

Electronic Education Report



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Business Intelligence on Opportunities in the Educational Software Industry

Voyager Hopeful About 2009 After 2008 Declines

Voyager Learning Co. (Dallas) management predicts the company's 2009 growth potential depends on whether the coming rush of stimulus money will be enough to offset the budget crisis in the states.

Voyager Expanded Learning president Ron Klausner said there is an "incredible sum of money" that will "drop very quickly," but cautioned that a significant amount will be used to avoid staff layoffs. Also, he predicted the stimulus impact would differ across the states.

"The money will be spent first and foremost for people," Klausner said. He said the next priority would be technology, specifically infrastructure and bandwidth, followed by professional development, and then for programs.

[See 'Voyager' on p. 4](#)

Princeton Review and Kaplan Grow 2008 Revenue

Princeton Review (Framingham, Mass.) 2008 revenue increased 25.5% from 2007 to \$138.8 million as revenue in the company's Supplemental Educational Services unit grew 76.3% to \$30.3 million. In the fourth quarter, company revenue increased 15.9% to \$34.2 million, while SES revenue increased 31.8% to \$11.2 million. The company reported operating income of \$1.8 million, compared to a \$23.5 million loss in 2007.

In the 2007-2008 school year, SES enrollment increased by 87%, which was accomplished in part by expanding market coverage to over 60 districts in 15 states, up from 15 districts in five states in the prior year. SES market strategy for 2009 includes penetrating states and districts currently served and expansion in Texas and California.

[See 'Princeton Review' on p. 6](#)

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Schools Look to Skype for Sharing

As schools expand Internet-based learning options, Skype (Luxembourg), the software that allows users to make telephone calls over the Internet, is gaining popularity for educational use.

Ian Robin, director of sales, Skype for business, told *EER* that educators are using Skype for virtual education, group learning and language teaching. Chief selling points are accessibility and ease of use; anyone can get Skype free from the company Web site and use it with any operating system to present video and audio, he said.

The collaborative nature of Skype is very important, Robin said, as is the ability to

EER PULSE

Implementing P-20 Data Systems

- 12 states have data systems in place that can track a student from kindergarten through college and on to the workplace.
- That is three more states than in 2008.
- 38 other states are in the process of building such data systems.

Source: *Closing the Expectations Gap 2009*, a report from Achieve Inc. and the Center for Public Policy, February 2009

Skype At-A-Glance

What it is: An Internet communication offering allowing unlimited voice and video communication for free between the users of Skype software (up to 100 people in a group chat)

Need to use: Broadband Internet connection, free software from Skype.com and a Skype-certified phone or headset

Who uses: 450M registered users worldwide; in 28 languages

How Skype makes money: Premium offerings, including making and receiving calls to and from landlines and mobile phones, voicemail, call forwarding and personalization, such as ringtones and avatars

Founded: 2003; acquired by eBay for \$2.6 billion in 2005

Management team: Josh Silverman, president; Scott Surchslag, COO; Laura Shesgreen, CFO; Don Albert, general manager Skype North America

Source: Skype



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bring in subject area experts and share teachers.

“Some teachers send out requests on their social network ‘looking for someone who is knowledgeable about ...’ and then set up Skype calls with the class to get them talking about the topic and allowing the class to ask the person questions,” Mitch Weisburgh, founding partner at Academic Business Advisors, told *EER*. “Some of these have included writers, history teachers, people in different businesses, musicians, etc.”

Weisburgh sees a potentially huge market for companies that connect language learners with native speakers, something that would be a time-consuming process for teachers. “I know of a company that is setting up a service to connect U.S. classrooms with Latin America classes, so the Latin Americans can practice English and learn U.S. culture, and the U.S. students can practice Spanish and learn Latin American culture,” he said.

Implications for Virtual Education

Weisburgh said that with Skype, or similar services, helping students take classes remotely, schools will more readily try virtual classes. “Public schools will start trading classes, like ‘You offer AP Bio and I’ll offer AP European History,’” he said. There also is applicability for home-schooled students or students at home for health reasons and those living in remote areas.

“In one sense, that legitimizes the virtual school market, providing opportunities for companies offering virtual courses,” Weisburgh said. “On the other hand, it also provides competition, probably at a lower cost.”

Regarding competition, Skype—like any other growing business—is attracting some competitors of its own. “Adobe has a competing platform that is supposed to use fewer resources, and various services are popping up to compete with Skype,” Weisburgh said. ■

Learning.com Launches Science Program

Learning.com (Portland, Ore.) this month moved into the science market with the launch of Aha!Science, a supplemental science curriculum for grades 3-5.

The new program fills the need for a science product that helps teachers introduce concepts and provide differentiated instruction for students, Learning.com’s vice

president for marketing and product development Jim Kuhr told *EER*. Aha!Science covers life science, earth and space, and physical science with instruction modules, lessons, games, simulations, journaling and quizzes.

The need for schools to include 5th grade science test results when reporting on the adequate yearly progress goals of *No Child Left Behind* was one motivation for the product. Additionally, schools that liked the architecture and design of Learning.com's Aha!Math product requested a similar product for science, Kuhr said.

Aha!Science Whiteboard Edition, for use with interactive whiteboards and projectors, will be available the end of this month with the standard edition available in July. The pricing model follows that of other Learning.com products, usually priced per student per year at \$12, but with a building price option as well. The whiteboard edition is licensed for teacher use in a classroom.

Kuhr said the whiteboard edition of Learning.com's math product was very popular. The company had assumed the

program's games would be used one-to-one by students, but teachers found the games a way of engaging students in whole class instruction.

While including games as well as simulations—which allow classes to model science experiments at no risk and lower cost—Learning.com understands the need for hands-on science work and provides that through AhaScience's activities, Kuhr said.

A new feature of Aha!Science that will be extended to other Learning.com offerings is journaling. Kuhr said journaling extends the reach of the program by bringing in activities that are cross-curricular in nature. ■

CompassLearning Offers Unlimited-User Access

CompassLearning (Austin, Texas) last month began offering schools an unlimited-user license option for its Odyssey online K-12 curriculum and assessment program.



Just Released:
**K-12 Technology
Tools & Trends 2009**

The growth of technology tools in K-12 classrooms will be fueled by a new administration in Washington that pledges to support the construction of new school buildings that open with the latest technology in place and to bridge the digital divide by expanding broadband access across communities.

K-12 Technology Tools & Trends 2009 from Simba provides current and projected market penetration information for presentation tools, like whiteboards and laptops. The report assesses and projects the implementation level of organization tools like learning management systems. Insights and data from educators provide information on their use of, and future plans for, networking and learning communities, distance learning and digital curriculum.



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CompassLearning president Eric Loeffel told *EER* that the unlimited-user access model reflects the company's desire to broaden access and make Odyssey available to all students, teachers and parents in a school or district for 24/7 learning.

The universal access model is part of a new CompassLearning campaign, Project Yes!, designed to make the company's products and services easier to buy, implement, use and support. The driving force behind the initiative is customer feedback.

While the Compass move to offer perpetual licenses as an option—Odyssey can still be purchased as an annual subscription if a customer prefers—goes against a recent trend by companies in the market to emphasize subscriptions over licenses, the timing may be right. The influx of federal stimulus money could heighten schools' interest in purchasing a perpetual license for a product that will still be available to them when the stimulus money stops flowing.

Loeffel said it is too early to tell how quickly schools will spend stimulus funding and what they will spend it on, but expects some schools—particularly those with well thought out plans for student achievement—could start to spend quickly.

High School Expansion

In June, Compass will expand its Odyssey Solutions for Secondary Learners with the introduction of eight courses for 11th and 12th grade, including the four core course offerings for each year. Compass introduced its 9th and 10th grade courses in June 2008.

Loeffel said Odyssey courseware is used in a variety of ways. In elementary schools, it often is used supplementally,

reinforcing teaching. At the high school level, there is more whole class instruction and the company is seeing increasing use in one-to-one computing environments.

School Group Revenue Declines

CompassLearning and Weekly Reader Publishing Group (Pleasantville, N.Y.) comprise the School & Educational Services group of Reader's Digest, which underwent streamlining in 2008 with the \$110 million sale of youth fund-raising business Quality Service Programs in August and the \$16.8 million sale in December of the display marketing business Books Are Fun.

Revenue for the group, excluding the sold businesses, declined 27% to \$24.6 million in RDA's fiscal second quarter, ended Dec. 31, and fell 25.9% to \$46.4 million in the six-month period, compared to the previous year.

The company attributed the decline to difficult school market conditions, which also contributed to the migration from operating profit to operating losses in the second quarter and six-month period for the school group. Costs also increased for product development of digital products planned for release in 2010.

WRPG is investing in digital options including products for interactive whiteboards. Additionally, WRPG is a content partner with Thinkronize (Cincinnati), providing its digitized archives of *Weekly Reader* school magazines for the netTrekker search tool. ■

Voyager, cont'd. from p. 1

Klausner said more money for programs likely will be available in Texas than in California or Florida because the budget crisis has been more severe in the latter two states. He expects intervention will be a target of stimulus

READER'S DIGEST ASSOCIATION, Q2 & 6-MONTH FINANCIAL RESULTS, FY2009 VS. FY2008

(Period ended Dec. 31; \$ in millions)

	Q2 FY09	Q2 FY08	% Chg.	YTD FY09	YTD FY08	% Chg.
Company Revenue	\$642.0	\$703.5	-8.7%	\$1,178.2	\$1,226.8	-4.0%
School & Education Services	\$24.6	\$33.7	-27.0%	\$46.4	\$62.6	-25.9%
Operating Profit/Loss	\$37.1	\$37.8	-1.9%	-\$24.7	-\$33.4	NA
School & Education Services	-\$0.9	\$5.3	-117.0%	-\$7.3	\$4.1	-278.0%

Source: Reader's Digest Association financial report

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spending and said Voyager is rolling out a plan to capture a share of those funds.

Fifty percent of the additional Title I (\$10 billion) and IDEA (\$11.3 billion) money is expected to move to the states by March 31 and then within a month to the districts.

2008 Sales Down

Changes in federal funding impacted Voyager's 2008 results. The company had benefitted significantly from Reading First funding, which declined 60% from fiscal 2007 to fiscal 2008. Voyager had \$28 million in purchases funded by Reading First in 2007, but only \$14 million in Reading-First-funded sales in 2008.

The acceleration and broadening of state and local budget crises with declines in stock market equity hitting investment portfolios prevented districts from finding alternatives to Reading First funding, according to the company.

Overall, Voyager's 2008 revenue was \$98.5 million, down

10.1% from 2007, primarily due to lower order volume and higher revenue deferral rates as Voyager sales included more service and technology. The company's reading intervention program for middle school students and online offerings continued to grow, but that growth was not enough to offset declines in products with a heavy historical reliance on federal funding.

VOYAGER LEARNING FINANCIALS 2008 VS. 2007 (\$ in 000)

	2008	2007	Chg.
Revenue	\$98,531	\$109,612	-10.1%
Op. Loss	-\$81,504	-\$87,262	NA
Op. Margin	-82.7%	-79.6%	NA

Source: Voyager Learning financial reports

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Operating loss for 2008 was \$81.5 million, compared to \$87.3 million in 2007. The company had adjusted EBITDA, reflecting ongoing business operations of \$15.8 million in 2008 compared to \$28.7 million in 2007. Cash and cash equivalents totaled \$67.3 million as of Dec. 31, 2008.

Voyager filed its quarterly reports for 2008 earlier this year with the Securities and Exchange Commission and is now current with all financial filings. ■

MP3 Player Use Spreading in Schools

When Apple (Cupertino, Calif.) launched the iPod in 2001, creative educators immediately saw the potential of MP3 players for classwork. Today those players are used by tech-savvy teachers to upload assignments and download homework while teachers also guide their students to use MP3 players to create reports, make music, do readings and presentations.

In a February 2009 survey conducted by *EER's* parent Simba Information and Market Data Retrieval (Shelton, Conn.) for Simba's new report *K-12 Technology Tools & Trends 2009*, 10.1% of educator respondents said they expect MP3 players/iPods to be purchased for instructional purposes by their school or district within the next 12 months. Another 14.2% of respondents expect such purchases in the next two-to-five years.

"By using podcasts to overlay information on a site or experience, different content can provide interpretation for learners of different ages, abilities and interests without making physical changes to the environment," said Harvard University professor Chris Dede. "With the creation of vodcasts—podcasts with video—the medium has increased its potential for addressing different learning styles."

In Canby, Ore., Amy Sebastian's fourth-grade students work with iPods every day, as part of their language arts lessons. Sebastian has uploaded audiobooks onto the seven iPods she obtained through a grant during her student teaching days. She also uses them to help children learn about poetry. "As they memorize poems," she said, "they can hear the actual poet reading the poem on the iPod."

While podcasting is spreading among individual teachers working to meet students in their own environments, the

West Chester, Pa., school district has begun to use it as a vehicle for teaching 21st century skills. To prepare their students to podcast, they offer a middle school course in digital literacy.

Business Opportunity

Califone (San Fernando, Calif.) last year introduced an MP3 player specifically designed for the school market with a volume cap and multiple-listener capacity. Schools are using the product with beginning readers accessing pre-recorded books and in group podcasts, speech pathology and English-language learning applications.

Additional opportunities exist for content providers. In the Simba/MDR survey, more than half of the educator respondents indicated they would begin using, or use more frequently, MP3 players/iPods if more digital content was available for those devices:

- Would begin using: 29.1%;
- Would use more frequently: 29.1%;
- Don't know or would not use: 41.8%. ■

An expanded analysis of technology trends in K-12 schools—including current and projected market penetration for presentation tools, ranging from computers to interactive whiteboards and handhelds, and for digital management and Web 2.0 solutions—is available in the newly released K-12 Technology Tools & Trends 2009 from Simba Information. For more information or to purchase the report, call 888-297-4622 or e-mail customerservice@simbainformation.com.

Princeton Review, cont'd. from p. 1

CEO Michael Perik said the federal stimulus package, which includes an additional \$10 billion in funding for Title I, bodes well for the SES business, while the \$14 billion in tax credits for college tuition and \$17 billion increase in Pell Grants should help sustain or grow demand for Princeton Review's test preparation services.

K-12 Services Division Sale Complete

This month, Princeton Review completed the sale of its K-12 Services Division to Core Education and Consulting Solutions, a subsidiary of the educational technology company, Core Projects & Technologies Ltd. (Maharashtra, India). The \$9.5 million Princeton Review received in the sale will be used to reduce debt.

K-12 Services was classified as a discontinued operation in the 2008 financial report with a loss for the year of \$8.5 million, including an impairment charge of \$5.4 million to reduce the carrying value of assets to their estimated fair value at Dec. 31, 2008.

Perik said the transaction will help Princeton Review narrow its focus on its core college and graduate school admissions test preparation business while also pursuing what are seen as significant opportunities in SES.

Princeton Review expects 2009 revenue growth to be between 16% and 20% with EBITDA between 10% and 13% of revenue.

During 2008, Princeton Review moved its corporate headquarters from New York City to Framingham, Mass., reflecting an evolution of needs and a desire to work in a lower-cost environment. The company will maintain a presence in New York and is reviewing space options that match its need there.

Rising Revenue at Kaplan

Rising revenue at Kaplan Education (New York) drove the positive results at the Washington Post Co. in 2008 when revenue was down at the company's newspaper and magazine publishing and television broadcasting divisions.

PRINCETON REVIEW, KAPLAN FINANCIALS 2008 VS. 2007 (\$ in 000)

Princeton Review			
	2008	2007	Chg.
Revenue	\$138,774	\$110,614	25.5%
Test Prep	\$108,454	\$93,417	16.1%
SES Services	\$30,320	\$17,197	76.3%
Op. Inc./Loss	\$1,830	-\$23,515	107.8%
Op. Margin	1.3%	-21.3%	22.6
Kaplan			
	2008	2007	Chg.
Revenue	\$2,331,580	\$2,030,889	14.8%
Test Prep	\$587,970	\$569,316	3.3%
Op. Income	\$206,302	\$149,037	38.4%
Op. Margin	8.8%	7.3%	1.5

Sources: Princeton Review, Washington Post Co. reports

Kaplan's businesses include higher education services, a professional segment and a test prep division, which provides test preparation services for college and graduate

EER STOCKWATCH

Share Price Values for Instructional Software Publishers, Feb. 27 - March 13, 2009
(closing prices)

	Ticker	March 13	March 6	Feb. 27	% Chg 2/27-3/13	% Chg. YTD
K12 Inc.*	LRN	\$14.64	\$14.75	\$16.61	-11.9%	-19.1%
LeapFrog*	LF	\$1.41	\$1.26	\$1.44	-2.1%	-59.7%
Plato Learning	TUTR	\$1.60	\$1.66	\$1.60	0.0%	33.3%
Renaissance Learning	RLRN	\$7.58	\$6.67	\$7.11	6.6%	-15.8%
Scientific Learning	SCIL	\$2.07	\$2.04	\$2.05	1.0%	-3.7%
Average for Group		\$5.46	\$5.28	\$5.76	-5.2%	-19.6%
NASDAQ Nat'l. Mkt. Composite Index		1,431.50	1,293.85	1,377.84	3.9%	-9.7%

*K12 and LeapFrog are listed on the NYSE; all others listed on NASDAQ
Sources: Yahoo! Finance; Simba Information

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 3.3% for the year to \$588 million, although fourth-quarter revenue was down 0.7% versus the prior year to \$130 million.

Test prep revenue, excluding Score!, grew 9% in 2008 and 4% in the fourth quarter, largely due to growth in English-language programs. Score! revenues declined 49% in 2008 and 54% in the fourth quarter as a result of restructuring announced in the fourth quarter 2007 that included the closing of 75 Score! centers.

Total education division revenue was \$2.33 billion, a 14.8% increase over 2007. Excluding revenue from acquired businesses, education revenue was up 11% in 2008. ■

People...

- ▶ **Capstone Publishers** (Bloomington and Mankato, Minn.), a publisher of children's books for school and public libraries, this month named **Todd Brekhus** president of digital solutions. Brekhus, formerly vice president and chief marketing officer at **Plato Learning** (Bloomington, Minn.), will lead the digital product strategy as Capstone expands its digital solutions in the education market.
- ▶ **MetaMetrics** (Durham, N.C.), the educational measurement company that developed the Lexile Framework for Reading and the Quantile Framework for Mathematics, last month promoted **Eleanor Sanford-Moore** to senior vice-president research and development, **Trilby Berger** to vice president strategic partnerships and **Todd Sandvik** to vice president corporate development.

Partnerships & Acquisitions...

- ▶ Professional development provider **Teachscape** (San Francisco) this month acquired **Edgenuity** (Sunnyvale, Calif.), a software and services company that provides analytic solutions to school districts. The acquisition combines Teachscape's professional learning products and services with Edgenuity's instructional improvement

technologies in a Web-based, integrated solution. The Sunnyvale office will be maintained, with current staff kept on, at this time.

Also, Teachscape is partnering with the **Consortium on Reading Excellence** (Berkeley, Calif.), a K-12 literacy advisory group, to deliver 24/7 professional development programs for literacy and math educators to provide curriculum support and maximize student achievement.

- ▶ **Hitachi Software Engineering America** (Chula Vista, Calif.) last month partnered with **RM Education** (Hyannis, Mass.) to offer more curriculum tools and educational content for its interactive whiteboards. RM Easiteach software, designed for interactive whole-class teaching, is now included with the Hitachi FXDUO whiteboards.

News Briefs...

- ▶ **Scientific Learning** (Oakland, Calif.) will release Reading Assistant Expanded Edition this fall. The intervention software combines speech recognition technology with intervention to strengthen fluency, vocabulary and comprehension. The expanded edition almost doubles the content of Reading Assistant v.4, saves teacher time by automatically placing students into the appropriate reading level, and features expanded and simplified reporting accessible through Progress Tracker, the same reporting tool used by the FastForWord family of products.
- ▶ **Discovery Education** (Silver Spring, Md.) this month launched Progress Zone, a formative assessment service intended to help educators monitor student academic progress by linking teacher-created diagnostic tests to state curriculum/assessment standards. The Progress Zone item bank contains 35,000 reading, math, science and U.S. history questions for grades 1-12. After analyzing student performance on the assessments created, Progress Zone recommends digital content from Discovery Education streaming to help students needing additional instructional support.