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Opportunities for Publishers In Stimulus Package

While much of the education portion of the American Recovery and Reinvestment Act enacted last month is geared to offsetting state cutbacks and avoiding teacher layoffs, the stimulus package serves as a guideline to the Obama administration's direction for improving education in U.S. public schools.

To the degree that federal funding filters down to influence state and local district and school spending on instructional materials, the stimulus package also provides a roadmap for publishers and providers of instructional software, tools and services.

Providers of materials and services related to school improvement, pre-school, special education, drop-out

[See 'Stimulus' on p. 2](#)

School Specialty Q3 Falls as Schools Freeze Spending

Though revenue at K-12 supplemental publisher and distributor School Specialty (Greenville, Wis.) declined in the company's fiscal third quarter and first nine months, ended Jan. 24, and the company lowered guidance for the full fiscal year, company management is cautiously optimistic the federal stimulus package could improve school purchasing patterns by early summer.

"All the talk of state deficits and the challenges with the economy have really spooked the school administrators, and they are basically sitting on funds waiting to see how this is going to settle out," School Specialty CEO David Vander Zanden said when releasing financial results in February.

[See 'School Specialty' on p. 6](#)

Flat World Knowledge Builds Bookbag of Digital Titles

With its platform officially launched, free, open source online college textbook publisher Flat World Knowledge (Nyack, N.Y.) is building its line of textbooks for spring release and tweaking its product offerings.

FWK has 22 titles under contract and in different stages of development. The company expects to publish 10 titles in full formats by May to be ready for fall classes. Three more are due to publish in the fall, and eight are slated for spring 2010 release.

The expanded title line reflects FWK's decision to move into general education courses from business and economics, which it focused on during its launch. The company is targeting the "Foundation 25" courses, or the 25 courses that

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EM PULSE

21st Century Community Learning Centers, 2008

- 10% of the 49,700 public elementary schools had a 21st Century Community Learning Center.
- 11% of the 4 million enrollments in formal after-school programs at public elementary schools was in 21st CCLCs.
- 19% of the enrollments in 21st CCLC programs was in rural areas; 12% of enrollment was in schools in the Central region; 12% was in schools in the West.

Source: National Center for Education Statistics, *After-School Programs in Public Elementary Schools*, February 2009.

attract the largest enrollment, Eric Frank, Flat World Knowledge's co-founder and chief marketing officer, told *EM*. Such courses include college algebra, introduction to psychology, introduction to sociology, biology and U.S. history.

"That represents the vast majority of a community college student's curriculum" Frank said.

Expanding Initiatives

Additional plans for 2009 include offering textbooks in LMS-ready formats to support integration with campus learning management systems such as Blackboard (Washington, D.C.), Angel Learning (Indianapolis) and others.

Traditional publishers often make a host of supplemental materials LMS-compatible but leave the textbook

out of that mix. The FWK model pulls the book into that virtual environment. "It's a kind of convenience play," Frank said.

This month, Flat World Knowledge expects to announce a partnership with an education assessment software firm that will enhance the books' offerings. The assessment software can help professors generate assignments and manage gradebooks.

Lessons Learned

In the current spring semester, 30 colleges and universities are participating in a trial of the FWK business and economics titles, a follow-up to the beta trial at 15 institutions in fall 2008.

One of the more interesting items gleaned from the beta test was the lack of a book in hand seemed to disconcert some instructors. "They kept saying, 'We love this, but we don't know if the students are reading the material,'" Frank said. While that was no more obvious with print books, at least in that case, instructors knew students possessed the book.

On a practical side, FWK learned that students were sometimes overwhelmed with the various ways they could get a book's material. Students told the company to create specific packages. Frank said once the company did that, student acceptance of the model increased.

Also, as a result of the beta test, FWK titles will have page fidelity for print and online versions for the fall semester. Instructors, who tend to build a course syllabus around the print version, found it vexing not to have correlation in the online version. ■

Stimulus, cont'd. from p. 1

prevention, vocational education and technology all stand to benefit. Thomas Toch, co-director of Education Sector, the Washington, D.C. think tank, thinks part of the package will be used to encourage states to raise academic standards and create new and better tests.

The \$250 million allotted for state data systems should encourage new data analytic systems for student results.

Companies must tailor their marketing messages to



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specific opportunities in the stimulus package, said Kirk Chritton, director of marketing at mailing list compiler MCH (Sweet Springs, Mo.). “School districts have been holding back money—they’ve been hoarding money—because of uncertainties over funding,” Chritton said in an MCH Webinar last month on the stimulus package. “This should release that pressure on discretionary spending.”

Among the federal discretionary funds for education, the largest single boost to funding was the \$53.6 billion for the newly created state fiscal stabilization fund to be distributed by governors. Of that, \$39.5 billion is to go to avoid teacher layoffs or build or renovate schools. Another \$5 billion is dedicated to incentive and innovation grants to be distributed by Education Secretary Arne Duncan.

Michigan is expecting \$2.5 billion for education under the stimulus package, and Gov. Jennifer Granholm said that amount should cover any cut in per-pupil state aid she is proposing for next year.

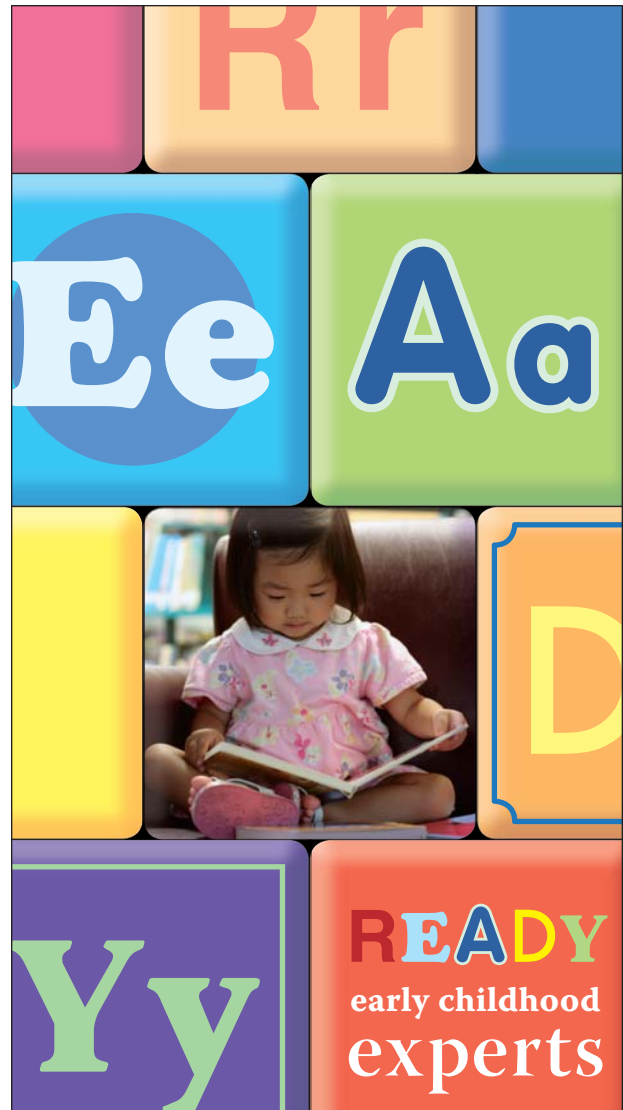
New York City expects to avert most of the planned 14,000 teacher layoffs, benefiting from an estimated \$535 million in stabilization funding in each of the next two years. Eligible schools also will receive annually about \$300 million in increased Title I funding, \$100 million more from the Individuals with Disabilities Education Act and \$25 million from additional educational technology funding.

ARRA boosted total Title I funding—the cornerstone of federal aid to education—by \$10 billion divided equally between targeted grants and incentive grants.

Special Education and Early Childhood

For the K-12 segment, the stimulus package funding for special education through IDEA is the second-largest single allocation, a total of \$12.2 billion. The largest portion of the \$12.2 billion is the \$11.3 billion increase in IDEA Part B grant funding to the states. IDEA preschool grants received a \$400 million increase; grants for infants and children received a \$500 million increase over current federal budget allocations.

Outside of the Education Department, programs supporting the education and care of young children were significantly expanded. Head Start funding increased



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by \$1 billion; funding for Early Head Start increased by \$1.1 billion. The funding is expected to provide services for 120,000 more children and toddlers over two years and to create 15,000 new jobs.

Additionally, the stimulus plan's \$2 billion investment in the Child Care Development Block Grant program is

designed to help parents continue to make use of child care services, covering costs to prevent an estimated 200,000 children from being dropped from care and increase participation by 150,000 more children.

Budget Outlook

Duncan said he wants the money to move to the states

AMERICAN RECOVERY & REINVESTMENT ACT STATE ALLOCATIONS, 2009
(\$ in millions)

State	Title I	Pell Grant 2009 Inc.	State	Title I	Pell Grant 2009 Inc.
Alabama	\$163.2	\$136.7	Montana	\$34.7	\$22.9
Alaska	\$29.5	\$6.2	Nebraska	\$47.3	\$34.1
Arizona	\$194.9	\$331.1	Nevada	\$70.6	\$20.3
Arkansas	\$111.1	\$82.7	New Hampshire	\$31.0	\$16.7
California	\$1,128.2	\$755.3	New Jersey	\$183.0	\$146.1
Colorado	\$110.9	\$105.1	New Mexico	\$80.8	\$54.7
Connecticut	\$70.8	\$49.7	New York	\$906.2	\$476.2
Delaware	\$32.4	\$11.6	North Carolina	\$257.5	\$187.6
Dist. of Columbia	\$37.6	\$27.0	North Dakota	\$27.4	\$17.8
Florida	\$492.5	\$401.5	Ohio	\$373.3	\$278.8
Georgia	\$351.4	\$249.0	Oklahoma	\$109.5	\$98.5
Hawaii	\$33.2	\$15.1	Oregon	\$93.8	\$81.2
Idaho	\$34.9	\$42.6	Pennsylvania	\$398.8	\$261.7
Illinois	\$420.1	\$281.7	Rhode Island	\$35.8	\$28.3
Indiana	\$168.5	\$145.2	South Carolina	\$142.9	\$101.6
Iowa	\$51.6	\$110.3	South Dakota	\$34.7	\$22.2
Kansas	\$70.5	\$66.3	Tennessee	\$194.1	\$146.5
Kentucky	\$155.5	\$116.3	Texas	\$944.6	\$522.6
Louisiana	\$177.3	\$124.1	Utah	\$49.5	\$77.0
Maine	\$37.2	\$26.7	Vermont	\$25.8	\$11.4
Maryland	\$136.4	\$88.2	Virginia	\$165.3	\$131.0
Massachusetts	\$163.4	\$105.7	Washington	\$135.3	\$107.3
Michigan	\$390.0	\$255.8	West Virginia	\$61.0	\$53.0
Minnesota	\$94.9	\$100.8	Wisconsin	\$147.7	\$90.9
Mississippi	\$133.0	\$114.0	Wyoming	\$26.2	\$10.2
Missouri	\$147.6	\$141.7	Total	\$10,000.0	\$7,151.0

Note: The \$10 billion in ARRA Title I funding is the estimated amount above funding provided in the continuing budget resolution for FY2009. The \$7.15 billion for Pell grants is the amount provided in 2009 to increase maximum award. Totals of both funds include individual awards to U.S. territories and other non-state allocations.

Source: The U.S. Department of Education

Affordability Is Stimulus Focus for Higher Education

K-12 public schools may benefit most from the stimulus package, but governors can use the bulk of the \$53.6 billion state fiscal stabilization program to help offset cutbacks to public higher education as well.

Michigan, for instance, is receiving an estimated \$2.5 billion under the state stabilization program. In addition to offsetting planned cuts in state aid to schools, the funds could reduce the need for a proposed 3% budget cut for state universities.

The focus of other provisions for higher education in the stimulus package is helping students afford higher education. Some \$200 million in additional funding was allotted for federal work-study programs and \$15.6 billion is going toward Pell Grants.

The increased Pell Grant funding covers shortfalls for the 2008-2009 award year, a \$500 increase in the maximum grant to \$5,350 in 2009 and additional funding for 2010 awards.

Also in an effort to make college affordable to more students, the stimulus package creates a \$2,500 tax credit. Unlike the similar but lower previous credit, textbook purchases contribute to calculating costs for the new credit, which can be used in each of four years of a college education.

"It does look like there will be some pretty good news for the education business in this stimulus bill," said Ron Dunn, president and CEO of Cengage Learning (Stamford, Conn.).

Eric Frank, chief marketing officer at free online college textbook publisher Flat World Knowledge, told *EM* that the stimulus plan has stimulated calls and interest in the publisher's materials. University administrators are caught between agreeing with the federal push to make college more affordable and competitive and being squeezed by state funding cutbacks and are looking for ways to keep student spending flat.

President Barack Obama's fiscal 2010 budget plan is expected to continue the encouragement of postsecondary training or college education. In his speech to the joint session of Congress last week, Obama called for the American populace to commit to one year of postsecondary training or college coursework to meet the demands of a new global economy. He also called for a new goal: by 2020, America should once again have the highest proportion of college graduates in the world.

by July 1. The impact of the stimulus package in education depends on how quickly states and school districts can move the funds through to expenditures. In most cases, the stimulus funding will be distributed over two years.

Moreover, President Barack Obama's fiscal 2010 federal budget proposal, released as *EM* went to press last week, will emphasize new initiatives.

In his address to the joint session of Congress last week, Obama said to expect incentives for teacher performance, investment in innovative programs that already are helping schools meet high standards and close achievement gaps, and more support for charter schools.

The Obama budget proposal also is likely to shelve some existing programs. "We will end education programs that don't work," he said. ■

California Budget Squeezes Textbook Adoption

State spending on public education in California took an \$8.6 billion hit two weeks ago when Gov. Arnold Schwarzenegger signed into law a new state budget covering the period from now until June 2010.

For K-12 publishers, doing business in the largest textbook adoption state was made more challenging with the consolidation of funding for 42 categorical programs, including instructional materials and educational technology, into one block grant. The consolidation means districts can use the formerly restricted funds for any purpose.

For some districts, that will mean postponement or cancellation of local textbook purchases if other district needs take precedence.

California school districts are slated to begin purchasing reading textbooks this year. Some are still deciding on adoption of math textbooks from last year's adoption. Among them, Palo Alto schools are expected to decide in the next two months whether to purchase McGraw-Hill's *Everyday Mathematics* or Pearson's *enVisionMATH*. The district has been piloting the two elementary grade programs since November.

It is not yet clear how much of the potential K-12 teacher layoffs, salary cuts and construction-project postponements will be eased by the infusion of nearly \$6 billion in federal stimulus state fiscal stabilization funds for education. California is expected to receive \$8.56 billion in total stimulus dollars for education.

For higher education, the governor already said the two state university systems will split \$510 million in federal funds to replace cut state funds. ■

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Moreover, governors have been slower this year to release budget proposals for fiscal 2010, which in most states begins July 1. The federal stimulus program should help move that process forward and bring more clarity to spending for education.

"We anticipate that this may help schools move out of this wait-and-see mode that they are in right now, into more of a replenishment spending pattern for the remainder of the school year, but that is yet to be seen," said Tom Slagle, president and chief operating officer.

Initial estimates of federal education aid that will flow to states and schools indicates that the aid may offset proposed cuts in many states (see story, p. 1). However, California is likely to remain a difficult market, Vander Zanden said. "Last year, as an example, California said they would cut education \$4 billion, and they ended up increasing spending," he said. "I don't think they're going to be able to be in the same position this year, so we expect a cut there."

Q3 Results Tumble

Cautious or frozen buying strategies of schools since August 2008 as the economy worsened resulted in a weaker fiscal third quarter for School Specialty than the company had expected, driven by a decline in revenue for the company's Specialty segment, home of its curriculum products.

Specialty revenue of just under \$70 million in the fiscal 2009 third quarter, ended Jan. 24, dropped 10.6% from the same period in fiscal 2008. Revenue in the Essentials segment, including the furniture and equipment businesses, declined 9.2% to \$52.2 million in the quarter.

The bright spot in Specialty was the science curriculum, which continued to perform well, including gaining new customers for science supply and kit replenishment lines, though results were below the previous year when the company benefitted from state adoptions.

The lack of science adoptions produced an anticipated \$25 million decline in curriculum-based product sales in the nine-month period.

A third-quarter company-wide operating loss of almost \$30 million was slightly larger than the \$24.9 million loss the previous year. Operating income of \$92 million in the nine-month period was down 20.8% from the same period last year.

School Specialty generated \$104.1 million in operating cash at the end of the nine-month period, up from \$90.1 million in the same period last year. Free cash flow during the period was \$93.4 million, up from \$70.3 million.

SCHOOL SPECIALTY, Q3 & 9-MONTH FINANCIAL RESULTS, FY2009 VS. FY2008

(Period ended Jan. 24; \$ in thousands)

	Q3 FY09	Q3 FY08	% Chg.	YTD FY09	YTD FY08	% Chg.
Company Revenue	\$121,710	\$134,839	-9.7%	\$890,810	\$914,271	-2.6%
Specialty	\$69,967	\$78,254.0	-10.6%	\$506,426	\$535,315	-5.4%
Essentials	\$52,218	\$57,540.0	-9.2%	\$387,713	\$383,800	1.0%
Op. Inc./Loss	-\$29,984	-\$24,871	NA	\$92,029	\$116,182	-20.8%
Operating Margin	-24.6%	-18.6%	NA	10.3%	12.7%	-2.4

Source: School Specialty financial statement

Outlook FY2009

Because of challenging market conditions, School Specialty management reduced its revenue guidance for its fiscal year between \$1.04 billion and \$1.06 billion. Previous guidance called for revenue between \$1.07 billion and \$1.08 billion.

In terms of the overall market, Vander Zanden said he did not expect to have good visibility into school spending until the summer.

“We are also not expecting an increase in school spending over the current levels until then,” he said. “The schools need to see the state budgets pass before they complete their own [budgets], and we expect that the stimulus plan will raise school spending from the current levels, but we don’t have enough information today to calibrate it.” ■

McGraw-Hill Higher Education Expands Technology Offerings

McGraw-Hill Higher Education (New York), the third-largest college publisher in the U.S., in February forged partnerships to expand the technology solutions it offers to college students.

Both partnerships are in line with McGraw-Hill’s emphasis on tapping the benefits of technology to enhance textbook and course material and to provide homework assistance to college students.

Through one partnership with class-capture system provider Tegrity (Santa Clara, Calif.), McGraw-Hill Higher Education will distribute Tegrity’s Campus 2.0 access program for participating instructors’ class lectures. The Web-based program offers students 24-hour replay access to lectures. The Tegrity program currently is used at hundreds of colleges and universities in the U.S.

McGraw-Hill Higher Education also teamed up with Quantum Simulations (Murrysville, Pa.), which develops artificial intelligence tutoring, assessment and professional development software.

Under that arrangement, McGraw-Hill will offer the Quantum Tutors for Accounting Cycle with its accounting textbooks sold in the U.S.

The online tutoring and assessment tools cover such topics as transaction analysis, adjusting entries and financial statement preparation. The program is priced at \$15 per student per semester. ■

People ...

- ▶ **PCI Education** (San Antonio), which publishes and distributes K-12 supplemental materials for special education and struggling students, including English-language learners, in February named **Lee Wilson** president and CEO. Wilson, who operated Headway Strategies (Austin, Texas), his own management consulting business focused on education, succeeds **Chuck Eberle**, who is helping with the transition on a consulting basis while pursuing other opportunities.
- ▶ Education content developer **Baseline Development Group** (Boston) in February named **Debi Mandra** director of sales and client

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relations. Mandra previously was an account executive at **The Mazer Corp.** (Dayton, Ohio), which closed in December 2008.

- ▶ **D. Edward Smyth** in February took up his new post as executive vice president, corporate affairs and assistant to the chairman of **The McGraw-Hill Cos.** (New York), succeeding **David Stafford**, who rejoined the corporation's Legal department as vice president and associate general counsel. Smyth most recently was chief administrative officer and senior vice president at H.J. Heinz Co. (Pittsburgh).
- ▶ Career college operator **Lincoln Educational Services Corp.** (West Orange, N.J.) this quarter named **Shaun McAlmont** president and CEO, succeeding **David Carney**, who becomes executive chairman and is expected to remain with Lincoln through 2010. McAlmont, who has been Lincoln's president and chief operating officer

for two years, assumes his new post April 30.

- ▶ **Capella Education** (Minneapolis) in February named **Reed Watson** vice president of differentiation strategy, reporting to company chairman **Stephen Shank**. Watson previously was senior vice president of markets and marketing. As a result of this realignment, the marketing operations team, headed by vice president **Brad Frank**, will report directly to **Kevin Gilligan**, who joins the company as CEO today.
- ▶ The **Reader's Digest Association** in February named **Laura Bashkoff** president of Global RDA Interactive, responsible for digital media and marketing globally, including e-commerce. Bashkoff, who reports to RDA president and CEO **Mary Berner**, in November 2008 was named acting president, succeeding **Jodi Kahn**, who left the company. Bashkoff joined RDA in 2006 as vice president, corporate digital strategy.



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