

Electronic Education Report



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Rosetta Stone Focus Shifts to Education and Enterprise

Rosetta Stone (Arlington, VA) in 2015 is reorganizing to prioritize the company focus on growing its Global Enterprise and Education segment.

“Going forward, we will concentrate on addressing the needs of educators and corporations where we expect to see the most profitable long-term growth potential, recurring revenues from our customer base, and the attractive scale economies of an SaaS enterprise,” president and CEO Steven Swad said in March when 2014 financial results were announced.

The company reorganization comes after consultation with an education firm hired to review strategy. Rosetta plans to stop or significantly slow-down a number of initiatives on the

[See 'Rosetta Stone' on p. 3](#)

Pearson Looks for Growth in 2015

Pearson (London/New York) has completed a two-year restructuring and reinvestment process that management believes will provide a larger market opportunity and a sharper focus on fastest growing markets.

Also contributing to the optimism for a return to growth in 2015 and even stronger financial results beginning in 2016 is an expectation that cyclical pressures will ease as curriculum change is implemented in the U.S. and the U.K. while U.S. college enrollment stabilizes.

To drive growth, Pearson is investing in learning services, assessments and qualifications. The company is organizing around a smaller number of global products and platforms, built

[See 'Pearson' on p. 6](#)

Turning Technologies is Ready for Changes to Classroom Technology

Turning Technologies (Youngstown, OH), long known for its clickers, has broadened its emphasis to help teachers test and engage students on the variety of devices available in today's classrooms.

CEO Mike Broderick told *EER* the education marketplace is becoming more sophisticated in a good way—learning how to link technology investments with outcome goals.

“For technology to have a benefit, it has to make current goals easier to achieve, but it also should enable things that cannot be done without the technology,” Broderick said.

EER PULSE

40% of World Population Connected to Internet

- An estimated 3 billion people, or just over 40% of the world's population, are online in early 2015.
- The percentage of the population that uses the Internet at least once per year is 76.2% in developed countries and 29.8% in developing countries.
- Adoption of the Internet is slowing—rate of growth was 6.6% in 2014, down from 14.7% in 2010—meaning the Internet will probably not reach 4 billion people until 2019.

Source: *State of Connectivity: A Report on Global Internet Access*, Internet.org, February 2015

Turning Technologies still claims the industry-leader position for student response systems with its ResponseCard clickers. Broderick said the clickers are a cost-effective way to add interactivity into the classroom when funding is limited.

In classrooms where students already are using iPads, Android or Chromebooks, Turning Technologies offers two other solutions: Insight 360, a classroom instructional system that leverages clickers, mobile devices and interactive whiteboard in one platform, and the ExamView classroom assessment suite.

Broderick said there are many products for assessment, both formative and summative, but some mobile assessment solutions just duplicate what is done with a paper-based assessment. That does not justify the cost, he said.

“With ExamView Cloud students use their device for drawing, moving things around, connecting things,” Broderick said. “It allows them to manipulate responses

to question items in different ways than they would with pencil and paper.”

The new technology-enabled items from the PARCC and Smarter Balanced testing consortia call for more student creativity, which is one of the things devices enable. Additionally, instructors can view how students are working with content on their devices and be proactive during class time, Broderick said.

Market View

K-12 schools are implementing mobile technology rapidly, but probably not as fast as a year or two earlier, Broderick said. He thinks this reflects the evolution of thinking after the initial rush to be first to deploy a silver bullet.

“Districts that have adopted mobile technology in a thoughtful way—a careful way, considering goals and vetting solutions—are doing very well with it,” Broderick said. “There is no doubt mobile is here to stay and will continue to grow.”

Educators have found out that it requires more than buying devices and putting them in the classroom to be successful. Schools need a goal for the implementation that aligns with their educational goals, Broderick said, and they need to realize that important as the hardware is, it is not as important as the solutions used with it. ■

Houghton Mifflin Harcourt Broadens Focus in Shrinking Market

Houghton Mifflin Harcourt (Boston) anticipates the education market opportunity in 2015 will be smaller than in 2014, but the promise of deferred revenue and the potential seen in adjacent markets, including consumer and early childhood, has the company upbeat about this year.

Companywide HMH revenue of \$1.37 billion in 2014 was slightly off (down 0.5%) from 2013. The operating loss of \$85.4 million was slightly improved from the \$86.6 million loss in 2013.

Company revenue is driven by Education revenue performance, and Education revenue declined 13.8% to \$217.9 million in the fourth quarter and slipped down 0.1% to \$1.21 billion in the full year. Education did see 8% growth in the supplemental and intervention business



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and billings in 2014 increased 16.1% to \$1.6 billion from \$1.38 billion in 2014.

HMH CEO Linda Zecher described the company's financial performance as solid and said that 2014 was a tipping point in an ongoing learning transformation as evidenced by customer demand for digital content.

With the transition to digital comes a shift in product mix, which, in turn has led to increased deferred revenue from subscription products. Deferred revenue of \$222 million in 2014—which HMH will recognize over seven years—bumped the company's total deferred revenue balance to \$527 million at the end of December 2014, up 77% from 2013.

Looking ahead, Zecher sees the overall HMH addressable domestic market at about \$2.7 billion, or down 9% from the \$3 billion opportunity in 2014. The decline primarily is due to a smaller new adoption market—estimated at \$500 million for 2015.

Zecher said she expected HMH billings to be flat to down 4%, but net sales to be up 2% to 5% in 2015. One reason will be the contribution of deferred revenue. Zecher also said services are a natural extension of HMH's business that can help drive deeper penetration into schools and provide an additional revenue stream from schools.

HMH in February revamped its professional services offering for K-12, creating the HMH Education Services to provide support services for school districts, administrator and educators. It is expected to reach more than 400,000 educators a year.

The full-spectrum support offering runs from technical planning, curriculum implementation assistance and school improvement planning to individual professional development offerings for teachers. A portfolio menu allows educators to customize their services.

Looking to adjacent markets

"We believe our strong presence and stellar reputation in the K-12 space serves as a natural launching point for us to pursue opportunities in complementary growth areas," Zecher said. One opportunity is the PreK market, where Zecher said government funding is available and there is no clear market leader. "We have products and capabilities that go very well into that market," she said.

In 2014 and early in 2015, HMH took steps to build its early childhood and direct-to-consumer businesses with new hires and new products.

The company this month named Caroline Fraser vice president of program development and acquisition and Leigh Zarelli senior vice president of consumer brands. Fraser, formerly with Scholastic (New York), will lead new content development for the consumer market and identify new media channels for HMH brands and characters. Zarelli, formerly with AOL Inc., will drive strategic direction and expansion of the HMH direct-to-consumer offering.

HMH last April launched the GO Math! Academy, which is built on content from the GO Math! curriculum and extends the learning experience into the home. The GO Math! school offering sold well in 2014 when it was selected by New York City schools and some of the most populous districts in Texas. Zecher said the good reception for GO Math! Academy is an indication of the willingness of parents to invest in at-home learning support. HMH plans to follow with a reading academy product. ■

Rosetta Stone, cont'd. from p. 1

consumer side of the business. Rosetta will lower costs by reducing global non-E&E headcount by 15% and by lowering consumer-side sales and marketing expenses. The moves are expected to result in an annual expense reduction of approximately \$50 million.

Meanwhile, the company will change the reporting structure in the E&E segment with the goal of stronger alignment between product development, marketing, sales and customer service. The responsibilities of E&E president Judy Verses will be increased as chief product officer Nick Macey now reports to Verses and the IT and business development teams also will be led by Verses.

Product focus will be to provide a single language learning experience for the user by extending assessment capabilities, integrating the major products in the Rosetta portfolio and enhancing reporting tools to be oriented toward demonstrating learning outcomes.

2014 Results

Companywide, Rosetta 2014 revenue was \$261.9 million, down 1.1% from 2013. E&E revenue was \$84.7 million,

up 40.7% and primarily driven by a series of acquisitions including Livemocha, Lexia and Tell Me More.

E&E bookings were up 19.8% quarter-over-quarter to \$28.8 million in the fourth quarter 2014, while year-over-year E&E bookings increased 48.3% to \$113.2 million.

“E&E Literacy continued to demonstrate a strong growth trend, up 24% (bookings) compared to the fourth quarter a year ago, on the strength of growth in new business as well as more than 90% renewal rates in the first year following the launch of the successful Lexia Reading Core5 product,” said Swad.

Bookings represent executed sales contracts received by the company that either are recorded immediately as revenue or as deferred revenue. Bookings are calculated in total and at the operating segment level as revenue plus the change in deferred revenue.

Rosetta deferred revenue was \$128.2 million at the close of 2014, versus \$78.9 million at the end of 2013. Approximately 74% of the deferred revenue is short term and is expected to be recognized in the next 12 months.

Rosetta generated \$16.2 million in free cash flow in the fourth quarter and ended the year with \$64.7 million in cash, compared to \$98.8 million at the 2013 close, with no debt outstanding.

Management expects E&E bookings will be between \$122 million and \$130 million in 2015, which would be growth of between 8% and 15%, with smaller EBITDA losses. Plans call for continued investment in product for Lexia and English-language learning. ■

Defined Learning Addresses the Need for STEM Education

With interest in STEM education continuing to accelerate, more funding is being proposed to support STEM learning and more programs are being offered to implement it.

In February, President Obama’s proposed 2016 federal budget included a request for \$125 million for a STEM-focused Next Generation High School program that would provide students with 21st century experiences through closer links to postsecondary, research and business partners in the public, private and non-profit sectors.

In March, a bill is moving through the Utah state legislature that would give funding to universities for collaboration with public schools in promoting and providing STEM education to students as young as 8 years old.

Defined Learning (Northbrook, IL) chief operating officer and founder Joel Jacobson told *EER* that there has been much talk in the education marketplace about STEM, but for a long time the focus was on students who have an affinity for science or great math skills.

“We looked at STEM and said this relates to everybody; every student needs STEM to succeed,” he said.

Defined Learning was founded in 2009 and its flagship product Defined STEM is a K-12 project-based environment with career themes.

Using Defined STEM, students take on the persona of a person in a career, gain foundational knowledge and

ROSETTA STONE, Q4 & FULL-YEAR FINANCIAL RESULTS, 2014 VS. 2013

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

	Q4 2014	Q4 2013	Chg.	2014	2013	Chg.
Revenue	\$79,258	\$77,711	2.0%	\$261,853	\$264,645	-1.1%
E&E*	\$24,872	\$16,505	50.7%	\$84,700	\$60,209	40.7%
E&E bookings	\$28,827	\$24,067	19.8%	\$113,178	\$76,302	48.3%
Operating Loss	-\$27,158	-\$2,948	NA	-\$78,850	-\$18,442	NA
Operating Margin	-34.3%	-3.8%	NA	-30.1%	-7.0%	NA

*E&E = Global Enterprise and Education

Source: Rosetta Stone financial report

apply it in real-world situations. The program focuses on professions that use science but range from an engineer planning space flights at NASA to a restaurateur building a menu based on budget and the availability of seasonal items.

Jacobson said the focus on bringing the real world into the classroom was an impetus for Defined STEM, as was addressing the problem of students leaving school not prepared for careers.

Video instruction is used as a springboard for student instruction before they begin their performance tasks. Jacobson and another founder of Defined Learning, CEO Johnjoe Farragher, oversaw the development and growth of United Streaming, now folded into Discovery Education, in their previous professional efforts.

Jacobson said an additional aspect of Defined Learning's STEM-for-everyone approach is that the content can be integrated across subject areas. The availability of more technology in classrooms makes it easier to layer the STEM modules into math, science and even language arts curriculum.

Defined Learning offers two layers of professional development. The first comes with the purchase of an annual building subscription (general price \$2,795) and involves a team of former teachers focusing on how teachers in the subscribing schools can use the product. Defined Learning also offers onsite STEM workshops (general price \$2,500/day) where implementing educators can focus on the education theory behind the project-based learning activities.

Defined Learning has a team of 10 representatives selling to schools and users also find them through recommendations and Internet search. Defined STEM is being used in about 4,000 schools. ■

CodeHS Helps Schools Deliver Computer Science Education

CodeHS (San Francisco) is an education start-up founded to introduce computer science principles to students by providing what a teacher needs to start a programming class.

"Coding is the new subject that will be added to every-

one's curriculum over the next two, three, five or 10 years," cofounder Zach Galant told *EER*. "We like to call it the new literacy; it really is a foundational skill where the knowledge obtained can be applied to so many different disciplines."

Galant compares learning to code, which is writing instructions that computers understand, to learning to read. Students do not learn to read because they are going to get a job reading, but because almost any job will involve reading. Similarly many students learning to code will not get a job doing that, but will apply the knowledge to foster creative interactions in many areas by doing things like analyzing data or making models.

Galant estimates that about 10% of schools currently offer computer science courses, but believes that in a few years almost all schools will have students taking multiple courses in the area. Some of the push is from today's students, who Galant described as ambitious to create things that are real, like games, apps and websites.

While there is acknowledgment that coding is worthwhile and students want to do it, the problem is most teachers do not know how to teach it, Galant said. That is why CodeHS introduced its web-based curriculum that comes with teacher tools and professional development.

"CodeHS is an all-encompassing, let's-get-started solution that allows a school to start a programming class right now without finding that perfect teacher who knows what they are doing because those people are hard to find," he said.

Even when schools have an instructor willing to teach coding that teacher often is tasked with building a curriculum in addition to working with students. Galant said the result is differing courses or duplicative efforts.

CodeHS Program and Plans

CodeHS offers a baseline curriculum with tools that schools can customize. Enrolled students watch short videos that teach concepts, see examples and complete programming challenges. The content is broken down into modules that each take 10-15 hours to complete.

CodeHS currently has one year-long introductory course, but plans to build additional courses. An Advanced Placement Computer Science Java course built online

will be previewed this month. It can stand alone or follow the introductory course.

In January, CodeHS raised \$1.75 million from investors that included NewSchools Ventures, Learn Capital and Kapor Capital which will be used to fund the building of more courses.

Galant said what differentiates CodeHS from other computer science offerings is the combination of materials, support from experts and extensive feedback. Tutors, generally college students who are computer science majors, guide students, provide help, grade and comment on work submitted. Code written is checked to determine if it works.

CodeHS recommends that students do the coursework on a computer, rather than a smaller mobile device, because of screen size and the availability of a computer. Galant said Chromebooks work well for the program.

CodeHS tries to make the learning fun, students quickly learn to create games and animated drawings, Galant said. However, to fully learn coding requires patience and is a multi-year process.

CodeHS offers a free unit with accompanying services to schools wanting an introduction to the program. If they want additional units, they are purchased with price based on number of students using.

Almost 10,000 teachers have requested a trial and 150,000 students have been signed up from the classroom. Most users find CodeHS through the company's marketing and promotional efforts or by a Google search for curriculum after being asked to teach programming. ■

Pearson, cont'd. from p. 1

around a single infrastructure with common systems and processes.

Pearson's product count could see another reduction soon as Pearson in February tapped Evercore to advise as it tries to sell PowerSchool and its other student information system businesses. PowerSchool, in 2014, contributed \$90 million in revenue and \$20 million in operating income, serving 13 million students in 70 countries, roughly the same as it had in 2013.

Pearson said PowerSchool is a good brand that is

PEARSON FINANCIAL RESULTS, 2014 VS. 2013¹ (Period ended Dec. 31; \$ in millions)

	Revenue ²			Adjusted Operating Profit ²		
	2014	2013	% Chg.	2014	2013	% Chg.
Pearson	\$8,042.1	\$7,958.3	1.1%	\$1,191.3	\$1,155.0	3.1%
Operating Margin				14.8%	14.5%	0.3
School	\$3,344.6	\$3,615.7	-7.5%	\$389.4	\$420.8	-7.5%
Operating Margin				11.6%	11.6%	0.0
Higher Education	\$2,796.8	\$2,612.5	7.1%	\$509.9	\$463.2	10.1%
Operating Margin				18.2%	17.7%	0.5%
Professional	\$1,900.8	\$1,730.1	9.9%	\$174.9	\$108.3	61.5%
Operating Margin				9.2%	6.3%	2.9
North America Education	\$4,907.1	\$4,824.6	1.7%	\$765.6	\$744.2	2.9%
Operating Margin				15.6%	15.4%	0.2

¹\$ figures calculated by converting British pounds sterling at \$1.65 exchange rate in 2014, \$1.57 in 2013.

²Year-over-year headline percent changes in revenue and adjusted operating profit in \$ are not the same as in £. Revenue total excludes Mergermarket and Penguin; Adjusted operating profit does not exclude them. On a pound basis, Pearson's revenue was £4.9 billion, with CER growth of 2%; NA Education revenue was £3 billion, CER was 2%; School at £2 billion, CER change -7%; Higher Education at £1.7 billion, CER growth 8%; Professional at £1.2 billion, CER growth 10%.

Source: Pearson financial report, *EER* conversion of pounds to dollars

performing well, but the administrative software system is more about managing data than providing information Pearson can use. Also, Pearson is looking to work with the whole market and integrate with every system.

“There are three-fourths of the market using other systems, and this will actually help us work with that part of the market because we will no longer be a competitor,” Pearson chief executive John Fallon said.

Pearson’s instructional management suite Schoolnet had a good 2014 with student count up 10% to more than 10 million. Schoolnet in 2014 was launched in 27 New Jersey school districts and 14 additional districts in the state have implementations in progress.

Pearson’s Connections Education also had a strong 2014 launching three new virtual public schools with another ready for a 2015 opening. Connections had 62,000 full-time-equivalent students enrolled in full and blended virtual programs in 2014, up 15% in 2013.

2014 Financials

Companywide, Pearson 2014 revenue of £4.87 billion (\$8.04 billion) declined 3.9% but increased 2% at constant currencies versus 2013. Operating cash flow was £649 million, versus £588 million in 2013, benefitting from improved working capital from deferred revenue growth and an increasing dividend from Penguin Random House, partially offset by increased investment levels.

North America revenue of £3 billion (\$4.91 billion) declined 3.2% in 2014 and increased 2% on both constant currency and underlying bases. Accounting for about 45% of the North America segment, Pearson School generated an estimated \$2.21 billion in revenue in 2014.

Pearson said it lost market share in K-12 with a weaker than usual performance in adoptions, particularly 6-8 science and math in Texas and 6-12 literature and 6-8 math in Florida. Pearson was strong in K-6 math in Texas and California and in 6-12 social studies in Tennessee. Pearson claimed an estimated 25% capture rate of total new adoptions in 2014, which it pegged at \$910 million.

Viewing the K-12 market looking forward, Pearson expects growth in its virtual schools and greater stability for curriculum materials and assessments, even with the possibility of more disruption in the policy arena. While the adoption market will be a smaller opportunity than in 2014, Fallon said deferred revenue coming in from 2014 and an expected “improved competitive performance” should help compensate. ■

myOn Adds Titles, Publishers and Users

The myON (Mankato, MN) interactive digital library this year celebrates the fourth anniversary of its 2011 launch with more books from more publishers and more users.

myON, a business unit of Capstone, was founded to give

EER Stockwatch 2015

Share Price Values for Instructional Technology Providers, Feb. 25—March 11, 2015
(closing prices)

	Ticker	Feb. 25	Mar. 4	Mar. 11	% Chg 2/25-3/11	% Chg. YTD
Cambium Learning	ABCD	\$2.64	\$2.74	\$2.96	12.1%	66.3%
HMH	HMHC	\$20.19	\$19.98	\$20.94	3.7%	0.4%
K12 Inc.*	LRN	\$17.46	\$17.30	\$16.19	-7.3%	36.3%
Pearson*	PSO	\$21.86	\$21.85	\$21.65	-1.0%	19.5%
Scholastic	SCHL	\$36.88	\$36.59	\$35.95	-2.5%	-1.5%
SMART Technologies	SMT	\$1.22	\$1.34	\$1.24	1.6%	4.2%
Average for Group		\$16.71	\$16.63	\$16.49	-1.3%	9.6%
NASDAQ Nat'l. Mkt. Composite Index		4,967.14	4,967.14	4,849.94	-2.4%	1.9%

*K12 and Pearson are listed on the NYSE; others listed on NASDAQ exchanges.

Source: Yahoo! Finance; Simba Information

students access to more book titles and to match students with books they are interested in and will be able to read. The number of books it offers has grown from 800 to more than 8,000 coming from more than 60 publishers. The platform has more than 5,000 users and 180,000 active daily readers.

Marketing manager Lynn Walker told *EER* that myOn is a solution for a number of learning challenges from reading readiness to cultivating a culture of reading, as well as transitioning to the digital classroom and extending the learning day. She said myOn looks to meet children at their reading level and allow them to read online or offline with whatever device they are using.

myOn can help teachers target reading resources to their students. It also provides teachers with data on how much students are reading and their progress toward reading improvement. The platform is sold as an annual subscription by building with tiered pricing.

Miami-Dade, the fourth-largest school district in the U.S. is expanding use of myOn to all 250 of its K-8 schools during the 2014-2015 school year as part of a district effort to improve literacy outcomes through effective integration of technology into the curriculum. The implementation follows a summer 2013 pilot program that demonstrated reading growth using myOn. Houston and Bridgeport, CT, are among the other districts expanding use of myOn this school year.

In 2014, myOn began enhancing its platform with literacy tools intended to further personalize the reading experience for students while growing instructional capabilities for teachers. The first tools available support close reading skills like highlighting and note taking. The platform also has an embedded dictionary.

The content on the myOn platform is 70% nonfiction and 10% of the content is Spanish or dual language. It comes from more than 60 publishers, including Little Brown and Disney. Walker said increasingly publishers are asking to be included on the platform rather than myOn seeking out publishers. In January, myON added digital books from National Geographic Kids, which brought a broader wealth of resources around geography, archeology and natural science.

With schools' ongoing interest in offering students technology-based reading options, other digital literacy solutions also have emerged. LightSail Education (New York), a tablet-based K-12 adaptive literacy program that combines an interactive ereader with a library of fiction and non-fiction texts, embedded Common Core-aligned assessments and tools for collaboration and feedback, continues to add titles to its platform. ■

Financial Briefs

- ▶ **NoRedInk** (San Francisco) in February raised \$6 million in a Series A investment round led by True Ventures. NoRedInk, which in 2014 added a premium version of its K-12 tools to master writing and grammar skills, will use the additional funding to increase hiring and to further build out its offering.
- ▶ **Listen Current** (Boston), which curates public radio content for school use, in February raised a \$950,000 seed round from a mix of angel and institutional investors led by Launchpad Venture Group.

Partnership & Acquisition Briefs

- ▶ **Capstone** (Mankato, MN), a publisher of children's books and digital products, is partnering with **Cantata Learning** (North Mankato, MN), a publisher of PreK-3 curriculum content and music, for distribution of its product line through direct and wholesale channels for the school and library markets. Twenty-nine Cantata Learning products now are available as Capstone Interactive ebooks with an additional 42 titles planned for fall release.

People Briefs

- ▶ **Pearson** (London/New York) in February named **Coram Williams**, currently CFO of Penguin Random House, chief financial officer, succeeding **Robin Freestone**, who is retiring. Williams will join Pearson as CFO designate on July 1 and succeed Freestone as CFO on Aug. 1. He also will replace Freestone on the Pearson board as an executive director.