

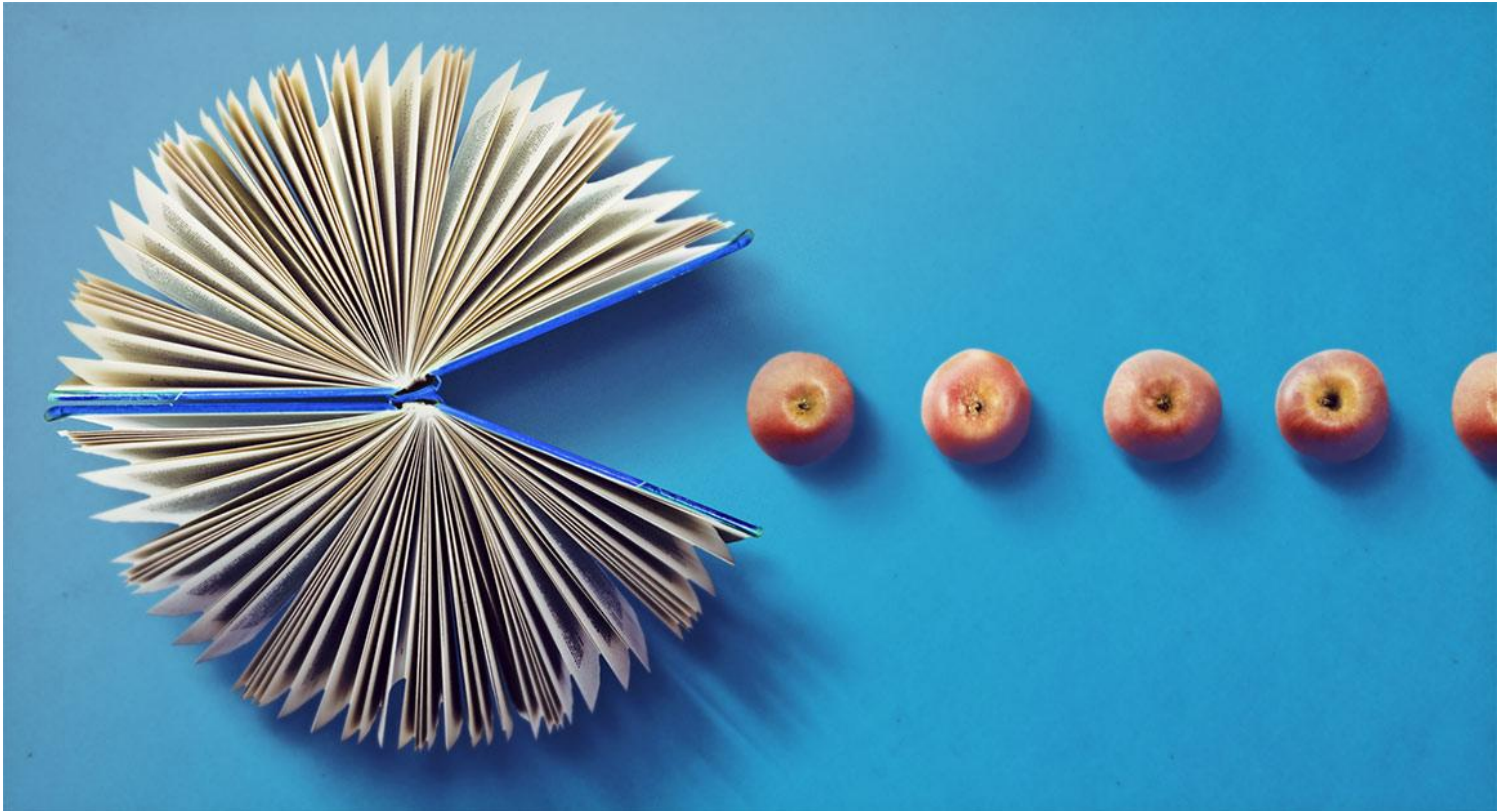
# POLITICO

POLITICO *Pro*

## No profit left behind

In the high-stakes world of American education, Pearson makes money even when its results don't measure up.

By **STEPHANIE SIMON** | 2/10/15 5:34 AM EST



Javier Jaén for POLITICO

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The British publishing giant Pearson had made few inroads in the United States — aside from distributing the TV game show “Family Feud” — when it announced plans in the summer of 2000 to spend \$2.5 billion on an American testing company.

It turned out to be an exceptionally savvy move.

The next year, Congress passed the No Child Left Behind Act, which mandated millions of new standardized tests for millions of kids in public schools. Pearson was in a prime position to capitalize.

From that perch, the company expanded rapidly, seizing on many subsequent reform trends, from online learning to the Common Core standards adopted in more than 40 states. The company has reaped the benefits: Half its \$8 billion in annual global sales comes from its North American education division.

But Pearson’s dominance does not always serve U.S. students or taxpayers well.



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A POLITICO investigation has found that Pearson stands to make tens of millions in taxpayer dollars and cuts in student tuition from deals arranged without competitive bids in states from Florida to Texas. The review also found Pearson’s contracts set forth specific performance targets — but don’t penalize the company when it fails to meet those standards. And in the higher ed realm, the contracts give Pearson extensive access to personal student data, with few constraints on how it is used.

POLITICO examined hundreds of pages of contracts, business plans and email exchanges, as well as tax filings, lobbying reports and marketing materials, in the first comprehensive look at Pearson’s business practices in the United States.

The investigation found that public officials often commit to buying from Pearson because it’s familiar, even when there’s little proof its products and services are effective.



## For policy, Bush shops at Walmart

DARREN SAMUELSOHN

The North Carolina Department of Public Instruction, for instance, declined to seek competitive bids for a new student data system on the grounds that it would be “in the best interest of the public” to simply hire Pearson, which had done similar work for the state in the past. The data system was such a disaster, the department had to pay Pearson millions extra to fix it.

Administrators at the University of Florida also skipped competitive bids on a huge project to build an online college from scratch. They were in a hurry. And they knew Pearson’s team from a previous collaboration. That project hadn’t been terribly successful, but no matter: UF dug up the old contract and rewrote it to give Pearson the new job — a job projected to be worth \$186 million over the next decade.

And two public colleges in Texas not only gave Pearson a no-bid contract to build online classes, they agreed to pay the company to support 40,000 enrollments, no matter how many students actually signed up.

Pearson has aggressive lobbyists, top-notch marketing and a highly skilled sales team. Until the New York attorney general cracked down in late 2013, Pearson’s charitable foundation made a practice of treating school officials from across the nation to trips abroad, to conferences where the only education company represented was Pearson.



## White House courts Hill on war with ISIL

BURGESS EVERETT and JOHN BRESNAHAN

The story of Pearson’s rise is very much a story about America’s obsession with education reform over the past few decades.

Ever since a federal commission published “A Nation at Risk” in 1983 — warning that public education was being eroded by “a rising tide of mediocrity that threatens our very future as a nation and a people” — American schools have been enveloped in a sense of crisis. Politicians have raced to tout one fix after the next: new tests, new standards, new classroom technology, new partnerships with the private sector.

K-12 superintendents and college administrators alike struggle to boost enrollment, raise

graduation rates, improve academic outcomes — and to do it all while cutting costs.

In this atmosphere of crisis, Pearson promises solutions. It sells the latest and greatest, and it's no fly-by-night startup; it calls itself the world's leading learning company. Public officials have seized it as a lifeline.

"Pearson has been the most creative and the most aggressive at [taking over] all those things we used to take as part of the public sector's responsibility," said Michael Apple, a professor of education policy at the University of Wisconsin-Madison.

Pearson declined to answer specific questions about many of its contracts and business practices.

But several top executives said they always work toward deals that benefit not just the company but its public-sector partners — and above all, the millions of students who use Pearson products daily.

"The public trust," Senior Vice President Shilpi Niyogi said, "is vital to everything we do."

## **TESTS, TEXTS AND ATTENTION DEFICIT**

Pearson wields enormous influence over American education.

It writes the textbooks and tests that drive instruction in public schools across the nation.

Its software grades student essays, tracks student behavior and diagnoses — and treats — attention deficit disorder. The company administers teacher licensing exams and coaches teachers once they're in the classroom. It advises principals. It operates a network of three dozen online public schools. It co-owns the for-profit company that now administers the GED.

A top executive boasted in 2012 that Pearson is the largest custodian of student data anywhere.

And that's just its K-12 business.



### **Jeb Bush e-book shares gubernatorial emails**

JENNIFER SHUTT

Pearson's interactive tutorials on subjects from algebra to philosophy form the foundation of scores of college courses. It builds online degree programs for a long list of higher education clients, including George Washington University, Arizona State and Texas A&M. The universities

retain authority over academics, but Pearson will design entire courses, complete with lecture PowerPoints, discussion questions, exams and grading rubrics.

The company is even marketing a product that lets college professors track how long their students spend reading Pearson textbooks each night.

Pearson works with for-profit career colleges, too: Its marketing materials boast that its consultants can help them “stay one step ahead” of federal regulations.

Indeed, Pearson has its hand in so many education services that corporate executive Donald Kilburn confidently predicted on an earnings call last summer that the North American division would flourish even if states and school districts had to cut their budgets.

As long as sales reps can show that Pearson products get results, Kilburn said, “the money will find a way to come to us.”

But the POLITICO review found that public contracts and public subsidies — including at least \$98.5 million in tax credits from six states — have flowed to Pearson even when the company can’t show its products and services are producing academic gains.

The state of Virginia recertified Pearson as an approved “school turnaround” consultant in 2013 even though the company had, at best, mixed results with that line of work: Just one of the five Virginia schools that Pearson cited as references improved both its math and reading proficiency rates against the state averages. Two schools lost ground in both math and reading and the other two had mixed results. State officials said Pearson met all the criteria they required of consultants.

Across the country, Pearson sold the Los Angeles Unified School District an online curriculum that it described as revolutionary — but that had not yet been completed, much less tested across a large district, before the LAUSD agreed to spend an estimated \$135 million on it. Teachers dislike the Pearson lessons and rarely use them, an independent evaluation found.

And universities continue to hire Pearson to manage online programs even though the company has routinely failed to hit its contractual targets for student enrollment. The higher those targets are, the more lucrative the deal appears to the university — and the more willing administrators may be to promise Pearson a cut of up to 60 percent of student tuition.

If Pearson fails to bring in the promised number of students — and David Daniels, a managing director, acknowledged the targets are often “very ambitious” — it rarely gets sanctioned.

At Rutgers University in New Jersey, for instance, Pearson is in charge of recruiting students to online degree programs and counseling them so they stay engaged and enrolled. Yet if Pearson falls short of its recruitment or retention goals, its share of student tuition isn't reduced. On the contrary, the contract allows Pearson's cut of tuition to be increased in the face of disappointing numbers, keeping the revenue flowing. Last year, enrollment was about 200 students short of the minimum stipulated in the contract and nearly 1,000 students below the goal.



## Senate confirms new drug czar

BURGESS EVERETT

Contractual language also ensures Pearson collects its full cut if a student drops out mid-semester or fails to pay the tuition bill.

Faculty members have raised a number of complaints about the contract and moved to block Pearson from expanding its role on campus. Among their objections: About half of student tuition in the online programs goes directly to Pearson. Rutgers set out to “create an online campus as a cash cow,” said David Hughes, an anthropology professor, “but then flubbed that up entirely by giving the revenue away to Pearson.”

But Richard Novak, a Rutgers vice president, said it “would have been very nearly impossible for the university to enter the online degree space without the help of a powerful partner.” Novak said it would be “myopic and lopsided” to punish the company when students drop out, because many factors contribute to such decisions.

“This is a deep partnership,” Novak said, “and we work together on such issues.”

## FAMILY FIRM TO GLOBAL GIANT

The company that would play such an outsize role in American classrooms was founded in Yorkshire, England, in 1844 as family-owned construction firm. By the 1890s, it was one of the largest building contractors in the world.

Over the decades, Pearson PLC — now based in London — bought stakes in all manner of industries, including newspapers, amusement parks and even the Madame Tussauds wax museum. It wouldn't be until 1988 that the company took its first big step into the education world when it bought textbook publisher Addison-Wesley. Other acquisitions soon followed.

Though it still owns the Financial Times and Penguin Random House publishing, Pearson now focuses on education. It employs nearly 40,000 worldwide.

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“When the federal government starts doing things like requiring all states to test all kids, there’s going to be gold in those hills. The people we’ve elected have created a landscape that’s allowed Pearson to prosper.”

- Jonathan Zimmerman, education historian at New York University.

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Pearson’s stature is reflected in its access to top policymakers. Pearson is the only company with a seat on the board of directors of the Global Partnership for Education, which works with the World Bank and the United Nations to encourage developing countries to invest in education. (Pearson has substantial business interests in Asia, the Middle East and South America.)

And Pearson was one of only three for-profit education companies — the other two were startups — invited to hobnob with the Obamas and Education Secretary Arne Duncan last year at a White House summit on college access.

Pearson’s size has made it a lightning rod for criticism. Activists from both left and right spit out the brand name almost as a curse, using it as shorthand for all the educational trends they dislike, from the focus on high-stakes tests to the shift to Common Core to the push to turn more teaching over to high-tech algorithms.

The comedian Louis C.K. has tweeted his disdain for confusing homework questions “written by Pearson or whoever the hell.” Glenn Beck has publicly held up Pearson as a symbol of corporate greed. A speaker at a teachers’ union conference last summer drew cheers with his fervid vow, “We will not be Pearsonized!” And when Ohio students recently produced an anti-Common Core video, they targeted Pearson in particular, flashing the corporate logo as they sang lyrics they’d adapted from a Pink Floyd song: “Hey! Pearson! Leave them kids alone!”

Conspiracy theorists sometimes suggest that Pearson has a sinister hold on federal and state education policy. In peak years, it has spent about \$1 million lobbying Congress and perhaps \$1 million more on the state level, with a particular focus on Texas, according to state and federal records.

But that's not an outsize number for such a large company. By comparison, the National Education Association, the biggest teachers union in the U.S., spent \$2.5 million lobbying Congress in 2013, according to the Center for Responsive Politics.

"The policies that Pearson is benefiting from may be wrongheaded in a million ways, but it strikes me as deeply unfair to blame Pearson for them," said Jonathan Zimmerman, an education historian at New York University. "When the federal government starts doing things like requiring all states to test all kids, there's going to be gold in those hills. The people we've elected have created a landscape that's allowed Pearson to prosper."

Still, some policy analysts say they're uneasy with a profit-driven company exercising so much influence over American education. The company's global adjusted operating profit for 2013 topped \$1 billion — and 55 percent of it came from the North American education division.

"The line between profit and profiteering can seem pretty fuzzy," said Cathy Davidson, director of the Futures Initiative and a professor at the Graduate Center at the City University of New York. "If you have an exclusive contract with a massive educational system, is that really just earning a profit, or are you profiting at the public's expense?" Davidson said. "That's the line many people, including myself, find very troubling."

In an interview last spring, Pearson CEO John Fallon defended the company's profits as appropriate, in part, because they finance investments to improve education around the world.

"We are a profit-making enterprise," Fallon said. "We don't exist unless we have the profits to sustain a billion dollars or more in research. But profits do not define us."

Profit margins for Pearson's work with public institutions are hard to determine. Where they can be tracked, they're sizable.

A 2012 contract with California State University projected that Pearson would earn \$12 million over five years for marketing, enrollment and student support services — a healthy markup considering the company estimated it would spend \$5.5 million to provide those services. The deal fell apart two years later, in part, because of the university's concern over costs.

And the business plan for Pearson's 2010 joint marketing venture with an online public school in Florida projected gross profit margins would hit 85 percent within a few years. That deal, too, fell apart as sales didn't come close to meeting expectations.



One of Pearson's most successful deals to date puts the company in charge of marketing and supporting online degree programs for Arizona State University in exchange for more than half of student tuition revenue.

The programs have grown rapidly since Pearson launched them in 2010; as of fall 2014, 10,000 students were enrolled, though that's still short of projections.

Kari Barlow, ASU's chief operating officer, described the university's relationship with Pearson as "highly cooperative," adding: "We succeed or fail together."

ASU Online will bring in about \$69 million in student tuition this year.

The university will keep about \$31 million.

Pearson's share: \$38 million.

### **'THE GENIUS OF PEARSON'**

Pearson is probably best known in the U.S. for its standardized tests.

It dominates that market.

Pearson holds testing contracts with 21 states plus Washington, New York City and Puerto Rico. The most recent analysis available pegs Pearson's market share at 39 percent, nearly triple the size of its nearest competitor. That 2012 report, from The Brookings Institution, estimates Pearson's annual revenue from U.S. assessments at \$258 million.

Pearson is poised to maintain its position in the new era of exams aligned to the Common Core academic standards. It holds the contract to administer and score the exams that will be used by 10 states in the Partnership for Assessment of Readiness for College and Careers consortium. The PARCC contract is worth at least \$138 million to Pearson this year and could ultimately be worth many hundreds of millions more.

A rival test developer is fighting the contract in court, alleging the bidding was rigged so only Pearson could plausibly compete. Pearson, which was the only bidder, says the process was fair. The bidding was run through New Mexico; state officials also defend the process.

But New Mexico has refused to produce any correspondence between Pearson and state employees in response to a public records request that POLITICO filed last August.

Whether they're traditional or Common Core, standardized tests these days carry high stakes. Scores on the exams can determine whether a child advances to the next grade, whether a teacher keeps her job and whether a school remains open.

So its stronghold in the testing business gives Pearson huge leverage over other aspects of K-12 education.

To prepare their students for Pearson exams, districts can buy Pearson textbooks, Pearson workbooks and Pearson test prep, such as a suite of software that includes 60,000 sample exam questions. They can connect kids to Pearson's online tutoring service or hire Pearson consultants to coach their teachers. Pearson also sells software to evaluate teachers and recommend Pearson professional development classes to those who rate poorly — perhaps because their students aren't faring well on Pearson tests.

"The genius of Pearson is the interconnection among their markets," said Apple, the education policy professor. "That gives Pearson its power."

Niyogi, the Pearson executive, said the company's breadth benefits consumers, because it can "combine products in a way that helps our customers do more with less."

The company has numerous competitors for nearly all the products it sells, but the POLITICO review found Pearson often has the inside track for contracts because its products are so ubiquitous and its sales staff builds such tight relationships with state and local officials.

When North Carolina wanted to replace its Pearson-run student database with an updated system, state officials reflected on their "positive experiences" with the company and decided "it would be in the best interest of the public" to hire Pearson again — without seeking bids from competitors, said Vanessa Jeter, a spokeswoman for the state Department of Public Instruction.

So in the fall of 2012, the state awarded Pearson a two-year, \$8.5 million no-bid contract to transfer student data to a new system.

Pearson's new database, PowerSchool, turned out to be riddled with so many glitches that some schools couldn't tally enrollment or produce accurate transcripts; one local superintendent called it a "train wreck."

Most problems have now been fixed, Jeter said. But the state had to hire eight Pearson project managers — each of whom billed up to \$1,024 per day — to relieve its overloaded IT staff and

assist districts with their “unique issues arising from the implementation of PowerSchool,” according to a contract amendment.

The emergency help, plus more training and other additions, pushed the two-year price of the no-bid Pearson contract up 44 percent, to \$12.2 million. Last summer, North Carolina extended it for a third year at a cost of \$7.1 million.

Michael Chai, Pearson’s senior vice president for school product technology, said PowerSchool has rolled out more smoothly in other districts. “There are always lessons learned,” he said. “For each deployment, we get better and better.”

## **SHOWING OFF IN ALABAMA**

The value of Pearson’s involvement in overlapping markets is on full display in Huntsville, Alabama.

The local school district, which serves 23,000 students, inked a six-year, \$22 million, no-bid contract with Pearson in June 2012.

Under Alabama law, districts don’t have to seek competitive bids on instructional material, such as the digital curriculum that Huntsville bought from Pearson. But the contract also calls for Pearson to provide other services that would typically be put out to bid, including software to analyze student achievement, professional development courses for teachers, tech support and test-prep questions.

A district spokesman, Keith Ward, said the district did not seek other bids because officials believed Pearson to be the only vendor that could bundle all the services.

The contract was signed by Superintendent Casey Wardynski. A year after signing the contract, he led a Pearson webinar on district leadership in the digital age. And Pearson listed Wardynski online as a member of the company’s “team of experts,” one of the “minds behind our solutions” — until POLITICO inquired about the apparent conflict, and the website was taken down.

Pearson declined to answer questions about Wardynski’s role with the company. Niyogi also declined to say whether Pearson has ever paid Wardynski.

The district did not make Wardynski available for an interview. Rena Anderson, the director of community engagement, said the superintendent “receives no compensation in any form from

Pearson or any affiliates.”

POLITICO submitted a public records request last summer for correspondence between Pearson and a handful of top district officials, including Wardynski. The district’s lawyer, Taylor Brooks, said he believed there were a great many such emails but said they might be personal in nature and thus not a matter of public record. He refused to produce any documents.

Pearson’s relationship with the Huntsville school district extends beyond the \$22 million contract.

The district hosts regular tours to showcase its use of online textbooks; more than 700 educators from across the nation have attended. The tours have boosted Wardynski’s reputation as a trailblazer; he and the district have won awards for their embrace of technology.

The tours also give Pearson a golden opportunity to pitch school officials on its products. On the itinerary: a visit to the laptop maintenance center, a trip to an elementary school — and a presentation from a Pearson representative.

Pearson declined to say whether the company underwrites the tours. But the company has not been shy about using every opportunity to get its sales force in front of potential customers.

In a successful 2013 application to renew its Virginia certification as a “turnaround partner” for struggling schools, for instance, Pearson listed 14 employees it said would play vital roles in helping those schools improve. One was the sales director for a Pearson tutoring service.

Pearson also used its charitable foundation to put its sales reps in front of potential customers. The foundation sent state officials to conferences in London; Helsinki, Finland; Rio de Janeiro, Brazil; and Singapore, where they had plenty of time to mingle with the Pearson sales team.

A POLITICO investigation last year found other instances of Pearson’s charitable work intertwining with its business interests. The company announced in November that it was shutting down the foundation.

## **TEXAS COLLEGES BET BIG**

In higher education, Pearson has had striking success at parlaying relatively small jobs into big contracts.

Northern Arizona University, for instance, signed a routine contract in February 2012 to buy online curricular material from Pearson. The contract also called for Pearson to help NAU faculty

customize that material. Total cost to the university: about \$3 million over three years.

Two months later, the contract was amended without competitive bidding to give Pearson a much bigger job: developing the equivalent of more than 100 online courses in business administration, information technology and liberal studies. The college guaranteed payments of at least \$8.7 million.

NAU spokesman Tom Bauer said the process was appropriate because the original contract and the amendment both served the same goal of tapping Pearson's expertise to build online resources. Pearson declined to comment.

Pearson's success in landing the Arizona contract soon paved the way for additional deals.

In the summer of 2013, two public colleges in Texas went looking for a partner to develop inexpensive online degree programs that students could move through at their own pace, advancing as they demonstrated competency at each required skill. The colleges turned to Pearson — and awarded the company a no-bid contract worth more than \$9 million over five years.

Steven Moore, a vice chancellor at Texas A&M University, said the contract was not put out for competitive bid because administrators believed no other company could match the expertise that Pearson had gleaned working for NAU.

Pearson's NAU program at the time was barely underway; there was no way to gauge its academic impact or its appeal to students. (Just two dozen would enroll that fall.) Nonetheless, officials at Texas A&M-Commerce and South Texas College were so confident their partnership with Pearson would be a success that they agreed to pay the company for at least 40,200 student enrollments by 2018. Pearson collects a fee for each enrollment; all told, the company stands to earn \$9.4 million.

In the first year, the colleges got just 463 enrollments, far short of the 840 projected in the contract. Administrators said they expect it to pick up now that they have launched a major marketing campaign for their first degree program, a bachelor's in organizational leadership.

And if enrollments fall short despite the marketing? The colleges still owe \$9.4 million. The contract does, however, let them make up any shortfall by buying additional Pearson products, which they could use to launch new degree programs — supported by Pearson.

Pearson's Niyogi said the company "works with all of our partners to structure a contract that makes the best use of their resources."

## A FLORIDA BLOCKBUSTER

Pearson's contracts in Arizona and Texas pale in comparison to its blockbuster deal with the University of Florida.

That deal traces to 2011, when a Pearson subsidiary won a competitive process to develop online programs for graduate students at Florida's flagship university. Pearson's online courses did not do very well; just 48 students enrolled last fall in a Master of Arts in Urban and Regional Planning, which was projected to draw hundreds this year. But administrators got to know Pearson representatives.

So when the legislature ordered the university to build an online college for undergrads on a tight deadline, the UF team didn't host a new round of competitive bids, though the project was much bigger than the graduate courses, and at least eight companies have expertise in the field. Instead, the team rewrote Pearson's old contract to assign the company's new, and far more lucrative, responsibilities.

"Given that we already had Pearson people we were acquainted with, we needed to investigate using their expertise," said Andrew McCollough, an associate provost. "We knew Pearson by reputation. ... In our considered judgment at the time, this was the best route for us to take."

The contract was signed just before Thanksgiving of 2013. By Christmas, Pearson had collected its first \$1.75 million.

All told, the contract is worth a projected \$186 million to Pearson through 2024, according to a business plan reviewed by POLITICO.

That sum includes \$9.5 million in public funds over the next few years. The rest comes from student tuition.

Pearson will initially collect \$135 for each Florida student who enrolls in an online class — and \$765 for each out-of-state student. The faculty member teaching the course, by contrast, will earn a flat \$60 per student, according to minutes from a June meeting of the university's board of governors.

Paul LeBlanc, president of Southern New Hampshire University, has studied this type of arrangement — though not this particular contract — and says it makes sense for companies like Pearson to demand substantial payments and multiyear deals. The private sector must "put in

enormous amounts of capital and resources to bring these institutions online,” he said.

At the same time, LeBlanc said he hears frustration from his fellow college presidents. They feel a great urgency to get into the online market, but they lack the expertise, he said, so they have few options other than to bring in a for-profit partner.

Many colleges are “looking for life rafts,” said Ken Hartman, principal analyst at the consulting firm Eduventures, which advises universities on developing online programs. Administrators often jump in without fully considering either their needs or the cost of hiring a private partner, Hartman said: “It looks very tempting, and you think it’s going to save the day for you. But it’s not.”

In Florida, UF won’t begin making significant profit off the online college until 2020 — and then only if it grows exponentially, according to the business plan. The university projects more than 25,000 undergrads will be enrolled within a decade. About 1,600 enrolled in the first year.

“I believe we are on track,” McCollough said, “but the future is yet unknown.”

Pearson’s contract with UF gives the company the right to request access to all information from students’ applications for admission, including financial aid data. The university does have discretion, though, and uses it: “We’ve already had instances where Pearson wished they would have more access to student information, and we’ve said no,” McCollough said.

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“I heard a lot from my constituents about Pearson’s role. They’re very concerned that it’s taken over of much of the educational assessment arena — that it’s basically become a behemoth.”

- *Arizona state Sen. Kelli Ward (R)*

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Other contracts reviewed by POLITICO give Pearson more leeway with no restrictions on how the company uses the vast quantities of personal data it can collect as it recruits and enrolls students and then tracks their progress through the academic programs. Some of the information is protected by federal privacy law, but much is not.

Pearson says it does not sell the data or use it to target advertising to students. But the contracts do

not give the colleges Pearson works with any mechanism to monitor or enforce that policy. Pearson has declined to join more than 100 other education technology firms in signing a Student Privacy Pledge recently hailed by President Barack Obama as an important safeguard against commercial data mining.

## **ROUGH TIMES IN LOS ANGELES**

As public criticism of Pearson has mounted, the company has moved aggressively to manage and protect its public image.

It engaged a market research firm last summer to conduct in-depth interviews with journalists and other “elite stakeholders” about their views of the company, offering to pay participants \$150 for their time. (POLITICO education reporters were asked to participate but did not.)

Pearson has also stepped up outreach on social media and through its campus ambassadors — students paid to promote its products at colleges.

And when controversy began swirling around a pricey Pearson partnership with the Los Angeles Unified School District, executives leaped into action.

“I’m writing to see how we can support a concerted effort to make the many positive voices more prominent,” Sherry King, a Pearson Foundation vice president, emailed then-Superintendent John Deasy in the fall of 2013. “Please let us know how we can help in a systematic way. Our team is ready to work with you.”

As it turned out, no amount of positive PR could rescue the Pearson deal with LAUSD.

Emails first published by public radio station KPCC showed that Deasy and other top LAUSD officials had been discussing a major curriculum purchase with Pearson executives a year before the contract went out to bid.

The Pearson reps positioned themselves not just as potential business partners but as loyal acolytes of Deasy, who had his hands full dealing with a restive school board and angry teachers union. “I’m proud to know you!” one wrote. Another told Deasy she hoped he was getting enough rest after some difficult days, adding, “thank goodness we have you as our Supt.”

On May 24, 2012, then-Deputy Superintendent Jaime Aquino — who had worked for a Pearson subsidiary before joining the district — circulated an email thread that included an exchange he’d



had with Pearson executives about whether the district would have to seek competitive bids before buying the curriculum. “I believe we would have to make sure that your bid is the lowest one,” he wrote.

Pearson executive Judy Coddling responded that she didn’t see a need for a competitive bid. “I don’t know why there would have to be an RFP,” she wrote. “I just want things right. I cannot imagine any one else able to do this as cheaply...”

Deasy and Pearson have said they were only discussing a pilot project. But the emails suggest conversations about a much bigger deal. Aquino told the Los Angeles Times that his involvement in the project was “by the book.” He said his email was just an attempt to explain how a competitive bidding process would work, with the district seeking the lowest possible price.

The district ended up requesting bids in March of 2013 for an enormous project — distributing tablets loaded with math and reading curriculum to all 650,000 students plus all their teachers.

A subsequent review led by school board member Monica Ratliff found serious flaws in the process, including inconsistent scoring of bids and late rule changes that appeared to favor the ultimate winners: Apple and Pearson.

At least three LAUSD officials who had a role in evaluating the bids had attended a three-day conference in Palm Desert the previous year hosted by Pearson, KPCC has reported. Participants got a look at the new curriculum Pearson was trying to sell to LAUSD — and each took home an iPad loaded with sample lessons.

The iPad contract LAUSD finally signed in the summer of 2013 was eye-popping. Pearson alone stood to make an estimated \$135 million over three years even though its curriculum was at that point at least a year away from completion. And that was just the start: The district would also have to pay Pearson an estimated \$60 million a year to keep using its curriculum after 2016, according to LAUSD spokeswoman Shannon Haber.

Days after the publication of the Pearson emails last August, Deasy halted the purchases. He resigned in October, saying that he wanted to spend more time with his family and that he was confident he had committed “no missteps” in the iPad deal.

In December, the FBI seized 20 boxes of records about the deal from the district for an investigation that is still ongoing. Niyogi said the FBI has not requested information from the company, but it will cooperate if asked.

Early reviews of the curriculum, meanwhile, have been poor: An independent team visited 245 classrooms in the fall and found just one using the Pearson lessons.

“All the things that supposedly were so attractive about what Pearson was offering have not come to fruition, at least for me,” school board member Steve Zimmer said. He described his vote to buy the iPads loaded with the curriculum as “the worst vote I’ve ever made in my life.”

Chai, Pearson’s senior vice president for school product technology, said it’s “very typical of these kind of rollouts ... that the adoption curve for teachers follows a bit of a bumpy path.”

## **BACKLASH**

The company has experienced some setbacks in its higher education division. California State University last summer scrapped a 2012 contract worth more than \$25 million after Pearson’s bid to recruit online students flopped spectacularly.

CSU had priced the online degrees substantially higher than traditional in-state tuition — at least, in part, because of the built-in cost of hiring Pearson, said Gerry Hanley, assistant vice chancellor for academic technology services. Enrollment never hit even 10 percent of projections.

Minutes from an advisory board meeting in October 2013 indicate that Pearson sought to raise its fees in the face of disappointing numbers. The university refused. “The quality of the marketing provided by Pearson was not adequate,” the minutes note.

Last year, Howard University also canceled plans to develop online programs with Pearson; neither the university or the company would comment on the reasons. And faculty at Rutgers voted to block Pearson from developing online courses in the graduate school, though the company is still working on other degree programs.

Pearson also faces challenges in the K-12 realm.

A federal review of the LAUSD’s iPad deal found the district could have saved considerably by building its own custom curriculum from a variety of online resources rather than buying a costly off-the-shelf model from a major publisher. More and more districts are coming to similar conclusions.

“The industry is changing,” said Mark Edwards, superintendent of the Mooresville Graded School District in North Carolina. Pearson has hailed Edwards as a partner and a visionary, but he recently

discontinued the remaining Pearson curricular product in use in his schools. Edwards said he couldn't imagine ever again investing in a "one-size-fits-all" curriculum when "there's so much rich new content coming online all the time."

In the testing world, too, the ground is shifting rapidly. A loud backlash against the Common Core has prompted several states to pull out of the PARCC assessment consortium and reject the tests being developed by Pearson.

Florida, Georgia, Tennessee, Oklahoma and Arizona have all withdrawn from PARCC and picked rival testing companies to administer their statewide reading and math exams. Mississippi is poised to join them after the state Board of Education voted last month to leave PARCC and seek competitive bids for a new state assessment.

Pearson's contract with PARCC projected that up to 10 million students would take the exam annually; this spring, just 5 million will be tested.

"I heard a lot from my constituents about Pearson's role," said Arizona state Sen. Kelli Ward, a Republican, who worked to extract her state from PARCC. "They're very concerned that it's taken over so much of the educational assessment arena — that it's basically become a behemoth."

Another big blow came this fall in the Lone Star State when Education Commissioner Michael Williams declined to renew Pearson's \$90 million-a-year contract to run the Texas standardized testing program.

The state auditor had ripped into the contract in a 2013 report that concluded it was far too vague to allow for effective oversight by the Texas Education Agency. The contract had so few details about the costs of each element that when the legislature eliminated 10 of the 15 tests required for high school graduation, state officials had to rely on Pearson to tell them how much they'd save.

Texas launched a competitive bidding process for new exams and is now reviewing the proposals.

Perhaps the biggest threat to Pearson's continued dominance, however, comes from Capitol Hill.

Republicans and Democrats alike have expressed sharp concern about the prominent role standardized testing now plays in schools across the nation. They're considering scrapping the federal mandate that all states test all students in reading and math each year in grades three through eight plus at least once in high school.

Pearson is not abandoning the U.S. market because of these challenges — far from it.

Niyogi said Pearson is proud of its work on projects such as the Common Core exams and an online toolkit for parents and won't be sidetracked by criticism. "We have to make sure we're not distracted by the noise," she said.

Yet Pearson is also deliberately shifting resources as it pivots to focus on new markets in the developing world.

Pearson already has a major footprint running English-language schools in China and Brazil. It operates degree-granting colleges serving tens of thousands of students in Mexico, Saudi Arabia and South Africa. It's growing in India.

And just last month, Pearson announced it would invest \$50 million in local education startups, including for-profit private schools, across Africa, Asia and Latin America.

The time is right for Pearson to expand internationally, said Brendan O'Grady, a vice president. The company stands ready to export to the world the model that has proved so successful in the United States since Pearson purchased National Computer Systems nearly 15 years ago and first jumped into the American testing market.

"We see it," O'Grady said, "as an opportunity."