

eLearning Industry Trends

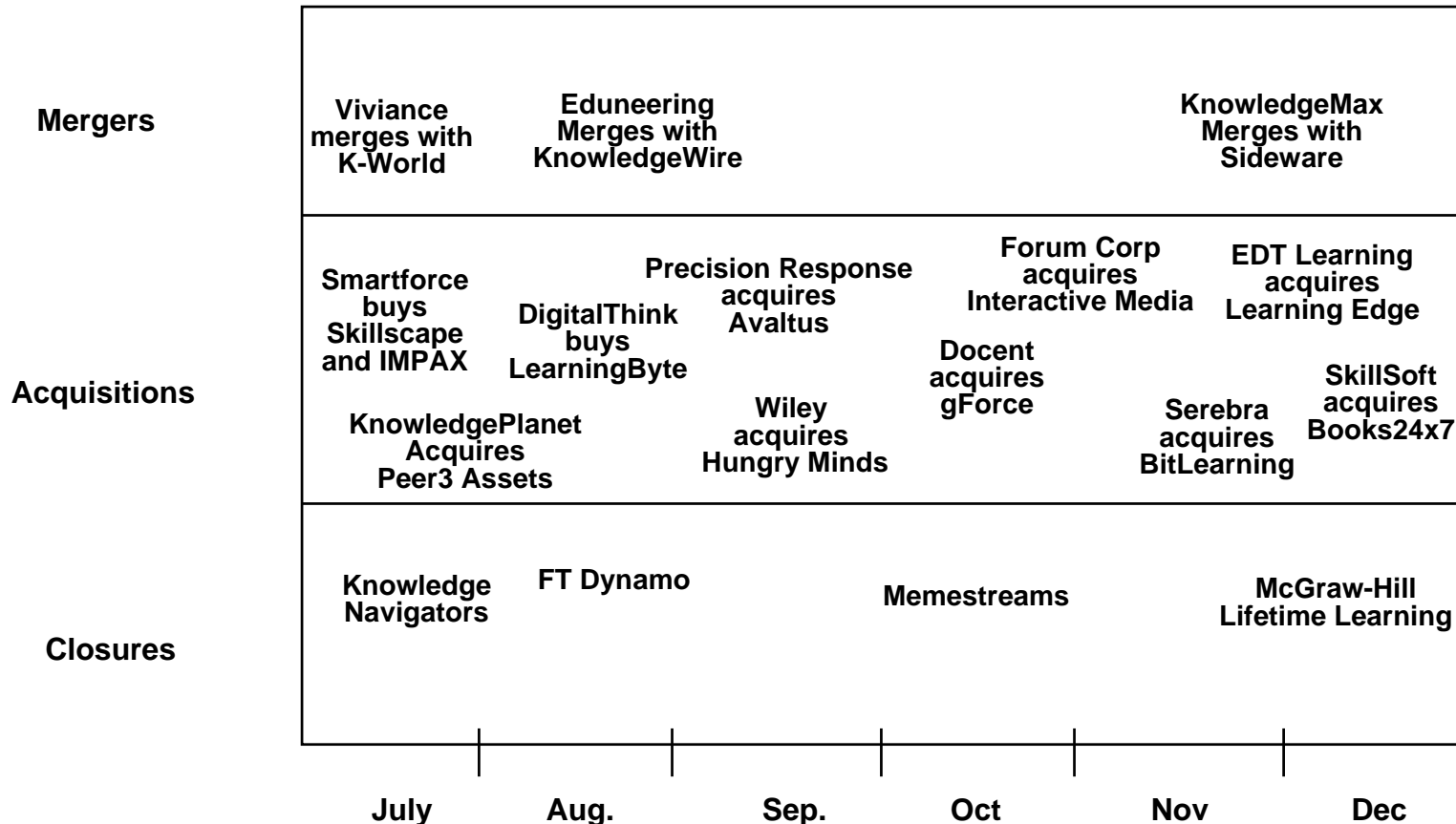
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Industry Consolidation

Mergers, Acquisitions, Closures: July- December 2001



Industry Consolidation — 2002 Pace Seems to Slow...

Mergers, Acquisitions, Closures: January-June 2002

Mergers	SmartForce Announces Merger w/ Centra	SmartForce, Centra Rescind Merger	SmartForce, Announces Merger w/ Skillsoft
Acquisitions	Element K Acquires VLab	BlackBoard Acquires Prometheus	iLearning Acquires Caliber Assets
		Aegis Research Acquires MindSim	
Closures	NYUOnline		
	Jan	Feb.	Mar.
			April
			May
			June

Predictions —

Industry Consolidation

“I wouldn't be at all surprised to see AOL Time-Warner (AOL) make an acquisition in the learning market.”

—Martin Maleska, managing director at investment banker Veronis Suhler

“The time is now ripe for significant consolidation in distance learning (involving) companies the Nasdaq is looking at delisting.”

—Credit Suisse First Boston senior analyst Brandon Dobell.

Several education technology companies with a single product are “looking to be acquired” by companies such as Siebel.

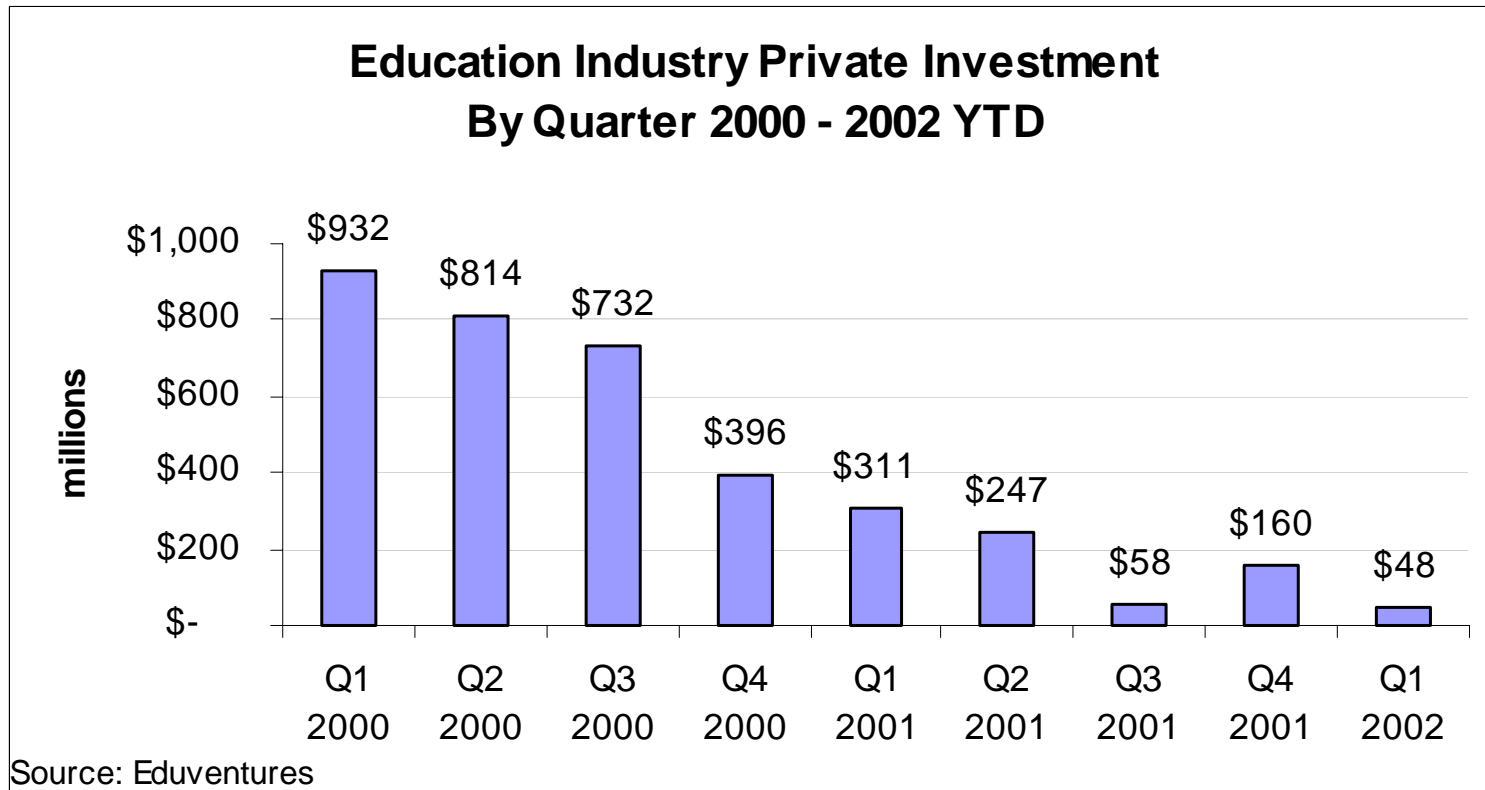
—Louis Pugliese of Novak Biddle Venture Partners.

Source: IIR Training Investment Forum (Mar 02)

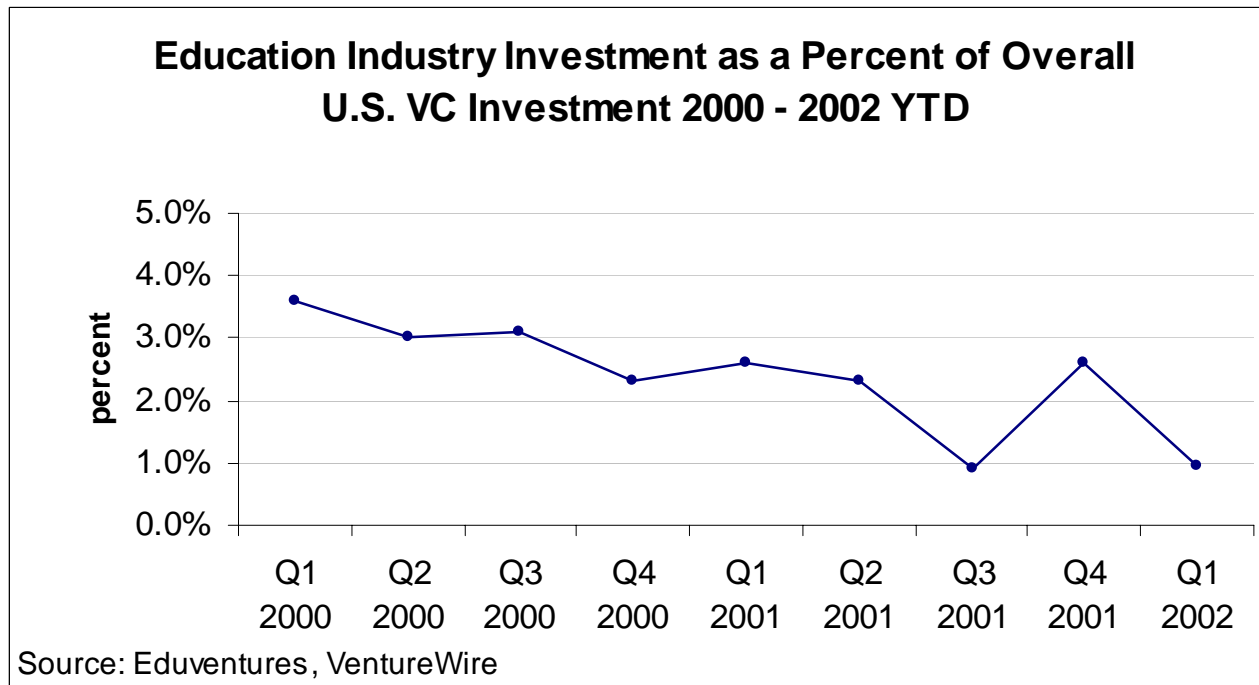


Education Investment Decline:

VC Investment in Education Slows



Education Investment Decline: ...Even As a % of Total VC Investments



Tech Investment Decline:

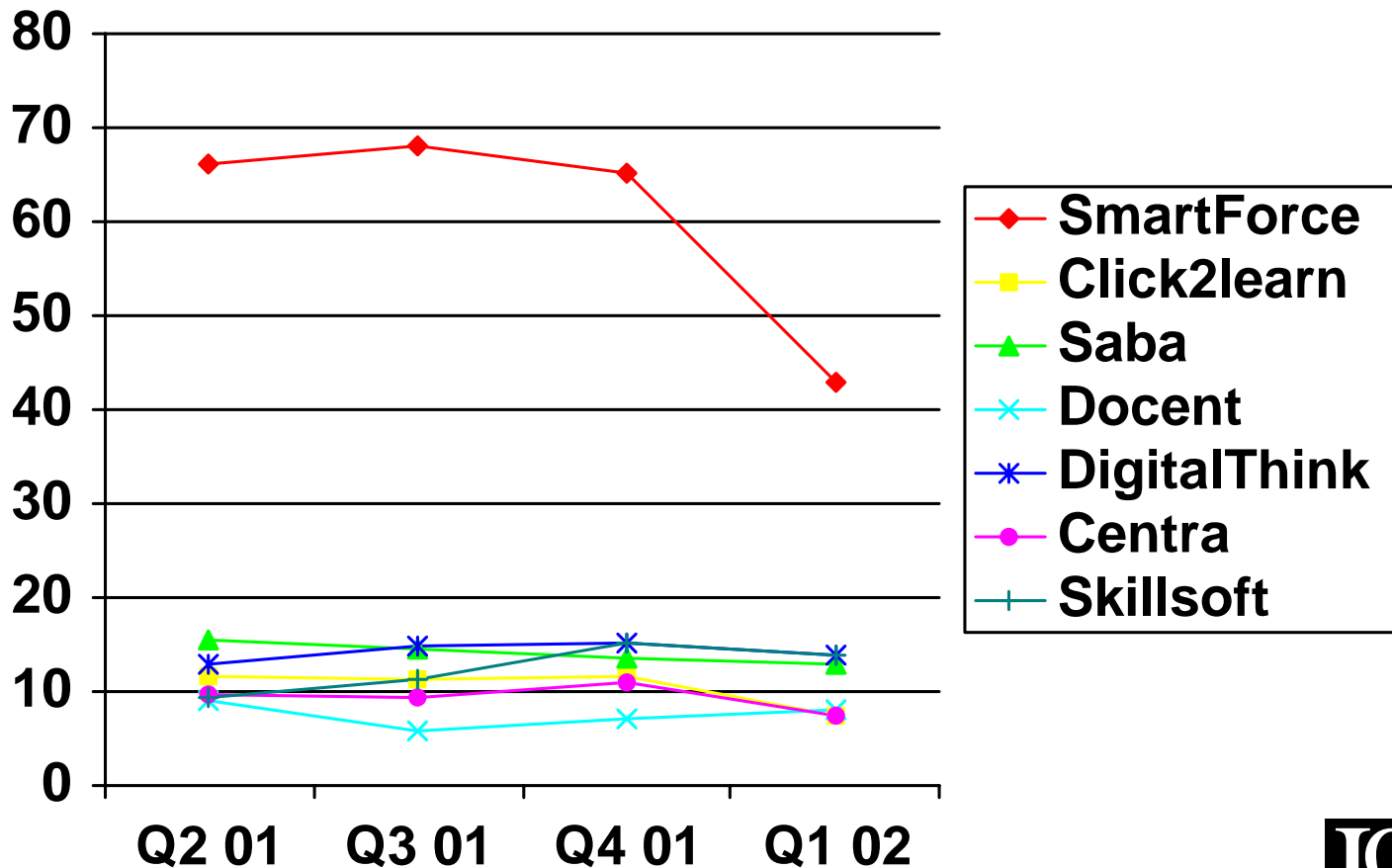
European VC Funding Drops Sharply

- **Total €1.18 billion (\$1.09 billion) in VC funding in Q1, down 32% from €1.75 billion in Q4 of 2001.**
- **Investment in information technology fell 42% to €611 million, down 80% from its peak in Q2 of 2000.**
- **German venture investment plunged 76% to €106.2 million in Q1, while in Sweden it fell 64% to €68.51 million.**
- **French investments climbed 24% in the first quarter to €242 million. In UK, VC edged up 2% to €446.2 million.**

Source: Survey by Ernst & Young and VentureOne (April 02)

Financial Performance- Flat or declining revenues

Total Revenues (Millions)



VC Funding:

Major VC Funding Wins

- **Powered Inc. — \$9M (June 02)**
- **Outstart — \$11M (May 02)**
- **Hyperwave — \$18M (Feb 02)**
- **Infocast — \$7M (Dec 01)**
- **Element K — \$20M (Dec 01)**
- **Interwise — \$34M (Oct 01)**
- **Pathlore — \$10M (Sep 01)**
- **Cenquest — \$6M (Aug 01)**
- **Vuepoint — \$11M (July 01)**
- **GlobalLearningSystems — \$10M (May 01)**
- **Knowledge Impact — \$24M (May 01)**

Belt-tightening-

Smaller Industry Expos

bringing the future into focus



Big names **Not exhibiting at ASTD Conference (June 02):**

Avaltus

KnowledgePlanet

DigitalThink

LogicBay

Docent

Oracle

EDS

Outstart

Geolearning

Placeware

Indeliq

UNext

Interwise

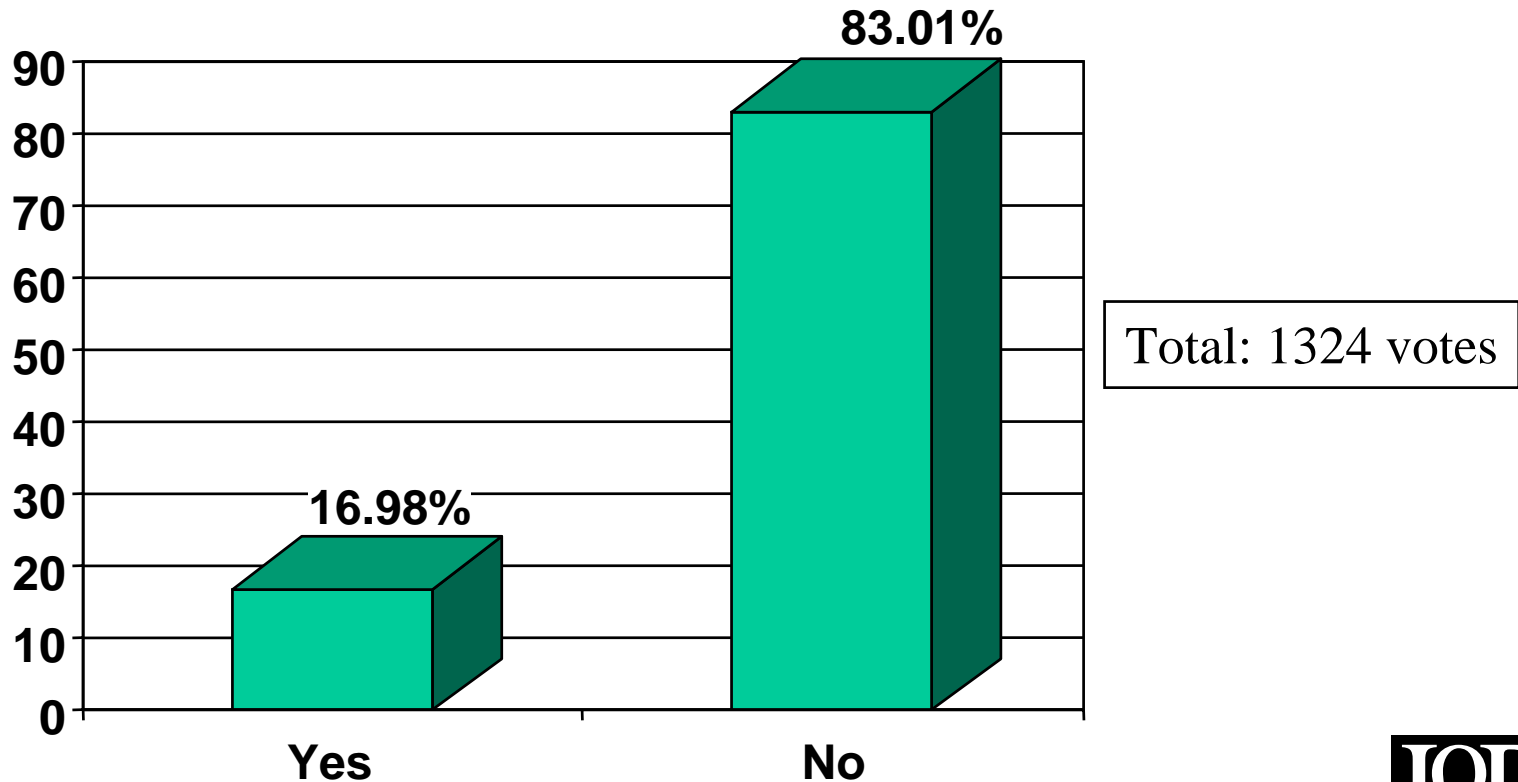
WBT Systems

Use of eLearning:

Still in “early adopter” realm

CIO Magazine Web Survey:

Does your company have an e-learning initiative underway?



Growing “ROI” Testimonials

- **Cisco Certification Program**
- **IBM - ‘Basic Blue’ mgmt training: 3-yr savings of \$88M; costs of \$5.03M; 2284% ROI**
- **Federal Law Enforcement Training Center**
- **Dow Chemical, \$34M annual savings**
- **KPMG Study (12 multinationals)**
- **Procter & Gamble / Toyota ROI Predictions**



Growing Role of Fed. Govt

- Major buyer of eLearning during tech buying slump
- Government-wide adoption of SCORM interoperability model
- Piloting use of XML/SCORM metadata repositories
- Pursuing Learning Object content design in content for Army and National Guard
- Exploring more sophisticated eLearning technologies through CLEO lab

Exploring the Waters

“Outsiders” debuting eLearning products/services:

- **PeopleSoft — bare-bones LMS platform (4/02)**
- **SAP — LMS platform (4/02)**
- **Polycom — synchronous eL platform**
- **Virage — streaming media eL platform (Feb 02)**
- **Yahoo! — streaming media eL platform (Oct 01)**
- **Higher Ed eL providers (UOPX, Blackboard) targeting corporate sector**



Significant Alliances

- Sun - National Retail Federation
- RealNetworks - LearnKey (reseller agreement)
- AOL - Fathom (consumer eL offering over AOL)
- Hyperwave - Compaq
- Docent - Interwoven
- SAP - Siemens



Market Strategies

- **“Fast implementation” assurances**
- **Alliance-based integration assurances**
- **Focus on hot business units - sales and customer service**
- **Hot verticals: financial services, regulated industries (e.g., pharma, petrochemical, healthcare)**
- **Hosted (ASP) offerings (often targeting mid-market)**



Looking Forward-

Growing Use of Learning Objects

- **IT firms using LOs for customer eLearning**
- **Large-scale LO development initiatives underway (Citibank, U.S. National Guard, Cisco, others)**
- **High level of awareness and use of LO's found in LoD/ASTD survey**
- **Part of larger push toward object-based knowledge management**

Looking Forward-

Key Developments in Coming Year

- **HIPAA privacy regulation expected to spark growth in health-care**
- **Growth of “automated” learning content development systems**
- **DRM emerging as critical to success of Learning Object “economy”**
- **More simulation-oriented off-the-shelf content**
- **More consolidation on platform side**