Pearson Learning Solutions Summit

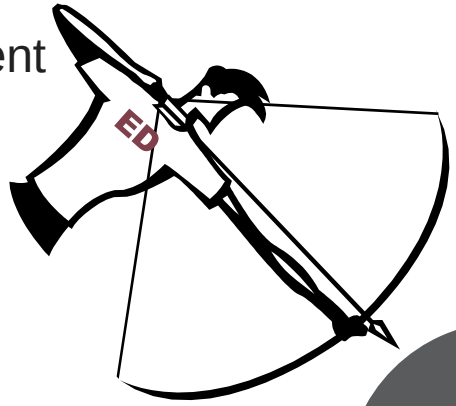
THE PARTHENON GROUP
Boston • London • Mumbai • San Francisco

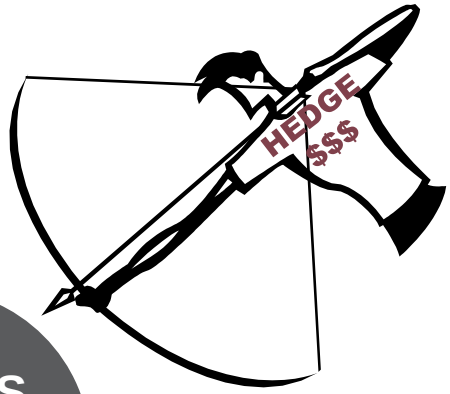
Gainful Employment and Student Value Proposition

December 2010

For-profit education is under attack from all sides!

- CDR
- Gainful employment
- Incentive compensation





$26B U.S. For-profit PSE

- "Sub-prime goes to college"
- The next big short

- Public sector competence
- Commoditization of online

The Good News

Despite what is in the press, the sector's underlying value proposition is strong…

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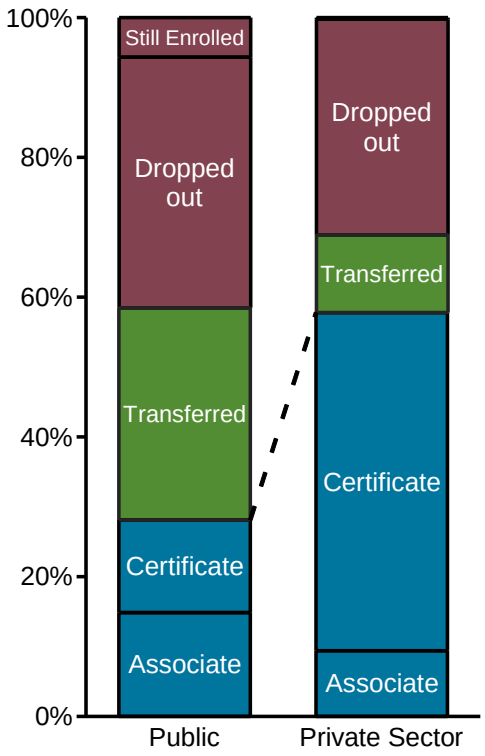
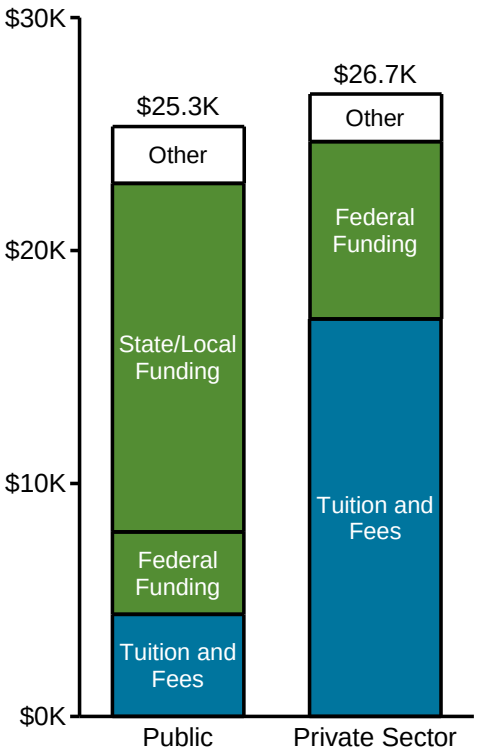
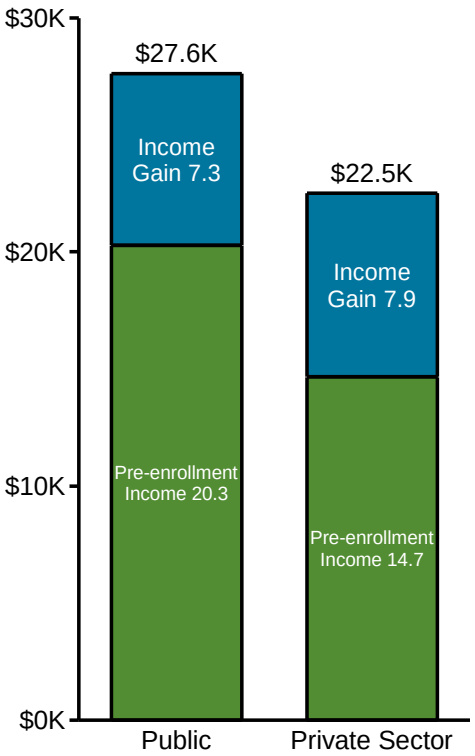
Student Outcomes 5 Years Post-Enrollment (2-Years and Less Institutions, 2001)



Funding Per Positive Outcome (2-Years and Less Institutions, 2007)



Dollar Gain in Annual Income (2-Years and Less Institutions, '02-'05)



Note: * Graduation Rate = grads / (grads+ dropouts); Positive Outcomes = (grads + transfers) / (grads + transfers + drops)
Source: NCES BPS 1996-2001; Parthenon Analysis

The Good News
…And, there is a long term need for private sector education as they are driving expanded access

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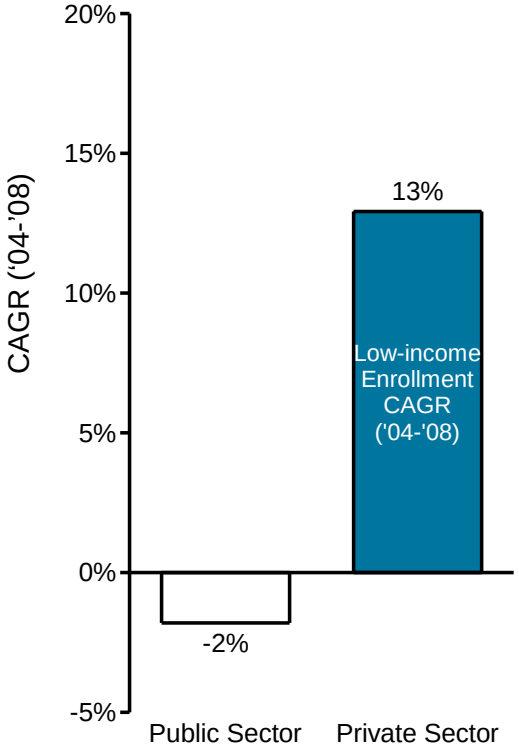
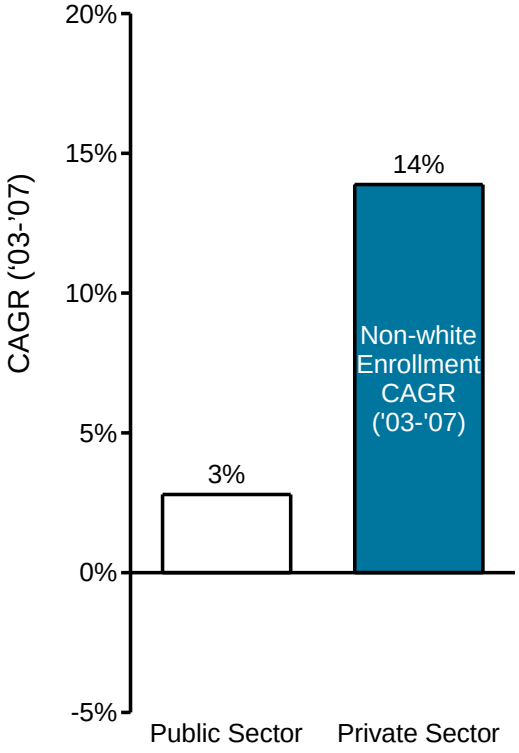
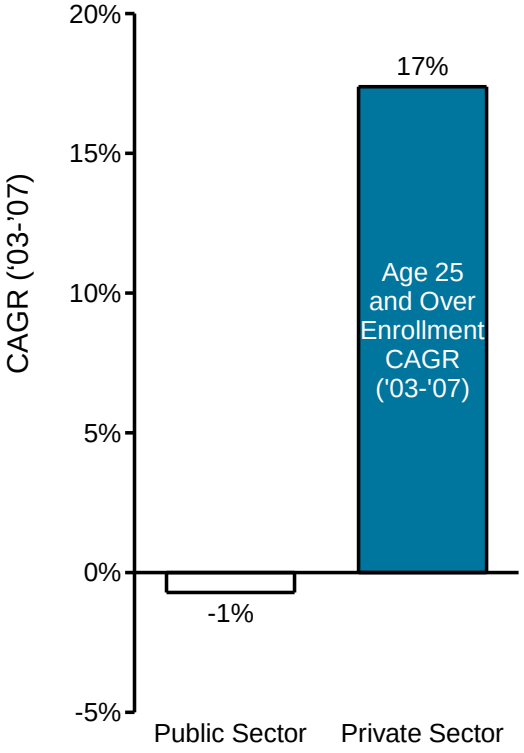
Low-Income Student Enrollment Growth, 2004-08



Non-White Student Enrollment Growth, 2003-07



Age 25 and Over Student Enrollment Growth, 2003-07



Note: The upper limit of the lowest quintile was $18,500 in 2004 and $20,712 in 2008.
Source: IPEDS 2003 & 2007; NPSAS 2004 & 2008; U.S. Census Bureau

The Not-So-Good News

Proposed 'gainful employment' regulation summary of impact estimates

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% of Students	Original ED Estimate		Revised Estimate After Incorporating Proposed Methodological Adjustments	
	All Schools	Subject to GE Regulation	All Schools	Subject to GE Regulation
Ineligible	4%	14%	16%	30%
Restricted	9%	31%	5%	26%
Eligible w/ Disclosure	37%	51%	31%	33%
Eligible	49%	5%	48%	11%

Source: United States Department of Education Missouri Gainful Employment Analysis; BLS; US Census Bureau; BPS; NPSAS; Parthenon Analysis

The Not-So-Good News

Proposed 'gainful employment' regulation student transfer assumptions

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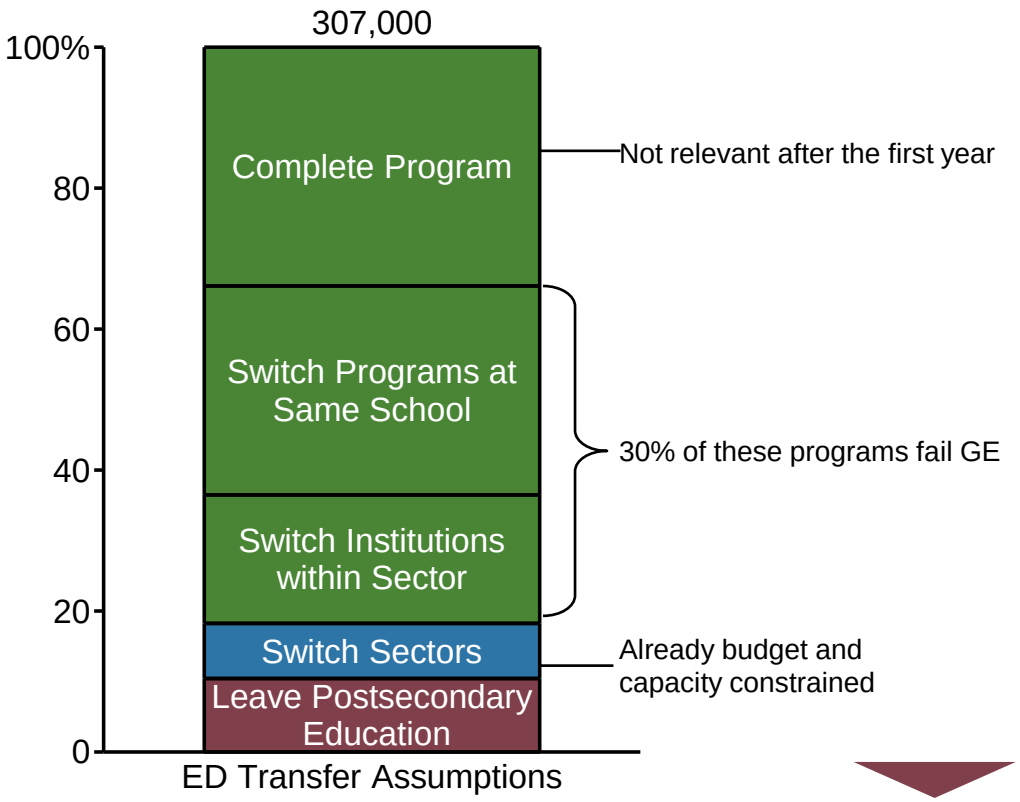
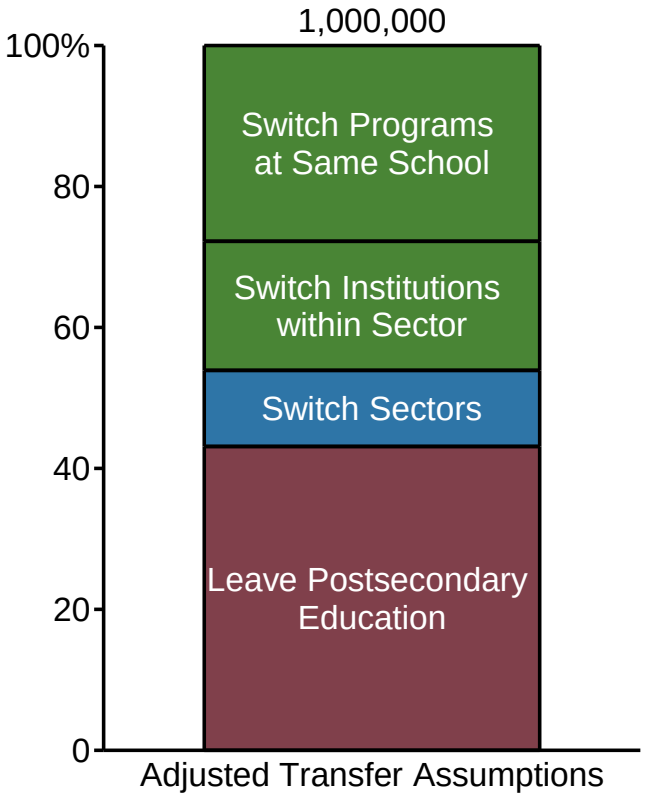
U.S. ED Transfer Assumptions



Adjusted Transfer Assumptions

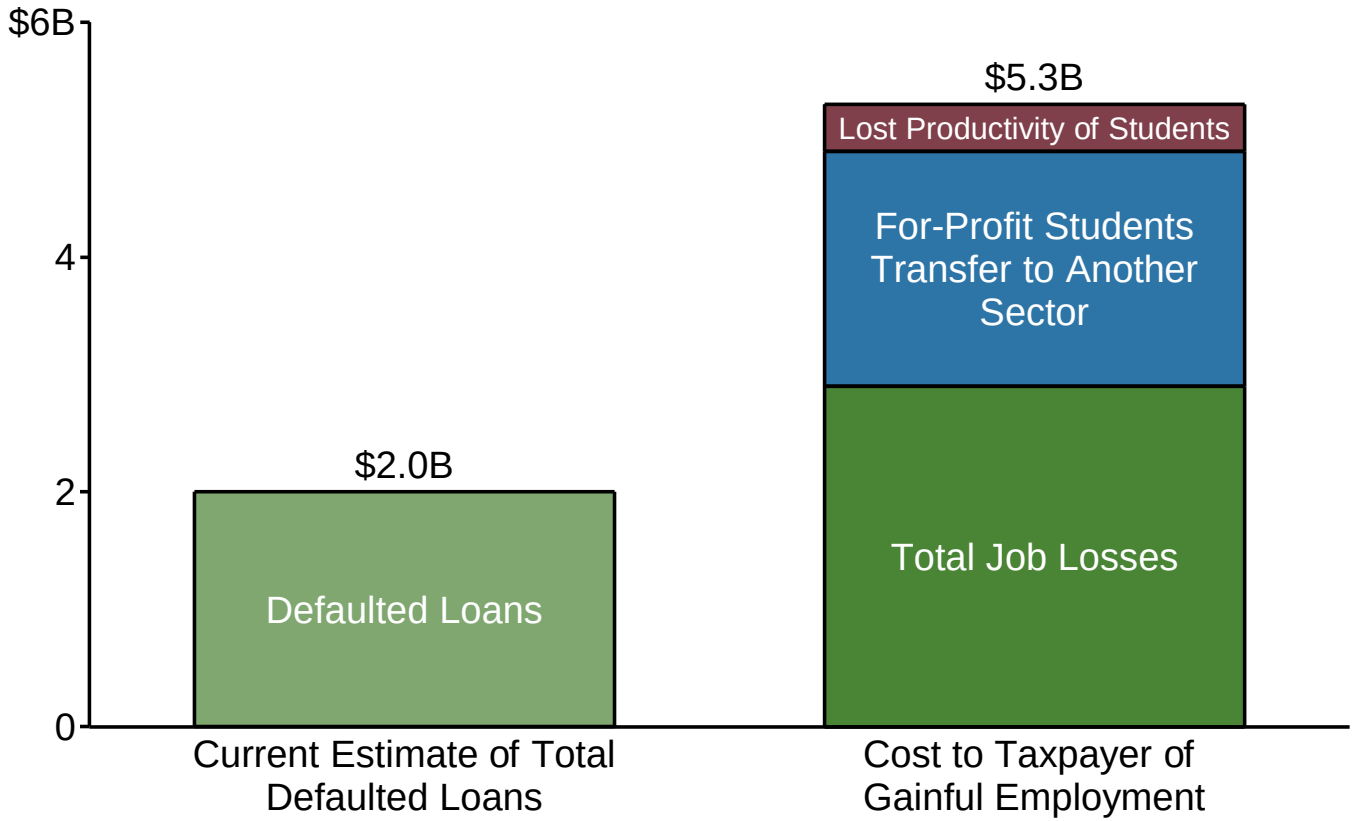


Adjusted assumptions imply that 300,000 - 500,000 students will likely not complete post-secondary education

Source: U.S. Department of Education NPRM

GE regulations seek to protect $2B in defaulted federal loans annually; GE implementation will cost taxpayers $5.3B annually

Cost to Taxpayer of Proposed Gainful Employment Regulations vs. Current Estimate of Total Defaulted Loans



Note: Assumes 10-year repayment window and 6.8% fixed interest rate for unsubsidized loans and a 6.0% interest rate for subsidized loans; cash flows are not discounted; loans in default are recovered at the rate of ~20% per year for four years, according to the Student Aid Administration FY10 Budget page 38

Source: College Board, US ED Federal Student Aid Budget Lifetime Default Rates; Student Aid Administration FY10 Budget; US ED Federal Student Aid Annual Report 2009; Department of Education NPRM; NCES IPEDS database; NCES BPS 1996-2001; company financials and SEC filings; BLS; BEA; CBO