawkins National Association for College Admission Counseling	
Business Officers	Susan Williams Mercy College	Anne Gross National Association of College and University Business
Financial Aid Administrators	Val Meyers Michigan State University	Joan Berkes National Association of Student Financial Aid Administrators
Regional/Programmatic Accreditors	Barbara Brittingham Commission on Institutions of Higher Education of the New England Association of Schools and Colleges	Sharon Tanner National League for Nursing Accrediting Commission
National Accreditors	Anthony Miranda National Accrediting Commission of Cosmetology Arts and	
Work Force Development	Jim Simpson Florida State College	
Lending Community Representative	Carol Lindsey Texas Guaranteed Student Loan Corporation	Janet Dodson National Student Loan Program

Source: Department of Education

**For-profit Amendment to CFPB Legislation Defeated**

Last month, the House Committee on Financial Services defeated an amendment to current Consumer Financial Protection Agency (CFPA) legislation (H.R. 3126) to include for-profit institutions that make internal student loans under the agency's oversight. This amendment was part of a much larger bill to create a new regulatory agency, the CFPB, designed to regulate credit card fees and other forms of consumer credit that currently have little federal oversight. The rejected amendment (vote of 33-35) was sponsored by Rep. Maxine Waters (D-CA), a long-time critic of for-profits. Critics of the amendment have argued that institutional loans by all higher education institutions are already covered under Federal and many state consumer protection laws as well as new "Truth in Lending" rules set to take effect in February 2010.

## ELEMENTARY & SECONDARY

### Renaissance Learning Reports Strong 3Q09 Results and Order Volume

Renaissance Learning reported 3Q09 revenue increased 13% to \$31.8 million. Products revenue increased 13% to \$21.9 million with strength across all product lines while services revenue improved 12% due to strong hosting revenues. The company reported a 34% increase in order volume versus the previous year due in part to the ongoing seasonality shift in orders away from 1Q and 4Q of calendar quarters to 2Q and 3Q. A portion of the order growth as a direct result of the stimulus funds from the American Recovery and Reinvestment Act, as evidenced by some schools purchasing multiple-year subscriptions. Operating margin in the quarter was 23.9% versus 13.0% last year, primarily due to gross margin leverage, and a 430bps decrease in G&A expenditures. As a result, EPS improved to \$0.18 from \$0.09 the previous year, above the \$0.09 consensus estimate. During the quarter, the company added approximately 800 new customer schools in the U.S. and Canada, bringing the company's total North American customer base to approximately 74,000.

### Ambassador's Group Reports 3Q09; 2010 Revenue Trending 24% Below 2009

Ambassadors Group, a provider of educational travel programs, reported 3Q09 gross program receipts of \$82.2 million, down 18% from \$101.2 million in 3Q08, due to a 27% decrease in traveled delegates in the quarter to 12,967. This was partly offset by an 11% increase in gross receipt per traveler, as a result of a larger percentage of international travelers, and additional BookRags revenue. Gross margin increased 730bps to 40.1% in 3Q09 due to increased pricing coupled with lower delegate travel rates amid the economic downturn. Operating margin increased 390bps to 22.6% the prior year. EPS for the quarter came in at \$0.64 compared to \$0.68 in 3Q08, above the consensus \$0.57 estimate. As a result of the outperformance the company increased 2009 full-year EPS guidance to \$1.05-\$1.09 from \$0.95-\$1.05; the consensus estimate was \$1.01.

The company announced that as of October 19 enrolled revenue for 2010 travel programs is down 24% to \$118 million driven by a 26% drop in net enrolled participants for 2010 travel programs from the previous year. According to management, the company has "had less interest in response to a meeting invitation (from customers) and less attendance." This decrease in interest is apparent across all price points, in both domestic and international travel.

### K12 Inc.: Agora Case Resolved & New State Officially Announced

The Philadelphia Inquirer reported that the board of the Agora Cyber Charter School in Pennsylvania (one of K12 Inc.'s two largest schools with revenues greater 10%) agreed to resign and cut all ties with Dorothy June Brown, who owns the management company Cynwyd. The Pennsylvania Department of Education (DOE) had been trying to oust the Agora Board and the management company Cynwyd for tax-payer fraud since this summer. The settlement meets the key conditions that the PDE previously laid out and effectively ends four lawsuits Brown and the Agora board had filed against various parties, including K12 Inc. The process was expected to be lengthy and we had not anticipated a resolution to come this early. Importantly, K12 Inc. was never targeted in the dispute. The department had previously stated that it intends for Agora to continue operating for the 2009-2010 school year. As the school's charter was already set to expire in 2010, the new board will have to reapply for a charter. The ongoing saga at Agora has been a meaningful overhang on the stock, in our opinion, and we are incrementally positive now that the issue has been resolved.

Separately, K12 officially announced entry into a new state with a new fully managed school: Virginia Virtual Academy serving grades K-8 for the 2009-10 year. Enrollment for this school year was open until October 26. We had been anticipating this announcement as K12 recently began marketing and enrolling students in the school and were merely waiting for the company to finalize its contract to manage the school. Importantly, this school is incremental to management's preliminary F2010 guidance of 20% revenue growth.

### **K12 Inc. COO/CFO Departs**

K12 Inc. announced that COO and CFO John Baule will resign effective October 31. Baule joined the company in March 2005. The company stated that Baule's departure is not at all related to the quarter or any sort of accounting issues. CEO Ron Packard emphasized that Baule was especially strong in accounting and Sarbanes-Oxley rules. K12 hopes to name a replacement soon, potentially before the company reports F1Q10 results on November 6. We suspect that the company will look to split the COO and CFO roles given the rapid growth experienced the last several years.

### **School Specialty COO Resigns**

School Specialty's Chief Operating Officer Thomas Slagle has resigned for personal reasons effective October 31, according to the company. Slagle joined the company as President and COO in March 2007. Prior to joining School Specialty, Slagle served as a Group President for Cardinal Health, and previously had executive management positions with Johnson & Johnson Ortho Diagnostics Division and Baxter Healthcare. School Specialty will not be replacing the COO position as the company believes it has sufficient bench strength (including the two Presidents of its Education Publishing and Educational resources groups) to support its operations.

We viewed Slagle's tenure favorably given his various accomplishments including lean initiatives such as category management (fewer SKU's through brand consolidation particularly within the Education Resources group), distribution network infrastructure resulting in lower transportation costs, as well as improved data collection and forecasting as it relates to inventory management. These various operational improvements are due to the company's implementation of its Oracle ERP platform, much of which occurred under Slagle, which has led to meaningful free cash flow expansion despite weak demand.

### **Princeton Review Acquires Penn Foster Education Group, Inc.**

Princeton Review announced that it has entered into a definitive agreement to acquire Penn Foster Education Group, Inc., an online career education company for \$170 million in cash, subject to closing or 1.9x C2008 revenue. Penn Foster operates three accredited educational institutions—Penn Foster College, Penn Foster Career School, and Penn Foster High School—that serve more than 223,000 students in over 150 countries. No additional financial data was provided.

### **Nobel Learning Acquires School**

Nobel Learning Communities acquired The Rhoades School, a school for gifted and talented students in grades K-8 located in Encinitas, California. While financial details were not provided, management expects the acquisition to be modestly accretive to F2010 earnings. The acquisition of The Rhoades School follows the company's recent acquisition of Laurel Springs School, a K-12 private school offering online and distance learning programs located in Ojai, California in early October.

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**OTHER ELEMENTARY & SECONDARY NEWS**

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**Financial and M&A Activity**

**Renaissance Learning** announced that its Board of Directors declared a quarterly cash dividend of \$0.07 per share, payable December 1 to shareholders of record as of November 6.

**Miscellaneous**

The U.S. Department of Education has awarded a five-year contract to **Learning Point Associates**, to conduct charter school research and create a National Charter School Resource Center. The new center will provide services to help support and develop charter schools around the country, according to *Education Week*.

**States Using Stimulus to Replace Ed Funding**

The Department of Education's office of the inspector general (OIG) issued a warning to states that have been supplanting normal state education funding with stimulus dollars, stating that was not the intent of the stimulus and such actions will jeopardize eligibility for the \$5 billion Race to the Top fund. Officials are concerned that school districts and colleges will receive flat to down state funding in the midst of declines in local tax revenues. Congress allocated \$100 billion in stimulus for education earlier this year and required states to maintain education spending at 2006 levels, which would technically leave room for meaningful cuts in most states. The OIG recommends that the department build a system to track state spending to ensure states are in compliance with funding levels per the stimulus requirements.

**State Budget Troubles Likely Prolonged**

According to research by the Rockefeller Institute of Government at the State University of New York, state budgets troubles are likely to far outlast the current recession. Analysis of past recessions indicates it could take over six years for sales and income taxes (the bulk of states' revenues) to meet pre-recession levels. Although states recovered in three to five years in the past three recessions, this recession has been far worse, particularly regarding employment and consumer spending. States are likely to take adverse actions to balance budgets such as increasing taxes, raising college tuition, and delaying costs and renovations. In Minnesota, Governor Pawlenty pushed off paying almost \$1.8 billion to schools until after the current school year to balance the budget. States already have a total budget shortfall of over \$350 billion for 2010-11, according to the Center on Budget and Policy Priorities.

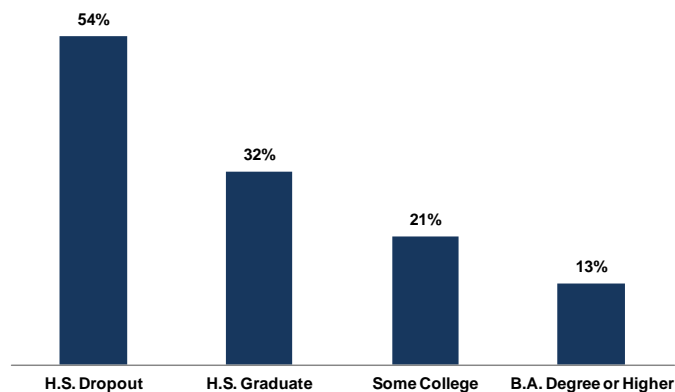
**Study: High School Dropout Costs U.S. \$292,000**

According to a new study by researchers at Northeastern University, an analysis of 2008 unemployment rates found that 54% of all high school dropouts ages 16-24 were unemployed, versus 32% of high school graduates, and 13% for college graduates. The report, titled "The Consequences of Dropping Out of High School: Joblessness and Jailing for High School Dropouts and the High Cost for Taxpayers" analyzed census, employment, and other government data. According to the report, the collective costs for each high school dropout to the nation are \$292,000, which includes lost tax revenues of their working lives, social welfare costs, as well as potential incarceration costs. The discouraging statistics among high schools dropouts are somewhat expected given the lack of employment prospects, and general socioeconomic status, and echo similar studies in the past.

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**UNEMPLOYMENT RATES FOR 16-24 YEAR OLDS BY EDUCATION LEVEL (2008)**


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Source: CPS Surveys, tabulations by authors

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### State & Local News

**Iowa** Gov. Chet Culver has ordered a 10% budget cut for all state agencies including education for F2010. According to the Associated Press, state revenue projections were \$415 million lower than expected, prompting calls for mid-year cuts. Iowa is the latest state to announce further F2010 budget cuts. As state revenue shortfalls continue to worsen (reaching approximately \$143 billion on July 1, the beginning of F2010 for most states), at least 11 states are already projecting mid-year F2010 budget cuts, according to the Center on Budget Policy and Priorities.

**Louisiana** is taking steps to increase the number of charter schools in the state. It currently operates 77 charter schools, 53 of which are located in New Orleans. The state Board of Elementary and Secondary Education recently approved 11 more charters to open in New Orleans' Recovery School District. An additional 12 charters are expected to be granted by the end of the year, with half in New Orleans, according to *Education Week*.

**Michigan** passed the public school budget for F2010 amounting to approximately \$12.8 billion. The bill, signed by Gov. Jennifer Granholm, cuts K-12 funding by \$482 million or the equivalent of \$165 per student; however, this remains better than previous proposals. While the K-12 budget was passed, many other state budget resolutions remain in limbo as legislators cannot agree on how best to close the state's \$2.8 billion budget deficit.

**Washington D.C.** schools will institute a new teacher evaluation system, one of the first in the U.S. to link job security to standardized test scores. The \$4 million system, IMPACT, uses an extensive matrix of factors ranging from how well teachers keep students focused to their teaching presence, according to The Washington Post. Proponents argue the most effective way to improve schools is to better monitor and improve teacher performance. Critics contend that the new IMPACT system incorrectly assumes that the teacher is the only influence on student progress. IMPACT will use five classroom observations and student test improvement on the annual District of Columbia Comprehensive Assessment System (only for math and reading grades 4-8 this year) to score teachers. All teachers will be given a "growth plan" with feedback and means of assistance. A score on a 100 to 400 point scale will be given in June; those under 175 will not be retained.

**Washington D.C.** public school officials announced layoffs of almost 400 workers, 229 of them teachers, due to budget shortfalls. D.C. Council chairman Vincent Gray held what turned out to be an 18-hour public oversight hearing on the decision.

Chancellor Michelle Rhee had previously announced that public schools will need to cut \$40 million from budgets by October. This followed unexpected revisions to the District's F2010 plan in August due to declining tax revenues and an estimated \$666 million budget shortfall. Teacher layoffs and increasing class sizes are anticipated. School principals had previously hired 900 teachers over the summer to fill vacancies. The layoffs resulted in student protests and a teachers' union lawsuit.

#### K-12 SHORT INTEREST (AS OF OCTOBER 15)

Company	Ticker	Short Interest	% Chg vs Previous	% of Float	Avg Vol	% Chg vs Previous	Days to Cover	Previous
<b>K-12 Education</b>								
K12, Inc.	LRN	4,504,982	-10%	23%	327,265	-23%	13.8	11.8
Nobel Learning Communities, Inc.	NLCI	77,364	-3%	1%	4,996	-41%	15.5	9.4
Princeton Review, Inc.	REVU	375,533	-5%	2%	72,096	20%	5.2	6.6
Renaissance Learning, Inc.	RLRN	300,506	-5%	3%	9,690	-70%	31.0	9.9
Scholastic Corp.	SCHL	2,737,687	3%	9%	239,076	-29%	11.5	7.9
School Specialty, Inc.	SCHS	2,289,878	-6%	15%	90,750	-15%	25.2	23.0

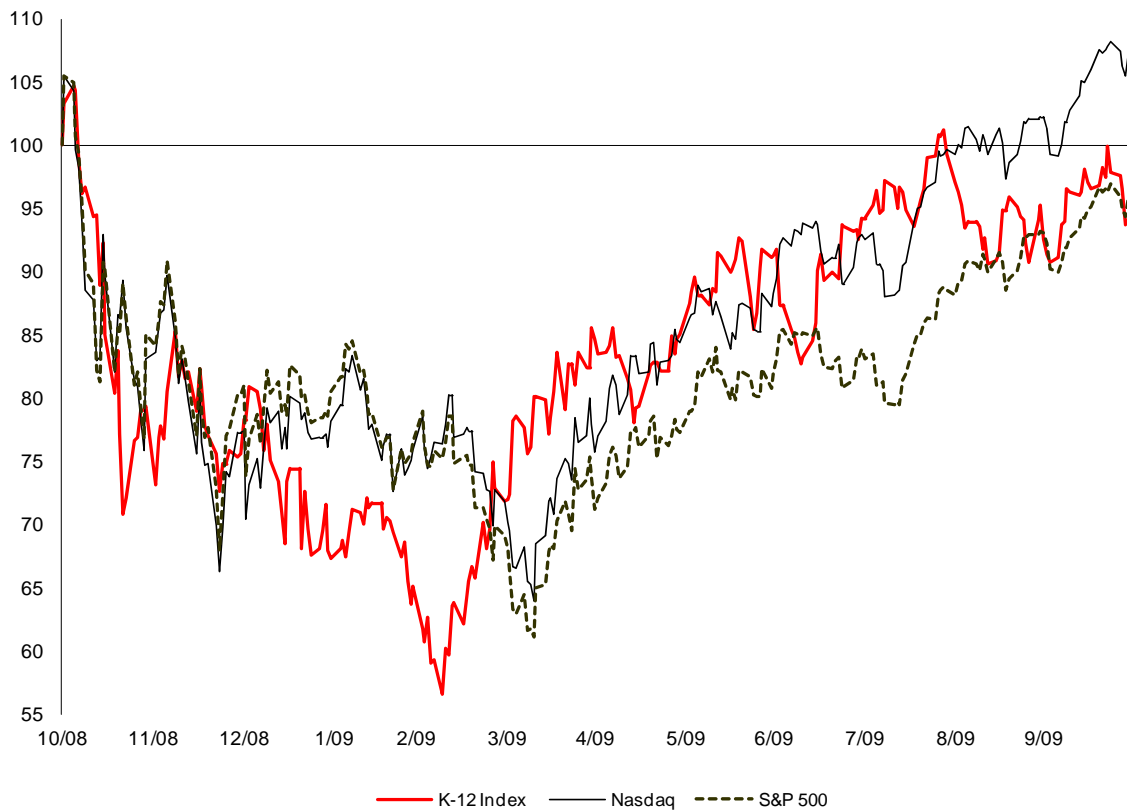
Source: NASDAQ

Above are short interest data for select publicly traded K-12 companies. The table includes the number of short interest shares as of October 15, the percent change versus the previous period (September 30), average daily volume, days-to-cover ratio (short interest divided by average volume) and the previous month's days-to-cover ratio.

Five of the six companies in our K-12 index had a decrease in the number of short interest shares as of October 15 versus September 30, led by a 10% decline in K12 to 4.5 million shares, but remains elevated at 23% of float. Shorts may have been forced to cover following a 22% appreciation in stock price during the period. The company also announced the resolution of a legal overhang and a new state entrance officially. School Specialty short interest decreased 6% to 2.3 million, or 15% of float, as a 12% increase in share price during the period may have pressured shorts. Short shares in Renaissance Learning decreased 5% to 300,506, or 3% of float, its seventh consecutive period of declines, as investors may have anticipated what proved to be a strong 3Q09 report later that month. Princeton Review short interest increased 5% to 375,533 shares, on no news.

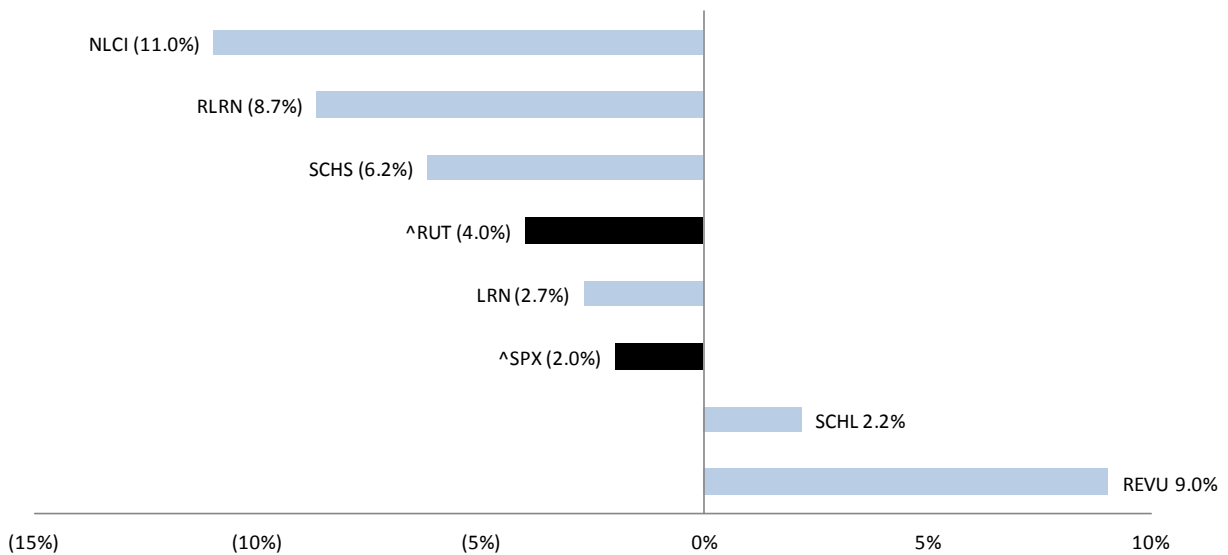
Lower average volume drove days-to-cover ratios higher for five the companies in the index. Renaissance Learning's days-to-cover ratio increased to 31.0 days from 9.9 days due to a 70% decline in average volume, which more than offset the decline in short interest. School Specialty short interest rose to 25.2 days to cover from 23.0 as a result of 15% lower average volume offsetting lower short interest. At 13.8 days, K12's days-to-cover ratio increased from 11.8 days the prior period due to a 23% decrease in volume which more than offset the decline in shares short. The lowest ratio belongs to Princeton Review at 5.2 days, aided by a 20% increase in volume.

**TRAILING-TWELVE MONTH K-12 INDEX VS S&P 500 AND NASDAQ**



Source: FactSet

**OCTOBER K-12 COMPANY PRICE PERFORMANCE**



Source: Capital IQ

## POST-SECONDARY

### Capella Reports Strong 3Q09 Results; Guidance Above Expectations

Capella reported 3Q09 revenue increased 28% to \$83.6 million, above our \$81.5 million and the consensus \$81.2 million estimate. Revenue growth was driven by strong enrollment growth and pricing increase of 3.9%, as well as higher colloquia revenue (contributed 3% to growth versus the prior-year period). These factors were partially offset by a 2.8% decline from the unfavorable mix shift toward lower revenue per student master's and bachelor's programs. Operating margin expanded 520bps to 17.4% in 3Q09, 160bps above our 15.8% estimate, and above guidance of 15.0%-16.0%. The outperformance was due primarily to better leverage on the gross margin (productivity gains in learner support functions) and selling and promotional lines (favorable economic environment for inquiry pricing, a shift in inquiry mix contributing to lower inquiry costs). EPS was \$0.57, up from \$0.34 in the prior year and above our and the consensus estimate of \$0.51.

Total active enrollment increased 28% to 30,738 from 24,063 in 3Q08, above management's guidance of 23.5%-25.0%. Enrollment increased double digits across all degree programs due to new enrollment growth and persistence improvements. Enrollment in master's programs (the largest degree program) improved 33% to 14,764 while bachelor's enrollment increased 41% to 5,409 students (highest bachelor's growth since 2004) and remains the company's fastest growing program. Management attributed acceleration in PhD enrollment (up 16% vs. 12% in 2Q09) to four new program launches in 2009, with best-performing offerings coming from the education and public service leadership verticals.

For 4Q09, management provided revenue growth guidance of 22.5%-23.5%, implying revenue of \$92.8-\$93.6 million, above our and the consensus estimate. Operating margin is expected to be 23.0%-24.0% in 4Q09, versus 21.6% in 4Q08. Assuming interest income of \$0.65 million, a 37.0% tax rate, and approximately 17,100 shares implies EPS of \$0.81-\$0.86 versus \$0.66 a year ago. Our estimate was \$0.78 and consensus was \$0.79.

### Strayer Posts Solid 3Q09 Results; Plans to Open 13 Campuses in 2010

Strayer reported 3Q09 revenue increased 31% to \$114.4 million, ahead of our and the consensus estimate. Revenue growth was driven by a 23% increase in average enrollment (enrollment from the summer and fall 2009 terms) and 7% increase in average revenue per student. Operating margin increased 280bps to 23.8% in 3Q09, above our estimate despite an increase in bad debt expense to 4.5% from 3.7%. Margin expansion was driven primarily by leverage on the selling and promotional line which decreased 250bps to 24.0% due to leverage. EPS came in at \$1.21 in 3Q09, up from \$0.83 in the prior year and above management's guidance of \$1.14-\$1.16. Our estimate was \$1.16 and the consensus estimate was \$1.15.

Total enrollment for the fall term increased 22% to 54,317, above our estimate of 53,642. New student growth was 20% on top of 29% growth a year ago. Strayer's growth rate for continuing students remained strong at 23%.

Management provided 4Q09 EPS guidance of \$2.28-\$2.30. Our estimate was \$2.30 and the consensus estimate was \$2.29. Given the number of planned new campuses, management provided its 2010 "business model." It is not guidance, but represents the requirements to attain a breakeven operating margin. If the company were to achieve a 20% increase in enrollment, which implies 24%-25% increase in revenue (5% price increase on January 1, 2010), 39.5% tax rate and no share

repurchases, operating margin would be flat and EPS would be \$9.30-\$9.50 in 2010. Our estimate was \$9.40 and the consensus was \$9.34.

Strayer began enrolling students in four new campuses (two in new markets) during the quarter for the fall 2009 term in Cleveland and Akron, Ohio, Florence, Kentucky (serving Cincinnati market), and Miami, bringing the total new campuses to 11 in 2009. The company announced plans to open three new campuses (all in new markets) to begin enrolling students for the winter 2010 term. The company plans to open ten additional campuses through the remainder of 2010 for a total of 13. In 2009 the company opened 11 new campuses as well as the Global Online center in Utah (which required an investment equivalent to approximately five campuses, according to management). The company seeks to continue to expand its geographic presence and announced that it has received approval to operate in four new states: Arkansas, Louisiana, Mississippi, and Texas.

### **Apollo Reports Solid F4Q09 Results; Provides Several Operational Updates**

Apollo reported solid F4Q09 (August) results with strong fundamentals as the company benefits from a macro tailwind and increased investments in retention and advertising continue to generate solid top-line growth. Revenue increased 29% (+28% organic) to \$1.08 billion, above our \$1.02 billion estimate and the consensus \$1.03 billion estimate, driven by a 22% improvement in enrollment to 443,000 students, tuition increases, and higher persistence. Associate degree enrollment grew 37% to 201,200 and was the primary driver of total enrollment growth. New degree enrollments grew 23% to 102,000, primarily driven by a 33% increase in new associate degree enrollments to 55,400. However, this was due in part to an additional start date for Axia students as F4Q09 (excluding this total new student growth would have been in the high teens).

Operating margin (excluding one-time items) improved 270bps versus the prior year to 26.5% but was 120bps below our estimate. Excluding the impact of BPP, margin would have expanded 370bps. Operating margin expansion was due to gross margin expansion of 140bps (leverage, partially offset by higher bad debt) and contraction in selling and promotional expense of 240bps (enrollment counselor effectiveness), partially offset by an increase in general and administrative expense as a percentage of revenue of 120bps. EPS was \$1.06 versus \$0.75 the prior year, in line with our \$1.06 estimate and above the consensus estimate of \$1.04. EPS includes a \$0.03/share negative impact related to the BPP acquisition but excludes \$0.48 in one-time items (including \$80.5 million in litigation settlement reserve, a \$9.4 million write-off of IT fixed assets, a \$5.5 million charge related to the option premium related to the acquisition of BPP, and a discrete charge to the income tax provision of \$4.7 million due to the write-off of a deferred tax asset).

Apollo provided several operational updates. The company updated its long-term (three-to five-year) internal growth targets of low double-digit revenue growth and mid-teens operating income growth. However, the company clarified that near-term growth rates could still exceed those levels as they represent average growth over that period. Key areas of investment for the company remain UOP, Apollo Global, and WIU, among others. The company plans to continue investments in faculty training, program development, the admission process, and learner management systems. Conversely, management disclosed that Insight Schools, the company's virtual high school, has encountered a number of administrative challenges in its compliance activities in the course of expanding its business, and as such, management has decided to explore the sale of Insight. Finally, related to the BPP acquisition, Co-CEO Greg Capelli stated that the integration efforts with BPP are "well underway" and the acquisition will have "significant amortization of intangibles"

associated with it. The company maintained that the acquisition should be slightly dilutive to F2010 EPS, and accretive thereafter.

### **Apollo Discloses SEC Inquiry into Revenue Recognition Practices**

During its F4Q09 conference call, Apollo disclosed that in late October it received notification from the Enforcement Division of the Securities and Exchange Commission (SEC) indicating that they have commenced an informal inquiry into the company's revenue recognition practices. The company gave few other details, stating that at this time it cannot determine the scope, duration and outcome of the inquiry. However, it intends to cooperate fully with the SEC regarding this matter.

As a result of the disclosure, many questions on the F4Q09 conference call focused on the company's revenue recognition policies and exactly what the SEC could be looking into. Management stated that there have been no significant changes in the way it recognizes its revenues (other than switching from a weekly to daily recognition process). Additionally, the company maintained that there was no overlap with the DOE's focused program review regarding UOP's Title IV recertification. According to management, the company stops recognizing revenue when the refund is processed for a student that has dropped. Drops are determined according to attendance records, whereby online students must make substantive posts at least twice during a week. In a nine week course, the determination that a student has dropped or withdrawn from a course occurs after three weeks of absences, while in a five week course students are dropped after two weeks of absences. If a student attends more than 60% of the course, Apollo recognizes 100% of the revenues. For any amount equal to or less than 60% attendance, a prorated amount is pulled down.

### **Apollo in Possible Settlements Talks Regarding Qui Tam Lawsuit**

Apollo has entered settlement discussions with the plaintiffs to resolve a pending False Claims Act qui tam lawsuit, *United States ex rel. Hendow v. University of Phoenix (UOP)*, pending in the U.S. District Court for the Eastern District of California. In addition, Apollo and the plaintiffs jointly requested a 45 day stay on all litigation proceedings. Related to the settlement discussions, Apollo has reserved an estimated litigation settlement of \$80.5 million.

The qui tam lawsuit was initially filed in March 2003 by two former employees. The federal government declined to intervene in the case, with previous motions to dismiss the case granted, but then appealed and overturned. The suit alleges UOP violated the False Claims Act and improperly collected federal student aid funding because it knowingly violated Title IV rules regarding recruiter compensation. The case is currently scheduled to go to trial March 2010. The potential size of a settlement was not disclosed. While it is uncertain if the case will settle, we believe a settlement would remove an overhang for the company. Apollo has previously stated it believes the lawsuit is without merit.

### **DeVry Reports Strong F1Q10 Results**

DeVry reported F1Q10 (September) revenue increased 42% (23% organic) to \$431 million, above our \$417 million estimate and the consensus estimate of \$418 million, primarily driven by strong growth in the DeVry University and Medical and Healthcare segments. Operating margin increased 300bps to 18.4% versus the prior year as lower student services and administration expense as a percentage of revenue combined with slight gross margin expansion. Delayed marketing expenses aided margins in F1Q10, according to management. EPS came in at \$0.76 versus \$0.48 the prior year, above our \$0.63 estimate and the consensus estimate of \$0.65.

Business, Technology, and Management ( DeVry University and Keller) segment revenue increased 24% in the quarter to \$284 million, driven by the strong summer enrollment growth coming from continued online expansion and improved on-site enrollments, and better retention related to a focus on student services. Management noted that it originally saw soft inquiry numbers going into F1Q09 and as a result intensified recruitment and conversion efforts. The original weakness subsided and the company's efforts resulted in enrollment outperformance in the quarter. The latest data on DeVry University shows 89% of graduates were employed in their field of study within six months of graduation at an average starting salary of \$45,364, slightly below a 91% rate reported in F4Q09.

DeVry's Medical and Healthcare revenue was \$117 million, up 120% versus \$53 million in F1Q09 due in part to the U.S. Education acquisition. Organic revenue growth was 35%. Ross September starts increased 10% to 666, contributing to total Ross enrollment of 4,601 (+9%). Citing strong demand, management expects to continue to invest in Ross facilities, clinical partnerships, and student services. Chamberlain announced co-location plans with DeVry University for campuses in Crystal City, VA, and Chicago, IL. The company began to leverage its online platform by launching Apollo College's first six online bachelor's degree completion programs in F1Q10.

Professional Education revenue decreased 3% to \$19 million, as the segment continues to see weakness due to the overall economic downturn which has particularly impacted the financial sector. Management does not expect to see improvement in 2010, but maintains that the segment is well-positioned in the long term. Other Educational Services (Advanced Academics and Fanor) revenue was \$11 million versus \$2 million in F1Q09. Fanor new student enrollment increased 14% to 2,151 and total student population increased 11% to 11,532. Management indicated this is in line with normal historical growth rates for the school and stated that the integration is going well. As expected, Advanced Academics experienced a seasonally challenging F1Q10, heavily impacting the bottom-line.

#### **ITT Educational Services Posts Solid 3Q09 but Lending Questions Linger**

ITT Educational Services revenue increased 34% (organic excluding Daniel Webster College 31%) to \$340 million in 3Q09, above our \$330 million estimate and the consensus \$335 million estimate. The company continued to report margin expansion despite rising bad debt. Strong enrollment growth and efficient placement to maximize classroom capacity continue to benefit the gross margin line, which increased 300bps to 65.6%. Marketing, general and administrative expenses declined 320bps to 22.7% of revenue, due to lower market costs of advertising (marketing expenditures increased 2% in the quarter, compared to 1% in 2Q09). The company believes the positive advertising conditions will continue through the year but noted that comparisons will become more difficult in 4Q09. Bad debt for the quarter increased 180bps to 6.8% due to a significant increase in internal lending. Management reiterated its bad debt projection of 5%-7% in 2009. Operating margin improved 430bps in 3Q09 to 36.1% versus the prior year, but remained below our 36.3% estimate. The company reported EPS of \$2.00, an increase from \$1.28 the prior year and above our \$1.92 estimate and the consensus \$1.97 estimate. ESI reiterated its EPS guidance of \$7.55-\$7.85, which now includes a \$0.08 negative impact from an accounting change (without the change, management stated it would have increased guidance). Our previous estimate was \$7.73 and the consensus estimate was \$7.75. The company repurchased 827,800 shares for \$85.0 million.

Total enrollment grew 29% (organic 27%) in 3Q09 to 79,208 students from 61,556 a year ago, with enrollment increases across all six schools of study. New student enrollment growth increased 27% (organic 26%) to 27,738, decelerating from 33%

growth in 2Q09 and a record 37% in 1Q09. Management attributed the growth to better lead response to advertising and more experienced recruiters as their average tenure increased in the quarter.

Management provided an update on the student financing environment including volume under its third-party student loan program, internal lending, projected bad debt, and the federal student lending front. Approximately 60%-65% of ESI students need some amount of private loans to cover the full cost of tuition. While management continues to be optimistic regarding efforts to secure additional third-party loan commitments, increase its existing agreements, or sell its current receivables, no such developments have yet occurred. Questions on the conference call once again centered on whether management is reserving enough against its outstanding AR balance and whether the company will be able to sell off any of its remaining balance. Management reiterated that its reserve accounting has not changed and that it is being sufficiently conservative with respect to the reserve amount (i.e., the company does not expect additional charges under the existing risk-sharing agreement). However, the company did not give further specifics. We estimate that the company is internally lending \$120 million to students in 2009.

Placement rates and starting salaries are down because of the weaker economy. ITT's latest job placement rates are trending down 560bps versus a year ago, but management believes there is an opportunity to reduce that gap before it reports a final 2009 rate in April 2010 through increased investments in career services. ITT's final 2008 job placement rate, dated April 30, 2009, was 77%, down from 82% in 2007. The average annual salary for 2009 ITT graduates is trending 1.5% below that of 2008 graduates at this date a year ago.

### Corinthian Colleges Reports Strong F1Q10 Results

Corinthian reported F1Q10 (September) revenue from continuing operations increased 34% to \$388 million, above the guidance range of \$375-\$385 million. Our estimate was \$382 million and the consensus estimate was \$378 million. The growth in revenue was driven by higher enrollment, improved persistence, and average revenue per student. Operating margin improved to 13.9% from 3.5% and was 310bps above our estimate primarily due to gross margin leverage along with 470bps of margin expansion on the marketing and advertising line. Bad debt expense decreased 250bps to 6.4%, below the company's previous 6.7%-7.1% guidance due to timeliness of student financial aid packaging. The company lowered its full year bad debt guidance to 6.2%-6.7% from 6.5%-7.0%. Total cost per start decreased 11% in F1Q10 largely driven by a 29% decrease in media cost per start in the quarter as media costs declined with the soft economy. The company also saw improved efficiencies with brand consolidation and national advertising. EPS from continuing operations came in at \$0.37 versus \$0.07 in F1Q09, ahead of our and the consensus \$0.28 estimate.

Total student enrollment increased 26% to 95,493 students, driven by 22% growth in new student starts and improved persistence. Management commented that enrollment growth was generated by existing and new programs and that it was broad-based across ground schools and online. Corinthian is also continuing to benefit from the weak economy given its more counter-cyclical, shorter-term programs. Management credited the strength in online enrollment to specific markets (Florida and Phoenix) and better IT infrastructure.

Corinthian provided guidance above expectations. For F2Q10 the company projected revenue of \$395-\$405 million (+24%-27%), ahead of the consensus \$397 million estimate. The company expects student start growth of 10%-12% and F2Q10 EPS of \$0.37-\$0.40 (assumes 89.6 million shares and a 40% tax rate.); the consensus was

\$0.32. The company raised F2010 revenue guidance to \$1.62-\$1.64 billion (+24%-25%), from \$1.58-\$1.60 billion; the consensus was \$1.61 billion. The company expects now F2010 student start growth of 11%-13%, up from 10%-12%, and EPS of \$1.55-\$1.60 from \$1.30-\$1.36; the consensus was \$1.35. Management reiterated its F2011 operating margin goal of 15%.

Corinthian reported that placement rates for its students are trending below F2008 levels, which was largely expected given the difficult economic backdrop. Given this trend, the company is limiting enrollment in 10 (out of its 89 campuses) where placement have been most challenged. The placement rate for F2008 graduates was approximately 78%, down from F2007 rate of approximately 84%.

### **Corinthian Announces Acquisition of Heald College**

Corinthian announced an agreement to acquire Heald Capital LLC, parent company of Heald College, for \$395 million in cash. Heald operates 11 campuses in the western U.S. with enrollment of 12,300 as of September 30. The company plans to use a combination of cash and the recently announced \$280 million credit facility to pay for the acquisition. Historically, Corinthian has been acquisitive, although Heald marks its first acquisition since 2004. We view the acquisition positively as it brings regionally-accredited programs, an online platform, and a favorable mix of associate's degrees relative to Corinthian's diploma mix. The transaction is subject to regulatory approvals and customary closing conditions and is expected to close in F3Q10.

Heald College is a regionally accredited school founded in 1863 and provides primarily associate degrees in healthcare, business, IT and other fields. Heald recently received approval to offer fully online degrees and plans to begin enrolling fully online students in early 2010. Corinthian's management cited Heald's favorable Northern California presence, attractive and regionally accredited programs, and the expected accretion in first year. Management also emphasized the cultural fit between the two institutions. The acquisition is intended to serve as a platform for expansion in online degree programs. Corinthian plans to maintain the Heald brand and operate it as a separate division, though it sees future opportunities to spread Heald programs to existing Corinthian locations.

Heald's growth strategy includes launching a fully online school, adding new campus locations, and achieving growth in its core programs. Heald owns five of its 11 campuses and leases the remainder. Its student population is comprised of 89% associate's and 11% certificate and diploma enrollments. The acquisition is expected to result in a 50/50 overall mix between degree and diploma programs (Corinthian currently enrolls 36% in degree programs and 64% in diploma). Heald's enrollment is divided into 25% business, 13% criminal, and 12% IT. Approximately one-fifth of Heald graduates transfer to a four-year institution, aided by the school's articulation agreements. Corinthian does not foresee meaningful program overlap with Heald.

### **Universal Technical Institute: Discontinuation of Training Programs**

Universal Technical Institute announced that Audi and Volkswagen will discontinue their respective Technician Recruitment Programs with the company effective December 18. As a result, UTI will close its Audi training centers within its Avondale, AZ and Exton, PA campuses and the Volkswagen training centers within the Exton and Rancho Cucamonga, CA campuses October 16. The car-makers cited the economic impact to the automotive industry as the principal reason to bring their entry level technician training in-house. According to UTI, the programs accounted for less than 1% of total revenue.

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**OTHER POST-SECONDARY NEWS**

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**Personnel Changes**

**DeVry** has appointed Dr. Susan Lerner Friedberg as president of its Chicago Metro campuses. Friedberg will oversee the Addison, Tinley Park, and Chicago campuses, as well as the 10 DeVry University centers in the Chicago area.

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**Corporate Developments**

University of the Rockies (**Bridgepoint**) added a new certificate program in Criminology and Justice Studies.

Ashford University (**Bridgepoint**) introduced a new Infant and Toddler Specialization as part of its online Bachelor of Arts degree programs in Early Childhood Education and Early Childhood Education Administration.

**DeVry** has opened a location in Anaheim, California with classes expected to begin in January 2010. The new location is DeVry's second in Orange County, having opened an Irvine location in 2001.

**DeVry's** Keller Graduate School of Management project management concentration within its Master of Business Administration, Master of Information Systems Management and Master of Network and Communications Management programs, earned additional accreditation by the Project Management Institute's Global Accreditation Center for Project Management.

**TUI University** will accept transfer credits from graduates of McDonald's Hamburger University. These credits can be transferred towards TUI's Bachelor of Science Degree in Business Administration.

**Universal Technical Institute** completed the purchase of a building in Irving, Texas for \$9.1 million for its new Dallas/Fort Worth campus. The company plans to open the Dallas/Fort Worth campus in summer 2010. The 95,000 square foot facility will hold 750 students.

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**Prepaid College Savings Plans Might Fall Short**

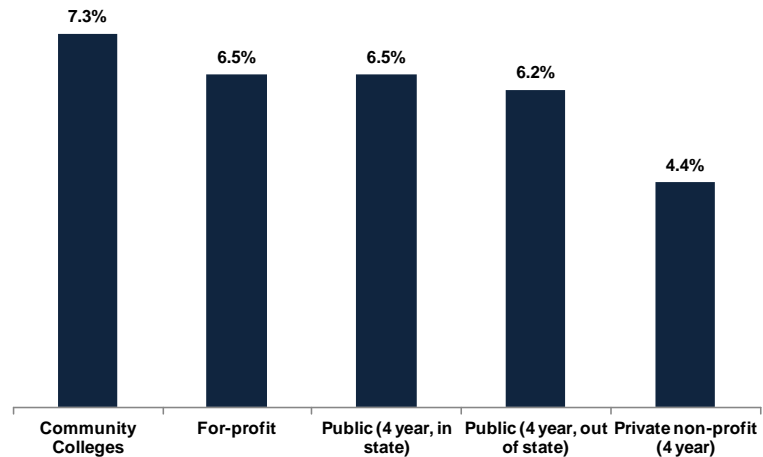
Due to the combination of the stock market decline and rising college costs, most of the country's prepaid state education funds cannot cover their future college tuition obligations. In fact, only two of eighteen such funds are not currently jeopardized, according to *The New York Times*. Families have invested in these types of accounts, which pledge to pay for in-state tuition regardless of tuition increases, for the past 20 years. The majority of states are only 80%-90% funded, while others fall further below including Illinois at 75% and South Carolina and Alabama each at 66%. States such as Pennsylvania and Washington have been forced to introduce or raise existing fees while South Carolina capped the amount a family can receive in a worst-case-scenario. West Virginia had to contribute \$8 million to its own program after suffering a 25% loss the past year. Texas opened a new fund which places the burden of shortfall on the public university versus the state. In this case, universities are liable to pay the difference between the fund and future tuition levels.

**The College Board Releases *Trends in College Pricing 2009***

The average cost of tuition and fees at four-year public colleges increased approximately 6.5% to \$7,020 in F2009-10 (July), according to the College Board's most recent *Trends in College Pricing 2009* report. Similarly, tuition at public two-year colleges increased 7.3% to \$2,544, with private non-profit universities reported a 4.4% average tuition increase to \$26,273. At for-profit colleges and universities, annual tuition increased 6.5% to \$14,171, in line with public institutions. The Consumer Price Index decline 2.1% during the period largely due to fluctuating energy prices, meaning that inflation-adjusted increases in prices this year are closer to approximately 7%-9%. However, researchers pointed out that while average tuition

increased by 15% (inflation-adjusted dollars) at private non-profit four-year and by 20% at public four-year colleges and universities from 2004-05 to 2009-10, average estimated 2009-10 net price for full-time students, after considering grant aid and federal tax benefits, is about \$1,100 lower (in 2009 dollars) in the private sector and \$400 lower in the public sector versus five years ago.

#### TUITION INCREASES BY SECTOR (F2009)



Source: The College Board

#### State & Local News

In **California**, a bill to re-establish regulation for proprietary schools (Assembly Bill 48) was signed into law by Gov. Arnold Schwarzenegger, after more than two years without such a law. The bill establishes the Bureau for Private Postsecondary Education, a subdivision of the Consumer Affairs Department, which will oversee some private colleges and universities in the state (including proprietary and vocational institutions). Regionally accredited schools were exempted during the negotiation process, so most provisions apply to the state's many nationally accredited and non-accredited schools. Likely policies include a licensure fee structure (capped at \$25,000 annually) and other minor fees, similar to other states. Nationally accredited proprietary schools Corinthian Colleges and ITT have previously spoken in favor of the bill.

**POST-SECONDARY SHORT INTEREST (AS OF OCTOBER 15)**

Company	Ticker	Short Interest	% Chg vs Previous	% of Float	Avg Vol	% Chg vs Previous	Days to Cover	Previous
<b>Post-secondary Education</b>								
American Public Education In.	APEI	2,139,091	3%	12%	186,506	19%	11.5	13.2
Apollo Group, Inc.	APOL	13,403,714	-4%	10%	2,158,980	-36%	6.2	4.1
Bridgepoint Ed Inc	BPI	3,494,581	-4%	19%	254,883	-26%	13.7	10.6
Capella Education Co.	CPLA	2,646,970	2%	18%	152,147	0%	17.4	17.0
Career Education Corp.	CECO	9,307,804	11%	14%	678,975	-33%	13.7	8.2
Corinthian Colleges, Inc.	COCO	14,793,424	10%	19%	1,881,808	-25%	7.9	5.4
DeVry, Inc.	DV	2,296,602	-15%	4%	656,827	-17%	3.5	3.4
Grand Canyon Education, Inc.	LOPE	2,287,550	-2%	12%	175,220	-54%	13.1	6.1
ITT Educational Services, Inc.	ESI	3,971,351	-8%	12%	647,101	-24%	6.1	5.1
Lincoln Educational Services Corp.	LINC	1,921,442	-5%	18%	178,211	-63%	10.8	4.1
Strayer Education, Inc.	STRA	548,730	-77%	4%	113,260	-41%	4.8	12.6
Universal Technical Institute, Inc.	UTI	1,759,251	5%	10%	91,721	18%	19.2	21.6

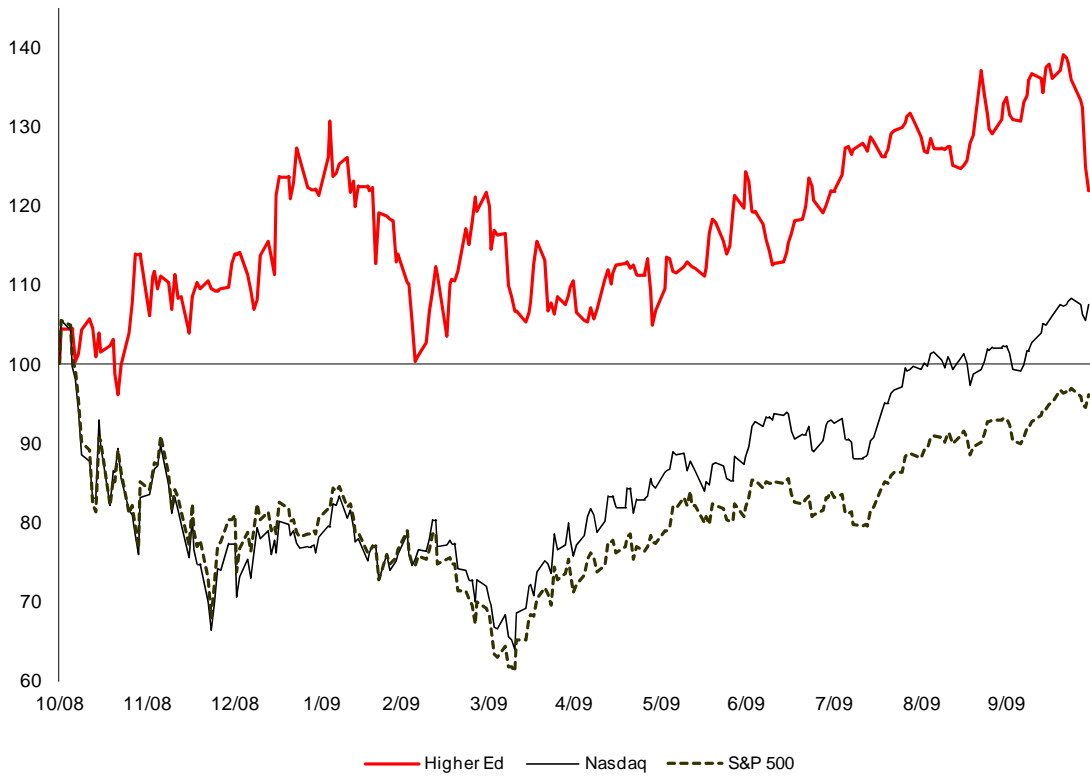
Source: NASDAQ

Above are short interest data for select publicly traded post-secondary companies. The table includes the number of short interest shares as of October 15, the percent change versus the previous period (September 30), average daily volume, days-to-cover ratio (short interest divided by average volume) and the previous month's days-to-cover ratio.

Short interest shares decreased at half of the post-secondary companies in our index. Strayer short interest decreased 77% to 548,730, as shorts may have been forced to cover with a 13% rally from mid-September through mid-October. DeVry short interest declined 15% to 2.3 million, as investors may have anticipated what proved to be strong F1Q10 results. ITT shares short decreased 8% to 4.0 million, or 12% of float, as investors may have been looking for strong 3Q09 results later that month, which ultimately proved to not work as a catalyst for the stock. Apollo short interest decreased 4% to 13.4 million, or 10% of float ahead of the company's F4Q09 report later that month. Bridgepoint shares short declined 4%, but has the highest short percentage of float at 19%. Career Education short interest increased 11% in the period to 9.3 million shares, or 14% of float as investors seemed to see room to short with the stock's 10% appreciation since September 15. Corinthian shares short increased 10% to 14.8 million, or 19% of float on no news during the period.

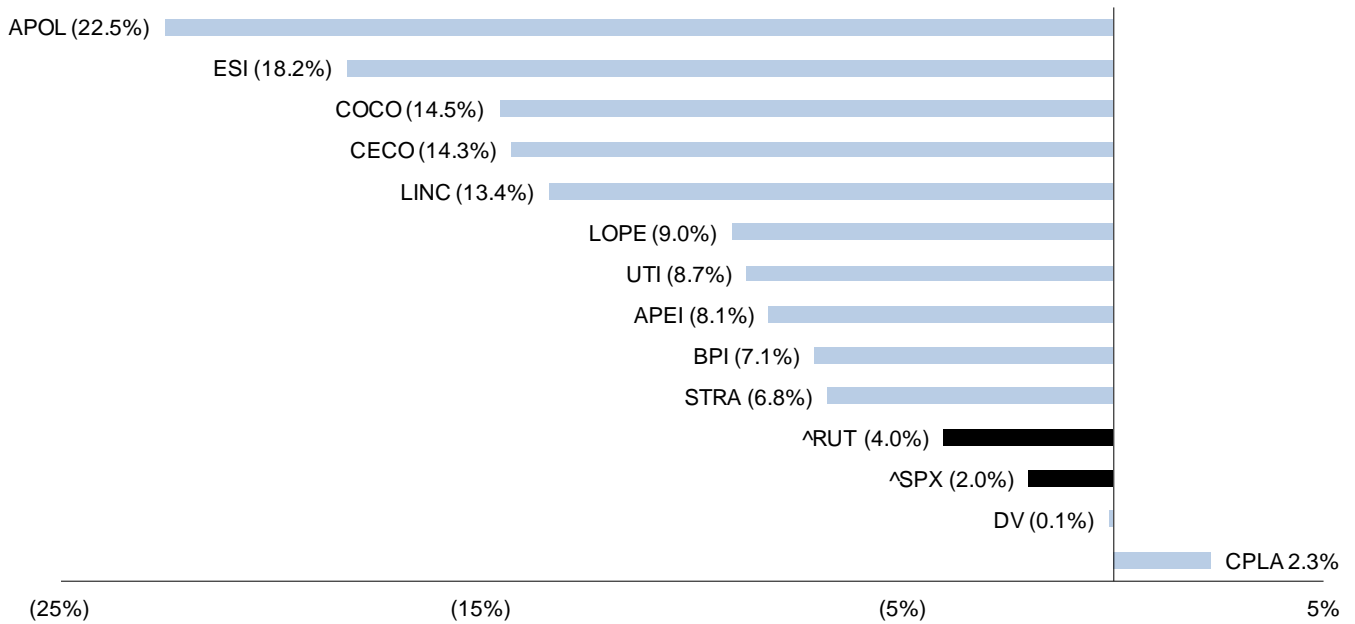
Days-to-cover increased for eight of the 12 companies during the period on lower average volume. UTI had the highest days-to-cover ratio at 19.2 days, despite being down from 21.6 days as an 18% increase in volume offset a 5% increase in short interest, followed by Capella at 17.4 days and Bridgepoint and Career Education each at 13.7 days. Companies with the lowest days-to-cover ratio were DeVry at 3.5 days, up from 3.4 the prior period due to a 17% decrease in volume which more than offset 15% lower short interest, and Strayer at 4.8 days, down from 12.6 as 77% lower short interest more than offset a 41% decline in volume.

**TRAILING-TWELVE-MONTH POST-SECONDARY INDEX VS S&P 500 AND NASDAQ**



Source: FactSet

**OCTOBER POST-SECONDARY PRICE PERFORMANCE**



Source: Capital IQ

# E-LEARNING

## Bridgepoint Education Cancels Blackboard Contract

Bridgepoint Education announced that it will terminate its Blackboard Academic Suite contract, effective June 20, 2010. Blackboard stated that Bridgepoint represents roughly \$1.4 million in annual revenue. Although Bridgepoint was likely a top 30 customer in terms of revenue, close to half of revenue is third party or end user support and therefore very low margin. The termination of the contract will be immaterial to EPS and cash flow, according to management. While renewal rates at Blackboard are 93%, the company indicated that churn at for-profit schools tends to be higher. Bridgepoint will transition to an eCollege (acquired by Pearson in July 2007) solution for an initial five-year term and expects to go live by January 1, 2010. eCollege's focus has historically been on for-profit schools.

## NPR and PBS Posting Lectures Online

National Public Radio and PBS have begun posting academic lectures and interviews with business executive online for free. Through their site, Forum Network, NPR and PBS claim to offer thousands of lectures. The online offerings echo similar sites from individual universities such as MIT and Yale. However, some universities recently ended OpenCourse Ware due to recent funding cuts, including Utah State University.

## State & Local News

**Louisiana** Tech University has received a grant from the U.S. Department of Education to help supports the Cyber K-12 professional development program, which instruct teacher how to excite students about cyberspace and science. The program introduces students and teachers to the technological, social, and political aspects of the topics, according to *Education Week*.

**E-LEARNING SHORT INTEREST (AS OF OCTOBER 15)**

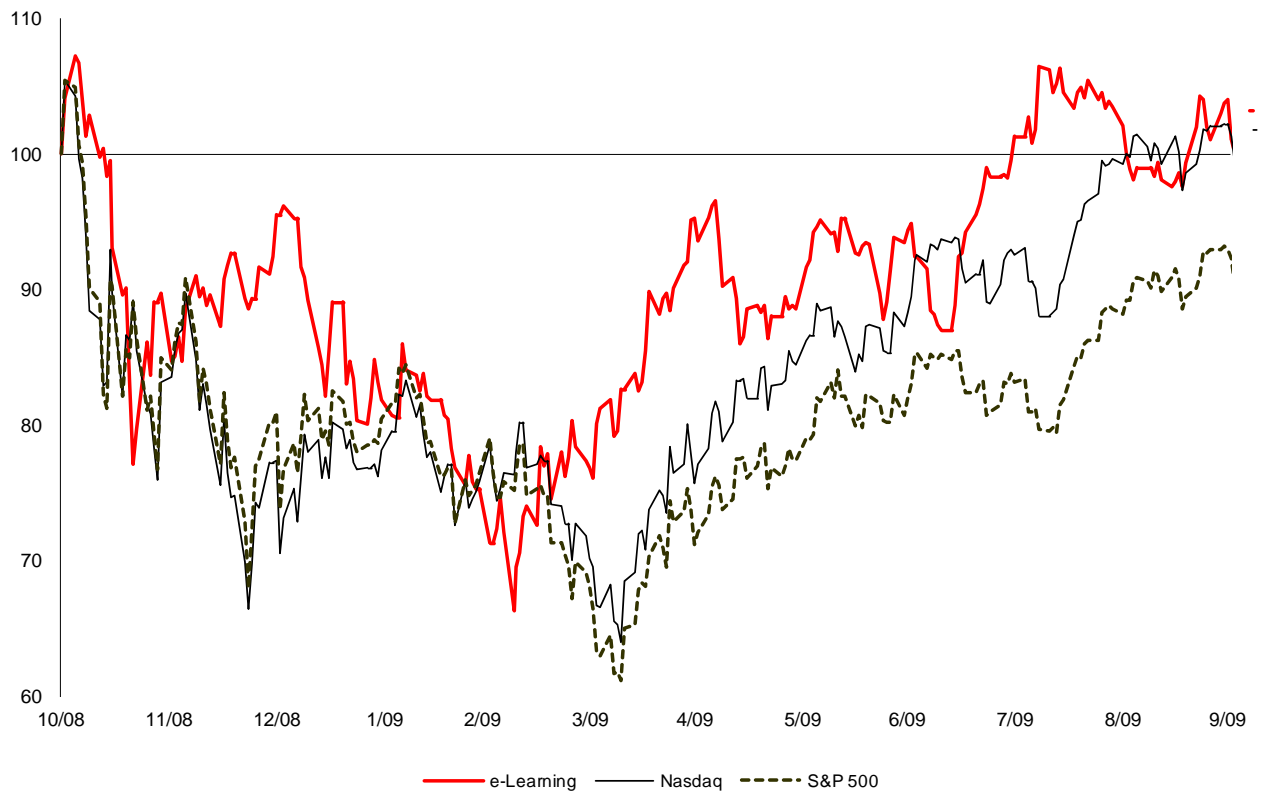
Company	Ticker	Short Interest	% Chg vs Previous	% of Float	Avg Vol	% Chg vs Previous	Days to Cover	Previous
<b>e-Learning Education</b>								
Blackboard, Inc.	BBBB	3,964,952	-1%	13%	293,353	34%	13.5	18.3
SkillSoft, plc.	SKIL	924,892	0%	NA	548,730	213%	1.7	5.3
Rosetta Stone Inc.	RST	3,212,158	4%	29%	150,592	-29%	21.3	14.6
Weight Watchers Int.	WTW	2,320,173	-5%	7%	274,963	-12%	8.4	7.8

Source: NASDAQ

Above are short interest data for select publicly traded e-learning companies. The table includes the number of short interest shares as of October 15, the percent change versus the previous period (September 30), average daily volume, days-to-cover ratio (short interest divided by average volume) and the previous month's days-to-cover ratio.

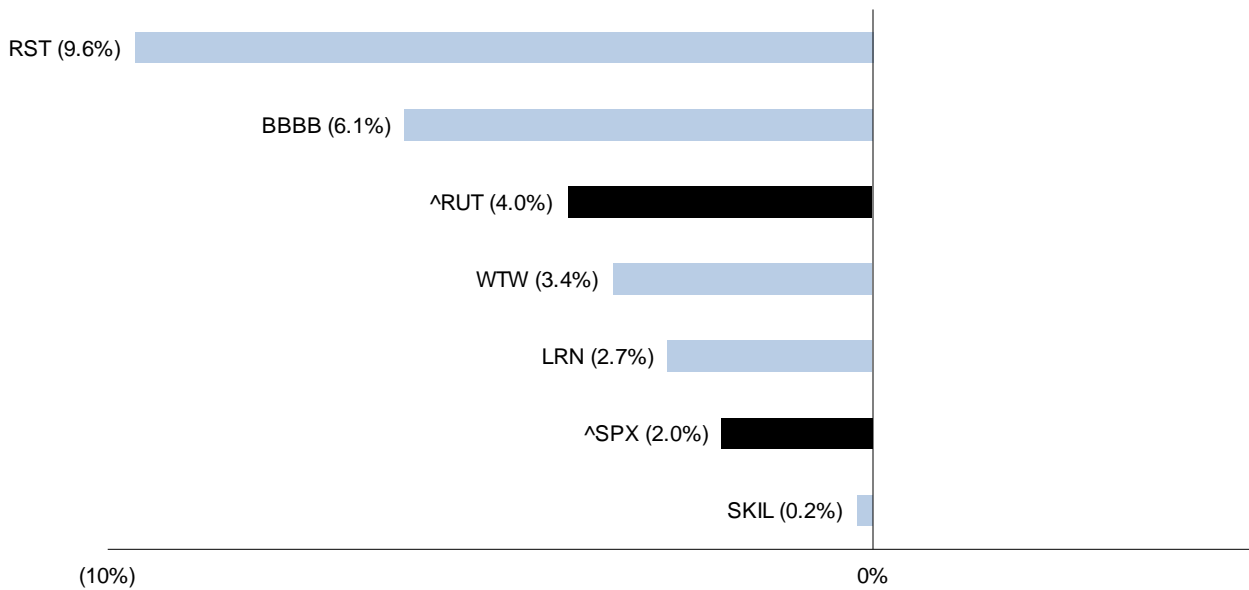
Short shares in Weight Watchers decreased 5% to 2.3 million shares as shorts may have been pressured with a 6% increase in stock price over most of the period. The decrease in short interest was offset by a 12% decrease in volume, resulting in an increase in days-to-cover to 8.4 days from 7.8 days. Blackboard short interest decreased 1% to 4.0 million shares, or 13% of float, following a 9% rebound in the stock after an initial 5% decline at the beginning of the month on the announcement that a large contract was cancelled. A 34% increase in average volume combined with the decline in shares short to drive its days-to-cover ratio lower to 13.5 days from 18.3 days. Rosetta Stone short interest increased 4% to 3.2 million, or 29% of float. Its days-to-cover ratio increased to 21.3 days from 14.6 due to a 29% decline in average volume along with the increase in shares short.

**TRAILING-TWELVE-MONTH E-LEARNING INDEX VS S&P 500 AND NASDAQ**



Source: FactSet

**OCTOBER E-LEARNING PRICE PERFORMANCE**



Source: Capital IQ

## INTERNATIONAL

### New Oriental Posts F1Q10 Results Below Expectations

New Oriental reported F1Q10 (August) revenue increased 26% to \$149.4 million, but remained below our \$158.3 million estimate and the consensus \$154.6 million estimate. Notably, fear over the H1N1 flu negatively impacted F1Q10 revenue by 2%-4%, and the bottom line more significantly. Management expects H1N1 to continue to negatively impact results through F2Q10. Top-line growth was driven by enrollment in its Pop Kids segment which grew 34% to approximately 131,200 students. English for middle and high school (including U-Can) enrollments increased 18% to 157,800. U-Can non-English enrollment increased over 100% to 32,400. Total enrollment growth grew 19% on top of 24% growth the prior year. Blended average selling price increased 9.5% in the quarter, driven by the shift to higher-priced smaller classes, according to the company. New Oriental continued to hold prices for its large English classes. The company opened a net of 17 new learning centers in F1Q10. New Oriental plans to open two schools in new cities in F2010 and increased its projection for new learning centers to 70-80 from 50-55 learning centers for the year previously.

The company launched a new customized learning program for 6- to 18-year olds, offering one-on-one and small group tutoring for subjects covered by the gaokao (Chinese college entrance exam) as well as the zhongkao (high school entrance exam). Classes will be capped at five students per class. The new sessions are a further development in New Oriental's entrance into the test prep market with its U-Can business. The U-Can all subjects training program opened in January 2008, to date has over 90,000 enrollments and is one of the company's strongest businesses, according to the company. Management estimates the combined business will generate revenue of over \$25 million in F2010 split evenly between non-English U-Can and the new tutoring programs, representing growth of over 300% compared to U-Can revenue in F2009. Investments necessary for the launch have been concentrated in F1H10, and the company expects to be ready for the peak enrollment season in January to June.

Operating margin declined 50bps to 40.8%, 130bps below our 42.1% estimate, as increased selling and marketing expense more than offset gross margin and general and administrative leverage. Selling and marketing expenses increased 200bps to 10.4% of revenue and was above 9.2% estimate, due to new program and brand promotion expenses related to U-Can and the launch of the company's customized learning program. New Oriental spent \$15.5 million in marketing in the summer, or \$3 million over budget, versus \$9.5 million a year ago, according to management. Diluted earnings per ADS came in at \$1.47 versus \$1.17 a year ago, below our \$1.60 estimate and the \$1.57 consensus estimate. Management guided F2Q10 revenue of \$60.8-\$62.8 million, equating to growth of 23%-27%; our previous estimate was \$62.5 million and the consensus estimate was \$62.0 million.

### ChinaCast Signs Joint Venture with China University of Petroleum

ChinaCast has signed of a nationwide distance learning joint venture agreement with the China University of Petroleum (CUP). Under the terms of the deal, ChinaCast will invest \$4.4 million (60% ownership), and CUP will invest \$2.9 million (40% ownership). The joint venture's distance learning programs will offer greater flexibility to CUP students via ChinaCast's nationwide e-learning platform. The partnership will begin offering distance learning classes by the 4Q09 and expects to be profitable during 2010.

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**OTHER INTERNATIONAL NEWS**

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**Financial and M&A Activity**

The Brazilian Securities and Exchange Commission approved an issue of non-convertible debentures of R\$200 million (\$113 million) by **Anhanguera Educacional Participacoes**.

**Personnel Changes**

**Kroton Educacional's** Board of Directors elected Mr. Luiz Kaufmann as the company's CEO. Kaufmann has previously held several executive positions, including Chairman and CEO of Medial Saúde, Partner of GP Investimentos, and CEO of Aracruz Celulose.

**Miscellaneous**

**China's** Ministry of Education voiced its support for the formation of C9, an academic conference comprising nine domestic prestigious universities (China Ivy League). On October 12, nine institutions of higher learning, including Peking University and Tsinghua University, signed cooperative agreements that featured flexible student exchange programs and deepened cooperation on the training of postgraduates among member C9 universities.

**India's Top Universities Protest Low Funding Levels**

Professors at the Indian Institutes of Technology (IIT) are protesting low salaries and bureaucratic controls over hiring and promotion guidelines. According to the IIT Faculty Federation, starting professors earn \$6,000 per year, rising to \$15,000 per year; a scale that critics say is not domestically competitive. In response to current conditions, 1,500 faculty members went on a day-long hunger strike last month. Professors are demanding an increase in entry-level pay to \$9,000 per year and 1%-2% increase in overall compensation. This latest example of unrest within Indian higher education reflects broader, deeper problems according to critics, including weak funding and over-regulation. For example, under the Indian education system, universities cannot increase salaries, tuition, or enrollment without governmental approval. While the Indian government has promised to ease regulations within higher education, there is clearly a long way to go when one considers that the IIT are relatively the most loosely regulated institutions in the current system, according to the *Wall Street Journal*.

**India Targets U.S. Universities**

India's minister in charge of higher education Kapil Sibal plans to meet with the heads of certain American universities to discuss establishing campuses in India, according to *The Telegraph*. As we mentioned in July 2009 Class Notes, government officials in India have announced intentions to allow foreign schools to set up independent institutions in the country. In an interview with *The Chronicle*, Sibal indicated a bill with pertinent regulations should pass by July 2010. The bill in its current form would not allow foreign institutions to repatriate any profits and is unclear on the ownership of intellectual property formed at Indian campuses, in the view of some foreign institutions. Sibal hopes to have an influx of foreign schools by the 2010 school year to combat the country's severe shortage of educated workers. Currently, foreign universities can only offer limited programs or partner with existing Indian schools, where they must abide by strict controls on fees, salaries, and curricula. Although the government continues to control quality and cost, it is supportive of opening up to foreign entrants to increase access and competition among institutions.

### Fewer U.S. Student Visas Issued Among Indian Students

In F2009 (September) India reported a 25% drop in F1 student visas for the United States. According to *The Economic Times* there were approximately 25,900 student visa issuances in F2009, down from approximately 34,500 the previous year, which experts attribute to declining financial aid offers by U.S. institutions amid the economic downturn. While India remained the largest exporter to students to U.S. post-secondary institutions in 2007-08 with approximately 94,600 students (+13% y/y), the decline in visa applications could signal a decline in incoming students when final numbers are released.

### Asia Investment in Higher Education

East Asia governments are increasing investments in their elite universities, as well as vocational colleges, in an effort to drive economic growth, according to *The Chronicle of Higher Education*. In South Korea, billions are spent on state-of-the-art laboratories and forming partnerships with foreign institutions. China has targeted select universities it hopes will become top worldwide centers of technology and science research. Singapore has invited top American graduate programs to populate "science parks" intended to procure spin-off companies. Though the article criticizes the U.S. for cutting state funding for higher education in recent years, it notes that Asian officials are following the U.S. model, which remains at the forefront of financial support for education, scholarly work, and patent filings.

#### INTERNATIONAL SHORT INTEREST (AS OF OCTOBER 15)

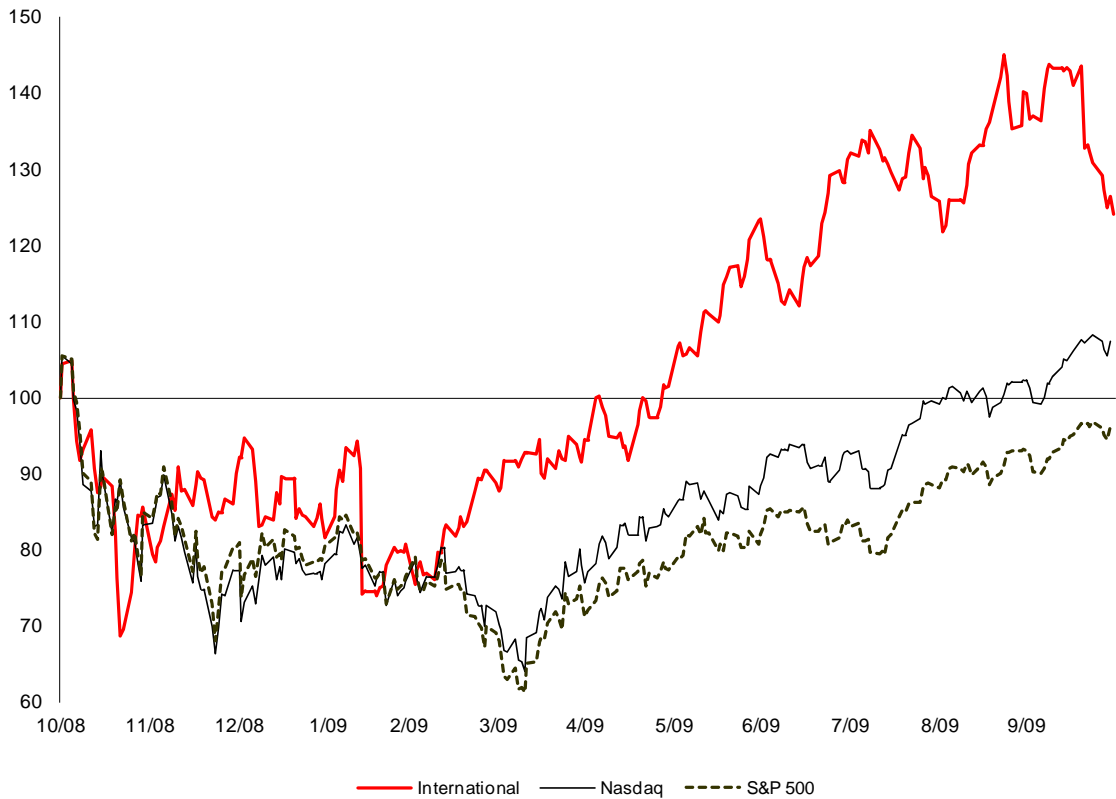
Company	Ticker	Short Interest	% Chg vs Previous	% of Float	Avg Vol	% Chg vs Previous	Days to Cover	Previous
<b>International</b>								
ATA Inc.	ATAI	7,891	-38%	0%	5,504	-51%	1.4	1.1
ChinaCast Education Corp.	CAST	1,027,216	-3%	4%	289,574	13%	3.5	4.1
China Distance Education	DL	17,056	-74%	NA	23,330	77%	0.7	4.9
New Oriental Ed & Tech Grp	EDU	2,298,851	-1%	6%	301,426	-30%	7.6	5.4

Source: NASDAQ

Above are short interest data for select publicly traded international companies. The table includes the number of short interest shares as of October 15, the percent change versus the previous period (September 30), average daily volume, days-to-cover ratio (short interest divided by average volume) and the previous month's days-to-cover ratio.

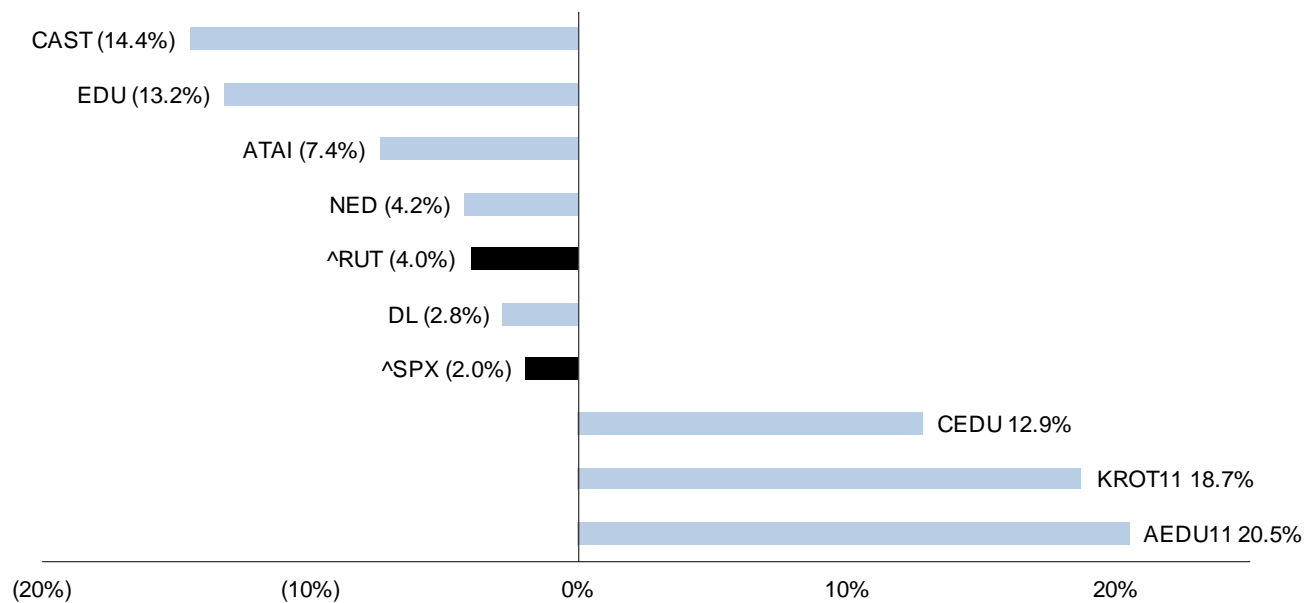
All four of the companies in our international short interest index saw a decrease in short interest as of October 15 versus the previous period. Short interest in China Distance decreased 74% to 17,056 as shorts may have taken profits following a 13% decline in stock price from September 15 to October 9. ATA short interest decreased 38% to 7,891 shares, its lowest level since June and a negligible percentage of float. ATA days-to-cover ratio was 1.4 days, up from 1.1 days as 51% lower average volume more than offset lower short interest. ChinaCast posted days-to-cover of 3.5, down from 4.1 days as a 13% increase in average volume combined with a 3% decrease in short interest. New Oriental's short interest decreased 1% to 2.3 million, heading into the F1Q10 conference call. A 30% decrease in New Oriental's average volume more than offset the decline in shares short, resulting in a higher days-to-cover ratios of 7.6 days versus 5.4 the prior period.

**TRAILING-TWELVE-MONTH INTERNATIONAL INDEX VS S&P 500 AND NASDAQ**



Source: FactSet

**OCTOBER INTERNATIONAL PRICE PERFORMANCE**



Source: Capital IQ

# CORPORATE TRAINING

## GP Strategies Wins Contract

GP Strategies Corporation has renewed a multi-year contract to manage and operate multiple Interactive Video Teletraining studios to a federal agency. According to the company, the new contract (which began October 1) represents an increased number of personnel. The new contract has one base year and four option years and has been fully funded for the first year.

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## OTHER CORPORATE TRAINING NEWS

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### Financial and M&A Activity

**HealthStream** announced 3Q09 revenue increased 3% to \$14.1 million due to strong sales from the company's learning division, specifically its internet-based subscription products (+18% y/y). GAAP EPS came in at \$0.05, versus \$0.03 the prior year; above the \$0.03 consensus estimate. Management lowered its 2009 revenue guidance to growth of nine to 10% from +10%-12%, equating to \$56.3-\$56.8 million; however, the company raised its EPS guidance to \$0.19-\$0.21 from \$0.16-\$0.19, above the \$0.19 consensus estimate.

### Personnel Changes

**Intrepid Learning Solutions** announced that EVP and Co-Founder Sam Herring has been selected to serve as the 2010 Chair-Elect on the Board of Directors for the American Society of Training & Development.

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## CORPORATE TRAINING SHORT INTEREST (AS OF OCTOBER 15)

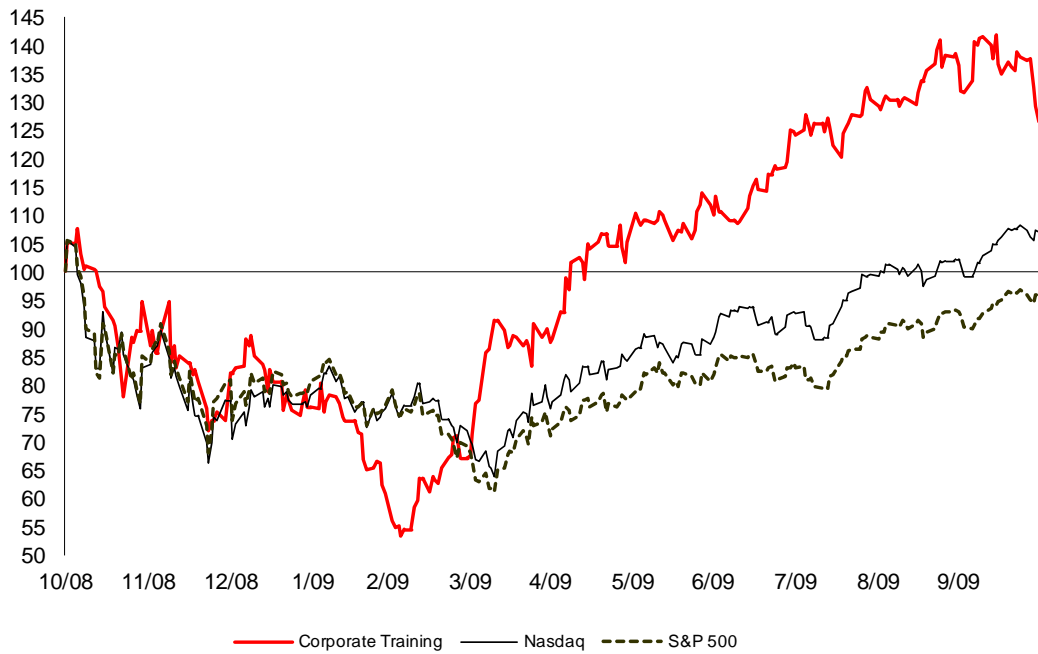
Company	Ticker	Short Interest	% Chg vs Previous	% of Float	Avg Vol	% Chg vs Previous	Days to Cover	Previous
<b>Corporate Training</b>								
GP Strategies Corp.	GPX	408,469	-1%	3%	47,308	-22%	8.6	6.8
Healthstream, Inc.	HSTM	14,217	-58%	0%	49,633	-64%	0.3	0.2
Learning Tree International, Inc.	LTRE	317,345	-2%	5%	13,732	-44%	23.1	13.2

Source: NASDAQ

Above are short interest data for select publicly traded corporate training companies. The table includes the number of short interest shares as of October 15, the percent change versus the previous period (September 30), average daily volume, days-to-cover ratio (short interest divided by average volume) and the previous month's days-to-cover ratio.

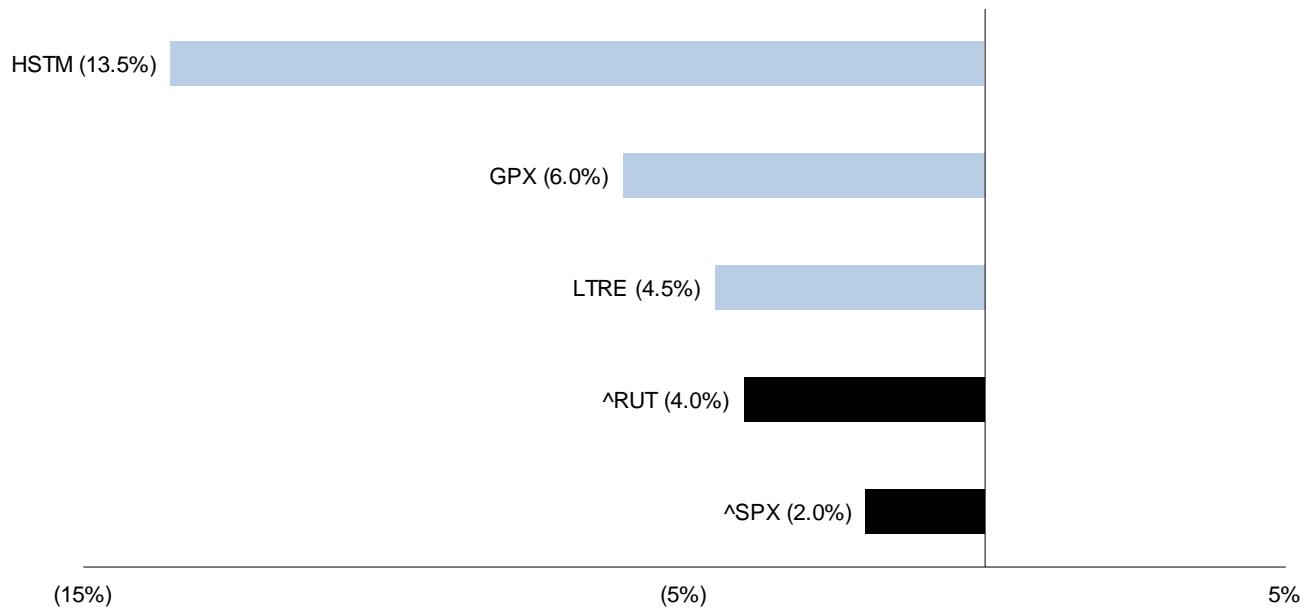
Short interest decreased for all three of the companies on our corporate training index as of October 15 versus the previous period. HealthStream short interest shares decreased 58% to 14,217 as shorts may have taken profits following a 26% decrease in share price between September 23 and October 15. The short interest decrease was more than offset by a 64% decline in average volume, causing its days-to-cover ratio to increase to 0.3 days from 0.2 days. GP Strategies short shares decreased 1% during the period to 408,469, its lowest level since June. Its days-to-cover ratio increased to 8.6 days from 6.8 days, as the decrease in shares short was more than offset by a 22% decrease in average volume. Learning Tree posted a 2% decrease in short interest to 317,345 shares, or 5% of float, which was offset by 44% lower average volume to increase its days-to-cover ratio to 23.1 days from 13.2 days.

**TRAILING-TWELVE-MONTH CORPORATE TRAINING INDEX VS S&P 500 AND NASDAQ**



Source: FactSet

**OCTOBER CORPORATE TRAINING PRICE PERFORMANCE**



Source: Capital IQ

## Corinthian Colleges, Inc. (COCO - NASDAQ)

Corinthian Colleges operates 89 schools in 24 states in the U.S. and 17 schools in Ontario, Canada, enrolling approximately 93,493 students. Corinthian has traditionally focused on career programs in high-growth sectors with strong employment characteristics. Corinthian provides a variety of career-oriented diploma and degree programs in four major areas: health sciences, business, transportation technology and trades, and criminal justice. Approximately 60% of students are enrolled in diploma programs, 34% in associate programs, 5% in bachelor's programs, and 1% in master's programs.

### INVESTMENT SUMMARY

**Post-secondary market growing.** Post-secondary enrollments are expected to continue to grow based on population growth, a shift in the U.S. economy from manufacturing to service based, and an increasing wage gap between people with a post-secondary degree and those with only a high school diploma.

**Allied health an attractive market.** Approximately 56% of Corinthian students are enrolled in allied health programs (e.g., medical assisting). The Department of Labor has named allied health as one of the fastest growing career fields over the next ten years. We believe Corinthian will continue to benefit from the growth in the field.

**Rebranding completed.** In past several years, Corinthian has been focused on improving lead conversions and turning around unprofitable schools. The company has completed the process of consolidating schools under the Everest or WyoTech brands as it works to improve marketing efficiencies and the enrollment process.

**Fundamentals remain solid.** Enrollment growth accelerated to 26% in F1Q10, driven by 22% growth in new student starts, and improving persistence. As such, operating margins increased to 13.9% from 3.5% in F1Q09 due in part to leverage in marketing & advertising from lower advertising costs and increased admissions rep productivity, as well as falling bad debt.

**Announced acquisition of Heald College.** Corinthian announced an agreement to acquire Heald College, for \$395 million in cash. We view the acquisition positively as it brings regionally accredited programs, an online platform, and a favorable mix of associates degrees relative to Corinthian's diploma mix. Management expects the acquisition to be accretive in F2010 and thereafter.

**Accreditation and legal condition improving.** Corinthian Colleges has successfully resolved a number of accreditation, regulatory and legal issues over the last several years that have consumed management's time and weighed on the stock.

**Current valuation compelling.** Our \$19 price target is based on 11x our NTM+1 EPS estimate. Historically, Corinthian has traded 8x-35x forward earnings, with an average of 20x. At less than 6x EV/TTM EBITDA we view current valuation as compelling for patient investors.

**Risks.** Regulatory and accreditation risks, competition, internal lending exposure, availability and integration of acquisitions.

### STATISTICAL PROFILE

Price (10/30/09): \$15.82 Dividend: \$0.00  
 52-Wk. Range: \$22 - \$12 Yield: 0.0%  
**Rating: Neutral**  
**Suitability Rating: Higher Risk**

FY: June	2009	2010E	2011E
EPS	\$0.84	\$1.55	\$1.78
P/E Ratio	18.8	10.2	8.9
Cal EPS	\$1.36	\$1.66	NA
P/E Ratio	18.8	10.2	NA

Projected 3-Year EPS Growth Rate: .....	15%
Book Value (9/30/09): .....	\$6.32
Market Capitalization (millions): .....	\$1,403
Debt/Total Capitalization (9/30/09): .....	4%
Return on Equity (9/30/09): .....	20.4%
Return on Invested Capital (9/30/09): .....	12.8%
Institutional Ownership: .....	91%
Insider Ownership: .....	8%
Shares Outstanding (millions): .....	88.6
Average Daily Trading Volume: .....	1,960,130
Headquarters: .....	Santa Ana, California
IPO/Founded: .....	1999/1995
Chairman: .....	Jack Massimino
CEO: .....	Peter Waller
CFO: .....	Ken Ord

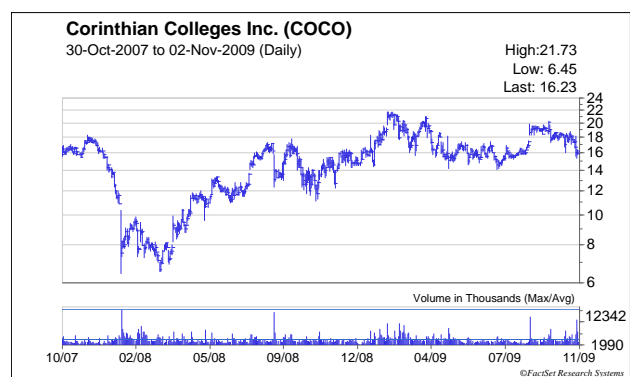


Chart Courtesy of FactSet Research Systems

## Education Universe – Comparable Company Analysis

\$ millions, except per share amounts

Company	Ticker	FY End	Rating	Price Target	Price 10/30/09	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.	2008	2009 YTD						
<b>K-12 Education</b>																	
K12, Inc	LRN	July	Outperform	\$23	\$16.04	\$29.47	\$11.95	-3%	-15%	-28%	-14%	300	\$473	5%	7.4	6.29	0%
Nobel Learning Communities, Inc.	NLCI	June	NR	–	\$8.35	\$16.02	\$10.24	-11%	-30%	-7%	-38%	21	\$88	14%	8.7	6.56	0%
Princeton Review, Inc.	REVU	December	NR	–	\$4.58	\$8.96	\$3.85	+9%	-15%	-41%	-7%	67	\$154	6%	-1.1	1.37	0%
Renaissance Learning, Inc.	RLRN	December	NR	–	\$9.08	\$15.05	\$6.00	-9%	-7%	-36%	+1%	29	\$265	0%	NM	-0.02	3.1%
Scholastic Corp.	SCHL	May	NR	–	\$24.87	\$30.68	\$9.29	+2%	+10%	-61%	+83%	260	\$906	29%	4.0	21.57	1.2%
School Specialty, Inc.	SCHS	April	Neutral	\$24	\$22.25	\$35.49	\$12.43	-6%	-1%	-45%	+16%	179	\$419	49%	5.8	30.56	0%
<b>K-12 Index (Market Cap Weighted)</b>								<b>-2%</b>	<b>-2%</b>	<b>-45%</b>	<b>+31%</b>						
<b>Post-Secondary Education</b>																	
American Public Education Inc.	APEI	December	Outperform	\$46	\$31.90	\$53.24	\$31.45	-8%	-10%	-11%	-14%	300	\$580	0%	35.4	3.54	0%
Apollo Group, Inc.	APOL	August	Neutral	\$77	\$57.10	\$90.00	\$48.30	-22%	-17%	+9%	-25%	3,280	\$8,841	6%	67.5	7.43	0%
Bridgepoint Education, Inc.	BPI	December	NR	–	\$14.18	\$18.45	\$9.56	-7%	-22%	NA	+35%	363	\$754	0%	111.6	1.57	0%
Capella Education Co.	CPLA	December	Outperform	\$96	\$68.90	\$64.95	\$34.78	+2%	+7%	-10%	+17%	244	\$1,151	0%	26.6	9.66	0%
Career Education Corp.	CECO	December	Neutral	\$26	\$20.84	\$26.53	\$12.44	-14%	-9%	-29%	+16%	1,665	\$1,837	0%	11.3	9.68	0%
Corinthian Colleges, Inc.	COCO	June	Neutral	\$19	\$15.86	\$21.73	\$11.11	-15%	+3%	+6%	-3%	1,533	\$1,388	2%	20.4	6.32	0%
DeVry, Inc.	DV	June	Neutral	\$62	\$55.29	\$64.69	\$38.19	-0%	+11%	+10%	-4%	1,266	\$3,929	3%	21.5	13.56	0.3%
Grand Canyon Education, Inc.	LOPE	December	NR	–	\$16.22	\$20.80	\$9.49	-9%	+35%	+57%	-14%	290	\$739	4%	10.0	1.21	0%
ITT Educational Services, Inc.	ESI	December	Neutral	\$117	\$90.35	\$133.75	\$62.77	-18%	-7%	+11%	-5%	1,115	\$3,338	4%	157.8	5.65	0%
Lincoln Educational Services Corp.	LINC	December	Neutral	\$26	\$19.82	\$21.78	\$10.21	-13%	-3%	-10%	+50%	307	\$533	7%	17.4	7.55	0%
Strayer Education, Inc.	STRA	December	Outperform	\$260	\$202.97	\$239.99	\$143.53	-7%	-4%	+26%	-5%	267	\$2,840	0%	54.8	12.74	1.5%
Universal Technical Institute, Inc.	UTI	September	NR	–	\$17.99	\$19.96	\$8.80	-9%	+13%	+1%	+5%	160	\$427	0%	4.6	4.12	0%
<b>Post-Secondary Index (Market Cap Weighted)</b>								<b>-13%</b>	<b>-5%</b>	<b>+8%</b>	<b>-7%</b>						
<b>e-Learning Education</b>																	
Blackboard, Inc.	BBBB	December	Outperform	\$42	\$35.47	\$45.00	\$19.36	-6%	+4%	-35%	+35%	358	\$1,135	12%	1.3	8.77	0%
K12, Inc	LRN	July	Outperform	\$23	\$16.04	\$29.47	\$11.95	-3%	-15%	-28%	-14%	300	\$473	5%	7.8	5.57	0%
Rosetta Stone, Inc.	RST	December	Outperform	\$29	\$20.75	\$32.54	\$21.33	-10%	+15%	NA	+15%	313	\$422	0%	18.8	6.70	0%
SkillsSoft, plc.	SKIL	January	NR	–	\$9.58	\$11.06	\$4.84	-0%	+12%	-25%	+34%	244	\$914	9%	30.0	2.35	0%
Weight Watchers Int.	WTW	December	NR	–	\$26.51	\$41.86	\$16.41	-3%	-5%	-35%	-10%	313	\$2,042	3%	NM	4.97	2.6%
<b>e-Learning Index (Market Cap Weighted)</b>								<b>-4%</b>	<b>+1%</b>	<b>-29%</b>	<b>+10%</b>						
<b>International</b>																	
ATA Inc.	ATAI	March	NR	–	\$5.19	\$15.41	\$2.75	-7%	-39%	-40%	+2%	46	\$116	0%	9.3	17.18	0%
Anhanguera Educacional	AEDU11	December	NR	–	\$24.35	\$31.73	\$9.00	+21%	+32%	-33%	+101%	93	\$2,985	5%	4.4	8.40	0%
ChinaCast Education Corporation	CAST	December	NR	–	\$6.22	\$7.48	\$1.59	-14%	+5%	-63%	+145%	385	\$240	5%	5.6	30.22	0%
ChinaEdu Corporation	CEDU	December	NR	–	\$7.90	\$7.85	\$2.97	+13%	+13%	-42%	+61%	43	\$126	0%	-5.9	34.33	0%
China Distance Education	DL	September	NR	–	\$7.00	\$8.90	\$2.08	-3%	-13%	-43%	+76%	51	\$238	0%	0.0	2.07	0%
Kroton Educacional S.A.	KROT11	December	NR	–	\$18.75	\$30.59	\$7.57	+19%	+10%	-56%	+51%	92	\$1,152	1%	8.1	14.86	2%
New Oriental Educ. & Tech. Group	EDU	May	Neutral	\$78	\$69.84	\$78.91	\$38.04	-13%	-5%	-32%	+27%	496	\$2,692	0%	20.1	10.54	0%
Noah Education Holdings Ltd.	NED	June	NR	–	\$4.79	\$5.91	\$1.85	-4%	-1%	-61%	+52%	59	\$178	0%	7.8	33.26	0%
<b>International (Market Cap Weighted)</b>								<b>+6%</b>	<b>+11%</b>	<b>-38%</b>	<b>+65%</b>						
<b>Corporate Training</b>																	
GP Strategies Corp.	GPX	December	NR	–	\$7.04	\$9.97	\$2.36	-6%	+1%	-58%	+56%	71	\$110	3%	-3.4	5.58	0%
Healthstream, Inc.	HSTM	December	NR	–	\$3.84	\$4.00	\$1.58	-14%	+4%	-33%	+65%	17	\$82	1%	12.3	1.86	0%
Learning Tree International, Inc.	LTRE	September	NR	–	\$10.88	\$16.73	\$6.01	-4%	+1%	-63%	+28%	47	\$154	0%	7.0	4.72	0%
<b>Corporate Training Index (Market Cap Weighted)</b>								<b>-7%</b>	<b>+2%</b>	<b>-54%</b>	<b>+46%</b>						
Nasdaq	^COMP				2,045.1	2,454	1,269	-4%	+3%	-41%	+30%						
Dow Jones	^DJI				9,712.7	11,782	6,547	+0%	+6%	-34%	+11%						
Russell 2000	^RUT				580.22	558	479	-4%	+4%	-35%	+16%						
S&P500	^SPX				1,036.18	1,305	677	-2%	+5%	-38%	+15%						

Sources: SEC documents, FirstCall, Capital IQ, Robert W. Baird Estimates for APEI, APOL, BBBB, CPLA, CECO, COCO, DV, EDU, ESI, LINC, LRN, RST, SCHS, and STRA

### Education Universe – Comparable Company Analysis

\$ millions, except per share amounts

Company	Ticker		Revenue				EPS			Price/Earnings			EV/EBITDA (TTM)	FCF TTM	FCF (TTM) Yield	Price/Sales	Price/Book	
			F2009E	% Change	F2010E	% Change	C2008	C2009E	C2010E	C2008A	C2009E	C2010E						
<b>K-12 Education</b>																		
K12, Inc	LRN	July	315.6	39%	381.2	21%	0.40	0.50	0.78	NM	31.9x	20.5x	10.9	(34.7)	-7.3%	1.6	2.55	
Nobel Learning Communities, Inc.	NLCI	June	223.7	10%	222.6	0%	0.70	0.44	NA	11.9x	19.2x	NA	4.8	7.8	8.9%	0.4	1.27	
Princeton Review, Inc.	REUV	December	148.2	7%	167.1	13%	0.07	0.11	0.26	67.6x	41.6x	18.0x	14.9	0.4	0.3%	1.1	3.34	
Renaissance Learning, Inc.	RLRN	December	122.9	7%	129.3	5%	0.43	0.65	NA	20.9x	14.0x	NA	8.1	0.0	0.0%	2.2	NM	
Scholastic Corp.	SCHL	May	1,878.2	-13%	1,859.8	-1%	1.67	1.80	NA	14.9x	13.8x	NA	6.7	270.6	29.9%	0.5	1.15	
School Specialty, Inc.	SCHS	April	1,047.0	-4%	939.4	-10%	1.89	1.50	1.89	11.8x	14.8x	11.8x	7.8	72.6	17.3%	0.4	0.73	
<b>K-12 Average</b>							<b>0.86</b>	<b>0.83</b>	<b>0.98</b>	<b>25.4x</b>	<b>22.6x</b>	<b>16.7x</b>	<b>8.9</b>		<b>8.2%</b>	<b>1.0</b>	<b>1.81</b>	
<b>Post-Secondary Education</b>																		
American Public Education Inc.	APEI	December	149.2	39%	204.9	37%	0.86	1.24	1.73	37.0x	25.7x	18.4x	14.2	20.7	3.6%	4.5	9.02	
Apollo Group, Inc.	APOL	August	3,974.2	27%	4,885.5	23%	3.26	4.62	5.43	17.5x	12.3x	10.5x	6.9	832.9	9.4%	2.2	7.68	
Bridgepoint Education, Inc.	BPI	December	421.5	93%	590.4	40%	0.48	0.86	1.15	29.5x	16.5x	12.3x	31.2	54.9	7.3%	2.3	9.03	
Capella Education Co.	CPLA	December	333.5	22%	400.7	20%	1.66	2.48	3.24	41.5x	27.8x	21.3x	14.0	45.7	4.0%	3.6	7.13	
Career Education Corp.	CECO	December	1,769.6	4%	1,926.3	9%	0.77	0.95	1.60	26.9x	21.9x	13.0x	6.8	127.2	6.9%	1.1	2.15	
Corinthian Colleges, Inc.	COCO	June	1,307.8	22%	1,623.9	24%	0.52	1.36	1.66	30.8x	11.7x	9.6x	5.4	198.7	14.3%	1.0	2.51	
DeVry, Inc.	DV	June	1,461.5	34%	1,831.5	25%	1.94	2.84	3.46	28.5x	19.4x	16.0x	11.1	240.0	6.1%	2.5	4.08	
Grand Canyon Education, Inc.	LOPE	December	261.8	62%	363.9	39%	0.17	0.67	0.99	NM	24.3x	16.3x	21.4	14.0	1.9%	3.5	13.40	
ITT Educational Services, Inc.	ESI	December	1,308.9	29%	1,511.3	15%	5.17	7.79	8.95	17.5x	11.6x	10.1x	6.9	219.3	6.6%	2.7	15.98	
Lincoln Educational Services Corp.	LINC	December	533.4	42%	616.6	16%	0.78	1.48	1.81	25.5x	13.4x	11.0x	7.4	42.2	7.9%	1.2	2.63	
Strayer Education, Inc.	STRA	December	514.8	30%	640.4	24%	5.68	7.58	9.50	35.8x	26.8x	21.4x	15.9	88.0	3.1%	5.9	15.93	
Universal Technical Institute, Inc.	UTI	September	358.1	4%	397.6	11%	0.18	0.39	0.94	102.2x	46.0x	19.2x	15.3	11.3	2.7%	1.2	4.37	
<b>Post-Secondary Average</b>							<b>1.79</b>	<b>2.69</b>	<b>3.37</b>	<b>35.7x</b>	<b>21.4x</b>	<b>14.9x</b>	<b>13.0</b>		<b>6.1%</b>	<b>2.5</b>	<b>7.72</b>	
<b>e-Learning Education</b>																		
Blackboard, Inc.	BBBB	December	373.5	20%	417.7	12%	1.10	1.32	1.81	32.4x	26.9x	19.6x	18.3	78.9	7.0%	3.3	4.05	
K12, Inc	LRN	July	315.6	39%	381.2	21%	0.40	0.50	0.78	NM	31.9x	20.5x	11.1	(25.1)	-5.3%	1.6	2.88	
Rosetta Stone, Inc.	RST	December	247.2	18%	291.4	18%	0.88	1.05	1.32	23.6x	19.7x	15.8x	8.6	21.9	5.2%	1.8	3.10	
SkillSoft, plc.	SKIL	January	328.5	17%	305.6	-7%	0.42	0.58	0.66	22.7x	16.4x	14.4x	8.7	55.5	6.1%	2.9	4.08	
Weight Watchers Int.	WTW	December	1,405.0	-9%	1,484.7	6%	2.67	2.58	2.74	9.9x	10.3x	9.7x	7.9	168.5	8.3%	1.4	5.33	
<b>e-Learning Average</b>							<b>1.09</b>	<b>1.21</b>	<b>1.46</b>	<b>22.1x</b>	<b>21.0x</b>	<b>16.0x</b>	<b>10.9</b>		<b>4.2%</b>	<b>2.2</b>	<b>3.89</b>	
<b>International</b>																		
ATA Inc.	ATAI	March	31.4	28%	38.8	23%	0.17	0.18	0.25	30.5x	28.2x	21.0x	NA	0.3	0.3%	0.5	0.30	
Anhanguera Educacional	AEDU11	December	401.9	48%	553.9	38%	(0.11)	0.53	0.81	NM	45.9x	30.1x	12.5	(113.9)	-3.8%	3.6	2.90	
ChinaCast Education Corporation	CAST	December	50.7	21%	71.5	41%	0.20	0.41	0.57	31.1x	15.2x	10.9x	1.7	27.2	11.4%	0.8	0.21	
ChinaEdu Corporation	CEDU	December	51.2	10%	57.0	11%	0.12	0.26	0.29	68.7x	30.7x	27.2x	1.1	(28.4)	-22.5%	0.4	0.23	
China Distance Education	DL	September	30.2	72%	41.5	38%	(0.19)	0.05	0.19	NM	148.9x	36.4x	69.3	0.0	0.0%	8.6	3.38	
Kroton Educacional S.A	KROT11	December	188.8	56%	260.0	38%	0.14	0.65	0.62	131.0x	28.8x	30.2x	19.9	(156.1)	-13.5%	3.4	1.26	
New Oriental Educ. & Tech. Group	EDU	May	292.6	46%	367.5	26%	1.58	1.90	2.63	44.2x	36.9x	26.5x	29.5	100.5	3.7%	8.3	6.63	
Noah Education Holdings Ltd.	NED	June	98.8	4%	120.8	22%	0.25	0.38	NA	19.2x	12.8x	NA	1.5	(2.7)	-1.5%	0.3	0.14	
<b>International Average</b>							<b>0.27</b>	<b>0.54</b>	<b>0.77</b>	<b>54.1x</b>	<b>43.4x</b>	<b>26.1x</b>	<b>19.3</b>		<b>-3.5%</b>	<b>3.2</b>	<b>1.88</b>	
<b>Corporate Training</b>																		
GP Strategies Corp.	GPX	December	224.3	-16%	247.8	10%	0.73	0.51	0.62	9.7x	13.8x	11.3x	5.9	12.5	11.3%	0.5	1.26	
Healthstream, Inc.	HSTM	December	57.6	12%	64.3	12%	0.07	0.19	0.24	52.2x	20.2x	16.0x	8.0	3.9	4.8%	1.5	2.07	
Learning Tree International, Inc.	LTRE	September	132.3	-21%	131.0	-1%	0.59	0.36	NA	18.5x	30.6x	NA	8.4	3.0	1.9%	1.1	2.30	
<b>Corporate Training Average</b>							<b>0.46</b>	<b>0.35</b>	<b>0.43</b>	<b>26.8x</b>	<b>21.6x</b>	<b>13.7x</b>	<b>7.4</b>		<b>6.0%</b>	<b>1.0</b>	<b>1.88</b>	
<b>S&amp;P500</b>							<b>68.33</b>	<b>56.77</b>	<b>71.27</b>	<b>15.2x</b>	<b>18.3x</b>	<b>14.5x</b>						

Sources: SEC documents, FirstCall, Capital IQ, Robert W. Baird Estimates for APEI, APOL, BBBB, CPLA, CECO, COCO, DV, EDU, ESI, LINC, LRN, RST, SCHS, and STRA

**Class Notes - Five Best Stock Performers**

October 2009

Rank	Company	Ticker	% Change	Mkt Cap (\$ mil)
1	Anhanguera Educacional Participacoes	AEDU11	20.5%	\$2,985.4
2	Kroton Educacional S.A.	KROT11	18.7%	\$1,151.7
3	ChinaEdu Corporation	CEDU	12.9%	\$126.3
4	Princeton Review Inc.	REVV	9.0%	\$158.1
5	Capella Education Co.	CPLA	2.3%	\$1,170.7

**Class Notes - Five Best Stock Performers**

2009 Year-to-Date

Rank	Company	Ticker	% Change	Mkt Cap (\$ mil)
1	ChinaCast Education Corporation	CAST	144.9%	\$239.6
2	Anhanguera Educacional Participacoes	AEDU11	101.1%	\$2,985.4
3	Scholastic Corporation	SCHL	83.1%	\$947.7
4	China Distance Education Holdings	DL	75.9%	\$238.0
5	Healthstream Inc.	HSTM	64.8%	\$83.8

**Class Notes - Five Worst Stock Performers**

October 2009

Rank	Company	Ticker	% Change	Mkt Cap (\$ mil)
1	Apollo Group Inc.	APOL	(22.5%)	\$9,003.6
2	ITT Educational Services Inc.	ESI	(18.2%)	\$3,415.9
3	Corinthian Colleges Inc.	COCO	(14.5%)	\$1,398.4
4	ChinaCast Education Corporation	CAST	(14.4%)	\$239.6
5	Career Education Corp.	CECO	(14.3%)	\$1,885.8

**Class Notes - Five Worst Stock Performers**

2009 Year-to-Date

Rank	Company	Ticker	% Change	Mkt Cap (\$ mil)
1	Nobel Learning Communities Inc.	NLCI	(38.3%)	\$87.3
2	Apollo Group Inc.	APOL	(25.5%)	\$9,003.6
3	K12, Inc.	LRN	(14.5%)	\$479.1
4	American Public Education, Inc.	APEI	(14.2%)	\$589.9
5	Grand Canyon Education, Inc.	LOPE	(13.6%)	\$758.8

**Class Notes - Best Performance for Stocks with Market Cap >\$1B**

October 2009

Rank	Company	Ticker	% Change	Mkt Cap (\$ mil)
1	Anhanguera Educacional Participacoes	AEDU11	20.5%	\$2,985.4
2	Kroton Educacional S.A.	KROT11	18.7%	\$1,151.7
3	Capella Education Co.	CPLA	2.3%	\$1,170.7
4	DeVry, Inc.	DV	(0.1%)	\$3,940.0
5	Weight Watcher's International Inc.	WTW	(3.4%)	\$2,079.2

**Class Notes - Worst Performance for Stocks with Market Cap >\$1B**

October 2009

Rank	Company	Ticker	% Change	Mkt Cap (\$ mil)
1	ITT Educational Services Inc.	ESI	(18.2%)	\$3,415.9
2	Corinthian Colleges Inc.	COCO	(14.5%)	\$1,398.4
3	Career Education Corp.	CECO	(14.3%)	\$1,885.8
4	New Oriental Education & Technology	EDU	(13.2%)	\$2,691.6
5	Strayer Education Inc.	STRA	(6.8%)	\$2,824.2

Source: Capital IQ

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