

Electronic Education Report



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Business Intelligence on Opportunities in the Educational Software Industry

Princeton Review K-12 Sales Down; Kaplan Up in 2007

As part of a major company-wide restructuring, Princeton Review's (New York) strategy for its K-12 services business is to trade revenue for profit. The strategy succeeded in 2007 when the division had operating income of \$1.2 million after sustaining an operating loss of \$2.7 million in 2006.

K-12 services fourth-quarter revenue was \$6.9 million down 42.4% from \$12 million in the fourth quarter of 2006. For the year, K-12 services revenue was \$36 million, down 5.2% from 2006.

The non-renewal of Princeton Review's contract for professional development with the New York City schools was a major contributor to the revenue decline and that impact will continue to be felt in the first quarter of 2008.

See 'Princeton Review' on p. 4

One-on-One with EER:

Interest Grows in Data-Driven School Improvement

Editor's note: Margaret Honey, senior vice president for strategic initiatives and research at Wireless Generation (Brooklyn, N.Y.) and co-editor with Ellen Mandinach of Data-Driven School Improvement: Linking Data and Learning, talked with EER about data-driven instruction.

EER: Why is there so much current discussion around data-driven school improvement?

MH: Data-driven decision-making is not a new enterprise; teachers have always collected data and always used data to make instructional decisions about how best to support their students. What is different is that the entire enterprise is now set within the

See 'One-on-One' on p. 7

Pearson Pushes Digital Expansion; U.S. School Revenue Up 3.5% in 2007

Revenue at Pearson Education (Upper Saddle River, N.J.), including K-12 and higher education publishing sales, increased 3.6% to £2.68 billion (U.S. \$5.37 billion) in 2007. On an underlying basis, excluding currency translation, acquisitions and disposals, revenue increased 6% over 2006. In both K-12 and higher education, the company benefited from its ongoing transformation into a more global business with a digital focus.

"Last year, we generated almost a quarter of our total Education revenues from digital products and services," Pearson chief executive Marjorie Scardino said. "That's a long, long way ahead of our traditional competitors."

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EER PULSE

Shifting Instruction Time

- 80% of districts increasing instruction time for English language arts did so by at least 75 minutes a week; 54% increased by more than 150 minutes a week.
- 63% of districts that have increased instruction time for math did so by at least 75 minutes a week; 19% added 150 minutes or more.
- 53% of districts increasing time for ELA and/or math cut instructional time by at least 75 minutes a week in social studies and/or science.

Source: *Instructional Time in Elementary Schools*, February 2008, from the Center on Education Policy.

Education in 2007 accounted for 64% of Pearson's sales and operating profit in 2007. About \$2 billion of revenue came from the international education arena, or everywhere outside the U.S.

"We have achieved a company which can sustain its growth through cycles," Scardino said. Pearson's strategy is to have great content, add some sort of service—generally based on technology—and to make sure the business is international while benefiting from a strong, central services organization, she said.

School Grows in 2007

School division revenue of £1.54 billion (\$3.07 billion) increased 5.6% from 2006. The company said its U.S. School publishing revenue increased 3.5%, boosted by performance in adoptions. Pearson claimed a 30% share

of total new adoptions and a 31% share in adoptions it participated in. The company is incorporating digital features for adoptions and continuing its investment in its established digital programs, like NovaNet and SuccessMaker.

"Cutting spend on educational materials has tended to create political problems and not to solve financial problems for states, and all of them know that."

—Pearson CEO
Marjorie Scardino

Pearson's enVision Math, an integrated print and digital elementary math program, which is the next generation of Pearson's successful California social studies program, was launched for the 2008 adoption campaign. In 2008, math accounts for one-third of the total new adoption opportunity

estimated at up to \$900 million. Scardino said early indications are Pearson's math program could emerge as the leader in the large Texas adoption.

For the 2009 California reading/language arts adoption, Pearson will offer an elementary reading program in the state for the first time. Pearson's program includes instruction, aligned assessment and digital media aimed at building vocabulary and boosting reading comprehension skills. Pearson also has a parallel Spanish program for elementary students and a stand-alone intensive English-language development program for all grades.

Pearson U.S. school testing sales increased in double digits in 2007, benefiting from contract wins, market share gains and strength in online assessment. Pearson delivered 2.5 million secure online tests across 13 states in 2007, up from 1.4 million in 2006. The company expects its January 2008 acquisition of Harcourt Assessment for \$647 million to complement its existing testing business, broaden scale and reach in adjacent markets, and create new publishing and digital opportunities.

Pearson's student information system business was a good performer for the company in 2007 with double-



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PEARSON PLC FINANCIAL RESULTS, 2007 VS. 2006
(period ended Dec. 31; \$ in millions)

	Revenue			Adjusted Operating Profit		
	2007	2006	% Chg.	2007	2006	% Chg.
Pearson	\$8,436	\$8,102	4.1%	\$1,268	\$1,184	7.1%
Operating Margin	15.0%	14.6%	0.4			
Pearson Education	\$5,368	\$5,182	3.6%	\$808	\$766	5.5%
Operating Margin	15.1%	14.8%	0.3			
School	\$3,074	\$2,910	5.6%	\$406	\$368	10.3%
Operating Margin	13.2%	12.6%	0.6			

Note \$ figures calculated by converting British pounds sterling at 2.00 exchange rate.

digit growth and increased profit. The acquisitions of PowerSchool and Chancery have fit company strategy and helped Pearson build share to 30% to 35% of the market. A late 2007 acquisition of Edustructures (South Jordan, Utah), which develops comprehensive application integration solutions built upon the Schools Interoperability Framework (SIF) standard for K-12 school districts and state Departments of Education, put Pearson in the longitudinal data systems market, a market the federal government has provided \$300 million in funding for in the past two years.

2008 Outlook

Pearson CEO Marjorie Scardino said she did not expect the difficult state budget outlook to have a significant impact on instructional materials, which account for about 1% of total K-12 education spending in the U.S. "Cutting spend on educational materials has tended to create political problems and not to solve financial problems for states, and all of them know that," Scardino said.

Pearson expects the Harcourt acquisition to contribute to double-digit revenue growth in its School business at constant currency.

Excluding Harcourt, the company expects underlying sales to grow in low single digits, against U.S. industry growth it projects in the 3% to 4% range. Pearson's underlying growth will be below industry because of reduced participation in adoptions, 90% in 2008 versus 95% in 2007, and the loss of a testing contract in the U.K. ■

Basic Operations Emphasized by National Math Panel

"Teach fractions" was the takeaway from this month's final report from the National Mathematics Advisory Panel as reported by the media, but the actual emphasis of the report on basic mathematics operations and preparing students to succeed in algebra is both broader and potentially beneficial for providers of technology-based math programs.

The final report of the panel, which was appointed by President George Bush in April 2006 in response to the mediocre achievement of U.S. students in mathematics compared to their international counterparts, echoed the findings of the National Council of Teachers of Mathematics 2006 report that recommended math curriculum include fewer topics, but more in-depth learning.

The new report recommended that students master a clear understanding of operations with whole numbers, becoming proficient in adding and subtracting them by the end of the third grade and proficient in multiplying and dividing them by the end of the fifth-grade. That should be followed by increased focus on fractions, including decimals and percents, because fraction instruction currently is underdeveloped. Geometry instruction also needs to be strengthened, as students should learn measurement of lengths, areas and angles.

The panel found that student math achievement falls off late in middle school, a troubling finding since success

in algebra is linked to high school graduation rates and college enrollment.

The report did not take sides in the ongoing debate about whether mathematics instruction should be teacher-directed or student-centered, saying both methods have a role. It did not call for a national mathematics curriculum.

Impact on Materials

The panel's report said math textbooks are too long and lack coherence, although the writers acknowledged that the demand to meet varying state standards contributed to length. States and districts should strive for greater agreement regarding which topics will be emphasized and covered at particular grades, while publishers should emphasize materials states and districts agree to teach and make every effort to produce shorter, more focused textbooks, the report said.

The report's emphasis on algebra is good news for a number of providers that use technology to address pre-algebra and algebra. They range from large publishers like Pearson (Upper Saddle River, N.J.), which includes diagnostic and progress-monitoring tests with actionable results for targeting instruction in its PASeries Algebra, to Carnegie Learning (Pittsburgh) with its blended software and print algebra and pre-algebra programs, or Tabula Digita (New York), which uses gaming to build algebra skills.

The call for properly prepared and rigorously evaluated teachers is in line with the teacher emphasis found in math programs from Plato Learning (Bloomington, Minn.) and CompassLearning (Austin, Texas). Plato's Straight Curve mathematics series provides in-depth lessons in areas that are complex for students to learn and teachers to teach, including fractions, decimals, measurement, probability and problem-solving. CompassLearning's math programs were designed to take advantage of growing information about how the brain works so students retain learning and can build on what they are taught.

The new math report also may have implications for assessment providers, as it includes a call for both National Assessment of Educational Progress and state assessments to be improved in quality and carry increased emphasis on the critical knowledge and skills leading to

algebra mastery. The states and NAEP should develop procedures for item development, quality control and oversight, according to the report. ■

Princeton Review, cont'd from p. 1

"Princeton in the past was very much a home-run-based company when it came to its K-12 business," said Princeton Review president and chief executive officer Michael Perik.

"One of the things we're trying to focus on here is smaller clients, more the middle market and have a more diversified customer base." Perik said that is a better model in terms of gross margin because large customers tend to be demanding in terms of the customization they seek.

Princeton Review this month launched a new Web site for the K-12 division, www.ThePrincetonReviewK12.com, which provides information, success stories and a walk-through of the company's K-12 intervention and formative assessment products.

PRINCETON REVIEW, KAPLAN FINANCIAL OVERVIEW, 2007 VS. 2006 (\$ in millions)

Princeton Review			
	2007	2006	Chg.
Revenue	\$146.6	\$135.2	8.5%
Test Prep	\$93.4	\$90.4	3.3%
K-12	\$36.0	\$38.0	-5.2%
SES	\$17.2	\$6.8	153.0%
Op. Loss	\$22.1	\$9.1	NA
Op. Margin	-15.1%	-6.7%	NA
Kaplan			
	2007	2006	Chg.
Revenue	\$2,030.9	\$1,684.1	20.6%
Test Prep	\$569.3	\$457.3	24.5%
Op. Income	\$149.0	\$130.2	20.6%
Op. Margin	7.3%	7.7%	-0.4

Source: Princeton Review, Washington Post Co. reports



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Rapid Growth for SES

In reporting 2007 results, Princeton Review, for the first time, separated the results of its Supplemental Education Services business from its Test Prep division. SES revenue more than doubled in the fourth quarter and for the year. Fourth-quarter 2007 revenue was \$8.5 million, up from \$3.1 million in fourth quarter 2006; 2007 SES revenue was \$17.2 million, up from \$6.8 million in 2006. Growth in contracts with New York and Chicago schools, as well as entry into the Florida market, led to the revenue gains.

“That (SES) business, I think actually will be a very strong grower in the year to come and it could be as much as a 50% type of grower,” said Perik. “It will have some margin improvement at the bottom line while it’s doing that.”

Future Outlook

“We have a positive outlook on the business and a belief that appropriate investment strategies in sales and marketing will yield opportunities for higher revenue growth in 2008 and beyond,” Perik said. “The effects of the reorganization of the company will be felt across all divisions and corporate functions and are expected to result in annualized savings going into 2008 of approximately \$9 million.”

Overall Princeton Review revenue is projected to grow between 10% and 13% in 2008, which would put revenue in the range of \$161 million to \$165 million. Growth will be driven by Princeton Review’s acquisition this month of its largest franchisee, Test Services, operator of 10 franchise locations; organic growth in the Test Prep business

and SES increases. Test Services was a subsidiary of Alta Colleges (Denver), which received \$4.6 million in cash and 4.2 million shares of Princeton Review common stock in the transaction.

Kaplan Revenue Up

Rising revenue at Kaplan Education drove the positive results at the Washington Post Co. in 2007 when revenue was down at the company’s newspaper publishing, magazine publishing and television broadcasting divisions.

Kaplan’s businesses include higher education services, a professional segment and a test prep division, which provides test preparation services for college and graduate school entrance exams, and K-12 and Score!, which offer multimedia learning and private tutoring to children and educational resources to parents. Test prep division revenue grew 15.6% in the fourth quarter and 24.5% for the year; excluding revenue from acquired businesses, revenue rose 15% in the fourth quarter and 6% in 2007. While

Katzman Steps Back

Princeton Review founder and executive chairman John Katzman is taking a six-month sabbatical from the business during which time he will continue to serve as chairman of the board, but not have any day-to-day operating responsibilities.

“The arrangement that we have with Mr. Katzman right now is a paid leave of absence for roughly a six-month period and at the end of that period we will assess where things are at,” Perik said. Katzman has a base salary in the mid \$400,000s.

EER STOCKWATCHShare Price Values for Instructional Software Publishers, Feb. 29 - March 14, 2008
(closing prices)

	Ticker	March 14	March 7	Feb. 29	% Chg., 2/29-3/14	% Chg., YTD
K12 Inc.*	LRN	\$20.50	\$23.86	\$27.12	-24.4%	-18.3%
LeapFrog*	LF	\$6.53	\$6.43	\$5.70	14.6%	-2.7%
Plato Learning	TUTR	\$3.14	\$3.07	\$3.80	-17.4%	-28.1%
Renaissance Learning	RLRN	\$13.90	\$12.67	\$13.16	5.6%	-0.4%
Scientific Learning	SCIL	\$4.45	\$4.66	\$5.01	-11.2%	-18.2%
Siboney Corp.	SBON.OB	\$0.11	\$0.11	\$0.10	10.0%	-31.2%
Average for Group		\$8.11	\$8.47	\$9.15	-11.4%	-12.0%
NASDAQ Nat'l. Mkt. Composite Index		2,212.49	2,386.98	2,271.48	-2.6%	-16.6%
*K12 and LeapFrog are the only index companies listed on the NYSE, all others listed on NASDAQ						
Source: Yahoo! Finance; Simba Information						

the traditional test preparation business was strong, Score! and K-12 performance lagged.

In the fourth quarter 2007, Kaplan management announced plans to restructure the Score! business. In order to implement a revised business model, 75 centers were closed. After closings and consolidations, Score! has 80 centers that focus on providing computer-assisted instruction and small-group tutoring.

Total education division revenue was \$537 million in the fourth quarter, a 20.6% increase over revenue of \$445.4 million in fourth quarter 2006. Excluding revenue from acquired businesses, education revenue increased 16% in the fourth quarter. ■

Pasco Launches SPARK Science Learning System

Pasco scientific (Roseville, Calif.) last week introduced the SPARK Science Learning System, which combines a handheld computing device with science probes and lessons to encourage hands-on student exploration of 21st century science concepts.

Wayne Grant, Pasco's general manager for probeware, told *EER* that access is key to the success of the launch. SPARK is affordable, with an introductory price through

Aug. 1 of \$299, and because the device is easy to use training can focus on scientific practice, he said.

Pasco's training for SPARK will focus on how to set up a classroom that is conducive to using technology, national science education partnerships manager Richard Briscoe told *EER*. The company will provide ongoing support and plans to build a network of teacher users who will participate in Webinars and Wikis.

SPARK ships with 50 guided-inquiry labs installed, but teachers also can add their own lessons. With SPARK, Pasco continues its evolution from its original focus on physics, when the company started 45 years ago, to include other science disciplines including biology and chemistry.

Pasco talked to over 1,000 teachers and administrators during the SPARK development process. The device that emerged is designed to be rugged and light-weight. It features a full-color 5.75" diagonal display, is battery-powered and runs mobile LINUX.

SPARK comes with temperature and voltage sensors and other Pasco probes can be plugged in. The device allows users to take a snapshot of anything they are working on; those photos can be added to a journal feature, printed or loaded to a flash drive. ■

Financial News ...

- ▶ Technology-enabled professional development provider **Teachscape** (San Francisco) last month received \$3 million in debt and equity financing, led by a \$2 million venture loan from MMV Financial (Toronto, Canada).

News Briefs ...

- ▶ **Pearson Education** (Upper Saddle River, N.J.) this month released WriteToLearn 5.0, a tool students use to practice essay writing and summarization skills. WriteToLearn 5.0 added a teacher comment feature to provide students with direct feedback from their teachers and new dictionary, spot word translation and text-to-speech capabilities to assist struggling readers and English-language learners. Free updates will be provided to current WriteToLearn users.
- ▶ **ALEKS Corp.** (Tustin, Calif.) last month released QuickTables, a math fact mastery tool for multiplication, division, addition and subtraction for grades 3 and up. Correlated to National Council of Teachers of Mathematics standards, QuickTables is available at no additional cost when used with other K-12 ALEKS math programs.
- ▶ **Learning.com** (Portland, Ore.) last month launched Communicating Online, a new unit in its EasyTech technology literacy curriculum, which helps middle-school students learn to use online communication tools, like instant messaging, blogs and podcasts, while developing collaboration skills.
- ▶ **SpellingCity.com** (Silver Spring, Md.) launched last month as a free Web 2.0 application where teachers, students and parents can share spelling lists, spelling techniques and games.
- ▶ History publisher **ABC-CLIO** (Santa Barbara, Calif.) this month is releasing three free online resource collections, including reference materials, video clips and timelines in its History and the Headlines series. Topics are Women's Power and Roles in Tudor England, Forty Years Later: Recognizing Martin Luther King Jr.'s Life and Death, and Socialism with Human Face: The

Prague Spring Reform Movement.

- ▶ The Nevada Department of Education last month signed a four-year \$4.6 million contract with **CTB/McGraw-Hill** (Monterey, Calif.) and **The Grow Network/McGraw-Hill** (New York) for annual norm-referenced tests in reading, language, math and science for 100,000 students in grades 4, 7 and 10 as part of the Nevada Proficiency Examination Program. The Grow Network will produce Premier Home Reports suggesting individualized home activities based on a student's specific needs in each subject and Web resources to continue the learning process.

One-on-One, cont'd from p. 1

context of *No Child Left Behind*. There are high-stakes consequences for not meeting your performance targets as a school. That situation puts additional pressure on schools. It creates a climate in which schools are hungry for, and very receptive to, professional development that can help them develop in their faculty more understanding on how to use data effectively.

EER: Is the federal government supporting the interest it is driving?

MH: There has been some investment on the part of the federal government. There is a competitive grants program known as the longitudinal data systems program. Last year, that program awarded about \$62 million to 13 different states. The point of those investments is to help states build out their comprehensive data systems at the state level. Federal support for the building of longitudinal data systems is essential because it is expensive and complex.

EER: What role are the states playing?

MH: States collect lots of data. Not only are they required to by the federal government, but their state boards of education may be requiring them to collect additional data. It's not necessarily the case that all of that data flows neatly into a comprehensive system. In fact, what we saw a lot is states having a number of different data silos. You can have states collecting, in some cases, up to 20 different assessments of one kind or another being administered in schools over the course of a year.

It's not the case that the information flows into a system that allows the different data streams to exist in relationship to each other and be easily accessed. Part of what states are investing in, particularly states that have received longitudinal data systems funding, is systems that allow them to take data that typically lives in different kinds of data systems and combine data in a single, much more comprehensive system, so the different data streams have interoperability.

A big move that a number of states—maybe half—made is to put in place a universal student identifier, which is an important first step in longitudinal tracking of student progress. It's hard to build a meaningful data warehousing solution without that kind of information—if you have to figure out who the child is every time they move. Particularly in urban areas, there is huge mobility. That mobility can be within the state, more often than not it is within a city. Being able to track that in a uniform way is critical. Indiana and Maine have made huge strides in that direction.

EER: What are the implications of data-driven instruction for providers of educational technology solutions?

MH: Here at Wireless Generation, we've seen a huge, growing interest in schools wanting to provide teachers with ongoing professional development to help them use data for instructional decision-making purposes. While some of the work we do is built around our assessment applications, we also have found that schools are interested in a broader-brush approach to data-driven decision making that may help the teachers look at the information they have specifically collected using our reading and math assessment, but also to look at other kinds of information they are collecting.

EER: Are teachers able to effectively use all the data they now receive?

MH: We're a company that puts a lot of effort into making data collection, data capture very easy, a lot of effort into creating very transparent, easy-to-read reporting formats. There's no doubt that technology tools lend a lot of efficiency to the enterprise both in terms of data capture and data reporting. What we see, and I think this is also reflected in work other people have done as well, is that reporting formats that are easy to read, that are intuitive,

that link easily to instructional next steps are key to enabling teachers to do this work effectively. One of the things that is challenging is when you have a lot of benchmark assessments running in your school district and the feedback loop is not as clear as it needs to be making the data that much harder to use and act on.

The other thing that we've seen clearly in the research that we did around data-driven practices is that schools

“There's no doubt that technology tools lend a lot of efficiency to the enterprise both in terms of data capture and data reporting.”

—Margaret Honey,
Wireless Generation

that have set up teams of teachers to systematically look at issues of student performance in relation to ongoing formative assessment, in relation to benchmark assessment they may be using, in relation to classroom assignments that are delivered systematically across grades,

those kinds of data teams are very, very powerful for helping teachers figure out what the data is telling them about how to make modifications to instructional practices to better meet the needs of individual students.

EER: How does parent interest in accessing information and helping their children succeed fit in?

MH: Teachers have always shared information with parents about their students' progress that is what is at the heart-and-soul of the teacher-parent conference. What makes it different today is the kind of assessment tools and resources that teachers have available. Whether you are talking about diagnostic reading assessments or diagnostic math assessments, what we've seen at Wireless Generation is that teachers really love our Home Connect reports. Those are reports that summarize in very parent-friendly language; they're not technical reports. They're reports that anybody can understand. They look at the child's progress over time and offer suggestions for how you can better support your child's work at home. Those are extremely popular resources. ■