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## STES e-Learning and Knowledge Technology Outlook

### Summer Doldrums & E-Learning

The days of summer are typically quiet days on Wall Street, yet the emergence of significant events in the education marketplace has made these past few months anything but boring. The news on the Internet front continues to be dominated by Pearson and their growing presence in the knowledge technology marketplace. Also, there is a trend developing on the corporate e-learning front—increasing the size of contracts. In the post-secondary sector, the news is all about steady enrollment and earnings growth and stock performance (discussed further in our Capital Markets Wrap-Up). As we approach the last quarter of 2000, both the education “bricks and mortar” and technology sectors are well-positioned to finish the year on a positive note. We anticipate that the equity market for knowledge technology deals will pick up speed as Apollo’s online unit, the University of Phoenix Online, elementK, and Docent attempt to tap the public markets. Further, we fully expect the post-secondary providers to continue to report solid enrollment results, thereby keeping investors’ interest levels high.

The Pearson locomotive is fiercely rolling down the tracks, building a presence in the knowledge technology sector that is quickly becoming very large and broad in scope. The question arises, who will step up to the table and challenge Pearson? We have yet to find the answer; however, we remain confident that there remains room for innovative entrepreneurs to facilitate the development of new educational products and services. Further, the emergence of a player that touches all customer segments (as Pearson does) provides an opportunity both for companies who strive to improve education as well as the students who seek it. Despite the fact that Pearson is aggressively amassing a knowledge technology fiefdom far larger than any other player, we believe that they should be viewed as a friend rather than foe. Pearson has shown its support for companies such as Blackboard, Classroom Connect, and Quisic (formerly UniversityAccess) in the past. We believe that there is an abundance of companies that can further bolster Pearson’s leadership presence, either through an acquisition or investment. Now that this leader has assembled such a noteworthy portfolio of Web and technology properties, the market will place a considerable amount of attention on the integration of the properties into a cohesive unit. We believe that the upcoming fall launch of Pearson’s Learning Network will be the first true opportunity to evaluate what the future holds for the company as a major Web figure. All knowledge technology players will stand to benefit should Pearson succeed, for it will heighten awareness of the e-Learning sector.

### Publisher Pearson plc Acquiring, Again

Just one month after announcing it had purchased a controlling interest in Family Education Network for \$127 million and signing a strategic alliance with America Online (AOL – not rated), Pearson plc announced that it would acquire National Computer Systems (NLCS – not rated) for \$2.5 billion in cash or \$73 per share. This was a 25.6% premium to the July 28<sup>th</sup> market closing price of \$58.13. NCS is the nation’s largest single provider of student, curriculum, instructional and financial management software for schools and has been focused primarily on the K-12 market. When combined with Pearson’s existing businesses, education will account for more than half of the company’s total revenue. With these rapid fire acquisitions and alliances, Pearson has taken significant steps towards becoming a leader in content, testing and technology, areas the company has been clearly targeting.

## Cisco & Small Business Administration

On July 19, Cisco Systems (CSCO – Buy) held a conference in conjunction with the Small Business Administration (SBA) to unveil a new e-learning initiative aimed at training small business owners. The course series is entitled, “Internet Essentials Course for Small Businesses”, will be provided free and provides a comprehensive overview to educate the small business owner. The institutions have set a goal to train 1,000,000 small businesses in the next 18 months, but we believe the training provides much more than just an introduction to Internet essentials. As these classes are taken, many of the business owners will be taking classes over the web for the first time. Consequently, we believe the exposure to a new medium will have a ripple effect through these organizations as employees experience anytime, anywhere learning. Furthermore, we think a program of this size provides another “stamp of approval” for e-learning and illustrates the benefits of a new medium.

## Quisic (Formerly UniversityAccess.com)

Last week, UniversityAccess.com announced that it had changed its name to Quisic, reflecting an expanded focus on the e-learning marketplace. Previously, the company had been focused on developing online courseware for academic markets, specifically undergraduate classes. This expanded focus now also includes offerings to corporate customers and learners who want high quality online management and executive training. The company recently announced new relationships with well-known schools including the University of California at Los Angeles, UNC Chapel Hill and the Tuck School of Business at Dartmouth College. We believe that the combination of top tier business school partnerships and development of high quality courseware distributed to those schools can provide Quisic important stepping stones to new relationships with the corporate training marketplace in the future.

Indeed, last week, the company shared details of a new relationship with Spains’ E-ducavia, a partnership formed to create an online business school for Spanish and Portuguese-speaking learners. With over \$100 million initially committed to the project, IBM, Cisco Systems Spain SA and Spain’s Telefonica have partnered to create this school and are planning to use mediums including the Internet, third generation mobile telephony and interactive television as the delivery vehicles. Building out from the initial successes from its courseware and relationships with highly regarded business schools in the U.S., the company recently announced that consulting giant McKinsey & Company will begin sending employees to the Quisic-designed online version of the Tuck Business Bridge Program at Dartmouth College. As a content and courseware developer, Quisic has been able to quickly position itself as a premier e-learning company and should enjoy many years of growth given its unique place in the market.

## Capital Markets Wrap-Up

Post Secondary (P2) – As the technology sector has suffered turbulent waters in the last several months amidst rising interest rates, inflation fears and growing concern over existing valuations, investors have poured money back into the post secondary companies. As they have revisited this sector, they found traditional investment characteristics very appealing: strong cash flow, solid margins, predictable growth and a solution for the lack of skilled labor in our knowledge-based economy.

Through the first seven months of the new millennium, the STES P2 Index was up an incredible 72%, led by top performers Quest Education (QEDC – Neutral), up 108%; Apollo Group (APOL – Buy); DeVry (DV – Not Rated), up 87% and Corinthian Colleges, Inc. (COCO – Strong Buy), up 68%. Despite the recent run-up in most of the share prices, we still believe several companies look compelling at current levels. First, Corinthian Colleges, Inc. (COCO – Strong Buy) is currently trading at a discount to its growth rate based on our FY01 EPS estimate of \$2.00. Second, we believe ITT Educational Services (ESI – Buy) has established a solid foundation for consistent growth over the next several years. While share price and corresponding valuations have improved dramatically this year, we are still quite bullish on the sector based on several macro trends driving long-term growth. These include: **Favorable Demographic Trends; Lack of Adequate State and Federal Funding** – creates expansion dilemmas for public universities; **The**

**Economic Factor** – a widening wage gap between those with post secondary education and those without; a **Shift to a Knowledge-Based Economy** and the resulting emergence of the **Lifelong Learning**.

### TechKnow Industry Press

- “Home Schooling’s Net Effect.” *Washington Post*. July 16, 2000. <http://washingtonpost.com/wp-dyn/education/distancelearning/A311-2000Jul7.html>
- “Financier Herbert Allen Jr. Woos Elite College to Teach on the Web.” *Wall Street Journal*. July 28, 2000.
- “School’s Out.” *Business 2.0*. July 11, 2000. <http://www.business2.com/content/magazine/indepth/2000/06/28/13571>
- “e-Learning: A Buyer’s Market.” *Certification Magazine*. July 2000. [http://www.certmag.com/issues/jul00/feature\\_hernandez.cfm](http://www.certmag.com/issues/jul00/feature_hernandez.cfm)
- “Hire Education.” *The Zone News*. July 2000.

### TechKnow Industry Article

#### **“From Mandarin Class to Market Player: The Transformation of Higher Education. Part II: Factors in Defining The New Market;” Robert W. Tucker Ph.D. July 31, 2000.**

In Part I of this series, I observed that the worklife-long education needs of our citizenry are increasing at an unprecedented pace—perhaps more rapidly than anyone can fully assess. I attributed that growth to a constellation of factors which can be summarized by our transformation to a knowledge economy combined with the already short and declining half-life of the knowledge that drives the new economy. Call this *Factor One* in the transformation. I also observed that the traditional system of higher education has, for three-quarters of a century, operated its own command economy in miniature; that it serves largely the wishes of the professorate, often to the disservice of the needs of students and society at large (its customer service practices range from inferior to undetectable); that it is willfully slow to innovate; and that it makes no scientifically verifiable efforts to manage the quality of its processes, outcomes or impact. Call this *Factor Two* in the transformation. I then noted one effect of these two factors: a true market is developing in higher education. The fact that there is now a healthy, albeit small, market is all the more remarkable in light of the federal government’s efforts to control higher education by tying loan funds to standards which reinforce its isolation from the market. Call the appearance of a healthy market in higher education, against considerable odds, *Factor Three* in the transformation. Last, I noted an enormous disparity between the proportion of the GDP represented by higher education and the representation of higher education in the market, as represented by the total market capitalization of the industry. Call this disparity *Factor Four* in the transformation. (There are other factors in this equation, such as accreditation and regulatory forces, but we will focus on these four for now.)

“How are these factors interacting to affect innovation and growth in the higher education market?” “What is the relationship between these factors and the probability that a new education start-up will succeed?” In one way or another, these factors are unified by the changing nature of quality and its role in the production and consumption of higher education services. Some investors seek to understand the historical and current context of the industry in which they are investing. They do this because they believe it will help them reduce variation in their estimates of the future of the industry and will improve their investment choices among companies operating in that industry. Following this approach, a “good” investment is characterized by two forms of evidence. There must be evidence of a *scrutable* market and evidence that a company whose processes are *accountable* is engaged in responding to that market. Market scrutability is essential to this approach because one must understand the demand features of the market. (Hula hoops represented a random, largely ex post facto, investment opportunity but it was not scrutable and therefore

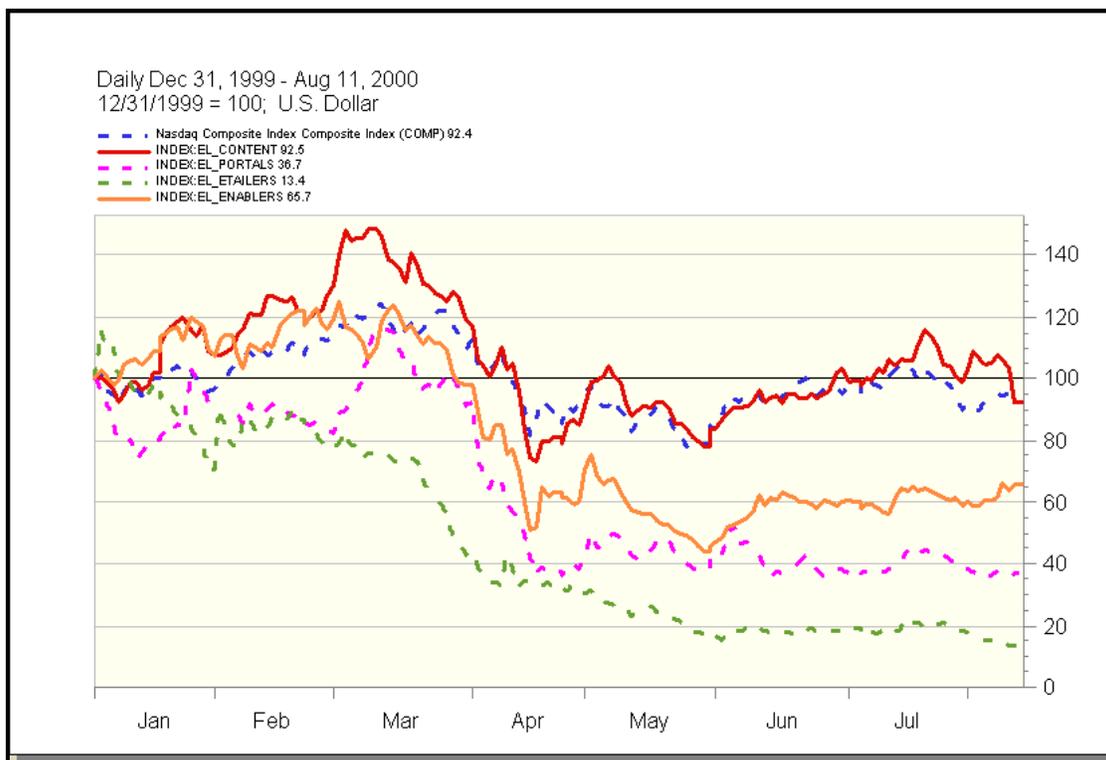
could not be anticipated or its course charted.) Corporate accountability is equally important because one must be able to assess the goodness of fit between the market and each company's response to it. While the terms are not commonly used in the investment community, this approach to investing embodies modern definitions of quality, including *suitability to purpose* and *continuous quality improvement*.

As one might expect, traditional higher education largely ignores the ideas of scrutability and accountability. Unfortunately, the majority of the new education start-ups are shoe-horning the academic quality management side of their business into the Procrustean bed built by the old guild. To succeed in tomorrow's market, the leaders of these new companies will need to develop and employ quality management practices that are consistent with those of other modern industries. They will need models and systems to assess learners' goals, educational and environmental processes (the "delivery" of education), learning outcomes in relation to learners' goals, and functional impact on learners in terms of acquired skills and competencies. All of this information must be used to adjust and adapt the educational processes to meet learners' goals as efficiently as practicable. How far have we come in meeting this goal? Not very far. Some programs measure processes, a few measure partial learning outcomes (usually objective assessments with true/false or multiple-choice questions), but none take a comprehensive, integrated approach in which operations management is driven by the findings. This is unfortunate because academic quality management in the online environment is not difficult. In online education, all or most educational processes are permanently recorded on the company's servers. This electronic information can be conveniently accessed for a full range of quality management and assessment processes. Moreover, quality management in the online learning environment can be carried out for pennies on the dollar as contrasted with the traditional, face-to-face learning environment. Education investors who look for quality fundamentals should take note. Many of these companies are touting the buzzword, "assessment" but the investor should look carefully to determine to what extent the company—online or otherwise—has in place a comprehensive system to measure *and* manage educational inputs, processes, outcomes and impact.

What are the current definitions of quality and their methods of measuring and managing it? What definitions of quality, and what tools to manage it, are necessary to drive the next generation of education companies? In Part III we will discuss definitions of quality essential to understanding the education industry. After that, we will identify the elements of good quality management in the online world.

Bob Tucker, Ph.D. is President of InterEd, Inc. a research firm that guides innovation in higher education. He is also President of the Phoenix Institute, an Education Policy Center and Founder and Editor-in-Chief of the journal, *Assessment and Accountability Forum*. With John Sperling (Founder and Chairman of Apollo Group) he wrote the book, *For-Profit Higher Education*.

## e-Learning Public Company Performance

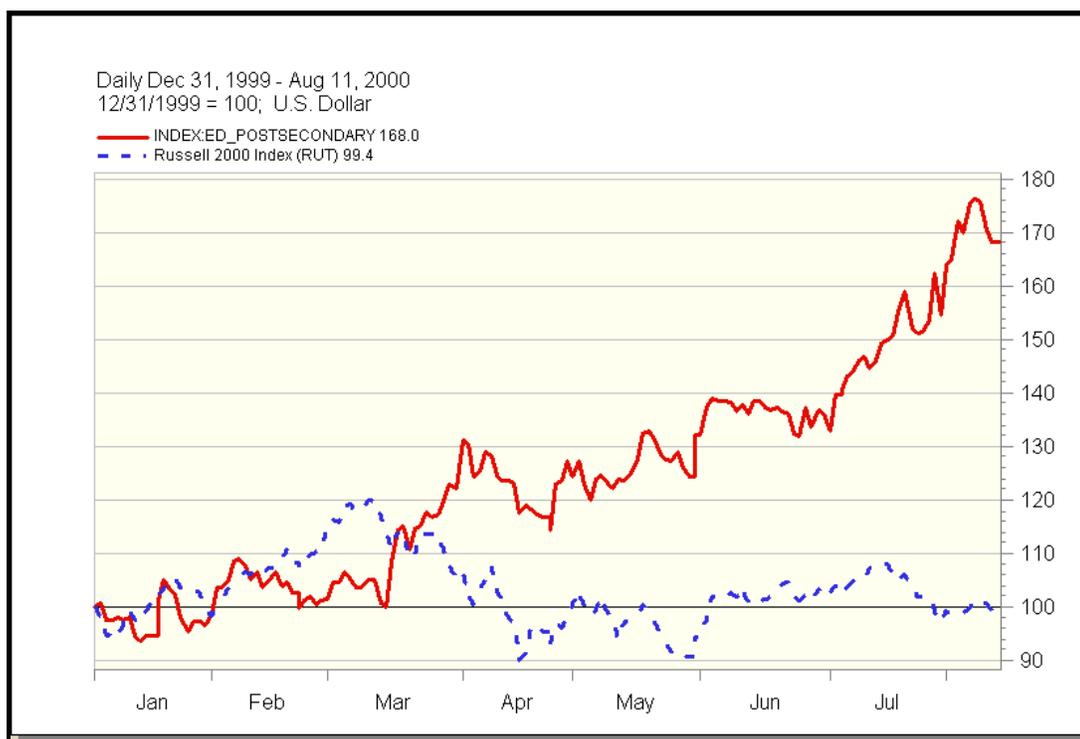


### INDEX PRICE MOMENTUM

	PERCENTAGE PRICE CHANGE				
	1 YEAR	6 MONTH	3 MONTH	1 MONTH	2 WEEK
STES e-Learning Content Index	74.74	(1.50)	10.47	(6.81)	(0.03)
STES e-Learning Enabler Index	23.57	(24.97)	14.86	7.95	0.86
STES e-Learning Etailers Index	(91.63)	(80.93)	(33.59)	(14.14)	(28.85)
STES e-Learning Portal Index	(2.18)	(58.65)	(12.54)	0.75	(6.94)
STES e-Learning Composite Index	28.77	(25.81)	7.08	(2.88)	(1.08)
S&P 500	13.95	3.96	7.21	0.49	1.60
Dow Jones Industrials Average	2.38	2.46	5.88	3.10	3.02
NASDAQ Composite	51.00	(14.09)	13.70	(3.31)	0.29

e-Learning and Knowledge Technology															08/11/00			
Symbol	Co. Name	Sector	Price 08/11/00	Mkt. Cap	_52Week_		2001E		IBES		IBES		Last Qtr.		3-5 Yr	Fully	Enterprise	
					High	Low	EPS	P/E	FY00 Rev.	Mkt. Cap	FY01 Rev.	Mkt. Cap	Annualized	Mkt. Cap	Growth	Diluted	Value	
													Rev. (\$M)	/Ann. Rev.	Rate	Shares	(\$M)	
	Dow Jones Industrial Average		11,058.20		11,750.30	9,731.80												
	Russell 2000 Index		505.89		614.15	406.33												
	Nasdaq Composite		3,771.00		5,132.50	2,548.50												
<b>Pure Play</b>																		
DTHK	DIGITALTHINK INC	content	\$33.31	1,094.3	\$62.00	\$15.00	-		\$15.1	72.5x	\$26.2	41.8x	17.2	63.6x		32.9	1,000.5	
INFO	INFONAUTICS CORP -CL A	content	\$4.13	48.2	\$17.38	\$3.25	-		\$16.4	2.9x	\$22.6	2.1x	12.0	4.0x		11.7	38.7	
POSO	PROSOFTRAINING.COM INC	content	\$12.31	177.4	\$29.88	\$2.00	0.20	61.6x	\$18.0	9.9x	\$30.6	5.8x	20.6	8.6x	50%	14.4	173.2	
RVDP	RIVERDEEP GROUP PLC	content	\$18.00	401.8	\$72.50	\$16.00	-		\$9.0	50.2x	\$24.0	16.7x	8.6	46.8x		22.3	295.3	
SCIL	SCIENTIFIC LEARNING CORP	content	\$4.81	50.5	\$41.00	\$4.75	-		\$25.6	2.0x	\$59.1	0.9x	14.8	3.4x	40%	10.5	32.4	
SKIL	SKILLSOFT CORP	content	\$12.13	152.6	\$33.50	\$8.56	-		\$16.0	9.5x	\$42.1	3.6x	8.5	18.0x		12.6	115.8	
LTRE	LEARNING TREE INTL INC	content/LSP	\$58.50	1,292.3	\$65.50	\$12.06	1.60	36.6x	\$219.1	5.9x	\$262.9	4.9x	212.0	6.1x		22.1	1,172.0	
NEWH	NEW HORIZONS WORLDWIDE	content/LSP	\$22.56	218.6	\$25.88	\$10.94	1.47	15.3x	\$143.8	1.5x	\$161.3	1.4x	136.0	1.6x		9.7	219.3	
SMTF	SMARTFORCE PUB LTD -SP AD	content/LSP	\$46.69	2,731.2	\$60.88	\$14.56	0.28	166.7x	\$157.3	17.4x	\$258.6	10.6x	145.6	18.8x	28%	58.5	2,633.8	
ZDZ	ZDNET	content	\$14.38	1,055.2	\$34.56	\$8.88	0.20	71.9x	\$160.1	6.6x	\$212.3	5.0x	143.8	7.3x		73.4	1,054.0	
SKDS	SMARTERKIDS.COM INC	e-tailer	\$1.56	30.3	\$17.13	\$1.38	(1.21)	NM	\$9.5	3.2x	\$91.0	0.3x	5.9	5.1x		19.4	-10.3	
VSTY	VARSITYBOOKS.COM INC	e-tailer	\$1.00	15.6	\$13.13	\$0.66	-		\$41.0	0.4x	\$90.5	0.2x	9.0	1.7x		15.6	-13.2	
IZAP	ZAPME CORP	enabler	\$2.94	106.0	\$13.75	\$1.81	(0.41)	NM	\$36.1	2.9x	\$123.7	0.9x	21.6	4.9x	70%	36.1	25.7	
CTRA	CENTRA SOFTWARE INC	enabler	\$7.06	163.4	\$40.38	\$5.56	(0.43)	NM	\$20.1	8.1x	\$34.2	4.8x	20.1	8.1x	70%	23.1	95.9	
CLKS	CLICK2LEARN.COM INC	enabler/LSP	\$17.50	293.2	\$22.94	\$5.19	(0.60)	NM	\$43.7	6.7x	\$60.6	4.8x	41.7	7.0x	45%	16.8	278.0	
ECLG	ECOLLEGE.COM	enabler	\$5.06	70.2	\$17.50	\$2.63	(1.01)	NM	\$15.1	4.6x	\$38.9	1.8x	9.5	7.4x	38%	13.9	31.9	
EVOK	EVOKE COMMUNICATIONS	enabler	\$5.44	254.1	\$9.25	\$6.75	-						12.7	20.1x		46.7	254.1	
SABA	SABA	enabler	\$29.63	1,039.5	\$41.00	\$13.25	-		\$16.9	61.5x	\$44.4	23.4x	30.3	34.3x		35.1	963.7	
SCTC	SYSTEMS & COMPUTER TECH	enabler	\$18.00	609.2	\$28.38	\$10.00	0.87	20.7x	\$457.7	1.3x	\$517.3	1.2x	457.1	1.3x		33.8	646.4	
WEBX	WEBEX COMMUNICATIONS	enabler	\$30.19	1,090.5	\$39.94	\$17.00	-						18.1	60.1x		36.1	1,090.5	
BOUT	ABOUT.COM INC	portal	\$29.06	426.4	\$105.81	\$22.50	(0.67)	NM	\$93.5	4.6x	\$169.6	2.5x	63.2	6.7x	63%	14.7	282.0	
LSPN	LIGHTSPAN PARTNERSHIP INC	portal	\$4.13	176.6	\$25.38	\$3.75	-		\$41.5	4.3x	\$66.4	2.7x				42.8	61.5	
LTWO	LEARN2.COM INC	portal	\$2.31	117.9	\$9.50	\$1.59	-		\$50.0	2.4x			25.6	4.6x		51.0	114.8	
STAD	STUDENT ADVANTAGE INC	portal	\$8.88	314.6	\$29.50	\$2.88	(0.43)	NM	\$44.2	7.1x	\$54.9	5.7x	44.4	7.1x	50%	35.4	290.3	
<b>AVERAGE</b>				497.1				62.1x		13.0x			64.3	15.1x	50%	28.7	451.9	
<b>AVERAGE EX HIGH AND LOW</b>				417.4				47.7x		10.6x			48.3	13.4x	51%	27.5	373.9	

### Post Secondary Public Company Performance



INDEX PRICE MOMENTUM	PERCENTAGE PRICE CHANGE				
	1 YEAR	6 MONTH	3 MONTH	1 MONTH	2 WEEK
	STES Post Secondary Index	53.76	55.26	48.85	17.68
Russell 2000	18.64	(6.40)	7.26	(4.17)	1.17
S&P 500	13.95	3.96	7.21	0.49	1.60
Dow Jones Industrials Average	2.38	2.46	5.88	3.10	3.02
NASDAQ Composite	51.00	(14.09)	13.70	(3.31)	0.29

SunTrust Equitable Securities -- POST-SECONDARY EDUCATION SECTOR														
Company	Symbol	Price	FY 1998		FY 1999 <sup>a</sup>		FY 2000 <sup>a</sup>			FY 2001 <sup>a</sup>			CAL 2000	
			EPS	EPS	% Gr.	P/E	EPS	% Gr.	P/E	EPS	% Gr.	P/E	EPS	P/E
<b>Apollo Group</b>	APOL	\$34.88	\$0.59	\$0.75	27%	46.5x	\$0.90	20%	38.8x	\$1.15	28%	30.3x	\$0.96	36.3x
Argosy Education Group, Inc.	ARGY	\$6.63	\$0.31	\$0.72	132%	9.2x	\$0.59	-18%	11.2x	\$0.67	14%	9.9x	-	-
<b>Career Education Corporation</b>	CECO	\$63.38	\$0.80	\$1.38	73%	45.9x	\$2.09	51%	30.3x	\$2.54	22%	25.0x	\$2.09	30.3x
Concorde Career Colleges, Inc.	CCDC	\$0.55	(\$0.19)	(\$0.08)	-	-	-	-	-	-	-	-	-	-
<b>Corinthian Colleges, Inc.</b>	COCO	\$39.00	\$0.12	\$0.72	500%	54.2x	\$1.42	97%	27.5x	\$2.00	41%	19.5x	\$1.73	22.5x
DeVry, Inc.	DV	\$32.88	\$0.44	\$0.55	25%	59.8x	\$0.68	24%	48.3x	\$0.81	19%	40.6x	\$0.74	44.4x
Education Management	EDMC	\$25.13	\$0.48	\$0.61	27%	41.2x	\$0.76	25%	33.1x	\$0.89	17%	28.2x	\$0.80	31.4x
EduTrek, Inc.	EDUT	\$1.34	\$0.19	(\$0.34)	-279%	-4.0x	\$0.25	NR	5.4x	-	-	-	\$0.25	5.4x
<b>ITT Educational Services, Inc.</b>	ESI	\$21.38	\$0.85	\$0.97	14%	22.0x	\$1.14	18%	18.8x	\$1.37	20%	15.6x	\$1.14	18.8x
<b>Quest Education Corporation</b>	QEDC	\$18.19	\$0.51	\$0.73	43%	24.9x	\$0.92	26%	19.8x	\$1.06	15%	17.2x	\$1.00	18.2x
Strayer Education, Inc.	STRA	\$21.50	\$1.12	\$1.23	10%	17.5x	\$1.39	13%	15.5x	\$1.62	17%	13.3x	\$1.39	15.5x
Whitman Education	WIX	\$2.25	\$0.01	\$0.22	2100%	10.2x	NA	-	-	NA	-	-	-	-
Average					31.3%	35.8x		34.2%	24.9x		21.3%	22.2x	\$1.12	24.8x
Company	Price	52 Week		Avg. Volume	EBITDA Margin			LTM EBITDA	EBITDA Share	EV/ LTM EBITDA	Cur. FY EV/ Cur. EBITDA	Next FY EBITDA	EV/ Next EBITDA	
		High	Low		FY97	FY98	FY99							
<b>Apollo Group</b>	\$34.88	\$42.63	\$17.56	583,576	18.2%	21.6%	22.7%	\$126.2	\$1.66	20.2x	\$ 138.5	18.4x	\$ 171.9	14.8x
Argosy Education Group, Inc.	\$6.63	\$9.00	\$3.53	9,900	15.9%	9.3%	16.0%	\$6.2	\$0.96	4.7x	-	-	-	-
<b>Career Education Corporation</b>	\$63.38	\$62.25	\$21.94	37,224	12.6%	14.7%	16.1%	\$39.7	\$3.80	16.8x	\$ 51.1	13.0x	\$ 66.3	10.1x
Concorde Career Colleges, Inc.	\$0.55	\$1.97	\$0.38	7,019	4.3%	-2.3%	1.6%	\$1.0	\$0.13	4.7x	-	-	-	-
<b>Corinthian Colleges, Inc.</b>	\$39.00	\$41.00	\$14.63	34,803	2.1%	8.0%	12.3%	\$16.4	\$1.57	24.0x	\$ 27.5	14.3x	\$ 38.4	10.3x
DeVry, Inc.	\$32.88	\$35.81	\$15.63	193,581	18.9%	19.9%	19.3%	\$99.9	\$1.43	22.2x	-	-	-	-
Education Management	\$25.13	\$25.50	\$8.63	121,805	17.0%	17.6%	18.6%	\$56.7	\$1.96	13.1x	-	-	-	-
EduTrek, Inc.	\$1.34	\$2.13	\$0.75	76,014	-	-	-	-	-	-	-	-	-	-
<b>ITT Educational Services, Inc.</b>	\$21.38	\$24.00	\$10.75	157,769	13.1%	9.6%	15.1%	\$40.2	\$1.64	11.8x	\$ 57.5	8.2x	\$ 69.6	6.8x
<b>Quest Education Corporation</b>	\$18.19	\$18.38	\$7.25	68,491	11.2%	15.1%	16.5%	\$18.9	\$2.34	8.0x	\$ 21.6	7.0x	-	-
Strayer Education, Inc.	\$21.50	\$31.63	\$12.88	67,461	41.3%	44.3%	42.2%	\$30.6	\$2.00	8.5x	-	-	-	-
Whitman Education	\$2.25	\$3.50	\$1.13	19,043	NM	6.9%	5.5%	\$4.3	\$0.32	7.4x	-	-	-	-
Average								\$40.0	\$1.62	12.9x		12.2x		10.5x
Company	Gr. Rate	FY 2000 PEG	FY 2001 PEG	Shares O/S (mil.)	Mkt. Value	Ent. Value	LTM Mkt. Val./ Rev.	Mkt. Rev.	Book Val. Share	Tang. Book	LTD/ Tot. Cap.	Last FY ROE	Cur. FY Est. ROE	DSO's
<b>Apollo Group</b>	25.0%	1.6x	1.2x	76.1	\$2,654.9	\$2,550.1	\$551.19	4.8x	\$2.88	\$2.37	0.0%	25.5%	26.2%	51.1
Argosy Education Group, Inc.	20.0%	0.6x	0.5x	6.5	\$42.9	\$29.3	\$40.64	1.1x	\$4.03	\$2.98	9.6%	17.9%	-	28.1
<b>Career Education Corporation</b>	30.0%	1.0x	0.8x	10.4	\$661.3	\$666.9	\$241.68	2.7x	\$11.21	\$4.03	29.1%	5.3%	9.6%	23.6
Concorde Career Colleges, Inc.	20.0%	-	-	7.8	\$4.3	\$4.7	\$37.22	0.1x	\$0.67	\$0.62	41.2%	-39.4%	-	113.9
<b>Corinthian Colleges, Inc.</b>	30.0%	0.9x	0.7x	10.4	\$407.0	\$394.1	\$159.46	2.6x	\$5.13	\$3.10	6.0%	12.1%	21.6%	26.1
DeVry, Inc.	21.0%	2.3x	1.9x	69.6	\$2,288.1	\$2,217.5	\$490.39	4.7x	\$3.04	\$1.97	5.8%	22.1%	-	69.0
Education Management	20.0%	1.7x	1.4x	28.9	\$726.1	\$740.0	\$296.23	2.5x	\$3.75	\$2.77	11.9%	19.4%	-	14.5
EduTrek, Inc.	35.0%	0.2x	-	16.9	\$22.7	\$26.2	\$55.58	0.4x	\$1.96	-\$0.27	18.0%	-14.2%	-	19.3
<b>ITT Educational Services, Inc.</b>	20.0%	0.9x	-	24.6	\$525.5	\$474.1	\$317.59	1.7x	\$2.19	\$2.19	0.0%	13.7%	42.2%	16.6
<b>Quest Education Corporation</b>	20.0%	1.0x	0.9x	8.1	\$146.8	\$152.0	\$115.26	1.3x	\$6.06	\$1.74	19.5%	13.6%	14.9%	32.7
Strayer Education, Inc.	20.0%	0.8x	0.7x	15.3	\$329.0	\$258.5	\$71.99	4.6x	\$5.70	\$5.70	0.0%	23.8%	-	83.0
Whitman Education	20.0%	-	-	13.4	\$30.1	\$31.6	\$77.61	0.4x	\$1.59	\$0.87	26.2%	-2.4%	-	123.2
Average	23.4%	1.1x	1.0x		\$653.2	\$628.8	\$204.57	2.2x	\$4.02	\$2.34	13.9%	8.1%	22.9%	50.1

<sup>a</sup>Bold Denotes STES Research Coverage. All other information is First Call consensus.

## Public Company Price Performance

STES Education/e-Learning/Knowledge Technology											
8/10/00											
Ticker		Rating	Price	52 W High	% Off High	1W	1M	%Return		YTD	1Y
Stock Market Indices											
COMP	NASDAQ COMPOSITE INDEX		3760.0	5132.5	(26.7)	0.0	(5.5)	11.1	(16.2)	(7.6)	51.0
RUT	RUSSELL 2000		501.7	614.2	(18.3)	0.4	(5.5)	5.8	(7.5)	(0.6)	18.6
DJII	DOW JONES 30 INDUSTRIALS		10908.8	11908.5	(8.4)	1.9	2.5	5.2	2.5	(5.1)	2.4
sp50	S&P 500 COMPOSITE		1460.3	1553.1	(6.0)	0.5	(1.0)	5.6	3.1	(0.6)	14.0
Post Secondary											
<b>APOL</b>	<b>APOLLO GROUP INC -CL A</b>	<b>B</b>	<b>36.7</b>	<b>42.6</b>	<b>(13.9)</b>	<b>(1.5)</b>	<b>13.1</b>	<b>35.6</b>	<b>53.9</b>	<b>82.9</b>	<b>56.1</b>
ARGY	ARGOSY ED GROUP INC	NR	6.6	9.0	(26.4)	(4.1)	(1.9)	12.8	35.9	49.3	(8.6)
<b>CECO</b>	<b>CAREER EDUCATION CORP</b>	<b>B</b>	<b>61.8</b>	<b>62.3</b>	<b>(0.7)</b>	<b>5.7</b>	<b>14.5</b>	<b>62.9</b>	<b>67.9</b>	<b>61.1</b>	<b>106.5</b>
CCDC	CONCORDE CAREER COLLEGES INC	NR	0.5	2.0	(74.9)	(10.2)	(21.0)	(8.1)	(39.2)	(39.8)	(21.8)
<b>COCO</b>	<b>CORINTHIAN COLLEGES INC</b>	<b>SB</b>	<b>37.3</b>	<b>41.0</b>	<b>(9.1)</b>	<b>(5.4)</b>	<b>32.4</b>	<b>88.6</b>	<b>69.3</b>	<b>56.0</b>	<b>159.1</b>
DV	DEVRY INC	NR	33.1	35.8	(7.7)	(5.5)	16.3	26.9	75.7	76.3	58.9
EDMC	EDUCATION MANAGEMENT CORP	NR	24.2	25.5	(5.1)	9.3	29.9	43.9	78.3	72.8	88.8
EDUT	EDUTREK INTL INC -CL A	NR	1.3	3.3	(59.4)	(2.3)	7.5	(10.4)	34.4	34.4	(57.0)
<b>ESI</b>	<b>ITT EDUCATIONAL SVCS INC</b>	<b>B</b>	<b>21.8</b>	<b>24.0</b>	<b>(9.4)</b>	<b>4.5</b>	<b>17.6</b>	<b>29.4</b>	<b>54.7</b>	<b>40.9</b>	<b>3.6</b>
<b>QEDC</b>	<b>QUEST EDUCATION CORP</b>	<b>N</b>	<b>18.4</b>	<b>18.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>115.6</b>	<b>117.2</b>	<b>107.9</b>	<b>96.6</b>
STRA	STRAYER EDUCATION INC	NR	21.9	31.6	(30.8)	(0.6)	(8.1)	3.6	(16.7)	10.8	(17.8)
WIX	WHITMAN EDUCATION GROUP INC	NR	1.9	3.5	(46.4)	(16.7)	42.9	25.0	(18.9)	(31.8)	(40.0)
e-Learning											
Content											
DTHK	DIGITALTHINK INC	NR	33.3	62.0	(46.4)	(31.4)	(14.9)	38.5	#N/A	#N/A	#N/A
FATB	FATBRAIN.COM INC	NR	3.8	42.3	(91.1)	(13.0)	(43.4)	(21.1)	(81.9)	(85.0)	(69.4)
INFO	INFONAUTICS CORP -CL A	NR	4.1	17.4	(76.6)	4.8	(2.3)	(29.7)	(62.6)	(42.0)	(27.8)
LTWO	LEARN2.COM INC	NR	2.3	9.5	(76.3)	4.3	10.8	(8.9)	(63.3)	(31.4)	(25.0)
LTRE	LEARNING TREE INTL INC	NR	53.6	65.5	(18.1)	8.6	(17.7)	19.5	123.4	91.5	351.6
<b>POSO</b>	<b>PROSOFTTRAINING.COM INC</b>	<b>SB</b>	<b>12.6</b>	<b>29.9</b>	<b>(57.9)</b>	<b>(5.2)</b>	<b>(8.6)</b>	<b>(6.9)</b>	<b>(11.5)</b>	<b>21.1</b>	<b>402.5</b>
RYDP	RIVERDEEP GROUP PLC -ADR	NR	18.0	72.5	(75.2)	(2.7)	(5.3)	(30.8)	#N/A	#N/A	#N/A
SCIL	SCIENTIFIC LEARNING CORP	NR	5.0	41.0	(87.8)	(9.1)	(75.8)	(69.2)	(82.6)	(86.3)	(68.9)
SKIL	SKILLSOFT CORP	NR	12.3	33.5	(63.4)	(9.3)	(5.8)	(10.5)	(26.9)	#N/A	#N/A
SMTF	SMARTFORCE PUB LTD -SP ADR	NR	42.8	60.9	(29.8)	(11.4)	(10.5)	4.1	3.3	27.6	77.7
ZDZ	ZDNET	NR	14.8	34.6	(57.3)	(9.2)	18.6	13.5	(54.3)	(29.8)	0.0
Enablers											
IZAP	ZAPME CORP	NR	2.8	13.8	(79.5)	(13.5)	(2.2)	(19.6)	(63.1)	(67.4)	#N/A
<b>CTRA</b>	<b>CENTRA SOFTWARE INC</b>	<b>SB</b>	<b>7.1</b>	<b>40.4</b>	<b>(82.5)</b>	<b>(7.4)</b>	<b>(32.3)</b>	<b>5.6</b>	<b>(73.9)</b>	<b>#N/A</b>	<b>#N/A</b>
<b>CLKS</b>	<b>CLICK2LEARN.COM INC</b>	<b>SB</b>	<b>17.6</b>	<b>22.9</b>	<b>(23.4)</b>	<b>(0.7)</b>	<b>(2.4)</b>	<b>47.1</b>	<b>(8.2)</b>	<b>57.9</b>	<b>186.7</b>
ECLG	ECOLLEGE.COM	NR	5.3	17.5	(70.0)	(1.2)	16.3	(2.3)	(41.3)	(52.0)	#N/A
SABA	SABA SOFTWARE INC	NR	27.7	41.0	(32.5)	26.2	46.7	43.4	#N/A	#N/A	#N/A
SCTC	SYSTEMS & COMPUTER TECH COR	NR	17.9	28.4	(36.8)	(4.0)	(1.7)	(17.5)	(19.4)	10.4	19.6
Portal											
BOUT	ABOUT.COM INC	NR	30.9	105.8	(70.8)	(1.8)	2.5	(16.9)	(56.0)	(65.5)	38.3
LSPN	LIGHTSPAN INC	NR	4.0	25.4	(84.1)	(17.3)	(38.0)	(53.6)	(70.1)	#N/A	#N/A
STAD	STUDENT ADVANTAGE INC	NR	9.0	29.5	(69.5)	22.0	22.0	92.0	(50.0)	(59.4)	(10.6)
e-tailers											
VSTY	VARSITY GROUP INC	NR	1.0	13.1	(92.6)	(11.4)	(32.6)	(44.6)	#N/A	#N/A	#N/A
SKDS	SMARTERKIDS.COM INC	NR	1.4	17.1	(92.0)	(13.7)	(17.0)	(38.9)	(77.3)	(81.0)	#N/A
Knowledge Technology											
EXCA	EXCALIBUR TECHNOLOGIES	NR	42.9	59.5	(27.9)	(3.7)	10.5	42.3	64.9	107.9	318.3
SCTC	SYSTEMS & COMPUTER TECH COR	NR	17.9	28.4	(36.8)	(4.0)	(1.7)	(17.5)	(19.4)	10.4	19.6
MATH	MATHSOFT INC	NR	2.1	8.8	(75.9)	(2.9)	(22.7)	(18.1)	(55.3)	(53.4)	(12.8)
ALSI	ADVANTAGE LEARNING SYS INC	NR	20.0	31.4	(36.4)	17.6	13.5	46.8	27.0	78.8	(32.8)
Educational Publishing											
IDGB	IDG BOOKS WORLDWIDE INC	NR	8.5	19.0	(55.3)	(5.6)	0.0	(8.7)	(37.6)	(26.5)	(53.4)
H	HARCOURT GENERAL INC	NR	60.4	60.9	(0.8)	7.8	5.2	66.4	55.0	50.2	58.5
IHI	INFORMATION HLDGS INC	NR	33.0	46.0	(28.3)	(3.5)	(9.9)	35.0	18.7	13.5	73.7
SCHL	SCHOLASTIC CORP	NR	62.6	70.8	(11.5)	(2.9)	(1.6)	41.7	5.5	0.7	50.9
Other											
<b>BFAM</b>	<b>BRIGHT HORIZONS FAMILY SC</b>	<b>B</b>	<b>25.0</b>	<b>25.3</b>	<b>(1.0)</b>	<b>9.9</b>	<b>10.5</b>	<b>47.6</b>	<b>38.9</b>	<b>33.3</b>	<b>60.0</b>
<b>CTIM</b>	<b>CHILDTIME LEARNING CTRS IF</b>	<b>ALT</b>	<b>8.0</b>	<b>14.0</b>	<b>(42.9)</b>	<b>3.2</b>	<b>12.3</b>	<b>10.3</b>	<b>0.0</b>	<b>(35.4)</b>	<b>(36.3)</b>
<b>RYOU</b>	<b>RAMSAY YOUTH SERVICES INI</b>	<b>B</b>	<b>1.4</b>	<b>4.4</b>	<b>(67.6)</b>	<b>4.5</b>	<b>(17.9)</b>	<b>(11.5)</b>	<b>(28.1)</b>	<b>(2.1)</b>	<b>(58.9)</b>
EDSN	EDISON SCHOOLS INC	NR	26.8	30.4	(11.9)	9.7	22.9	21.6	92.8	69.8	#N/A
SLVN	SYLVAN LEARNING SYSTEMS INC	NR	13.8	25.3	(45.3)	4.7	8.3	6.3	2.3	6.3	(42.3)
NLCI	NOBEL LEARNING CMNTYS INC	NR	9.6	10.0	(3.8)	13.2	2.7	37.5	13.2	32.8	64.7
NLCS	NATIONAL COMPUTER SYS INC	NR	72.1	72.3	(0.2)	0.1	44.6	47.6	99.0	91.7	118.6
NEWH	NEW HORIZONS WORLDWIDE INC	NR	22.3	25.9	(13.8)	(6.5)	6.3	39.5	30.3	87.9	17.8
POVT	PROVANT INC	NR	5.4	26.0	(79.3)	(1.7)	(3.4)	(4.4)	(68.6)	(78.7)	(60.9)

\*Rating Legend: SB - Strong Buy, B - Buy, ALT - Attractive Long-Term, N - Neutral, S - Sell, NR - Not Rated

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