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Investor briefing: 'No Child Left Behind' and Pearson's US School business

Marjorie Scardino, chief executive, Pearson

Hi everybody. Thank you very much for coming out, especially in view of the weather. Thanks for taking the time to join us. One of our New Year's resolutions was that we were going to try to offer you a lot more depth and colour about our businesses, and about all the markets we're in. I hope these will give you a deeper understanding of what we're doing.

We're focusing today, as you know, on the US School business. That's responsible for a little less than a quarter of everything that Pearson does; so in a normal year, slightly larger than the Financial Times, and slightly larger than Penguin as well. So this is fairly important. We are going to follow up in the next few months with a session like this about IDC and probably one about Penguin. So, we hope you'll join us and it won't be snowing then.

We did put out a pretty detailed trading update in mid-December and our full-year results are in March. We do hope today is going to be an opportunity for you to look with us at the policy trends in the school business, and what's going to happen - what we see - over the next five years.

It's exactly a year ago today that President Bush signed the 'No Child Left Behind' monumental education bill. It is still early days. We've been talking about it for a while, but we think that the Act is going to be the most radical, far-reaching educational reform that's happened in America since about 1965. It's going to change the way teachers teach. It's going to change the way students learn. It's going to change the way schools are run.

For education companies, which are very much used to operating at the local level, it's the biggest shake-up that anybody can remember. As you know, Peter Jovanovich has tried to work for every single education company and lost every job - and he can't remember anything like this either!

In the past year, not a lot has really changed; revolutions take time. This one involves a complex web of getting politicians and schools and officials and parents all together. So, it will take time. The process is complicated by the fact that it's a very, very tender subject: the education of our children. It really has to be handled with kid gloves, but it is going to change - make no mistake about that. Everybody agrees. 'No Child Left Behind' will make K12 education and our business something completely different. And we think it's going to improve both things much for the better.

We have a couple of people today who are uniquely qualified to talk about this. Peter, I think, needs no introduction to any of you. He is in charge of Pearson Education, which is about 60% to 65% of Pearson.

Our guest of honour, next to him, is Sandy Kress and if you thought it was going to be George Bush, he looks sort of like George Bush. He is somebody you probably haven't

met before. We're really pleased to have him. Sandy was a senior advisor to President Bush in the 'No Child Left Behind' legislation. He helped draft it. He is now one of the leading campaigners and the leading advisors on education policy in America. He also is our advisor. He talks a lot to us about how the bill is going to change things for us, what kinds of products and services might be appropriate for that kind of change.

Sandy has several good things going for him. Number one, he's a Texan, and we all know that's a very good thing. I guess the second thing going for him is that he is a passionate pragmatist. In 1988, he was the chairman of the Democratic candidate's campaign for president in Dallas, Michael Dukakis, who went down in flames. So, clearly, you don't want Sandy as the chairman of your campaign! Michael Dukakis ran against George Bush Sr. Twelve years later, Sandy is still a registered Democrat, to this very day, yet was the senior figure in the presidential campaign of George Bush, the younger.

How did that happen? He's not really a turn-coat. How it happened was that Sandy Kress and George Bush are both passionate about education. And they decided to get together and to try to reform education in Texas, because they decided that's what was going to drive economic development in the state. And they decided that what the ethnic minorities in Texas were getting, right then, was not good enough. In George Bush's semi-famous phrase - which is probably Sandy Kress's phrase - "(They deserved better than) the soft bigotry of low expectations". And that's what we think is happening all over America. That's why Sandy devoted so much of his time and energy to this bill. I've gone around Washington with him, and I can tell you that he commands real bi-partisan respect for his hard work, for his intelligent, pragmatic approach to education, and for his passion.

Before I hand over to him, I just want to give you a little bit of context, market context and Pearson context, by reminding you about what we've said about the growth in the School business around the US. Last year, we said that the US market was down for the first time in eight years: slower adoption cycle, weakness in the state budgets - all of those got together. We're expecting the market in 2002 to be down somewhere between 5% and 6%, and we'll be broadly in line with that. But for us, by the way, a storming year in our US college business and in NCS will offset that - more than offset that.

For 2003, we said that we expect our school business to return to growth. Those state budgets are going to stay under pressure. But the adoption cycle is much better in 2003. There will be some of the new federal spending (Sandy and Peter are going to talk about) coming through, though it's going to be pretty small then. So, we expect to perform ahead of the market in 2003, as we compete for a much, much bigger share of the adoption market, more like 80%, as opposed to 65% that we competed for this year. Through the cycle, we've said that we believe the school business is going to grow in high single digits, and I think, as Sandy and Peter talk, you'll see why we believe that.

We've always stressed that growth in the school business can vary a lot, year-to-year. But for the past 20 years spending in the school business has outstripped GDP, enrolments and total education spending. And we believe *that* trend is definitely going to endure. One of the reasons we believe that is the fundamental driver of school education

is the Standards Movement in America. It's a movement that's reached the UK as well. It started in local places, like Texas, where Sandy started. That movement is based on the belief that a state ought to decide what basic knowledge and skills they want their children to have, and then they ought to devote all of their resources to making sure their children have it. That's the Standards Movement. It emphasises the use of tests. It emphasises seeing how students measure up by those tests, having those tests prompt remediation (that is help for the students in what they don't know) and holding educators completely accountable for the results of that. Those principles are now a part of the law in America. They're not just ideas. They're not just principles. They're not just visions. They are a part of the law, and the historic building they tower behind is the embodiment of that.

The headlines for that bill, they'll talk about the specifics, but they are that the act expands the market for testing, early reading and teacher training. I think you already know the numbers. Early reading is going to be a \$900m prospect, maybe a little bit more to come, \$400m in testing, additional \$3bn for professional training, in addition to what's already there.

The second headline is that the act creates new requirements that schools and school districts report the performance of their students against state standards. That is the performance of each and every child. School districts have to track the progress on a district basis, on a school basis, on a grade basis, on a teacher basis, on a class basis, on an individual basis. And they have to separate each student, and they have to treat each student by gender, by race, by several other demographic qualifications. So, that is a real change, and that creates a real need on the behalf of schools for more data.

The third headline, as Peter puts it, is: "what gets tested gets taught and gets bought". So, at the heart of the act is the goal that schools raise the performance of all students, not just the ones that are easy to teach - which means that spending on products and services has got to go up. They do have to have the kind of materials that they need to teach each and every child in his own way.

About two and a half years ago, we started talking to some of you about – I think this was in conjunction with our acquisition of NCS – our vision for education in the future, and it was how we joined a testing business, a software business and a school materials business, and put them together. It is our vision for integrated education. I think you all nodded very nicely. You all listened to us; you thought it sounded very good. But you haven't seen much come out of it yet. This is now the time when it's going to come out. Not in our wildest dreams could we have expected that a Republican President, George W. Bush, was going to help us so much, but we really do appreciate it.

The US Government has the same vision that we have, and this is going to help them and help our business. Our School business is definitely made for the kind of world I think Sandy is going to talk to you about. So I will turn over to Sandy, and then Peter will take up how it is going to affect Pearson.

Sandy Kress, former education advisor to President Bush

Thank you Marjorie. It is a pleasure to be here with you all and to really talk about this remarkable experience I was able to spend last year helping craft and pass this monumental piece of legislation: 'No Child Left Behind'. I don't know how closely you follow American politics, but to have George W. Bush and Ted Kennedy come together on a major piece of domestic policy and feel passionately about it is an extraordinary thing in itself. On the House side, we had a very conservative Chairman of the Education Committee who opposed Federal Education and supported the abolition of the Department of Education - really thought vouchers was the way to go. 'Throwing rocks his entire political career', as he'd like to say as the ranking Democratic member. Coming together entirely on this piece of legislation, passionately embracing, crying together about these reforms. So it was a remarkable domestic event in the United States power base.

What brought them together? Let me talk a little bit about the context of this legislation.

The first major entry of the Federal Government of the United States into elementary and secondary education was of course the Elementary and Secondary Education Act that President Johnson promoted in 1965. It was based on the idea that disadvantaged children ought to have an opportunity to learn. And that local districts and states who have primary responsibility in the States for education were not doing a sufficient job of adequately educating a minority of disadvantaged youngsters. So President Johnson said: 'We need to become involved. We need to become engaged'.

Interestingly, and as part of the history of this Act, Senator Bobby Kennedy at the time was on the Education Committee grilling the administration about: "yes, we do need to invest, we need to ensure minority youngsters are going to succeed. But other than spending the money and coming into the local and state scene, how will we know whether we are successful?"

This was very much on his mind and actually quite delicious for me to visit with Senator Ted Kennedy during this Act's consideration. But the truth is over \$320bn was spent from 1965 up until last year in the elementary and secondary education arena. Yet there was no improvement whatsoever in the reading scores of American children. And the gap between white children and minority disadvantaged children grew over that period. So while there was marginal improvement in math, there was none in reading. This became a cause really to Democrats and Republicans alike, and gave rise, I think, to this important piece of legislation.

It was also important as a backdrop to the legislation that there had been some successes. States like Texas and North Carolina had gone out on their own about a decade ago to build, as Marjorie suggested, the Standards Movement. It wasn't just setting standards, but it was developing tests - having tests occur on an annual basis, looking for the results and then changing the way things were done based on those results. So in Texas there is a lot of pride in the fact that among African-American fourth graders, their scores were the highest in the land - higher actually than white students in seven or eight states in the United States.

So states had gone out ahead and set the way forward for some major legislation. The legislation was considered and adopted and really has a number of rather radical features, so let me talk to you about them, not the least the increase in spending itself.

The ESEA, the Elementary and Secondary Education Act, was about \$11bn a year in 1995. It is now about \$23bn. The largest increase in its history occurred when ‘No Child Left Behind’ was adopted. Even though the increase in 2002 was marginal, the President has indicated in his radio address last Saturday, that he was going to propose a further billion dollars in aid to disadvantaged schools and more aid in reading. So - there is an almost 5% increase there that is handed out in terms of the new budget and I think clearly congressional Democrats are going to want to raise it even higher.

More money. More money for educating disadvantaged youngsters which is the big part of the Act. Half of it goes to school districts, for schools that educate poor youngsters. There is an increase of roughly 20% in that first year and then another billion dollars as I say, this next year. There is an increase in spending of 30% or more in the first year in teacher professional development, so that teachers have the skills and the knowledge that will be more effective in educating these youngsters. An increase in spending of \$400m for testing. I will talk about those requirements in a moment. There is an increase, a doubling of money to almost a billion a year in Reading First. This is a program based upon a successful program in Texas, to say that all children ought to be reading at grade level by the third grade and so training, materials and assessments are funded by the Federal Government, based upon commitments in the states and the districts to teach reading on the basis of what works, on the basis of science. This isn’t just free money. This is designed to leverage a change in spending of billions of dollars on books, materials and professional development with the extra Federal money. The important part of the legislation.

There is more money for after school. There is more money throughout the entire Bill for technology for math and science – for English language acquisition by students whose families do not speak English as a first language. So there is more money in the Bill. Again a little bit of a slowdown in the increase this year but it seems to be ramping up again for next year and, I think, for the years to come.

Flexibility over the money is important. I’m not going to spend a lot of time on it, but it is important to the President and important to Congress that in return for the accountability that I am going to talk about in some detail, states and districts ought to have more say over the Federal money, more flexibility. They are going to be held accountable but they ought to be able to use the Federal money without the red tape that has been associated with that spending in the past, without having to apply to Washington to get approval for using the money one way or the other. There is more opportunity for states and districts to spend the money as they choose.

But in return for that flexibility, there are some very clear and significant accountability requirements that really go to the case that this is a monumental change in the way education is to be done.

The first part of it obviously follows on the Standards Movement, the Clinton ideas and others around the States in the ’94 Act. Every state ought to have clear standards in the core subjects, and basically say what we as adults think our children should know – what

they should learn, what they should be able to do in each of these subjects. The specificity there is important. Because of those standards curriculum can be determined, tests can be developed and are being developed around the United States, increasingly of an annual sort. We do have annual tests in California, Texas and Florida, three of the biggest States and the Act calls for and requires annual tests in Grades 3 through 8 in math and reading. And that gives the States up until 2005/2006 to do it. It gives them \$400m a year to do it, and says that we want to begin to see results. We want to see results for how students are doing, year to year in these two important subjects at these early grades.

The Act also, by the way, calls for and requires beginning in 2006/2007, a whole new set of tests in science at each level – at elementary, middle and high school. So there are further testing requirements in the Act in the area of science.

This is important, even in itself, because the policy idea of having annual tests essentially is that we need to see where each child is each year. The President felt strongly enough about this that he kind of went into some detail, boring I am sure to some of the members of Congress that listened to it in the State of the Union message, about why and how important annual testing was. But it is important, and I want to dwell on it for a moment here, because I think it suggests where all this leads. But it is pretty clear in the President's mind, and I think it is going to be clear nationally, that where it leads is that we have to pay attention on an ongoing basis to the education of each child. If we are going to say 'no child gets left behind', then we have to know where each child is each year. And the testing of each child – this isn't sampling – this isn't a sort of general number that can be affiliated, this is each child. The data that is going to be required to understand where the children are, and to be able to see whether there is progress from year to year, to be able to give information to teachers and principals that they can act on, to improve the education of each child. I think that you can see that the data needs - some of them explicitly in the Act and some of them implicit - are going to be huge and significant and are going to play a big part of education policy in future. All generated around the idea that following each child is an important and central part of the policy.

So this data has to be collected and reported. It has to be reported by a disaggregated group. It has to be reported so that we can know not just whether a school is doing well, but whether the African-Americans in the school are doing well, and the Hispanics and the low income and several other groups. A complicated data exercise is required of the states and the districts by the Act. This data needs to be reported. It is required to be reported as a part of report cards on the schools and on the states.

These requirements are going to involve the expenditure of these resources and they are going to change, frankly, the way the education business is done in the states and the districts. The districts and the states are required to respond to the data. Their accountability requirements once the data gets collected and used relative to the schools. Just to give you an illustration about how prescriptive the Federal law is, it actually points out where the bar has to be. The state gets to set its own standards. The state gets to set its own tests. But the Federal Government comes in and says 'based upon the data, here is the starting point for measuring schools'.

I don't want to get too deeply into this, but it is important for you to understand the consequences of all of this legislation. The states are expected to be able to measure and rank all of their schools in order of performance so that in effect the starting point, or the bar, for where every single sub-group must be - starting this year - is going to be set at the higher of the school to the top or the bottom quintile in the state, or the lowest performing sub-group.

Now I don't need to get into all the complexity for no reason. I simply bring it up as an illustration to show you that the Federal Government is expecting a sophisticated accountability system in each state. Very few of them have it. All of them are going to have to develop it. So that in effect they are able to rank their schools, are able to gather data on how all their subgroups are doing. They are going to have to track the progress of each subgroup in each school and they are going to have to show from year to year that those groups are advancing toward goals of 100% proficiency over twelve years. That's really what the essence of 'No Child Left Behind' is. All students in all subjects proficient against the state standards over twelve years. That's fundamentally it.

The only way we know we are going to get there and the way we are going to assure we are going to get there, is we are going to measure it. We are going to require that we see growth or else there are consequences. Consequences in terms of changes in the planning in a school. There is a required plan for every school that doesn't get there. There are consequences: the Federal Government allows a menu for the state and the districts to choose from, whether it is changing the faculty or different kinds of professional development or curriculum changes. All this is laid out, and after two or three years of failing to make adequate yearly progress, the districts are required to divert 20% of the money they are receiving in the largest pot in this Act, Title 1 to parents, basically. So the parents can either choose to go to a better school and use some of the money for transportation to get there, or to hire, in effect, private providers or other providers to offer supplemental services in the afternoon or on the weekend.

Now this is the tough part of the Act and the intention here is again to say we mean business. Things have to change. Parents want things to change. The teaching profession is largely ready for change - although these are, in some places, requirements that some of them may not be ready for, administrators as well. But the business community is ready for it. They want to have people coming into the workforce who are trained and who are educated. Higher education wants students who are ready to take on the load in higher education. Parents want to know that their children are ready for higher education or a meaningful job. This is the cry. That we do not have Higher Ed, colleges and schools full only of middle class youngsters. This is an important thing in that African-American, Hispanic and low income youngsters must have a chance to succeed. That's why these changes are fairly radical. They are going to require the private sector, they are going to require people in the education business, to come in and respond and to make the business run differently and more effectively, so that we can reach these goals.

There is a requirement in the Act that the school districts hire only qualified teachers. We have many teachers in the United States who are not certified. We have many teachers who are certified but not trained in the area that they teach. People who may be generally trained in Science but have never studied Physics or Chemistry and yet are

teaching Physics and Chemistry. There is a requirement in this Act that all teachers by 2005/2006, be certified regularly or alternatively and that they be qualified to teach in their subject. These again are dramatic changes that the Act is imposing, responding to the demands of people for better results and for better achievement levels for schools.

That's really it. The changes will be implemented in waves if you will. The testing is required to be annual by 2005/2006. Science tests are the following year. Funds are being used to develop the tests now. The increase in spending for the schools in the districts are intended to be used for school improvement. There is a separate fund of \$250m for school improvement alone. A portion of these dollars that the state will be getting out of the additional Title 1 funds will be available for school improvement. And so there is an expectation (with plans due for how the states are going to really implement this accountability beginning right now) over the next few months that this will begin to happen in earnest and with some dispatch at the beginning of the next school year.

Now what does all of this mean in the United States? What does it mean to a school district or to a state. Federal Government, you have to remember is essentially a 7% investor. Seven per cent of the entire budget on schooling in the United States comes from the Federal Government at the K12 level. What Republicans and Democrats, President Bush, Senator Kennedy and others intended to do, was to try to leverage, through the 7% investment as much change in the system as a whole as they could. And in effect that's what they are doing by having a \$1bn reading program which is designed to affect all the reading decisions at elementary school in terms of the book selections. That's why they are providing 35% increase in professional development and saying to the states: 'Let's have qualified teachers that can teach more successfully the content to these youngsters. Let's put tests in place and we will pay for them. That will show us whether progress is being made against the standards that you've set for all the children, and that progress is being made for all youngsters. Let's use a 20% ceiling. Let's use 20% of the Federal money we are providing for the poor schools as a lever to say to the districts, fix the schools or else we are going to transfer the power over this money to parents.' It is a leverage to change the way decisions are made with respect to the \$300bn plus that is spent on K12. Clearly used with the \$23bn of Federal Government spends.

I am going to let Peter talk about what this really means to Pearson and the opportunities that they have. But we are living in a new world and it is an exciting world. It is a challenging world. There are people in the States who are frankly quite anxious about it. I am going to return to Washington after all the celebrations that are taking place today, around the anniversary of the Act, to visit with the heads of education in all the states on Thursday and Friday and try to work with them to understand the creative possibilities here and the management opportunities. Because in effect the real issue for them is going to be how to manage the change. How to use these tests and the data. How to use effective materials and technology. How to weave all this together so that they are not really just operating with the same old ways and patterns of doing business, but rather they are managing in a different way, in a more intelligent way. In a way that industry, I think, has tended to use data to transform their practices and their behaviour. There are tremendous opportunities for that. If we are going to, and I think everybody is quite aware of this, if we are going to get to this noble goal of all children proficient in 12

years, we are going to have to change the way we do business. We are going to have to manage differently and smarter. We are going to have to use all of these resources better and the Federal Government is trying through these changes, in 'No Child Left Behind', to prod and push and promote the really rather radical transformation of all of K12. That's really what this policy is about. That is what the intention was and that's happily where there is a good, solid bi-partisan base of support to continue through to that result.

Thank you.

Peter Jovanovich, chief executive, Pearson Education

Publishers don't usually get involved in policy. We try to be neutral and do whatever it is that our customers want. But in this instance I broke my own professional rule, and Pearson did as well. Because when I began to realise what 'No Child Left Behind' could be like, I felt that personally and for the company and as a citizen of the United States that this is an enormous change and it needed support.

So in fact I went and saw Sandy in that great Victorian pile, the Executive Office building, next to the White House, in his palatial digs and I thought: 'God, this guy must be powerful or something, he's got a big looking office here'. I said: 'I've watched reform after reform after reform go to the Federal Government and nothing happens, and from what I've heard, this could make a difference - how can we help?'

So we batted the bat at a few things and so on and so forth. My motives were not entirely altruistic and I will tell you how some aspects of this helps Pearson. I will also say, by the way, that not only were we there to help, but also to potentially take advantage of this Act. But also the Act has changed us. It is a two-way street here.

First off, how does it help us? Obviously as the largest education company in the world, this has benefits and let's just go through the easy and the obvious ones. Testing, for example. We are the largest testing company in the United States. We currently have the Florida, California, and Texas testing contracts, and we have a great deal of experience with the approach and NCLB because, of course, the model was Texas. We are, in fact, the prime contractor in the state of Texas. We are responsible not only for scoring the tests but also for producing the items.

What we will see in testing is about a 50% increase in the level of testing in the United States between now and the school year 2005/2006 when it has to be implemented. Will it all happen at once? No. There will be some money spent in 2003 on test development and more on trialing in 2004 and in design and finally in 2005/2006 the implementation.

So we will start to see some money next year – not that much, more the year following and so on and so forth. I think our leadership position in this industry obviously will come to our benefit. It is also going to come to our benefit in a subtle way; the Act is saying you need to measure against standards. That's measuring against criteria. The

Act doesn't say that you need to measure against how well other children are doing in other states around the country, which is against norms.

Do I think norm reference tests will persist? Yes. I think they will be used in some instances in order to implement this reform. Yes. But generally the bias is towards criteria and reference tests and that's where, as many of you know, that's where we make our money. That's what the Texas test is. That's what the North Carolina test is and that's what, primarily, the California test is.

I think it is going to change the marketplace, and we are changing with it. In fact, we are changing some of our partnerships in order to work with new players in order to meet the demands of this market. So, for example, we recently won the California Golden State examination contest and we started working with ACT, which produces a major college test in the United States and is a new partner for us. There are other partners we are working with as well. Obviously this is bringing new people into the marketplace.

But to sum up, I think what our testing business is today and what the testing market is today, if our share stays the same. It will increase by about 50% beginning of the school year 2005/2006.

We are obviously textbook publishers. The obvious part of the Act that affects us is Reading First money is going towards reading textbooks. We have revised our Scott Foresman reading programme creating something called 'Links to Reading First'. So that has already been approved in a number of states and by the Federal Government in their submission to them to be used in these Reading First grants.

So we expect to get a great deal of 'Reading First' money. That's the explicit advantage. The implicit advantage is that for the first time educational bureaucrats – and I will call them that in this instance – are saying 'textbooks are good'. They've often been looked on as almost a necessary evil in the educational enterprise in the United States, 'let's get on to the more exciting stuff, collaborative learning, projects. Those of you who know a little bit about Doing – let's go build something in order to learn etc. Yes, we've got to have those six square books on the side of the room, but the exciting stuff is elsewhere.'

The world has been turned upside down. We have a President of the United States, we have the Secretary of Education saying to the states, 'in order to get this money, you need to use basal textbooks'. That's a big change. So we will benefit explicitly through the Reading First money, but we will also benefit because in effect, the Federal Government is changing the climate towards one of the core products that we sell the school districts.

We are changing because of it as well. So in our new math programme, for example, we are focusing on using research methods to make sure what we are doing works. We are aligning ourselves to those people that the Federal Government tends to be associated with etc, etc. So it is having an impact on us as well. But it is a salubrious impact.

Now some areas that we are in our competitors aren't in. One of them is, as you know, that we are a large software publisher. And I think in this instance, again we are already there in some ways and in some ways we are changing. We are already there, in that we published the Waterford Early Reading Programme which is a software programme that teaches children how to read, which has already been approved in Reading First grants and it is in the sweet spot in the approach that the Federal Government is promoting. But

we also see that what's going to explode is uses of software for remediation. Sandy spoke about this at length. The Act is saying that it is not good enough just to test them, you have got to do something about it if you find that this child is not doing well at this particular standard or that particular standard. Remediation, frankly, is something that teachers find hard to do. They've got a classroom of 20 or 25 kids, in the end inexorably, whether you are doing it intentionally or not, you tend to teach to the middle.

Software is uniquely positioned to be able to deal with children who have particular learning disabilities and it focuses on what those are and helps them get back to the norm level. Our products SuccessMaker, or Novanet will obviously work in this environment, and what we are doing is changing them so they work better in this environment when focusing on standards.

Data is not very exciting. But it is going to have its own heyday because of Sandy Kress. This is a data driven Bill. It is a data driven approach to education. Therefore school districts will have to report to the state, as Sandy has described in detail, how their kids are doing. We are the leading providers of administrative software that does just that. So in a sense again, we were already positioned to take advantage of this Act.

How has it changed us? As we gave you our vision tour and showed you our product NCS Learn and so on and so forth, we realised about halfway down the track that what Mr Kress was doing was going to change the demand and the approach - and this product really wasn't going to meet the needs. So we downed tools, spent about six months reconfiguring what we are going to do and have just come out this year with Concert, which is our response to the NCLB Act, which is an ASL product that enables school districts to manipulate this data, track students to be able to show adequate yearly progress, report to the State, be able to disaggregate data by gender or by class or by ethnic background. And most specifically to be able to come up with recommendations in terms of what needs to be done, in order to help a particular child.

I was in a sales meeting of Pearson Education Technologies, which has just produced Concert. I said: 'Listen there is only going to be one more name change for this division - we are called 'No Child Left Behind'. Because this is essentially a \$200m division really there to create software that enables school districts and states to implement the 'No Child Left Behind' Act.

So looking at all of this, it is has been and will be to the advantage of Pearson as far as the products and the services we already create. But it is also having a profound impact on us as a company in terms of the kinds of products and services we are going to create.

There is a fiscal problem going on in the States right now. Do I think it is going to affect this Act? No. In the end, it doesn't make any difference whether or not the Federal Government spends one more dollar because of this Act, because the strictures and the penalties and the prescriptions are so powerful it is going to change the behaviour of the states'.

Just remember this. I think to analyse the educational enterprise, remember that the United States spends about \$350bn year on elementary and secondary education. Only 1.5% of that goes to curriculum materials and software. So for a focus to shift towards learning, for the Federal Government to say you need to do this, this and that, it doesn't

take a significant change in the allocation in the overall resources of the educational enterprise for it to have a very meaningful impact on Pearson. That's why I believe that the education business, fiscal problems or no, will consistently grow faster than enrolment and faster than GDP. If the United States doesn't succeed then truly it will become what many of us think it is, two nations – rich and poor, black and white.

So with that, all of us would like to take questions.

Question and Answer session

Q: Two quick ones. There's clearly pressure across the US to improve pupil/teacher ratios. There's a call Sandy, as you say, for better qualified teachers. There also seems to be quite significant scope within the Federal injection to spend a lot of that money on professional development. The first question is where's the money for textbooks? And then secondly, the sort of bedrock of notes I left behind seems to be this concept of annual yearly progress. Is it not true that some of the states have seen that as almost a kind of impossibility before they start. Is there a risk that "No Child Left Behind" gets derailed because people think we're never going to achieve these targets?

A: **Sandy Kress:** This adequate yearly progress business is tough. I was concerned during the consideration of the bill about the standards that were legislatively under consideration and I'm concerned about the way it ended up. And I think many folks in the states are quite worried about it. It's possible that as many as 50% or 60% of the schools will be identified as not making adequate yearly progress because of that mechanism I mentioned or that complex formula. It sort of automatically captures 20% and then says anybody else that might be above the bar - but has any other groups below the bar get captured too. And so we're estimating that because of this aggregation that it may be that 50% or more of the schools are identified.

What we've been trying to do...and now I'm on the outside trying to travel the country visiting our state capitals...and I've come to some theories about how these places ever got chosen as state capitals - they're wacky places, that's for sure.... But trying to help people in the states understand how to construct accountability systems that will recognise schools that are not making adequate yearly progress, impose appropriate consequences, targeted consequences to improve them. But allow the states to define failure in a more narrow way. So that there'll be a sub-set of these schools that have really been failing and to get the highest priority for change and the rest of them have targeted measures.

I try to use the illustration of going to the doctor. How many people go to the doctor and are told, 'Hey you're just in perfect health, come back in another couple of years?' Well no, I mean we're all told that we need to do this or that, lose a little weight, check with the eye doctor or something else. But the numbers of us who are in serious health problems is a sub-set of that group. So we're

trying really of change the way the Act is actually implemented there. But the truth is, and this is the important point that Peter made, there will be an expectation to change improvement, in remediation, change of practice and behaviour in the majority of American schools. What we're trying to do is to let the state say we're going to target it intelligently and appropriately and not treat 50% or 60% of schools as if they're failing. Because if somehow we go down that path, I think the point you're making is quite right, there'll be a loss of confidence in the bill and there'll be a reaction that will set in that may cause serious problems for it. But everybody's working on that.

As for the textbooks, you know \$350bn or \$360bn is a lot of money. And yes there's momentum in the States to deal with the teacher/pupil ratio. I must say the Florida Initiative passed a lot of people when given the choice in the districts, in the states. While they'd like to see a smaller ratio - particularly for younger children - I think there's more of a desire to have a qualified teacher, an enabled teacher, a teacher who knows the content, a teacher who can use technology and other resources intelligently. And frankly I think in most places, again with the exception of the younger children, I think there's more of a desire for that actually than reducing class size. There was the change in the Federal law to allow flexibility in the expenditure of this \$3bn - the 35% increase in funding - so that some could use it to reduce class size or some of it could be used for professional development. There's going to be more money from the Federal Government in this area of professional development, to be used for qualified faculty. There's going to be changes in state policies, I think that will flow, cognitive education will be reformed. There'll be more intelligent use tied to the standards - this is all part of the management challenge - to make sure that teachers are being trained and they know the content that they're teaching. I think professionals are almost going to end up being smarter, perhaps funded to some greater extent, but smarter, mostly. And there's going to be, again I think Peter said, this emphasis on learning. There will be a re-allocation of resources, but I don't think from teachers to curriculum and books. I think there's going to be a heavy emphasis on materials, textbooks, software, the right kind of materials done intelligently. And frankly I just don't think there's going to be compromises between teacher improvement and curriculum materials. I think there'll be other places where savings might be achieved.

Q: Could you give us a feeling for how a state goes about determining how much it spends on education in a particular year and how it divides up between the various aspects of what is required? And second, and related to that, as a state moves into budgetary deficit, could you give us some feeling as to what the state actually does and the mechanism for the protection that you were alluding to, of the amount that goes to schoolbooks? So to give us almost a mechanistic feeling for those two aspects.

A: Sandy Kress: Well, you know, one of the great things about my country is that we have 50 states and they all do it differently. And some of them badly. But you know each state has its process. They have their debate. They develop their

budgets. They talk about the various issues. Education is extremely high on the agenda of most Americans. In each state education is extremely high and the states are very reluctant to touch education. Obviously to balance the budget, most states have constitutional requirements that they run a balanced budget and they're going to have to achieve cuts, savings, use of rainy day funds, budget gimmickry, the various things that they do or tax increases. And each state will have its own mix. Some states have more severe problems, like California, than other states where problems are more moderate. And obviously a lot of this depends on what happens in the economy over the next year or two. But education, I have found, and you all may have different feelings about it, education's the last to cut. I think that's the best way to say it. And typically has not been cut or cut to any significant degree. So, you know, you'll see them first think about ways to reduce general aid to the local districts. That'll happen. But these Federal requirements are going to have to be done. I think most, almost all, of the spending will be maintained. Education will be the last one they come to and deal with some of the cuts in some of the areas that are not, I think, related to learning. Not related to the standards, not related to the core of this accountability because of the importance, and I think the appeal of the Federal law and the requirement, the legal requirement of the Federal law. And they're going to keep buying the books. Again unless something becomes far more severe than it is today, I don't think that the basics are going to be touched by these fiscal problems that the states have.

Peter Jovanovich: I think 2003 is going to be affected as 2002 was, to some degree. And I think the states will pull out of it, especially with this deadline looming in 2005/2006 and some of the requirements before 2005/2006. So they'll find a way. I don't think last year or this year will be as strong as they might have been. But fundamentally the medium term, I won't even say long term, the medium term trend is for the states to spend more money on education as it relates to learning. Now you may think to yourself, well that's what they spend the \$350bn on. You know, there are - were until Mayor Bloomberg did something recently - 4,000 people in the Central Office of the New York City Public School system, educating a million students. The Arch Diocese of New York City with 120,000 students had 23 people in their Central Office. So there are other places where money can be found and it depends on where the emphasis is. Fundamentally, in the 80's a lot of school districts in the states looked upon the Educational Enterprise as being a Social Agency. And you would talk to Superintendents and they would say to themselves, well you know I'm really almost a substitute for health, welfare, blah blah blah. And when you want to talk about textbooks or software or whatever else, they were bored. They're not bored any longer because they're being judged on learning standards, not other standards. So I think the 1.5%, do I think it's going to get slashed? No. Do I think it's going to get a larger percentage of the pie? Yes.

Q: If one's sat on the School Board or Committee, one starts off with the assumption that the books are good and we all hear likewise. But then you've got a pot of money, you take out your teachers salaries and the cost of

doing up classrooms. And you've got all these things that have to be done. And you're sort of caught between a rock and a hard place. And all of a sudden, you've got these good intentions on one hand, but the things you can actually select and then you say well how can I save a couple of thousand dollars in a school. And it's relatively easy, against one's better judgement, to say well maybe we can put off a new set of textbooks on maths or English, history or whatever. And what I am getting at is at that level, you know how do you?

A: **Peter Jovanovich:** That happened in the 90-92 period. And obviously it happened a bit in 2002. It'll happen a bit in 03 but it's not dramatic. I mean you look at the average increase since 1980 to the year 2000 and it was 7 or 8% running through two recessions. So, you know. And of course in Britain there's the reverse, as you know Britain spends far more on testing than it does on textbooks, it's somewhat the other side. I mean still Britain's averaging about £15 per student. Is it £15 or is it higher?

Marjorie Scardino: £30 per test.

Peter Jovanovich: £30 per test and £15 per child, per student in the UK, I think that's the average. The United States is running somewhere in the \$50 per child for textbooks and about \$10 per child for tests.

Sandy Kress: Let me add, one of the difficulties for a state in postponing books is, again this whole sort of integrated standards approach. Texas for example, just agreed to a new curriculum five years ago and is holding its schools accountable for the teaching of this curriculum and yet the books in many different subjects are books from the older curriculum. It's really essential, I think it's seen as an essential issue there to move ahead with books that hit this curriculum in all the core subjects. So the idea of postponing the books I think would be unacceptable in Texas and I think in most states, particularly with these, with new standards or standards developed over the last five or six years, and a lot of states fall into that category. States that are going to have these new tests and these new requirements, the materials are going to have to fit the standards just as the tests do. So I don't think that's going to be a very easy decision to make.

Peter Jovanovich: Realistically, it had an impact in 2002 it'll have an impact in 2003, I think the states are going to pull out of it and looming in front of them will be NCLB which is going to drive the focus on materials.

Q: **Could I ask one for Sandy and one quick one for Peter? You mentioned the 94 Clinton Act which was underpinned by an ambition to implement parts of the Standards Movement but it never did anything because the teachers blocked it, even though it had potential fines for states. Why won't teachers block this? And could I ask for Peter, the standards being implemented and designed at state level have been argued by some people as fragmenting the market. Basically you're going to have 50-odd curriculums being developed for reading. Is this going to suddenly add to your cost base, having seen the supply side consolidate, some may see the demand side fragment?**

A: **Sandy Kress:** I think it's complex as to why the 94 Act didn't go further. Part of it, I think, were some faults and limitations in the Act itself. The accountability side really was very weak and not very well flushed out. There was no requirement that schools failing to make adequate yearly progress under the then rules of the Act even had to be known. We couldn't even get our hands on a list of the schools that had been failing to make AYP earlier Act. And the law was not very clear about it either. Clearly there were forces that were obstructing the implementation and perhaps the teachers to some extent were part of it. Let me say this, the reason I spent a little bit of time on the power of the bi-partisanship - Kennedy and Bush, Bainer and Miller - is that there's just a power, there's a passion and a powerful feeling that is shared by both parties. There will be no obstruction of this Act. The Secretary and the President actually have taken sort of a 'no-waiver' position in reaction to the sort of waiver-happy approach of the Department during the Clinton years. And there's a support for that. In fact George Miller, who is an interesting character, (I'd like to spend more time with you about him). But here's a Democrat who really dramatically criticised Clinton during the Clinton years - and of course we quoted him widely in the campaign. You know he's insisting as a Democrat, and has support among Democrats, especially among the new Democrats, the Democratic Leadership Council, that they mean business with this Act and they don't expect, and they won't tolerate it being obstructed. And the final thing I'd say is that the teachers are actually divided. The NEA is fighting underground. They're not visible about it but are playing kind of a quiet game underneath the surface. The American Federation of Teachers, while they have problems with some of this, actually like a lot of it and really are focusing on how well it's implemented, e.g. are the standards clear? These are the kind of questions these teachers ask and these are people that the President actually is quite savvy in working with. They ask is the curriculum to the standards, are the materials that we use tied to the standards? Do we have some understanding of the data? Can you give us the results for example before the school year starts? If you can do that then the data becomes helpful and accountability becomes our friend as opposed to some arbitrary process. And a lot of teachers as I go around the state say, the more of that there is, the more we're fine with it. So I think there are going to be teachers, again depending upon the success of the implementation, who will actually kind of rule on in a way, the reforms. And that's really part of what I've been trying to convey to you. There's a very different feeling in the land today than there was during the Clinton period. Even though that was the early days of support for the Standards Movement. We've evolved to a place where there's just a lot more power or passion by partisanship, detail, energy, definitions of the work, a sense of the integration of what has to happen, we're just further along, that's further along in the process and in the commitment.

Peter Jovanovich: Ah, the question was about fragmentation in the market. This has been going on for the last five years by the way. It's not just Florida, Texas and California with special editions, we're up to about 30 States now and, who knows, maybe we'll end up with a Rhode Island edition. So this is happening as we speak, this is not anything new. But just remember, that when everyone says

oh our standards are different from everybody else's, it's - what is it, the thing about the genome of a mouse or a human being, that they're 98%, that's about the same relationship between the States in terms of standards, okay? They're very close. You know, fourth grade math doesn't change that much. Ironically, you know, it's acting actually as a sort of barrier to entry. The four large players are capable of doing this. It's hard for a lot of people to come in and publish a book nationally and then turn around and say oh 'okay I'm going to do an Ohio Edition and a New York Edition and this edition'. It's the national companies that are capable of making these kind of investments. As I say, it's been going on for the last five years and it really hasn't affected margins.

Q: Now my understanding is that the money's coming from the Federal Government under "No Child Left Behind" are incremental monies for the Education system. Will you explain what they're incremental to? How this is going to be enforced at state level and what the penalties are for the states of cutting the spending? And having seen what's happened in 2002 and what may happen in 2003, are we seeing the states effectively acting early to try and get in ahead of any enforcement.

A: Sandy Kress: Well the supplement and not supplant rules are part of the current, were part of the 94 Act and in fact had been part of the ESCA for some time, the Elementary and Secondary Education Act. So to the extent that this is being enforced and can be enforced, there's authority in the books to keep someone from jumping ahead to try to do that. Sure there are pressures to do it. You know in the use of books, again about half of the \$23bn goes out in what is called Title 1 grants, Title 1 Part A goes out through the states to school districts. Almost all of it goes to school districts, there's a portion that's held at the state level for reform and accountability and management and so forth. But most of it goes to the school districts to be spent in schools that serve largely disadvantaged children. That's where about half the money goes. And that's the area that really got the largest boost in funding. Those schools have relative freedom in how to spend their dollars but they're not supposed to supplant what they've been doing with the money. The same goes really for the other big titles, professional development, about \$3bn plus. The 'Reading First', which is a part of Title 1, \$1bn, the After School Programme called '21st Century Learning Centres' is about \$1bn. There's a doubling of the money for the English Language Programs which is Title 3. I won't go through all the Act but it all adds up to about \$23bn and it reflects this increase over time that we've talked about. So it is supplemental.

Now do states and districts try to find ways? Well of course they do. And, you know the Federal Government, the Department, has a whole group of people who do little else but go around monitoring all of this - and essentially threatening to cut off the funds and having an examination and a hearing and a process and we're going to cut off your funds if we see it. I really can't give you much more of an answer than that. Other than to say that, happily, it helps that teachers and administrators and parents and School Boards are under significant pressure to

increase funding for education. And a lot of times there are other ways of enforcement mechanisms other than the Federal Government.

Q: When you've seen incremental funding coming into schools in the past, particularly from Washington, what has been your experience in your career of how much of that goes towards educational materials relative to the just 1% that gets spent on school textbooks?

A: Peter Jovanovich: Actually not much went towards educational materials. The EE (the Elementary and Secondary Education Act) I'm not a fan, or I wasn't a fan of it for a lot of reasons. One because there were two massive studies - one by the Rand Corporation the other by the General Accounting Office - that said they accomplished nothing. And then part of the reason why there was a bi-partisan agreement on this was that both Liberals and Conservatives said 'let's all agree on one thing; this isn't working'. So the big difference to the 'No Child Left Behind' Act is that it is, in essence saying this money has to go to help learning.

Now you might say, where else could it have gone? I've met with superintendents who have a retinue that would rival the Queen's. Staff and assistants and one thing and another, and so on and so forth. This Act is saying, we're not measuring you on a number of other things, we're measuring you on the academic achievement of your children. It was sometimes very hard as a textbook publisher or as a software publisher actually to get a hold of this money because the money was being spent on staff primarily.

There's a lot of focus now on saying we've got to get the money to the classroom. That's teachers and it's software and it's books - and it's not Assistant Superintendents. So, for all of the publishing industry, not just for Pearson, NCLB is good news for a lot of reasons - and one of them is because, frankly, the money was wasted.

Sandy Kress: Let me illustrate that. The fastest growing programme in the entire Act is this 21st Century Learning Centre Program, which really grew over the Clinton years, with Republican support mostly, from nothing to a billion dollars a year or so. It's really now one of the best funded After school programs. There's been no co-ordination at all of after school programs and what this means. The money is used for athletic activities, sports, probably baby sitting children, field trips, snacks, I don't know what else.

Now I don't know how far the Secretary is going to go but there was a lot of discussion about this Title during the consideration of the Act. The Democrats and Republicans were all kind of agreeing around the idea, we need to put language in there, this is about learning. This time needs to be used for those youngsters who are behind, who are not proficient. We have a couple of hours in the afternoon and there has to be focused learning, which means materials, which means teachers. This money needs to be spent on learning and not on a whole variety of other social, athletic, cultural type activities. I just say that to illustrate to you the kind of change of orientation in this Act and where the money is supposed to go. And I suppose to trigger the idea that you too should be spending the money you have from various public and private sources, for this time, in the

after school period - perhaps weekends, summers - on learning as opposed to other kinds of activities.

Marjorie Scardino: Charles, you asked about how incremental this spending is and just to remind everybody, the Federal spending is about 7% of the total. The states provide about 93%, so we don't want to forget that. Though Bush has said his goal is to increase that to about 10% of GDP, which would move it up about three or four points.

Q: Just two quick questions. One is that, can you remind me by how much you think the total budget is going to go up from the Federal Government this year? You said it was \$23bn, I think you mentioned a figure of 5% before. Can you just confirm how much you think that will increase the Federal spending on education? And the second question just an understanding whether, I think you said the Government funds about 7% of total education expenditure. And you said that if the States don't meet the appropriate standards, then 20% of that might be reallocated, which would be then about 1.4% of the total educational budget. Is that enough of a leverage for the Federal Government to ensure that the states are doing what they're supposed to be doing?

A: Sandy Kress: A great question. Let me deal with the second question first. It's 20% of the district's allocation of roughly the \$11bn or \$12bn in Title 1. That's about half of the money that goes out to the districts to be used in the poor schools. And what the Act says is that up to 20% of the schools that continue to be on the list, they have to spend up to 20% of their share of that pot to either get parents transportation to other schools, other successful Public Schools for supplemental services that can be provided at their choice from qualified providers, in the after-school or in the weekend or in Summer School time.

Now, I'm just trying to figure out financially what that leverage is. I suspect the district's thinking: "We ought to do something differently because we want to keep control of that money. We don't want to use it for buses and we don't want to use it for outside vendors, if you will, for these supplemental services." So it seems to me they're motivated at least to the extent that they want to save that 20%, which for some of the larger districts is a fairly sizeable amount of money. And again the Federal Government is hoping, that because budgets are tight, and because every dollar counts, that these districts will want to use those dollars for the schools and for the Agencies that they had intended them, rather than transporting kids around. Or having private vendors come in and take the money. So I think it's a pretty effective lever. It's intended partly to provide an outlet for choice in the worst circumstances, but actually, more importantly, as a lever on the school district to say, fix it or lose it. And I think it's going to drive a change, and of course that was the compromise that was reached when both sides couldn't agree on vouchers on private schools. And I think one of the most significant differences between this Act and the earlier legislation. Your first question was?

Q: The amount of the increase.

A: **Sandy Kress:** The amount of the increase. Listen, I don't have, I'm not privy to the President's budget but I listened as everyone else did to his radio address a week ago, on Saturday and he announced in excess of a billion dollar increase for ESEA for this year, which would be in the 4%-5% area. But again, let's wait for the budget to see what other details there might be, he might have other elements in there. And then of course, you know, the Democrats will create serious pressure. Once he's proposing something more meaningful than this year's increase, the Democrats will be asking for yet more and they'll be pretty vigorous about it.

Peter Jovanovich: Well I've been on the road a bit this Fall, there aren't any Superintendents turning down, what did you work it out to be? 1.5% of the budget? Just imagine if Marjorie called me up and said, just for the sake of argument, say my expense budget's \$3bn and says by the way...

Marjorie Scardino: Yes, let's do that!

Peter Jovanovich: Well, all right, \$3bn plus on a \$4bn enterprise. And she says by the way I just took \$45m out of your budget. Oh, that's fine. I mean, most school districts are huge enterprises, they have a billion dollar expense budget. None of them is going to say, oh \$15m? I didn't notice it. No, they're fighting for every dollar. So the 7% or 1.5% is a remarkable amount of leverage, nobody can afford to just blow away that. In fact we talked about this. Governor Dean of Vermont, at first said, no no, you guys are being intrusive, we are little hamlets in Vermont and we don't need you to tell us what to do. He's stopped saying that because obviously the little hamlets have said: "Are you out of your mind? We want this money!" So it's got a remarkable amount of leverage.

Marjorie Scardino: Right. I think you have to keep in mind that this is money that goes to disadvantaged kids, so politically it's pretty much of a nightmare scenario if you say we don't want this money for the minorities.

Q: **It was just on the data opportunity that Peter talked about. I just wondered how big that could be and where does it fit in, in terms of timing? Do the tests come in first then the data opportunity comes later or does it come first, or when can we see it? And another, slightly broader question is, with all these changes going through in the funding and perhaps in the materials. Is there any risk that this whole system of adoption that is open territory, that we've laboured so long to understand, actually gets changed as a result of all this?**

A: **Peter Jovanovich:** The data requirements as Sandy pointed out are immediate by the way, they're not in 2005/2006. I think, given the nature of the software business, it's not so much the revenue as the profits, since the drop-through is about 90%. This is the first year for us to launch Concert we're still adding more features to it. So I don't think it'll have much of an impact in 2003. Potentially over two to three years, during that period following 2003 we believe we'll get some significant amounts of profit out of Concert. Because the development has all been expensed, by the way, it's not on the balance sheet.

And the question was about state adoption. State adoption as some of you will know, the adoption system is an outgrowth of the Southern States after the Civil War, related somewhat to corruption in terms of how do they get money out of Northern Publishers based in either Boston or New York. And it was thought up to about five years ago that state adoption would go away. It was a relic of the past. Until after, first with the Standards Movement, the Governors woke up and realised: “You know what? What are my levers on curriculum and what gets taught in the schools is the state action system. I’ve got to be out of my mind if I’m going to give up this power.” So the predictions of the death of state adoption have been premature.

I even think in some form it may appear in some Northern states, as the Standards Movement and testing really gets rolling in 2005/2006, you may see some states saying we’re really on board for the Standards Movement. We don’t want school districts spending money on products that don’t meet those standards. So, if you’d asked me ten years ago I would have said hey, it’s going to disappear. In fact I was wrong, it’s going the other way.

Sandy Kress: Let me illustrate that if I can. I just think of all my little travel stories. I was visiting not too long ago with the President of the Senate in Ohio. And he’s scratching his head and he said, you know, we’ve been very proud in our State throughout our history, of local control, that the decisions, as in other Northern and most Mid-Western States the decisions were made in local districts, key decisions. And this Republican Senator, he said: “You know we have a school finance case where we’re being hounded to give more money at the state level and equalise spending throughout the various localities in our state.” And now this ‘No Child Left Behind’ is passed which clearly, in another important implicit feature, empowers the State. It says to the state Government, you have to have standards. You have to have a testing system. You have to have an accountability system. And this really is news to what I would call Local Control states.

And I think Peter’s quite right about that. I think that, if they’re going to be held accountable and if they’re going to have responsibility for these results and the responsibility sort of centres now around the state capital, they’re going to start asking questions about who’s making decisions, about books and materials and professional development. And I think there may be a little bit of an accretion of power in the state capitals and perhaps going for adoptions, so that they know that the materials - and can certify in effect, or feel confident that the materials - are based on the standards.

Q: How is moving from the individual school to the district or the state, from, when did site based management start? Do you remember that?

A: Sandy Kress: Yeah it was the mid 1980’s.

Peter Jovanovich: Mid 1980’s? That was awful for this business. Because rather than going and selling to the Superintendent who had 20 schools in the district you had to go to each one of the schools in order to sell your wares. And we’ve seen a reversal of site-based management across the country over the last

three years. Even before NCLB, in which Superintendents are saying, if I'm going to be judged on student performance, no I'm not going to leave it up to them. So what have we seen in LA? LA used to be site based, there are 200 schools in Los Angeles and you called on each one of them. Now you just go into Governor Roma's office and kiss his ring! That's a religious metaphor! For those of you who are Catholic or Orthodox Christians such as myself.

Okay. That's good for this business obviously. Site-based management was one of the reasons why margins were lower in the 1980's, early 1990's, in this business than they are today. The buying units were more dispersed.

Q In view of the importance of professional development, can you just remind us if Pearson has any businesses in that area or can we expect you to be sort of looking around to maybe make a little bolt-on in the not too distant future?

A Marjorie Scardino: We do have businesses in that area, would you like to talk about them Peter?

Peter Jovanovich: We have two. We have our own wholly owned subsidiary called SkyLight, which sells professional developments to districts and also helps teachers get further accreditation which, as Sandy has talked about, is going to be crucial. And we have a more than modest share stake, somewhat below 50%, in a company called Lesson Lab that provides on-line teacher training, modelling particular approaches and so on. We're particularly excited about this software company because I think what schools are coming to recognise, they don't have time to pull all the teachers out, they're going to have to hire substitute teachers and so on. When I talk to Superintendents, such as Governor Roma, the Superintendent of Los Angeles schools - which uses Lesson Lab for example - he can't afford to have his 30,000 teachers taking a day off. So he is looking to use technology and our kind of approaches in order to improve teacher training. So, broadband is not dead, I think broadband actually may, in some ways, come alive in some of these contexts such as teacher training.

Marjorie Scardino: I think also we should mention, most of you will know about our pretty big Government solutions business, which has within it all sorts of training businesses. So when we take on a big Government contract we train the US Navy or we train the call centre for the US Department of Education. So that also offers us lots of training opportunities because it's keyed to a particular purpose, which is what the teacher training is going to have to be. So we think we're in a good position for that. Anything else? Stay and have a cup of coffee with us and Sandy and Peter will be around to talk to you and thank you very much for coming out on this snowy day, we really appreciate it.