EXHIBIT 25
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HB 501

Uncovering Security Flaws in Digital Education Products for Schoolchildren

By NATASHA SINGER
FEBRUARY 8, 2015

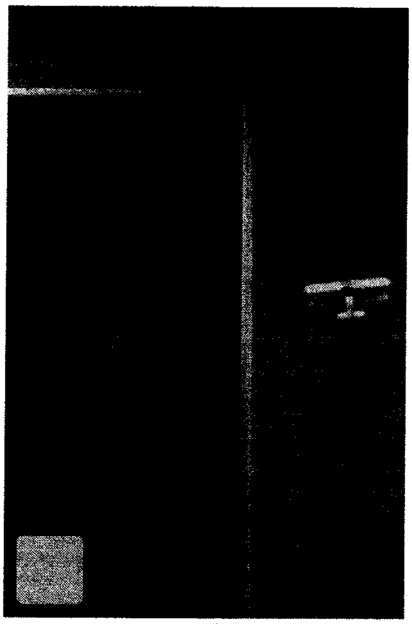
When Tony Porterfield's two sons came home from elementary school with an assignment to use a reading assessment site called Raz-Kids.com, he was curious, as a parent, to see how it worked. As a software engineer, he was also curious about the site's data security practices.

And he was dismayed to discover that the site not only was unencrypted, but also stored passwords in plain text — security weaknesses that could potentially have allowed unauthorized users to gain access to details like students' names, voice recordings or skill levels. He alerted the site to his concerns. More than a year later, the vulnerabilities remain.

"A lot of education sites have glaring security problems," said Mr. Porterfield, the principal engineer at a software start-up in Los Altos, Calif. "A big part of the problem is that there's not even any consensus of what 'good security' means for an educational website or app."

Contacted last week by a reporter, John Campbell, the chief executive of the Cambium Learning Group, the company behind Raz-Kids.com, said that his company took privacy very seriously and that the site did not store sensitive personal details like student addresses or phone numbers.

Tony Porterfield uncovered security weaknesses on educational sites.
RAMIN RAHIMIAN FOR THE NEW YORK TIMES



"We are confident that we have taken the necessary steps to protect all student and teacher data at all times and comply with all federal and state laws," Mr. Campbell wrote in an emailed statement.

Mr. Porterfield, though, has gone on to examine nearly 20 digital education products, used collectively by millions of teachers and students, and found other potential security problems. He alerted makers of those products, too — among them school-districtwide social networks, classroom assessment programs and learning apps.

Some, including Pearson, a leading educational publisher, and ClassDojo, a popular classroom management app for teachers, addressed the issues he brought to their attention. Others did not.

While none of the security weaknesses appear to have been exploited by hackers, some technologists say they are symptomatic of widespread lapses in student data protection across the education technology sector. They warn that insecure learning sites, apps and messaging services could potentially expose students, many of them under 13, to hacking, identity theft, cyberbullying by their peers, or even unwanted contact from strangers.

At fault, these experts say, is a common practice among start-ups of concentrating primarily on increasing their market share.

"For many younger companies, the focus has been more on building the product out and less on guaranteeing a level of comprehensive privacy and security protection commensurate with the sensitive information associated with education," said Jonathan Mayer, a lawyer and computer science graduate student at Stanford University. "It seems to be a recurring theme."

The New York Times asked Mr. Mayer to review the vulnerabilities in education tech software discovered by Mr. Porterfield and described in this article.

To help schools evaluate companies' security practices, the Consortium for School Networking, a national association of school district chief technology officers, published a list of security questions last year for schools to ask before they sign purchase agreements with technology vendors.

"It is a huge challenge because there hasn't been the time and attention and investment placed in security that school districts need," said Keith R. Krueger, the group's chief executive. His group has received financing from Dell, Google, Pearson, Microsoft and other companies involved in the education sector.

Security lapses are not limited to education software devised for prekindergarten through 12th-grade students, an annual market estimated at about $8 billion.

In the fall, as Mr. Mayer, the digital security expert, was preparing to teach a class at Stanford Law School for Coursera, a start-up that provides hundreds of free open online courses, he discovered a security weakness that could have allowed instructors to gain access to the names and email addresses of millions of Coursera students. Another flaw would have potentially allowed other websites, digital advertising networks or online analytics firms to compile lists of the students' courses.

Coursera, which has raised $85 million from investors, quickly ameliorated the situation. In an explanation posted on its site, the company acknowledged that it had been more focused on deflecting potential attacks from outsiders than on the possibility of misuse of student data by insiders.

"If we were too trusting, we learned our lesson on this," Richard C. Levin, the chief executive of Coursera, said in a recent interview.

Protection of student data is gaining attention as schools across the country are increasingly introducing learning sites and apps that may collect information about a student's every keystroke. The idea is to personalize lessons by amassing and analyzing reams of data about each student's actions, tailoring academic material to individual learning levels and preferences.

But some privacy law scholars, educators and technologists contend that federal protections for student data have not kept pace with the scope and sophistication of classroom data-mining. Although a federal privacy law places some limits on how schools, and the vendors to which they outsource school functions, handle students' official educational records, these experts say the protections do not extend to many of the free learning sites and apps that teachers download and use independently in their classrooms.

In an effort to bolster confidence in their products, more than 100 learning companies recently signed on to a voluntary industry pledge on student privacy. The signers agree, among other commitments, to "maintain a comprehensive security program that is reasonably designed to protect the security, privacy, confidentiality and integrity of student personal information against risks — such as unauthorized access or use."

Although President Obama endorsed the industry pledge in a speech last month, it does not require ed tech vendors to comply with specific basic security measures — like encrypting students' names, screen names or other personal details. Nor does it prohibit companies from using weak security, like storing users' passwords in plain text, practices that could easily permit hackers to hijack teacher or student accounts, potentially linking students' names to private details about their academic performance.

These kinds of security weaknesses are commonplace on consumer sites. But the law has long treated educational information as a category worthy of special protections, like credit or medical records. Considering the recent data breaches at even large, well-financed companies like Anthem and Sony, some privacy advocates want federal regulators to mandate that the education technology industry beef up student data protection.

"Bottom line, both the Federal Trade Commission and the Education Department could and should ramp up their student privacy enforcement," said Khaliah Barnes, director of the student privacy project at the Electronic Privacy Information Center, a nonprofit group. "Students have little recourse against current abuses."

Some learning companies were quite responsive to Mr. Porterfield's concerns. The Pearson product in which he found vulnerabilities last fall is an online student learning and assessment system, Pearson Realize. The weaknesses could have allowed unauthorized users to gain access to details about class rosters like student names.

The company's security experts corrected the issues in two days. Pearson was the only company to ask Mr. Porterfield to run his own tests afterward to make sure the fixes had worked.

"We should welcome the reporting of even a suspicion," said Rod Wallace, Pearson's chief information security officer. "We need to encourage the people who report them, engage them and let them know we are fixing them."

Last fall, Mr. Porterfield also contacted ClassDojo, a free classroom management program for teachers that, according to its developer, is used by at least one teacher in roughly one-third of American schools. The software engineer alerted company executives to security weaknesses that could potentially have allowed unauthorized users to gain access to students' names, behavior records and behavior scores.

Since then, ClassDojo has encrypted its mobile apps and instituted other security measures. Liam Don, the co-founder of ClassDojo, said its software was regularly subject to audits by security experts.

"We hope to see regular audits become standard practice across our industry," Mr. Don said.

0223005

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

In the Matter of **THE NATIONAL RESEARCH CENTER FOR COLLEGE AND UNIVERSITY ADMISSIONS, INC.**, and **AMERICAN STUDENT LIST, LLC**, corporations, and **DON M. MUNCE**, individually and as an officer of **THE NATIONAL RESEARCH CENTER FOR COLLEGE AND UNIVERSITY ADMISSIONS, INC.**	**DOCKET NO. C-4071**

COMPLAINT

The Federal Trade Commission, having reason to believe that The National Research Center for College and University Admissions, Inc. and American Student List, LLC, corporations, and Don M. Munce, individually and as an officer of The National Research Center for College and University Admissions, Inc. ("Respondents"), have violated the provisions of the Federal Trade Commission Act, and it appearing to the Commission that this proceeding is in the public interest, alleges:

1. Respondent The National Research Center for College and University Admissions, Inc. ("NRCCUA") is a Missouri corporation with its principal office or place of business at 900 SW Oldham Parkway, Lees Summit, Missouri 64081.

2. Respondent Don M. Munce is an officer and director of NRCCUA. Individually or in concert with others, he formulates, directs, controls, or participates in the policies, acts, or practices of NRCCUA, including the acts or practices alleged in this Complaint. His principal office or place of business is the same as that of NRCCUA.

3. Respondent American Student List, LLC ("ASL") is a New York limited liability company with its principal office or place of business at 330 Old Country Road, Mineola, New York 11501.

4. The acts and practices of Respondents alleged in this Complaint have been in or affecting commerce, as "commerce" is defined in Section 4 of the Federal Trade Commission Act.

5. Since at least 1988, Respondents have collected personal information from high school students through a survey (the "Survey"). Respondents market and distribute the Survey to high school teachers and guidance counselors with the request that they have their students complete the Survey. Students may also complete the Survey online at NRCCUA's Web site, www.nrccua.org. Last year, Respondents collected personal information from more than 2 million high school students who completed the Survey.

6. The Survey collects from high school students personal information, including, but not limited to, name, address, gender, grade point average, date of birth, academic and occupational interests, athletic and extracurricular interests, racial or ethnic background, and religious affiliation (the "Survey Data").

7. Respondents create, market, and distribute the Survey, and compile and use Survey Data. Respondents NRCCUA and ASL each pay a substantial portion of the cost to produce and distribute the Survey.

8. Survey Data is used by Respondents. Respondent NRCCUA markets Survey Data primarily to colleges and universities, which use the information to target high school students for recruitment purposes. Respondent ASL uses Survey Data to create lists of college-bound students that it sells to

commercial entities for use in marketing. Such entities include, but are not limited to, consumer products manufacturers, credit card companies, direct marketers, list brokers, database marketing companies, and advertising agencies.

9. Respondents have disseminated or caused to be disseminated marketing materials and privacy statements, including but not limited to the attached Exhibits A through D. These marketing materials and privacy statements contain the following statements regarding the use and disclosure of personal information collected through the Survey:

A. "As you know, NRCCUA is a membership organization that represents over 850 colleges and universities. These universities use the NRCCUA survey to contact your students, whose interests and abilities match the institution's offerings. Your priority is to help your students succeed, and this survey is one more way you can boost your students' chances.

By completing this survey now, your students will receive the information they need to help them make an informed college choice." (Exhibit A, cover letter to educators accompanying Survey).

B. "This data is used by colleges, universities and other organizations to assist students and their families by providing them with valuable information. The National Research Center for College and University Admissions advocates responsible and secure use of the information obtained voluntarily through this survey." (Exhibit B, privacy statement found on the Survey).

C. "Use of this survey data is authorized by the National Research Center for College and University Admissions for the purposes of research and dissemination of college and career information, and other information helpful to students and their families in the transition from high school to college." (Exhibit C, privacy statement found on the NRCCUA Web site).

D. "The National Research Center for College and University Admissions builds educational bridges by providing a communications link between high schools, college-bound high school students, and our member colleges and universities. NRCCUA is a non-profit organization serving the needs of each.

Since 1972 our mission has been to make the important process of selecting a college education or career path easier for students. Our annual surveys enable more than 4 million high school students to indicate their unique college and career preferences to over 1000 member colleges and universities." (Exhibit D, NRCCUA Web site home page).

10. Respondents have disseminated or caused to be disseminated marketing materials that accompany the Survey, including but not limited to the attached Exhibits E through G. These marketing materials contain the following statements regarding the funding of the Survey:

A. "Assisting educators and their students with the college selection process has been our mission for over 25 years. As a result of completing the survey last year, over 2 million students from 24,000 high schools are receiving information that will be invaluable to them as they plan for the future. With your assistance, this year's effort will be even more significant.

This service is provided at no cost to you or your students! It is completely funded by our members, 850 colleges and universities who include most of the top national and regional colleges and universities as ranked by *U.S. News & World Report*. " (Exhibit E, cover letter to educators accompanying Survey) (emphasis in original).

B. "Please read the brief instructions, and pass out the enclosed surveys to the *sophomore, junior and freshmen* students in all of your classes. Your students will receive valuable information on admissions, financial planning, scholarships, and other relevant information to help them plan intelligently for their future. All of this is *free* to your students because it is funded by our member educational institutions." (Exhibit F, cover letter to educators accompanying Survey) (emphasis in original).

C. "These survey results are provided at no cost to participating high schools, NRCCUA is funded by its member colleges and universities for the purpose of distributing helpful educationally-related literature to students." (Exhibit G, report to educators).

11. Through the means described in Paragraphs 9 - 10, Respondents have represented, expressly or by implication, that:

A. Information collected from high school students through the Survey is shared only with colleges, universities, and other entities providing education-related services.

B. The Survey is funded solely by educational institutions.

12. In truth and in fact:

A. Information collected from high school students through the Survey is shared not only with colleges, universities, and other entities providing education-related services, but also with commercial entities for marketing purposes.

B. The survey is not funded solely by educational institutions, but also receives substantial funding from ASL and others for commercial purposes.

Therefore, the representations set forth in Paragraph 11 were, and are, false or misleading.

13. The acts and practices of Respondents as alleged in this Complaint constitute unfair or deceptive acts or practices, in or affecting commerce, in violation of Section 5(a) of the Federal Trade Commission Act.

THEREFORE, the Federal Trade Commission this twenty-eighth day of January, 2003, has issued this Complaint against Respondents.

By the Commission.

Donald S. Clark
Secretary

SEAL:

TLJ News from April 26-30, 2006

8th Circuit Addresses When Insurance Policies Cover Governmental Actions for Privacy Violations

4/28. The U.S. Court of Appeals (8thCir) issued its opinion [10 pages in PDF] in **State Farm v. NRCCUA**, a case regarding an insurer's obligation to defend and indemnify its insured when governments take action against the insured for privacy violations.

The National Research Center for College and University Admissions (NRCCUA) surveyed survey high school students and distributed the results to colleges and universities for the purposes of recruitment and admissions. In addition, without disclosure to the students, the NRCCUA sold survey information to commercial entities for marketing purposes.

The Federal Trade Commission (FTC) and various state attorneys general investigated, and took action against the NRCCUA. See, FTC's administrative Complaint and Decision and Order. The NRCCUA and the FTC entered into a consent decree which provided that the NRCCUA was enjoined further undisclosed sale of survey information. However, the decree provided for no penalty, fine or other payment.

The state of Iowa, on behalf of a group of states, determined that the NRCCUA must pay them a total of $300,000 for privacy violations. The state of Missouri demanded $20,000.

The NRCCUA had purchased a business liability policy from State Farm. This policy provided that State Farm "will pay those sums that the insured becomes legally obligated to pay as damages because of ... personal injury or advertising injury to which this insurance applies." The policy further defined this to include "oral or written publication of material that violates a person's right of privacy". The policy also provided that State Farm had a duty to defend its insured against such claims.

State Farm filed a complaint in U.S. District Court (WDMo) seeking a declaratory judgment that it has no duty under the policy

to defend or indemnify the NRCCUA in the above described matters. The District Court granted summary judgment to State Farm on the grounds that none of the proceedings were claims for damages within the meaning of the policy. That is, government fines and penalties are not damages.
The Court of Appeals affirmed in part and reversed in part.
The Court of Appeals reasoned that the proceeding were claims for invasion of privacy within the meaning of the policy, but were not claims for damages. It held that "because the FTC did not seek compensatory relief, State Farm did not have a duty to defend against the FTC's claims." The Court also held that the payments in the Iowa proceeding were not damages. However, the Court held that some of the payments to Missouri were in the nature of damages, and hence, covered by the policy.
This case is State Farm Fire and Casualty Company v. National Research Center for College and University Admissions and Donald Munce, U.S. Court of Appeals for the 8th Circuit, App. Ct. No. 05-1588, an appeal from the U.S. District Court for the Western District of Missouri.

POLITICO

Data mining your children

By: Stephanie Simon
May 15, 2014 05:05 AM EST

The NSA has nothing on the ed tech startup known as Knewton.

The data analytics firm has peered into the brains of more than 4 million students across the country. By monitoring every mouse click, every keystroke, every split-second hesitation as children work through digital textbooks, Knewton is able to find out not just what individual kids know, but how they think. It can tell who has trouble focusing on science before lunch — and who will struggle with fractions next Thursday.

Even as Congress moves to rein in the National Security Agency, private-sector data mining has galloped forward — perhaps nowhere faster than in education. Both Republicans and Democrats have embraced the practice. And the Obama administration has encouraged it, even relaxing federal privacy law to allow school districts to share student data more widely.

(**Full coverage: Beyond the NSA series**)

The goal is to identify potential problems early and to help kids surmount them. But the data revolution has also put heaps of intimate information about school children in the hands of private companies — where it is highly vulnerable to being shared, sold or mined for profit.

A POLITICO examination of hundreds of pages of privacy policies, terms of service and district contracts — as well as interviews with dozens of industry and legal experts — finds gaping holes in the protection of children's privacy.

The amount of data being collected is staggering. Ed tech companies of all sizes, from basement startups to global conglomerates, have jumped into the game. The most adept are scooping up as many as 10 million unique data points on each child, each day. That's orders of magnitude more data than Netflix or Facebook or even Google collect on their users.

(**Also on POLITICO: For sale: Student 'hopes and dreams'**)

Students are tracked as they play online games, watch videos, read books, take quizzes and run laps in physical education. The monitoring continues as they work on assignments from home, with companies logging children's locations, homework schedules, Web browsing habits and, of course, their academic progress.

A report by McKinsey & Co. last year found that expanding the use of data in K-12 schools and colleges could drive at least $300 billion a year in added economic growth in the U.S. by improving instruction and making education more efficient.

Parents, however, are growing increasingly wary — and deeply frustrated. They're finding that it's nearly impossible to find out which companies are collecting data on their children, much less how it's being used.

School administrators are often in the dark, too. They don't know which digital tools individual teachers are using in the classroom. And when they try to ask pointed questions of the ed tech companies they work with directly, they don't always get clear answers.

"When you really start digging in... they start getting antsy. It's 'Why are you asking this?'" said Lenny Schad, chief information technology officer for the Houston Independent School District.

(Also on POLITICO: Are student files private? It depends.)

"This is a problem we can't ignore," Schad said. It is, he said, "the wild, wild West."

Knewton CEO Jose Ferreira finds such concerns overblown. When parents protest that they don't want their children data-mined, Ferreira wishes he could ask them why: Is it simply that they don't want a for-profit company to map their kids' minds? If not, why not? "They'd rather the NSA have it?" he asked. "What, you trust the government?"

Ferreira said he often hears parents angrily declaring that their children cannot be reduced to data points. "That's not an argument," Ferreira said. "I'm not calling your child a bundle of data. I'm just helping her learn."

LOOPHOLES IN AN OLD LAW

The U.S. Department of Education has called safeguarding children's privacy a priority. "That has to be first, that has to be foremost, that's absolutely paramount," Education Secretary Arne Duncan said in a recent video chat posted by the department.

Yet the Family Educational Rights and Privacy Act, written when the floppy disk was just coming into vogue, offers only limited protections.

The 1974 law, known as FERPA, explicitly gives school districts the right to share students' personal information with private companies to further educational goals.

(Also on POLITICO: Big Data watches you, unchecked)

Companies are supposed to keep standardized test scores, disciplinary history and other official student records confidential — and not use it for their own purposes. But the law did not anticipate the explosion in online learning.

Students shed streams of data about their academic progress, work habits, learning styles and personal interests as they navigate educational websites. All that data has potential commercial value: It could be used to target ads to the kids and their families, or to build profiles on them that might be of interest to employers, military recruiters or college admissions officers.

The law is silent on who owns that data. But Kathleen Styles, the Education Department's chief privacy officer, acknowledged in an interview that much of it is likely not protected by FERPA — and thus can be commercialized by the companies that hold it.

(**Also on POLITICO: The feds' push for Big Data**)

Districts could write privacy protections into their contracts with ed tech companies. But few do.

A recent **national study** found that just 7 percent of the contracts between districts and tech companies handling student data barred the companies from selling it for profit.

Few contracts required the companies to delete sensitive data when they were done with it. And just one in four clearly explained why the company needed personal student information in the first place, according to the study, conducted by the Center on Law and Information Policy at Fordham University.

"We don't know what these companies are doing with our children's data," said Joel Reidenberg, the Fordham law professor who conducted the study.

A **White House report** on big data released earlier this month recognized the risk, and called for updating FERPA. Sen. Ed Markey (D-Mass.) and Sen. Orrin Hatch (R-Utah) on Wednesday began circulating a draft bill to do just that. Their bill would tighten controls on student records and give parents the right to review — and correct — some of the information that private companies hold on their children. But the bill only covers official student educational records, not the streams of "metadata" that companies collect when kids work online.

(**Also on POLITICO: 'Big data' review spotlights privacy**)

There's no conclusive proof any company has exploited either metadata or official student records. But privacy experts say it's almost impossible to tell. The marketplace in personal data is shadowy and its impact on any one individual can be subtle: Who can say for sure if they're being bombarded with a certain ad or rebuffed by a particular employer because their personal profile has been mined and sold?

Ed tech insiders will not name bad actors in their industry. But they will say this: It's quite possible to exploit student data — and there can be a great deal of pressure to do so, especially for startups that are giving away their product for free in hopes of gaining a toe-hold in classrooms.

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Unless your product is good enough to sell, "there's this huge temptation to just make money by selling or exploiting data," said Matthew Rubinstein, the founder and CEO of **LiveSchool**, which markets software that helps schools track student behavior.

Children's personal information "is splintering across the Internet," said Cameron Evans, Microsoft's chief technology officer. "Anonymity is going to be more valuable than gold in the near future."

STUDENT RECORDS AT RISK

Ed-tech companies divide into two main camps. Some serve as digital file cabinets for pre-existing student records; they're basically organizational tools. Others deliver lessons and quizzes online and collect fresh data directly from students as they work.

The POLITICO examination found that both can carry privacy risks.

Take **LearnBoost**, a startup backed by prominent venture capital firms. It's marketed as a "free and amazing" tool that lets teachers upload their notes on student attendance, test scores, behavior and more to a digital grade book. Any teacher can sign up, even if her district doesn't participate.

A key element of the pitch: LearnBoost makes it easy for teachers to email the grade book to parents, students and others "as they see fit."

LearnBoost does note in passing that confidential student data should be shared "very carefully." But it offers no guidelines. And privacy advocates find it alarming that a for-profit startup is holding student records and making it easy for teachers to send them zipping around the Internet without supervision from the district.

The company did not return emails seeking comment.

Other sites receive huge amounts of student information directly from schools or districts. The data management site **LearnSprout**, for instance, stores information such as attendance records, which can be granular to the point of noting head lice, a cold, a doctor's appointment or bereavement — to name just a few of the categories. **Interactive Health Technologies** stores multi-year fitness records on students, based on data from heart monitors they wear in P.E., and integrates them with "unlimited data points" from the classroom, including behavioral and nutrition records.

Knowing so much personal data is in a private company's hands worries some parents, especially in the wake of the cyberattack that stole credit card numbers from tens of millions of Target customers last winter.

K-12 districts and contractors haven't reported any major data breaches, but it's been a recurring problem for colleges. In one of the worst incidents, hackers attacked the University of Maryland in February and scooped up records — including social security numbers — for nearly 300,000 students, faculty and staff.

Other companies hold more even more intimate, and potentially more valuable, information on children.

Consider the popular nonprofit tutorial service **Khan Academy**. It's free. But users do pay a price: in effect, they trade their data for the tutoring.

"Data is the real asset," founder Sal Khan told an academic conference last fall.

The site tracks the academic progress of students 13 and older as they work through online lessons in math, science and other subjects. It also logs their location when they sign in and monitors their Web browsing habits. And it reserves the right to seek out personal details about users from other sources, as well, potentially building rich profiles of their interests and connections.

After POLITICO inquired about Khan Academy's privacy policy, which gave it the right to draw on students' personal information to send them customized advertising, the policy was completely rewritten. The new text, **posted online** late last week, emphasizes Khan Academy's commitment to protecting privacy and deletes the line about targeted advertising.

But the revised policy makes clear that Khan Academy still allows third parties, such as YouTube and Google, to place the tiny text files known as "cookies" on students' computers to collect and store information about their Web usage. Khan Academy also states that it may share personal information with app developers and other external partners, with students' consent.

A spokeswoman for the site said Khan Academy's main goal in collecting data is to "help students learn effectively and efficiently."

MURKY PRIVACY POLICIES — OR NONE AT ALL

Parents and teachers typically turn to companies' privacy policies to try to figure out what student data is being collected and how it could be used. Clarity is a rarity.

Even companies that assert they do not sell personal information typically reserve the right to change that policy at any time. Most won't notify users in the event of such a change. Instead, they recommend reading the online privacy policy regularly to see if it's been updated.

Most policies also indicate that student information will trade hands, and may be subject to an entirely new privacy policy, if the company is sold — a common fate for a start-up.

Then there's the legal jargon and fuzzy terminology to unravel.

Moodle, which many schools use as a forum for students to post work and communicate with teachers, states that it won't share users' personal information — "but it may be accessible to those volunteers and staff who administer the site and infrastructure." Who are those volunteers? Are they trained to protect user privacy? The site lists an email address for users to get more information, but questions sent to that address bounced back.

Google's privacy policy is considerably more detailed, but until recently, it did not make clear that the company scanned all emails sent through its **Google Apps for Education** platform, which is used by millions of students and teachers. The automated scan picked out key each minute of each lesson. The results suggested the sensors could be useful for teachers, foundation spokeswoman Deborah Robinson said.

"We're really just at the beginning of truly leveraging the power of data to transform the process of teaching and learning," said Aimee Rogstad Guidera, executive director of the Data Quality Campaign, which urges states to develop responsible policies for data-driven education.

"When we take the time to explain to parents why this is good and how it's going to help, they're fine with it," Guidera said.

Not all parents, however, are convinced.

To Barmak Nassirian, a father of two and grassroots privacy activist, the question boils down to this: No matter how well they safeguard the data, no matter how stringent their privacy policies, do you want private companies "to get into your kid's head and mine the learning process for profit?"

Investors, after all, are pouring into the sector because they expect it to make money, not because — or at least, not only because — they believe it will help kids learn.

"Their mission isn't a social mission," said Michael Moe, co-founder of GSV Capital, a leading investor in ed-tech companies. "They're there to create return."

More than $650 million flowed into technology firms serving the K-12 and higher education market last year. That's nearly double the $331 million invested in those spheres in 2009, Moe said. Nationwide, the market for education software and digital content stands at nearly $8 billion, according to the Software & Information Industry Association.

It's not entirely clear that all those apps boost achievement; a recent national survey commissioned by the Gates Foundation found just 54 percent of teachers considered the digital tools their students use frequently to be effective.

Given that uncertainty, the data companies collect on students could be their most valuable assets.

Publishers of digital textbooks, for instance, could potentially use their insights on students' academic progress to pitch them — or, more likely, their parents — new products targeted directly at their needs.

"In the industry, there's a lot of desire to do that," said Andrew Bloom, chief privacy officer

for McGraw-Hill Education. Bloom stressed that McGraw-Hill has no plans to do such marketing unless school districts consent.

Khaliah Barnes, director of the student privacy project for the Electronic Privacy Information Center, can imagine another scenario: Companies with rich student dossiers could market aptitude and attitude profiles to college admissions or corporate recruiting offices.

"As an employer, that's the sort of profile I would want to buy: Who can solve a problem quickly? Who has the tenacity to finish all the problems? Who drops off quickly?" Barnes said.

Ferreira, the CEO of the New York data analytics firm Knewton, said he's not planning to create such profiles. "But I suppose I can imagine a future where it happens," he said. "I'm not sure how I feel about that." If such profiles were to come into use, he said, Knewton would not sell or share them without students' consent.

A model state bill drafted by the American Legislative Exchange Council, a conservative lobbying group, could make such targeting more likely; it would set up a central state database for student records and allow colleges or businesses to browse them in search of potential recruits.

Companies might also seek to mine student profiles to find customers uniquely vulnerable to their sales pitches. For instance, young adults who struggled with high-school math could be bombarded with ads for high-priced payday loans, Barnes said.

Such prospects may sound far-fetched, but the recent White House report on big data acknowledged it as a very real possibility. Data collected on children as they take advantage of educational services "could be used to build an invasive consumer profile of them once they become adults," the report concluded.

Knewton's Ferreira is impatient with alarmist scenarios and anxious parents.

He once described education as "the world's most data-mineable industry, by far" — and he has raised $105 million from investors who share that vision. By next year, he expects to be mapping the minds of 10 million students. If he can identify who among them will struggle with fractions next Thursday, he can also recommend resources to help them before they hit that wall.

Ferreira has a tough time understanding how anyone could object to data mining when it has such power.

"It just helps children," Ferreira said. "That's all it does."

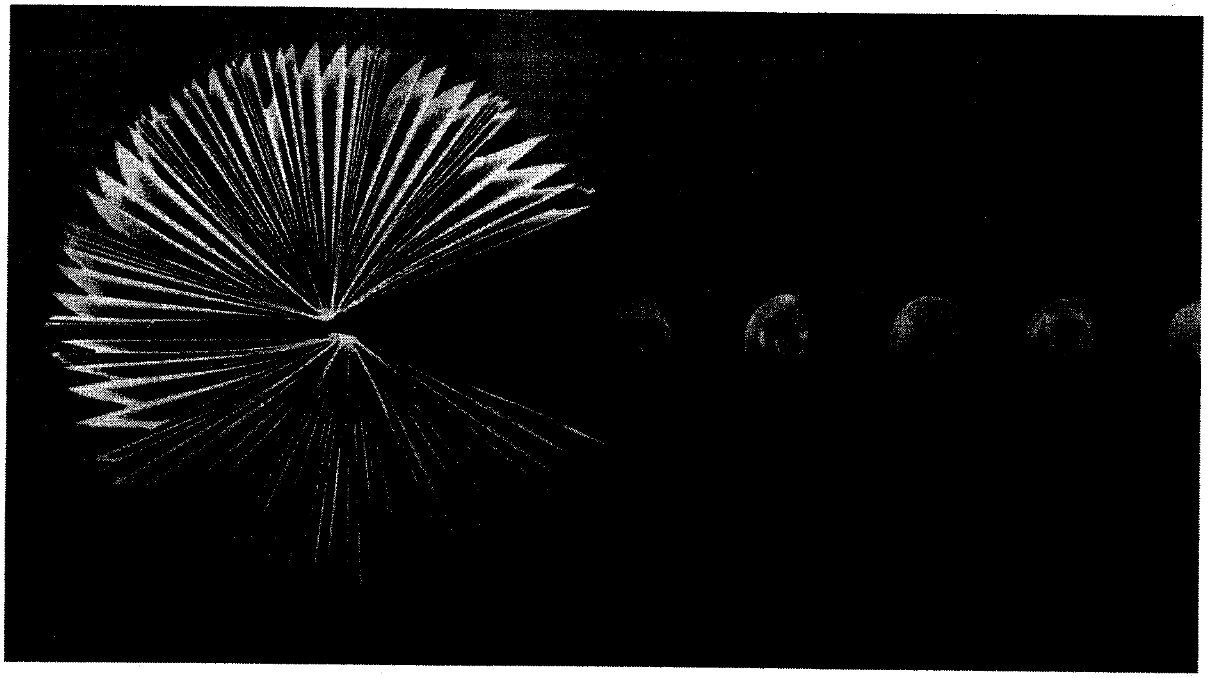
POLITICO Pro

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



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.

Pearson's philanthropy entwined with business interests

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.

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.

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.

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.

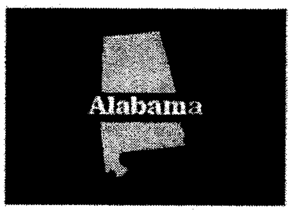
As long as sales reps can show that Pearson products get results, Kilburn said, "the money will find a way to come to us."

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.

Pearson's U.S. footprint

Pearson's broad reach in American education is evident in the variety — and dollar value — of its contracts. POLITICO found that millions in taxpayer dollars and student tuition have flowed to Pearson in deals without competitive bids and through contracts set up to protect Pearson's profits, even when promised results don't materialize.



Product: Digital curriculum, teacher training, technology support

Purchaser: Huntsville City School District

Contract date: June 21, 2012. Amended to add new products on July 1, 2013.

Value: $22 million over six years

Result: School district attributes jump in graduation rate and improvements in ACT scores to use of technology, but pass rates on state math test dropped significantly for most elementary- and middle-school grades in first year of implementing Pearson program.

Product: Developing and promoting online degree programs

Purchaser: Arizona State University

Contract effective: Aug. 16, 2010

Value: $38 million this year; value for subsequent years depends on student enrollment

Result: ASU Online has grown steadily and now has 10,000 students in programs managed by Pearson, but it has not achieved the minimum enrollment targets set forth in the contract. The university earned $31 million from the online program this year.

Product: Digital Common Core curriculum for iPads

Purchaser: Los Angeles Unified School District

Contract signed: July 16, 2013

Value: Estimated at $135 million over three years. *

Result: Contract canceled in August 2014 amid controversy over bidding process and utility of the iPads and online curriculum. Independent review found few teachers using the Pearson lessons. The deal is now under investigation by the FBI.

Product: Marketing services for online K-12 courses

Purchaser: Joint venture between Pearson and Florida Virtual School

Contract signed: Dec. 13, 2010

Value: Projected annual sales of $77 million, with gross profit of $66 million, by 2015

Result: Florida Virtual renegotiated contract in 2012 to sharply reduce Pearson's role after sales fell far short of projections.

*The contract was actually between LAUSD and Apple, with a total value of more than $500 million. Apple then subcontracted with Pearson for the curriculum.

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.

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.

"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.

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.

Pearson's U.S. footprint

Pearson's broad reach in American education is evident in the variety — and dollar value — of its contracts. POLITICO found that millions in taxpayer dollars and student tuition have flowed to Pearson in deals without competitive bids and through contracts set up to protect Pearson's profits, even when promised results don't materialize.

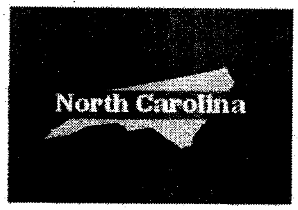
Product: PARCC Common Core exams

Purchaser: State of New Mexico. Other states in the PARCC consortium later adopted the pricing and terms of the contract.

Contract signed: May 1, 2014

Value: Estimated at $138 million for first year; revenue may vary in years two through four.

Result: Rival test developer sued, claiming bidding was rigged; case is pending. States such as Louisiana, Mississippi and Arizona have also raised questions about purchase protocol. Pearson is moving ahead with plans to administer tests this spring.



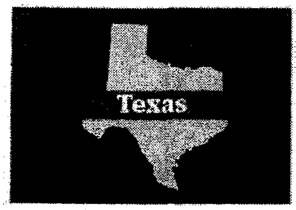
Product: PowerSchool student information database

Purchaser: North Carolina State Board of Education

Contract signed: Sept. 26, 2012

Value: Initial value $8.5 million over two years. Amendments pushed up cost to $12.2 million. Extended for a third year at $7.1 million.

Result: Major glitches in implementation left some schools unable to track enrollment, produce transcripts or report dropouts. North Carolina paid Pearson for additional support; most issues have been resolved.



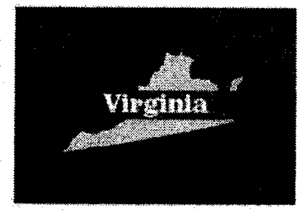
Product: Custom-designed online college courses, drawing on faculty outlines

Purchaser: College for All Texans Foundation, Texas A&M University-Commerce, South Texas College

Contract signed: Aug. 22, 2013

Value: Minimum of $9.4 million through 2018.

Result: The institutions pledged a minimum of 840 student enrollments for the first year but got 463. The contract binds them to pay Pearson for 40,200 cumulative enrollments by 2018 no matter how many students actually enroll.



Product: Consulting services to turn around struggling school

Purchaser: Danville Public Schools for J.M. Langston Focus School

Contract signed: July 8, 2010

Value: $375,000 over three years. The school also spent $65,770 on Pearson products.

Result: School reading scores improved significantly compared with state average but math scores sank. Test scores did not hit targets required for state accreditation but school was accredited under an alternative plan that factored in other data.

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.

"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)

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 Codding 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 oneelse 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."

Authors:

Stephanie Simon