The Complete K-12 Newsletter

The Convergence of Traditional and Electronic Media in the School Market

September 2007

A monthly newsletter serving the business of print and electronic publishing for the K-12 school market, published by:

Education Market Research
P.O. Box 940418
Rockaway Park, NY 11694

Phone: (718) 474-0133 Fax: (718) 474-0133
Email: bob-resnick@ed-market.com www.ed-market.com

Editors:
Glenn Sanislo
Robert M. Resnick, Ph.D
Stephanie Oda

Subscription $695/year; educational institutions/libraries $195/year; single copy $35

Advertising: Jill Feldman

Complete K-12 Newsletter
September 2007; Volume 9, No. 9

Inside This Issue

EMR's Technology Buying Index Up 2.8% In Latest Period

The second half of 2006-07 appears to fall about mid-way between the good news of second half 2004-05 and the bad news of second half 2005-06. Total software was up 3.8%, which is modest compared to the +11.9% recorded in the second half of 2004-05. Total Internet and video were both up a bit, and hardware was the star performer, up 11.9% which is better than the +4.9% recorded a year ago, and better than the +8.6% recorded two years ago.

Sales Increase/Decrease By Product Category, Second Half 2006-07 vs. Second Half 2005-06

PRODUCT CATEGORY	SECOND HALF 2006-07 INCREASE/DECREASE	SECOND HALF 2005-06 INCREASE/DECREASE
Total Software	+3.8%	-0.5%
Total Internet	+1.9%	+2.2%
Total Video	+0.2%	-2.6%
Total Hardware	+11.9%	+4.9%
Total K-12 Sales (**TBI**)	**+2.8%**	**-0.4%**

Due primarily to the strength of hardware sales, the second half of 2006-07 presents a better picture of the market than the results in the second half of 2005-06, and the period is certainly a welcome relief compared to the first half of 2006-07 in which all of the indicators, except total hardware, were in negative territory.

Recently the market has had its ups and downs, with the ups barely outnumbering the downs. That is, three generally positive 6-month periods in the first and second halves of 2004-05 and the first half of 2005-06, followed by two generally negative periods in the second half of 2005-06 and the first half of 2006-07. Perhaps the generally positive results observed now in the second half of 2006-07 will be followed by two more positive 6-month periods.

2006-07 Full School Year Results

Compared to 2005-06, the 2006-07 school year seems weak, with the exception of an upbeat report (+4.8%) in the hardware-related sales category. However, Internet and software were up slightly compared to the prior year, video squeaked out a small gain, and hardware managed to continue its positive streak for the ninth consecutive reporting period. Despite some stronger sales in the second half of 2006-07, the full year was dragged down by a very weak first half to finish in the red (-2.2%) for the first negative **TBI** in the last four full school years.

Historical Perspective

Throwing out the extremes on the high side in 1996-97, and on the low side in 2001-02 and 2002-03, it still looks like mid-range growth rates, like the 7.6% gain recorded in 1999-00, the 5.0% rise recorded in 2003-04, and the 7.0% gain reported in 2004-05 are closest to the norm in the K-12 school market, and similar results are probable in the foreseeable future. In that context, the 2006-07 school year clearly fell below that mid-single digit average growth rate forecast. The following table shows the full-year **TBI** results for selected years from 1996-97 through the just completed 2006-07 school year.

TBI Increase By School Year, Selected Years 1996-97 To 2006-07

CATEGORY	1996-97	1999-00	2002-03	2003-04	2004-05	2005-06	2006-07
Software	+16.3%	+6.7%	-16.9%	+0.4%	+8.6%	+2.2%	+0.9%
Hardware	+19.6%	+10.8%	-7.6%	+2.2%	+6.9%	+4.9%	+4.8%
TBI	+19.4%	+7.6%	-5.0%	+5.0%	+7.0%	+1.6%	-2.2%

For more information or to purchase a copy of ***Technology Buying Trends In The School Market*** (August 2007, $895), contact Bob Resnick at Education Market Research, 718-474-0133, or bob-resnick@ed-market.com.

EMR RESEARCH CORNER

READING ASSESSMENT PRACTICES

In order to provide up-to-date information on trends in the elementary Reading market segment, a detailed market survey was designed by EMR, and then mailed [in April 2007] to 20,000 Classroom teachers, Reading teachers, elementary and middle/junior high Principals, and district Curriculum Supervisors. Last month's article analyzed the survey results in terms of trends in basal series usage, and alternatives to the traditional basal. This month the focus is on trends in the assessment sphere.

Reading Assessment Practices

Within EMR's survey sample the largest number of students take a "state assessment" (68.7%, about level with 69.7% in 2004, and up from 53.6% in 2002, and from 44.7% in the 2000 survey) to measure progress in the area of Reading, followed by STAR Reading (33.8% compared to 38.5% in 2004, and to 36.1% in 2002), Iowa Tests of Basic Skills (15.9% compared to 17.4% in 2004, and to 15.9% in 2002), Stanford Achievement Tests (10.2% compared to 15.6% in 2004, and to 28.4% in 2002), and Terra Nova (9.4% compared to 20.2% in 2004, and to 20.3% in 2002). [It should be kept in mind that in some cases the "state assessment" is actually a version of one of the commercial standardized tests like the Stanford or Iowa tests.] The following is a ranked list of standardized Reading assessments cited by the overall sample.

Standardized Reading Assessments

TEST TITLE	% 2006-07 SAMPLE	% 2004-05 SAMPLE
State assessment	68.7%	69.7%
STAR Reading (Renaissance Learning)	33.8%	38.5%
Iowa Tests of Basic Skills (Riverside/Houghton)	15.9%	17.4%
Stanford Achievement Tests (Harcourt)	10.2%	15.6%
Terra Nova (CTB/McGraw-Hill)	9.4%	20.2%
Scholastic Reading Inventory - Interactive	8.6%	9.0%
California Achievement Tests (CTB/McGraw-Hill)	5.8%	8.0%
Comprehensive Tests of Basic Skills (CTB/M-H)	3.7%	5.5%
Degrees of Reading Power	2.6%	2.2%
Metropolitan Achievement Tests (Harcourt)	0.8%	2.7%

Looking at these results by publisher [and excluding state contracts which would definitely affect these rankings], STAR is the leader for the third survey in a row at 33.8%, followed by McGraw-Hill with three series and a combined penetration of 18.9%, then Houghton Mifflin with one series and a penetration of 15.9%, then Harcourt with two series and a combined penetration of 11.0%, and Scholastic at 9.0%. Compared to 2004 results, usage of "state assessments" is once again very strong, as is usage of STAR. Iowa has remained fairly steady, while Stanford and Terra Nova are both far below their 2004 levels.

Analysis by Region

"State assessments" now predominate in all of the regions with the exception of the West, where STAR ranks just ahead of "state assessment". STAR is very strong in the West (56.6%) and the Southeast (42.1%). Iowa shows its greatest strength in the Southwest (23.3%). Stanford has its highest penetration in the Southeast (19.4%). Terra Nova shows its strength in the Northeast (17.2%) and the Midwest (16.5%).

Computer-Based Testing

The respondents were asked if any of the Reading assessment they are doing is computer-based. The largest number (45.4%, down from 46.4% in 2004, and from 51.9% in 2002) said they were not engaged in any form of computer-based testing at this time. Those who are doing some kind of computer-based testing are having the computer score and generate reports (33.3% compared to 38.5% in 2004, and to 35.9% in 2002), having students actually take tests at the computer (31.8% compared to 35.2% in 2004, and to 30.9% in 2002), having the computer store and manage test information (27.9% compared to 31.9% in 2004, and to 30.5% in 2002), or using computerized test banks (24.6% compared to 25.9% in 2004, and to 26.2% in 2002). For the second survey in a row (2004 and 2007), a majority of educators are doing some sort of computer-based testing. Unexpectedly, however, all four of the computer-based testing applications appear to be a bit lower than they were in 2004.

Analysis by Region

Among the five regions, the Southeast stands out as one in which the majority of the respondents (62.3% compared to 65.0% in 2004, and to 62.7% in 2002) indicated they are currently doing some form of computer-based testing. The Southeast is followed by the Southwest (56.3%), the Midwest (53.0%), and the West (52.6%). The Northeast (38.7%) still has the majority sitting on the sidelines when it comes to doing any sort of computer-based testing.

In terms of actually having students take tests at the computer, there is significantly above average (31.8%) activity of that sort in the Southeast (38.0%), and the Midwest (36.1%).

“High-Stakes” Testing

The majority of the respondents (61.3%) indicated their district or state currently administers a “high-stakes” test which is intended to determine which students can be promoted or graduated. Interestingly, the Principals (62.1%), and particularly the Curriculum supervisors (69.1%) perceive far more “high-stakes” testing taking place compared to the Classroom teachers (56.9%).

On a regional basis, the Southwest (77.6%) and the Southeast (72.9%) are the leaders in administering “high-stakes” tests, while the Northeast (49.7%), the Midwest (40.6%), and the West (50.3%) lag behind.

For more information or to purchase a copy of ***The Elementary Reading Market*** (June 2007, $995), contact Bob Resnick at Education Market Research, 718-474-0133, or bob-resnick@ed-market.com.

This feature is written by Dr. Robert Resnick, co-publisher of this newsletter and president and founder of Education Market Research, P.O. Box 940418, Rockaway Park, NY 11694; Tel/Fax 718-474-0133. Email bob-resnick@ed-market.com; Web site www.ed-market.com.

MDR MARKET FACTS

2005-06 PUBLIC SCHOOL EXPENDITURES

Market Data Retrieval's (MDR) K-12 public school financial data represents the amount schools spend during a given school year in terms of actual dollars spent rather than budgets (i.e., estimates of future spending).

Analysis of the financial data for the 2005-06 school year shows that public school spending in the key All Instructional Materials (AIM) category approached the $12 billion mark. The $11.872 billion recorded by MDR represents 4.3% growth compared to the $11.379 billion reported in 2004-05. Thus the historical trend is describing a moderation in spending on instructional materials, from a recent high of 8.5% growth in 2000-01, to a more moderate 5.1% in 2001-02, to zero growth in 2002-03, to 4.4% in 2003-04, and to 5.1% in 2004-05. MDR's historical data stretching all the way back to the 1986-87 school year now shows that AIM expenditures have increased in all but one (2002-03) of those nineteen years. The following table illustrates the progression of AIM expenditures from 1986-87 to 2005-06.

Public School AIM Expenditures, 1986-87 Through 2005-06
(dollars in billions)

SCHOOL YEAR	AIM EXPENDITURE	INCREASE
1986-87	$3.569	- -
1987-88	$3.843	7.7%
1988-89	$4.155	8.1%
1989-90	$4.490	8.1%
1990-91	$4.706	4.8%
1991-92	$4.781	1.6%
1992-93	$4.945	3.4%
1993-94	$5.405	9.3%
1994-95	$5.628	4.1%
1995-96	$6.198	10.1%
1996-97	$6.790	9.6%
1997-98	$7.982	17.6%
1998-99	$8.547	7.1%
1999-00	$9.058	6.0%
2000-01	$9.826	8.5%
2001-02	$10.327	5.1%
2002-03	$10.373	0.0%
2003-04	$10.830	4.4%
2004-05	$11.379	5.1%
2005-06	$11.872	4.3%
19-YEAR AVERAGE	**- -**	**6.6%**

While 2001-02 fell short of the 2000-01 increase of 8.5%, it still came fairly close to the historical average growth rate of 6.6%. On the other hand, the 2002-03 data is clearly indicative of a very tough year in the K-12 school market. The 4.4% increase in 2003-04, the 5.1% gain in 2004-05, and the 4.3% rise in 2005-06 seem to indicate a modest bounce back in the market.

Looking at AIM expenditures by state, California and Texas again lead the parade, each with well over $1 billion spent in 2005-06. Of the top twelve spending states nine showed year-to-year increases in AIM expenditures. California (+9.5%) and North Carolina (+9.0%) had particularly robust AIM increases for the year. New Jersey and Georgia were flat, and Ohio was down 1.2% compared to the prior year. The following table shows the top twelve states in terms of AIM expenditures, each with over $300 million spent in 2005-06.

AIM Expenditures By State, 2005-06 School Year
(dollars in millions)

STATE	**AIM EXPENDITURE**
California	$1,607
Texas	$1,301
New York	$863
Florida	$512
New Jersey	$456
North Carolina	$424
Illinois	$413
Pennsylvania	$392
Virginia	$388
Ohio	$336
Massachusetts	$335
Georgia	$325
TWELVE STATE TOTAL	**$7,351**
NATIONAL TOTAL	**$11,872**

The twelve top spending states actually encompass 61.9% of the national total AIM expenditures of $11.872 billion for 2005-06. Clearly it pays to target the biggest spenders when product marketing plans are developed.

For more information about expenditures, and how to focus marketing campaigns on the highest spending states, districts, and schools, contact Market Data Retrieval.

MARKET DATA RETRIEVAL
1 Forest Parkway, Shelton, CT 06484
Phone: 203-926-4800
Web site: www.schooldata.com

K-12 INTERVIEW

This month K-12 Newsletter talks with Dr. Steven Ritter, co-founder and Chief Scientist of Carnegie Learning, Inc. He has been a research scientist at Carnegie Mellon University and was instrumental in developing the Cognitive Tutor program for mathematics.

K-12: How did you get into this kind of work?

Ritter: I was a cognitive science major both as an undergraduate and in graduate school. During graduate school, I became more interested in thinking about applications of human learning in the real world, as opposed to more academic and controlled situations. Carnegie Mellon was a leader in applied cognitive psychology, which, in general, is concerned with how thinking works. Surprisingly, education hasn't always taken the science of human learning seriously. One tradition in education, based on John Dewey, is very practical in the sense that what education is supposed to do is study what teachers do in the classroom, find out what practices seem to be working and try to promote them. The other tradition is concerned more with the cognitive theory of learning. It holds that if we want to make improvements in education, we have to understand how people learn. Historically, there was a split between those who view education as a process in itself that is separate from human learning and those who focus on how learning works as a thought process. Psychologists interested in education should study learning in real environments.

K-12: Your program emphasizes math skills. Does it address special needs students or students across the board?

Ritter: It really addresses students across-the-board, but in a way particularly appropriate for special education. It emphasizes personalization of instruction. The software builds a model of what individual students know and don't know. It uses that model and is continually revising it based on what students do. It picks activities appropriate for individual learners. Each student is given problems that emphasize the things that a student needs to learn and is ready to learn. The program also minimizes the amount of time students spend on things they've already learned.

K-12: What distinguishes Carnegie's program from other instructional software?

Ritter: The software does what we call dynamic assessment. Most software tries to individualize instruction by giving the student a test and then an instructional module, and then maybe another test and more instruction. In our software, assessment and instruction are completely integrated. As students works through the instruction, we're assessing their performance. This way, we're assessing what we're actually teaching. If a student gets a multiple choice question right, it doesn't necessarily mean the student knows how to apply that knowledge in a more complex task. Here, we're not assessing them with multiple choice questions and abstract tasks. We're asking them to perform real-world tasks and assessing them as they do that.

K-12: In terms of student performance in math, how bad is it out there?

Ritter: The real question is "how bad is it relative to what?" The best data shows that students these days are not doing any worse and probably a little bit better than they've done in the past (the 1960s or 1970s or so). So relative to the past, they're doing better. But relative to the rest of the world, they're doing very badly. Back in the 1960s and 1970s, we were ahead of the rest of the world. What's happened is that other countries, particularly Asia and some European countries, have improved their educational systems to the point where they're well ahead of us. We're doing the same things we were doing in the 1950s and 1960s and 1970s, and we're still getting the same results. At that time, most kids learned to read and could do basic arithmetic, which made us a leader in the world. But that's no longer world leadership, and no longer appropriate for the current society, which is being driven by knowledge industries that depend on abstract reasoning.

K-12: How are the at-risk groups identified?

Ritter: Socio-economic status is one of the best predictors of achievement. It's a hard problem to solve because differences in achievement, even among kindergartners, are based on socio-economic status and start before the schools have even had access to kids. There are factors of the environment outside schools that tend to make those differences persist. If you're lower socio-economic status, you have poorer nutrition and get less sleep. You're less likely to have a parent at home who can help with homework. All these factors beyond the control of the schools perpetuate the disadvantages.
We address that problem by thinking about how education can be more efficient. People don't always talk about efficiency in education, but the world is set up so that you don't have much time to teach students math, and they need to learn it. So you need to make the best use of that time. That's efficiency.

K-12: Are your products all electronic?

Ritter: Our courses combine software and printed materials. Our typical implementation is a 60/40 split. So 60% of the time, or three days a week, students will be in the classroom using the text material for activities. Two days a week, they're on the software and the teacher is with them. Some aspects of learning are more social and require communication and problem-solving techniques that are more appropriate in the classroom than on the computer.

K-12: Are your programs aligned to standards?

Ritter: Our programs are aligned to all the state standards and also to the National Council of Teachers of Mathematics standards.

K-12: How do you market and sell? Do you have a sales force and catalogs?

Ritter: We have a direct sales force. We don't sell through catalogs. We have a web site, but it is a small part of our business. Typically, we go to education conferences and talk to people. The sale is not at all hands-off, because in education every environment and situation is different. There's always a discussion about how what we do fits into their environment.

K-12: How about teacher training?

Ritter: That's a big part of our business. It involves different student and teacher populations that result in different implementations. We have a staff of managers who help customers implement the curriculum. We strongly believe the program doesn't run itself. It's not going to work independent of the teachers, administrators and students in a school. You must engage with them to help the implementation go as well as it can.

K-12: How do teachers respond?

Ritter: Typically, teachers are most often concerned with the software implementation. Often we're going up against a textbook. Teachers and administrators understand how to engage with a textbook, but software is a new experience for them.

K-12: Even for the younger teachers who are more technology-savvy?

Ritter: They are more technically competent, but they don't necessarily have the experience of evaluating educational software. Because our software involves dynamic content, it's not like going to a web page that's essentially an online textbook. These are activities students do, so you can't just look at it and get a sense of what it's like. You have to actually engage with it. Teachers need to understand that. There are very few times where the student has to read about how to solve equations. We have them actively solve equations. This is how they learn.

K-12: How is it going in terms of getting the program adopted?

Ritter: We've gotten a lot of traction in the last couple of years, probably because of the accountability movement. Previously, everybody wanted to increase results but there was less significant tension. Now, with AYP everybody knows exactly where they stand. So it's gotten people to pay more attention to what is out there that can help them more effectively. Eventually, that leads them to us.

K-12: Is accountability a positive trend?

Ritter: In principle, the accountability trend is a good thing, but in practice it's mixed. It's always going to depend on the specifics of the implementation. Accountability is generally the idea that you need to measure what you're doing so you can tell how well you're doing. That idea is very good, but the measurements we have right now are not good enough. A lot of times they're measuring what's easy to measure rather than what is really needed. I want to emphasize that it's very hard to measure understanding, and there's been too little attention given to trying to measure it effectively.

K-12: What factors in education will drive Carnegie's future success?

Ritter: We're in a very good position for the future because we've focused on the basics of helping students learn. The focus nationally has turned to math a lot more.
What is driving improvements in education is a finer look at data. It's not enough to test a student once a year. You need to understand how their learning is going from day to day, but you can't test the student every day. With the dynamic assessment approach we have, we measure the student's knowledge every day and can understand how it's evolving. We don't have to wait until the end of the year to find we've failed. We can intervene right away and understand what needs to get done day-to-day.

K-12: Could you elaborate of how the program tracks understanding?

Ritter: It has a lot to do with the particular approach we take in building software. It is based on an understanding of the particular elements of knowledge that students need to use to solve problems in math. We know that in order to solve this equation, the student will need to know certain individual knowledge components. We know what they are, and based on the student's correct or incorrect performance of each step in the process, we can identify which skills they have or don't have. Based on that, we can drive instruction.
We feel we have a great solution, but there's no silver bullet. A lot of people are looking for the one thing that's going to change education. But education is a part of society and is not separate from it. Everything is interlinked, and so improving education as a whole is going to take an effort in many different areas, not just curriculum, the area we're focused on. It's going to involve teacher education, connections to the home and to parents, societal attitudes about what is acceptable in education and how education is valued. I worry that sometimes people have unrealistic expectations that "if we only do this, then suddenly we'll compete with Japan in math education." There is no one difference between what we do and what they do. There are many, many differences and it's all tied up in the culture that we have.

For further information on Carnegie Learning, contact Dr. Steven Ritter at sritter@carnegielearning.com.

NEWS

Haights Cross CEO Resigns; Recap Completed; Posts Gains In Half

Haights Cross Communications said chairman, CEO and president Peter Quandt resigned from all officer and director positions with the company, posts he held since founding HCC in 1997. Paul Crecca, currently executive vice president and CFO, will become Interim-CEO and Interim-President.

Crecca was a member of HCC's board from October 2004 through August 10, 2007, the effective date of the company's recent recapitalization plan. HCC fulfilled the requisite closing conditions pursuant to its recapitalization agreement, announced June 29, 2007. On August 10, it said it completed the transactions "contemplated by that agreement."

Under its terms, holders of HCC's previously outstanding Series B Preferred Stock converted into approximately 82% of the outstanding shares of common stock. At the same time, holders of HCC's previously outstanding Series A and Series C Preferred Stock converted into about 15% of HCC's common stock. In addition, management acquired new shares of common stock under a stock purchase deal representing the remaining 3%.

At the closing of the recapitalization plan, shareholders had agreed to a new six-member board. It was to have been made up of Quandt as chairman and CEO and five persons designated by former Series B and A shareholders.

Evercore Partners, which served as HCC's financial advisor in completing the recapitalization, will assist it "in evaluating strategic alternatives, including a potential sale of some or all of the company." Of the Crecca appointment, board chairman Gene Davis said the board will work with Crecca as it proceeds with a strategic review of HCC's companies. He acknowledged Quandt's "many contributions to the company." Crecca was HCC's executive vice president and CFO since January 1998.

Sales Up In First Half

HCC also reported sales up 2.2% in its first half ended June 30, 2007 to $110.8 million from $108.4 million in the year-earlier period. Income from operations was $11.4 million, compared to a loss of $10.8 million. Net loss shrank to $27 million from $41.2 million. The sales gain in the six months reflected growth in the library, test-prep/intervention and medical education segments, partly offset by a drop for the K-12 supplemental education business.

Library segment sales rose 9.8% to $43 million from $39.1 million in the first half. The increase reflected growth of about 40% in the school channel and 12% in the core public library channel. For the second quarter, sales rose to $22.4 million from $20.4 million.

Test-prep/intervention sales in the first half grew 5.6% to $38.1 million from $36.1 million Triumph Learning and Buckle Down accounted for the gain, due to strong demand for NCLB-positioned test-prep products. Sales for Options Publishing were off 5.3% ($700,000) because of “general softness” in supplemental education and slower sales of certain reading and math assessment products. For the second quarter, sales were $18.5 million, up from $18.2 million in the same 2006 quarter.

Sales for the K-12 supplemental education division dropped about 22% in the first half to $15.1 million from $19.4 million in the year-ago six months. Along with the “softness” mentioned above, HCC cited the effect of “substantially increased competition” in the market. Sales in the second quarter dropped to $9.7 million from $11.4 million.

HCC’s medical education division sales advanced 5.9% to $14.6 million from $13.8 million in the half. Sales in the quarter rose to $7.3 million from $6.8 million.

Whitestone Sees M&A Activity Slow Down In 2Q

With the exception of one major deal, the sale of Thomson Learning to Apax Partners and OMERS Capital Partners for $7.75 billion, merger and acquisition activity in the education/reference sector "slowed significantly" in the second quarter of 2007 compared to the like quarter last year, according to M&A advisory firm Whitestone Communications, Inc. It noted six deals in the quarter, compared to 17 in the 2006 period. The value of the transactions (excluding the Thomson deal) dropped 76% to $43 million from $180 million.

The slowdown in activity reflects two trends, said Whitestone managing director Jonathan Miller. "First, small educational publishers have faced increased competition from major publishers, hurting their financial results and making them less likely to seek a buyer at this time," he said. "Second, active consolidation over the last few years has reduced the number of attractive available candidates."

Whitestone also observed that private equity firms are "still excited" about the educational publishing market, reflected in the Thomson Learning sale to Apax and OMERS, both private equity players.

Highlights in the quarter cited by Whitestone include:
—Leeds Equity Partners' purchase of eInstruction Corp. from Chicago Growth Partners for $30 million (interactive instructional and assessment systems for K-12, college, corporate and military markets);
—Hobsons U.S.'s acquisition of Naviance for $8 million (planning and advising systems for secondary schools); and
—Facts on File's purchase of Films Media Group from Primedia for $3 million (educational videos for schools, colleges and libraries).

New Subscription Service From Questia

Questia Media said it launched Questia School, an online collection of more than 27,000 books, put together to support English/Language Arts and Social Studies curricula, advanced studies and professional development.

The new service includes Questia High School, which offers access to 14,000 books in the English/Language Arts and Social Studies disciplines. Questia Achieve, an add-on to Questia High School, provides 9,000 titles designed for advance level courses such as Advanced Placement classes and the International Baccalaureate Diploma Program. Questia Professional Collection provides 3,500 books covering a range of educational professional development topics.

Questia said it worked with educators, subject-area experts, and its own teams to build the collections expressly for the K-12 community. Every site and district subscriber will also have access to its professional training services, which include onsite, web-based, pre-recorded and multiple-format options.

Courier To Expand Textbook Production Plant In Indiana

Book publisher and printer Courier Corp. said it is investing $10 million to expand its full-color book printing plant in Kendalville, Indiana, about 25 miles north of Fort Wayne.

The project is expected to add about 100 jobs. In the five-year project's first phase, it will add 200,000 square feet of space to the plant. Work is expected to start this fall and be completed in the spring.

Courier prints elementary, high school and college textbooks at the Kendalville plant. Over the last four years, it has doubled its workforce there to 545 workers.

Princeton Review Boosts Sales Nearly 15% In First Half

The Princeton Review reported sales of $76.6 million in the first half ended June 30, 2007, up 14.5% from $66.8 million in the year-earlier period. Sales in the second quarter rose 9.5% to $36.4 million from $33.2 million in 2006.

Net income in the half totalled $410,000, compared with a net loss of $3 million in the year-ago period. For the quarter, net loss was $4.3 million, up from a loss of $1.1 million.

President and CEO Michael Peril said performance in the first half reflects the company's ability to grow its revenue base. "The company has been less successful in translating this growth into margin improvement and in containing its operating expenses, particularly at the corporate level," he noted. "My three main goals will be to drive down corporate costs, improve the margins of our K-12 business, and revitalize our core test prep division through a careful and prudent program of investment."

At the request of the company's board, Stephen Richards, former COO and CFO of Houghton Mifflin, agreed to act as a consultant to management in helping the company to focus on cost controls and margin improvement. In addition, Stephen Melvin, acting CFO, plans to leave by year-end.

Detailing segment results, the company said the test preparation services division grew sales 22.1% to $27.5 million in the quarter from $22.5 million. For the six months, sales rose 12.8% to $54.6 million from $48.4 million in 2006, driven by strong gains in SES and tutoring revenues.

K-12 services revenues dropped 17.2% in the quarter to $8.9 million from $10.7 million. They increased 19.1% in the first half to $21.9 million from $18.4 million.

The company noted that its web-based admissions and application management business was sold in early 2007. In April, the only unit operated by the admissions services division was outsourced to Higher Edge Marketing Inc. Financial results for the admissions services segment and application management business were reclassified as discontinued operations.

BRIEFS

—Carnegie Learning said Jacob Sherman has joined the company to optimize its distribution, fulfillment and operations. Formerly a Random House vice president, he was most recently with Advanced Marketing Services. He also served at Ingram Book Co. and Ingram Entertainment.

—Macmillan/McGraw-Hill has released a research-based language development and literacy curriculum for English-language learners in grades K-6 called Treasure Chest. It consists of leveled readers offering differentiated instruction with approaches based on research, field study, documented classroom success and teacher input. Although it could be used with any core reading program, it is directly correlated to Macmillan/M-H's Treasures K-6 language arts program.

—Soliloquy Learning promoted Louise Dube to president from vice president, product management and strategic partnerships. She joined Soliloquy in 2002 after serving at Vivendi Universal as vice president, business unit manager for general learning. In other changes, founder and chairman Joe Costello will become CEO, and former CEO Jonathan Bower will handle key initiatives.

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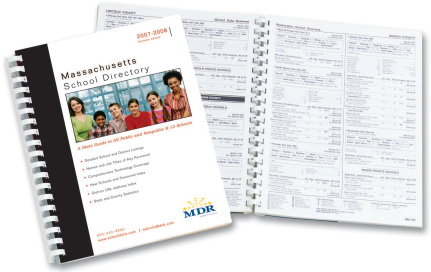

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