

American Learning Corporation
Education / Therapy Services
ALRN: Nasdaq

April 21, 2011

PROFILE

Based in the State of New York, American Learning Corporation (ALC) provides a comprehensive suite of services to children with developmental delays and disabilities. Typical services include speech and language, physical and occupational therapies, most of which are provided in charter and private school facilities.

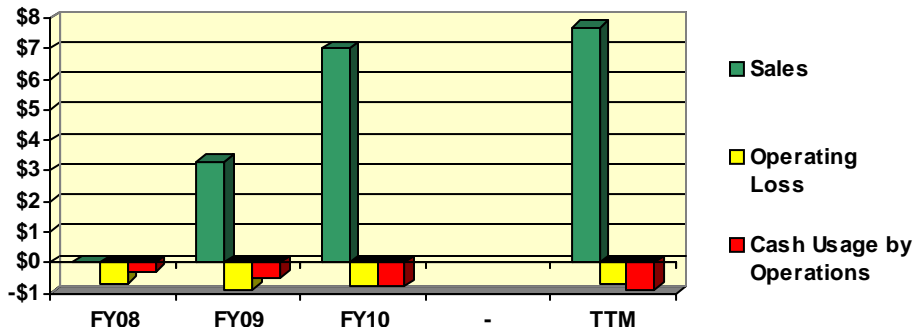
American Learning has been successful in ramping sales in each of the three years since its entered the market in 2008. Sales in the fiscal year ending March 2010 were \$7.0 million. In the first nine months of the 2011 fiscal year, the Company grew sales by 14.0% to \$5.7 million. Although the Company has not yet turned a profit and operations are still using cash resources, the gap is closing on higher numbers of children served and the accompanying revenue level. We expect the Company to achieve profitability in the coming year.

Continued organic growth is one leg of American Learning’s strategic growth plan. The Company expects to gain new market share in its home base following recent legislation that authorized new charter schools throughout New York state. As many as 260 new charter schools are expected to open in the next four years, representing a 130% expansion in the “school age” segment of the Company’s addressable market.

American Learning also expects to expand through acquisition. The Company recently announced a proposed deal to acquire 80% of an unnamed provider of education and behavioral health services on the east-coast. The deal could be transformative, expanding the Company’s scope of services and extending its geographic footprint. The deal could also add a potential \$30 million to the top-line and incremental operating profits.

A strong balance sheet supports American Learning during its current formative stage. Cash resources at the end of December 2010 totaled \$2.4 million, representing a significant cushion against the current cash burn rate of approximately \$300,000 per quarter. The balance sheet is debt free, giving management important financial flexibility in executing on its strategic acquisition plans.

FINANCIAL PERFORMANCE



Dollars in millions; fiscal year ends March

Source: Company Reports



MARKET DATA

Price: \$2.50 (4/20/11)
 52 Wk Hi-Lo: \$3.49 - \$0.58
 Ave. Volume: 7 K
 Short Interest: <1%
 Beta: 0.15

VALUATION

Price/Sales: 1.6 X
 Price/CFO: Neg
 Price/EPS: Neg
 Price/Book Value: 2.9 X

Based on TTM ending 12/31/11

Consensus EPS FY11: NA
 Forward PE: NA
 Consensus EPS FY12: NA
 Forward PE: NA

EQUITY SECURITIES

Common Shares Out: 4.8 M
 Insiders: 60.4%
 Float: 1.9 M
 Institutional: <5%
 5% Holders: 14.6%

Common Dividend: Nil
 Preferred Shares: -0-

Shares underlying Convertible Notes: -0-
 Warrants and Options Outstanding: 1.2 M

As of 12/31/11

INVESTMENT HIGHLIGHTS

Positives

- ♦ Strong commitment among both public and private educational institutions to provide services for developmentally challenged children
- ♦ Continued financial support by federal, state and local governments for school-based programs to education and treat disabled children
- ♦ Highly fragmented education services sector with numerous opportunities to build market share through tuck-in acquisitions of well-established privately-held service providers
- ♦ Significant growth opportunities through geographic expansion beyond the Company's current footprint in New York State
- ♦ Potentially transformative acquisition of education and behavioral health services operation that could multiply sales by five times and bring the Company to profitability
- ♦ Strong balance sheet with ample cash reserves and no debt that provides solid foundation for strategic plans for acquisitions
- ♦ Potential for margin expansion on operating leverage
- ♦ Strong management team with track record of success in managing fast growing operations
- ♦ Undervalued stock relative to peers in education services sector

Negatives

- ♦ Macro-economic factors present a negative influence on appropriations and budgets for educational and therapeutic services in both public and private educational institutions
- ♦ Labor-intensive business model presents risk of margin pressure on wage increases
- ♦ Cash resources are required to support operations, which have not achieved profitability; there are no assurances that the Company can achieve profitability
- ♦ Strategic plans to acquire similar or complementary operations could lead to significant variance in reported quarterly results through the impact of acquisition accounting treatments
- ♦ Insiders hold a majority of common stock outstanding and exercise control over corporate strategy and direction

OPERATING RESULTS

	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>9 M FY10</u>	<u>9 M FY11</u>	<u>FY11 Est</u>
Sales	\$ -0-	\$3.3	\$7.0	\$5.0	\$5.7	\$8.0
Gross Profit	\$ -0-	\$1.0	\$2.1	\$1.5	\$1.6	
Margin	NA	30.3%	30.0%	30.0%	28.1%	
Oper. Loss	(\$0.7)	(\$0.9)	(\$0.8)	(\$0.7)	(\$0.6)	
Net Loss	(\$0.7)	(\$0.8)	(\$0.8)	(\$0.7)	(\$0.6)	
CFO	(\$0.3)	(\$0.5)	(\$0.5)	(\$0.9)	(\$1.0)	-0-
Loss/Share	(\$0.14)	(\$0.17)	(\$0.17)	(\$0.14)	(\$0.12)	
ROE	Neg	Neg	Neg			
ROA	Neg	Neg	Neg			

Dollars in millions except EPS; Fiscal year ends March.

OUTLOOK

In our view, American Learning management has triggered an inflection point for the Company through its proposal to acquire a significantly larger competitor. If the deal closes in June 2011 as planned, the Company will increase nearly five times in size in terms of revenue and possibly achieve profitability. While ALC is already expanding its share of the special education market in New York State through a concerted sales and market effort, the deal would make ALC a dominant player in New York and give it presence in additional states. The deal would expand the Company's service offering, opening the door to new addressable markets.

We expect closure of the pending acquisition to serve as a strong catalyst for trading in ALRN. Increased trading volume and narrower bid and ask spreads are a likely outcome of increased investor interest.

In our view, ALRN is appropriate for investors with long-term investment horizons and a tolerance for risk.

COMPARABLES

- ♦ **Almost Family, Inc.** (AFAM: Nasdaq)
- ♦ **Archipelago Learning, Inc.** (ARCL: Nasdaq)
- ♦ **Gentiva Health Services, Inc.** (GTIV: Nasdaq)
- ♦ **Healthways, Inc.** (HWAY: Nasdaq)
- ♦ **K12, Inc.** (LRN: NSYE)
- ♦ **PHC, Inc.** (PHC: NYSE)
- ♦ **Providence Services Corporation** (PRSC: Nasdaq)
- ♦ **US Physical Therapy, Inc.** (USPH: Nasdaq)

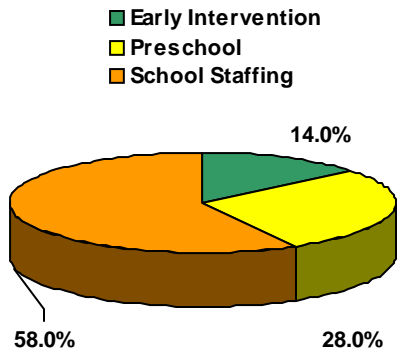
SERVICES

- ♦ **Early Intervention** - Birth Through Two Years of Age
Evaluations
Speech-Language Therapy
Parent/Child Group Services
- ♦ **Preschool** - Three to Five Years of Age
Evaluations
Speech-Language Therapy
Occupational Therapy
- ♦ **School Staffing** - School Age
Speech-Language Therapy
Physical Therapy
Occupational Therapy
Special Education Classes

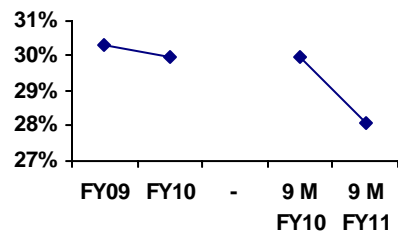
TARGET CLIENTS

- ♦ Charter Schools
- ♦ Private Schools and Day-care
- ♦ Public Schools
- ♦ Individual Students In-Home

SALES MIX



PROFIT MARGINS



BUSINESS DESCRIPTION

American Learning Corporation (ALC) is a New York-based provider of comprehensive services to children with developmental delays and disabilities. The Company provides its services to children of all ages in schools and homes primarily in the State of New York. ALC operates through two subsidiaries - Interactive Therapy Group, Inc. (ITG) and Signature Learning Resources (SLR). ITG maintains five service offices located around the state - Amherst, East Syracuse, New York, Poughkeepsie and Rochester - from which it provides early intervention and pre-school services. ITG primarily provides evaluation services for children that may



qualify for federal and state government programs providing financial support for disabled children from birth through eighteen years of age. SLR deploys professionals to schools for the provision of a variety of services such as speech, language, physical and occupational therapies, among others.

American Learning began providing its current suite of services in 2008. It currently employs approximately 170 people, of which approximately 90 are contractual service providers. The Company maintains an Internet presence as www.americanlearningcorporation.com

GROWTH STRATEGY

American Learning believes it can capture a greater share of its current target market in New York State. Its direct sales team is focused primarily on private and charter schools where service terms have been most favorable. The New York State legislature recently approved an additional 260 new charter schools in the state, more than doubling charter school enrollment capacity in the state. The Company expects the disabled student population to remain consistent in these new schools, portending a substantially expanded addressable market.

ALC also plans use acquisitions to extend its geographic presence and capture additional market share in New York State. The Company believes its public status and reputation for strong administration and marketing makes it attractive as a partner for private providers.

The Company recently announced the acquisition of an unnamed provider of educational and behavioral health services. Described only as an east-coast based services provider, the operation is has apparently achieved \$30 million in annual sales and is profitable. The purchase price was not disclosed, but the Company has indicated it plans to use a combination of cash, stock and debt to complete the deal. The closing is pending the completion of due diligence and other legal requirements.

MEMBERSHIPS

- ♦ New York State Speech and Hearing Association
- ♦ Long Island Speech and Hearing Association
- ♦ American Speech-Language-Hearing Association
- ♦ Education Industry Association

RELATIONSHIPS

- ♦ **Holtz, Rubenstein, Reminick, LLP** - Auditor
- ♦ **Siller Wilk, LLP** - Legal Counsel
- ♦ **Continental Stock Transfer** - Transfer Agent
- ♦ **State of New York, Department of Education** - Professional Licensing

BALANCES

	<u>3/31/10</u>	<u>12/31/10</u>
Cash	\$3.4	\$2.4
Current assets	\$4.8	\$3.9
PP&E, net	\$0.2	\$0.1
Total assets	\$5.7	\$0.1
Accts. Payable	\$0.2	\$0.2
Current Liabilities	\$0.9	\$0.6
Long-term Debt	-0-	-0-
Equity	\$4.7	\$4.1
Shares Outstanding	4.8	4.8
Warrants and Options	1.2	1.0
Shares underlying Convertible Securities	-0-	-0-

Dollars, shares and derivatives in millions

Source: Company Reports and Crystal Equity Research Estimates

CASH FLOW AND BALANCES

At the end of December 2010 American Learning reported \$2.4 million in cash and equivalents on its balance sheet. Working capital at was \$3.3 million. At the current cash usage rate, we estimate current cash resources are adequate to support operations through the end of fiscal year 2012. That said, we expect the Company to close the gap on its operating loss as higher revenue levels provide better coverage of fixed administrative costs.

ALC has no long-term debt. Stock holders' equity was \$4.1 million at the end of December 2010. We estimate the Company has a total of 1.0 million in warrants and options outstanding with an average exercise price of \$1.94. This represents potential dilution of 20.8% and potential capital infusion value of \$1.9 million.

If completed a recently announced acquisition of an educational and behavioral health operation is likely to significantly impact the Company's balance sheet. Although the Company released no information on the target operation's balance sheet, we expect it to own a nominal amount of tangible assets. Thus we expect the deal to generate a significant amount of intangible assets and goodwill. We also expect completion of the deal to ultimately involve new debt or the issuance of new common stock. The Company did not disclose a final purchase price, but did suggest that the deal will be completed with a combination of cash, stock and debt. Management anticipates a June 2011 closing.

EARNINGS COMPARISONS**As Reported**

	<u>3QFY10</u>	<u>2QFY11</u>	<u>3QFY11</u>
Sales	\$1.7	\$1.5	\$1.9
Gross Profit	\$0.5	\$0.4	\$0.5
Margin	24.9%	26.7%	26.3%
Oper. Loss	(\$0.3)	(\$0.4)	(\$0.2)
Margin	Neg	Neg	Neg
Net Loss	(\$0.3)	(\$0.4)	(\$0.2)
CFO	(\$0.5)	(\$0.6)	(\$0.5)
EPS	(\$0.06)	(\$0.08)	(\$0.04)

As Adjusted for Non-cash, One-time Items

	<u>3QFY10</u>	<u>2QFY11</u>	<u>3QFY11</u>
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\$\$ in millions except EPS; Fiscal year ends Mar

**Crystal Equity Research Estimates.*

OPERATING PERFORMANCE

American Learning has been successful in ramping sales in each of the last three years. The Company reports revenue in one segment for the provision of professional services to individuals, schools and other agencies. The Company recognizes revenue as services are completed and billed. Revenue in the twelve months ending December 2010 totaled \$7.7 million, compared to \$7.0 million in the last fiscal year ending March 2010.

Direct costs consist primarily of employee salaries and contractor compensation. Gross profit in the trailing twelve months was 28.6% compared to 30.0% in fiscal year 2010. The Company continues to generate losses at the operating level. However, the shortfall has narrowed on higher profits on an expanding revenue base. The operating loss was \$700,000 in twelve months ending December 2010 compared to \$800,000 in the last fiscal year.

In the most recently reported quarter ending December 2010, the Company reported record sales of \$1.9 million. This represents year-over-year growth of 11.8% and sequential growth of 26.7%. We believe there is an element of seasonality in the Company's revenue levels coinciding with the typical school year. Thus the June and September quarters are expected to be the seasonally slow periods.

Although we provide in the left column on this page a comparison of quarterly earnings in the most recently reported quarter, we note that the Company did not report any one-time, non-cash items the last couple of years. We expect the pending acquisition of the educational and behavioral health operation to create some unusual expenses in the period in which it is completed.

GROWTH DRIVERS

- ◆ Increased awareness of potential in disabled children through education and therapy
- ◆ Continued public and private funding of vocational and rehabilitation therapy in schools
- ◆ Expansion of private and charter school networks resulting in increased student population in ALR's target market
- ◆ Advances in therapies and teaching methods that encourage wider application to disabled students

INDUSTRY EVENTS

- ◆ **June 16, 2011** - National Psychiatric Rehabilitation Occupational Therapy Symposium, USPRA & Massachusetts Assn. of OT, Boston
- ◆ **June 13-16, 2011** - U.S. Psychiatric Rehabilitation Conference, USPRA, Boston, MA
- ◆ **July 14-26, 2011** - EDVentures Conference, San Francisco, CA
- ◆ **Nov. 17-19, 2011** - American Speech Hearing Association Convention, San Diego, CA

COMPETITION

- ◆ Bilingual Care, Inc.*
- ◆ Occupational Therapy Associates of New York
- ◆ Long Island Occupational Therapists
- ◆ Kids in Action of Long Island
- ◆ Western New York Physical & Occupational Therapy Group
- ◆ Sage for Children, LLC
- ◆ Diversified Rehabilitation & Consulting, Inc.
- ◆ Rapant-McElroy & Associates
- ◆ Northern Rehabilitation, Inc.
- ◆ Early Diagnostic & Treatment Center (Just Kids)
- ◆ Aim High Children's Services

MARKET OPPORTUNITY

Over the last four decades both public and private educational institutions have sought to provide more inclusive educational and therapeutic services for disabled children and young people. Furthermore, educational and therapeutic applications have evolved, making it possible to provide greater assistance to disabled persons. This includes the concept of "main-streaming" or educating students with special needs in regular classrooms. Thus, although the population with disabilities appears to have remained fairly steady, the number of children receiving care has expanded modestly.

Beginning with landmark legislation in the early 1970s, federal and state governments have given public financial support for the cause. A series of successful congressional acts have expanded the definition of disabled and fine-tuned procedures for financial assistance qualifications.

Presently services to disabled children are provided through a federal program under the Individuals with Disabilities Education Act (IDEA). This act passed originally in 1990 governs how states and public agencies provide intervention and special education services for children and young people from birth through 21 years of age. It applies only to states that accept federal aid, which at this time includes all fifty states. In fiscal years 2010 and 2011, federal funding was flat.

According to the IDEA Data Accountability Center, in 2008 there were approximately 6.6 million individuals that met the criteria as disabled. Approximately 95% of the school age portion of IDEA qualified children were enrolled in schools. This group represented approximately 13% of total school population. Unfortunately, details on New York State disabled population in recent years is not readily available. However, if we assume the ratio of disabled to total school age population in New York follows the national proportion, we can estimate that there are approximately a half million school age children who are disabled in New York.

The State of New York also provides assistance to disabled children through Section 4410 of the New York State Education Law (NYSED). The program covers education and therapy for pre-school age children across the state.

LEGISLATIVE HISTORY

1975 - The Education for All Handicapped Children Act

1990 - Individuals with Disabilities Act (IDEA) of 1990

1997 - IDEA Amendments with Expansion of Definition of Disabled Children

2004 - IDEA Amendments to Align with No Child Left Behind Act of 2001

2009 - Allocation of \$12.2 Billion from American Recovery and Reinvestment Act of 2009 for Disabled Persons Education and Therapy Services

COMPETITIVE POSITION

The market for educational and specialized services for the disabled is highly fragmented and populated by a large number of professionals operating as single proprietors or contractors. The unique nature of each therapy lends itself to specialization and a focus on service situation or another such as pre-school or in-school. American Learning Corporation is among the few corporate organizations providing services in New York State. Economies of scale help create some efficiencies in sales and marketing as well as the administration of contracts. We believe those efficiencies give ALC some competitive advantage over single proprietors that may not have the capacity to handle the unique requirements of larger schools or patient populations. We believe the Company competes largely on the basis of reputation and quality of services.

CORPORATE HISTORY

- April 1982** - Incorporated in the State of New York as American Claims Evaluation
- Sept. 2008** - Divested vocational rehabilitation and disability management services operations (RPM)
- Sept. 2008** - Acquired Interactive Therapy Group, Inc. (ITG), a provider of vocational rehabilitation and disability management services for children
- Feb. 2010** - Changed corporate name to American Learning Corporation
- Feb. 2010** - Formed Signature Learning Resources, Inc. (SLR) to complete all school staffing programs
- Mar. 2010** - Received deficiency letter from Nasdaq Stock Market
- Nov. 2010** - Regained compliance with listing requirements of Nasdaq Stock Market
- Mar. 2011** - Sale of certain assets in upstate New York related to Interactive Therapy Group operation
- Apr. 2011** - Letter of Intent to acquire east-coast based educational and behavioral health services operation

LEADERSHIP

Gary Gelman is the founder of American Learning Corporation. He currently serves as Chief Executive Officer and Chairman of the Board. Gelman has a strong track record as an entrepreneur. He is also the senior executive and founder of American Para Professional Systems, Inc., a provider of physical exam services for life and health insurance companies. He has a bachelor of arts degree from Queens College in New York. Gelman owns 2.9 million shares or 60.9% of the outstanding common stock of ALR and thus has majority control of ALC's strategic direction.

Gary Knauer is **Chief Financial Officer** of ALC, a position he has held since 1991. He was previously with KPMG, LLP as an auditor. Knauer earned a bachelor of science degree from Binghamton University and is a certified public accountant. He serves as a financial officer for American Para Professional Systems, an operation headed by Gary Gelman.

Edward Elkin has been a member of the board of directors since 1985. He is a health program consultant and previously worked for the New York State Department of Health services on projects relating to utilization and quality assurance in hospitals. Elkin is a board certified medical doctor in pediatrics. He has a bachelor of arts from Harvard College and a doctorate of medicine from New York University of Medicine.

Peter Gutmann has been a director since 1985. He is a professor of economics and finance at Baruch College, City University of New York. Gutmann earned a bachelor of arts degree from Williams College, a B.S. degree from Massachusetts Institute of Technology, a M.A. degree from Columbia University and a Ph.D. from Harvard University

Joseph Looney has been a director of ALC since 2005. He is currently vice president of finance for NBTY, Inc., a manufacturer of vitamins and nutritional supplements. He previously held a series of increasingly vital finance and accounting positions with a variety of manufacturers and service providers. Looney is a certified public accountant and has a bachelor of arts degree from Queens College and a masters degree from Long Island University.

LOCATIONS

- ♦ **Jericho, NY** - Executive Offices
- ♦ **East Syracuse, NY** - Interactive Therapy Group Services
- ♦ **New York, NY** - Interactive Therapy Group Services
- ♦ **Washington, DC** - Administrative Office

CAPITALIZATION

Recent Price:	\$2.50
Shares Out:	4.8 M
Market Capital:	\$12.0 M
+ Preferred Stock	\$ -0-
+ Debt	\$ -0-
- Cash	<u>\$ 2.4 M</u>
Enterprise Val:	\$ 9.6 M
Book Value:	\$ 4.1 M
Working Capital:	\$ 3.3 M

Balances as of 12/31/10

Source: Company Reports and Crystal Equity Research Estimates

OWNERSHIP

	Shares of Common Stock
G. Gelman, CEO/Chair	2.9
G. Knauer, CFO	-0-
P. Gutmann, Director	<0.1
E. Elkin, Director	-0-
J. Looney, Director	<u>-0-</u>
Total Insiders	2.9 M
As % of Shares Outstanding	60.4%
5% Holders	0.7 M
As % of Shares Outstanding	14.6%

Shares in millions

Source: Company Reports and Crystal Equity Research Estimates



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