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Edison Schools: 'dreams unrealized'

Two years ago, Edison Schools was expanding rapidly and proclaiming that its model was revolutionizing education. The controversial, for-profit company predicted that it would soon be running 1,000 schools nationwide.

But as school opens this fall, Edison Schools is reduced to issuing press releases announcing wily that it has had some contracts renewed. The company has suffered a net loss of about 25 schools since last year.

The New York-based company uses fuzzy and inconsistent methods for counting the schools it runs, making it tough to determine how many client schools Edison has lost. By conventional counting methods (one site equaling one school), Edison appears to have lost 29 schools last school year, scattered among 13 severed school-district contracts, from Boston to Dallas. Edison opened three schools this fall, counted by conventional methods. Edison's website still states that the company runs 150 schools, the same number it gave last year based on its controversial counting method.

Meanwhile, since 2001 the publicly traded company's stock has plunged – from a high of \$38.75 to about \$1.67 currently, with a low of 14 cents at one bleak point. And in July, Edison founder and CEO Chris Whittle announced that he would buy back all the company's stock and take it private. The move is expected to be completed this fall, subject to shareholder approval.

Whittle's decision, according to the Wall Street Journal, was “driven by a desire to avoid the kind of public criticism that had hammered (Edison's) equity and constrained its capital-raising efforts.” In other words, Whittle wanted to remove Edison from the spotlight, which had not flattered the company despite the fact that Whittle's flamboyance and aggressive publicity-seeking put it there to begin with. As a privately held company, Edison will not function entirely in the dark, however, since achievement data on its schools will still be public.

The arrangement also provides Whittle with a raise of \$255,000 or more – to “not less than \$600,000” from his current \$345,000 per year.

Edison operated for 10 years without making a profit, then announced that it would show its first profit in the quarter ended in June 2003. That quarter's results, anticipated to be 20 cents per share, will be reported later this month. But analysts in a WSJ.com survey predicted a fall back to unprofitability for the subsequent quarter, ending September 2003, with the loss projected at 37 cents per share.

A July Miami Herald article covering the stock buyback didn't let Edison off gently. “Edison

Schools, the visionary company whose backers believed it would revolutionize public education in America, is hobbling into a buyout by the man who founded it, its dreams unrealized,” reporter Gregg Fields wrote. The New York Post described Whittle as “suffering a \$1.9 billion wipeout of his company’s market value.”

Investors, the Miami article reported, were furious at the \$1.76 offered buyout price. “Now you know how the teachers and the kids have been treated all along,” an irate investor posted on the company’s Yahoo bulletin board, as quoted by the Herald.

And in the last week of August, eight messages were posted under the unexpurgated subject line “Shareholders are getting f****d.”

Some observers see Edison’s true believers suffering the same fate, figuratively speaking. Despite the barrage of publicity in the company’s heyday boasting of supposed achievement gains, over the years it has become clear that Edison’s schools achieve academic results not much different than those of traditional public schools – sometimes better, sometimes worse.

Edison has also suffered from persistent and widespread reports that it squeezes the most challenging students out of its schools and dumps them back on schools run by its client districts.

Edison’s first-year performance in its largest and most controversy-ridden district, Philadelphia, failed to mitigate the public-relations disaster that has been widely described as Edison’s Waterloo. Imposed on the district by state government, Edison arrived in Philadelphia against the will of school district leadership and much of the community, which reacted with explosive protest and widespread outrage. Edison runs 20 of Philadelphia’s 265 schools (by conventional counting methods). In 2002-’03 testing, one of Edison’s Philadelphia schools was ranked as “making progress” on the state performance scale, but the other 19 were in the lowest category. Six Edison schools were reported as “persistently dangerous.”

Edison opened new schools this fall in Indianapolis, Ind.; Pittsburgh, Pa.; and St. Louis, Mo. – one in each city. Over the past school year, the company lost contracts in Battle Creek, Mich.; Boston, Mass.; Dallas, Texas; Hamden, Conn.; Macon, Ga.; Minneapolis, Minn.; Mount Clemens, Mich.; Nash/Rocky Mount, N.C.; Pontiac, Mich.; San Antonio/Atascosa, Texas; Trenton, N.J.; Tyler, Texas; and Wichita, Kan. The lost contracts with the 13 districts comprised at least 29 schools.

The controversial method by which the company sometimes tallies its schools counts grade groupings, or parts thereof, as one school – K-5, 6-8 and 9-12. Thus a school comprising grades K-8 would count as two schools; a school comprising grades 5-9 would count as three. The company has used that counting method interchangeably with a per-site method, without explanation.

As Edison’s core business falters, the company is moving into a patchwork of conventional education-related services – running summer schools, providing after-school care and the like – none of them destined to galvanize the privatization movement or revolutionize education.

The company is also defending itself against shareholder lawsuits stemming from its precipitous stock price plunge, as well as further legal actions in response to the stock buyback plan.

In early July, the public broadcasting television series "Frontline" profiled Edison and Whittle. The Philadelphia Inquirer's review of the segment sums up Edison's current crisis.

"The company is struggling," wrote Inquirer reporter Dale Mezzacappa, who covered Edison's move into Philadelphia. "(In July), Merrill Lynch announced it was no longer tracking Edison's stock, because of sagging investor interest. ('Frontline' producer John) Merrow ends by calling it 'a fragile company with a fading dream.' "

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