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Parents Advocating School Accountability
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Brokerage Already Under Probe Inflates Edison Schools Projection

A brokerage firm under investigation by the U.S. Securities and Exchange Commission for overhyping stocks gives inflated figures benefitting its client Edison Schools Inc. in a private April 26 report to investors.

The leading firm, which can't be publicly identified due to privacy agreements with the report's subscribers, projects that in fiscal year 2003, Edison will run 168 schools, "based on a net addition of 32 schools."

Edison currently claims to run 136 schools, so the report adds the 32 new schools to that figure to come up with the total. But Edison is being removed from nine current schools, by its own count, by or at the end of the current (2001-2002) school year, a fact not mentioned in the investment firm's report. In giving Edison's projected net gain of schools as 32 rather than 23, the report overstates Edison's net gain of schools by 28 percent. It was not known whether the writer of the report knew that Edison was losing the nine schools.

The brokerage issued the misleading report the same day news articles announced an SEC investigation of "whether Wall Street has misled investors by issuing biased, overly bullish research reports to bring in lucrative investment banking business," s the New York Times put it.

The Times reported: "The SEC's announcement follows the unveiling earlier this month by (New York State Attorney General Eliot Spitzer) of the results of his investigation into the research practices of Merrill Lynch's Internet group. The Spitzer probe uncovered emails in which Merrill analysts expressed disdain for stocks to which they had given top recommendations."

Edison Schools stock tumbled 24.74 percent on April 25 to close at a new low of \$8. It fell another 75 cents, to \$7.25, on April 26.

Edison has long raised eyebrows with the way it counts its schools. The company "has come up with a new math of its own," TheStreet.com columnist Herb Greenberg remarked wryly about the unusual practice (Nov. 11, 1999). Edison counts grades kindergarten-5 as one school, grades 6-8 as another and grades 9-12 as another – even if the schools are under the same roof with the same principal. It also counts even one grade from any of those groupings from a separate school – so that a 4-9 school would be counted as three schools. Edison claims, by that counting method, to run 136 schools. A hand count of its website reveals 111 schools.

The projected increase in the number of Edison schools includes 20 in Philadelphia and "potential expansion opportunities within existing relationships," the brokerage report says.

Edison is being removed from schools in San Antonio, Texas; Atascosa, Texas; Minneapolis; Trenton, N.J.; and Wichita, Kan. It counts the Trenton school, K-12 Granville Charter, as three schools, and the Minneapolis school, K-8 Edison Project/PPL School, as two.

Edison Schools Inc. has also raised questions with its reporting of both student achievement and company finances. The company claims that 84 percent of its schools made “positive gains” in the 2000-2001 school year. But Edison’s School Performance Report lists 62 schools that it claims made “positive gains,” for a year when the company says it ran 113 schools. Sixty-two of 113 schools would be 54.8 percent, not 84 percent.

And scrutiny debunks the claim that the 62 “positive gains” schools are successful. At least 10 of the schools on the “positive” list have had contracts with Edison severed – Edison had already been terminated from several of the schools at the time it released the list touting them as successes. More than 10 of the “positive” schools appear on their states’ lists of failing schools.

In another recently reported concern, business news articles questioned the way the company reports its revenues. Merrill Lynch analyst Lauren Rich Fine, whose company is targeted by the SEC investigation, called the concerns “overblown.”

Edison Schools is a nationwide school management firm with stock publicly traded on the NASDAQ, though the 10-year-old company has never made a profit. Edison has attracted ideological support from backers of privatization and school vouchers, and from such powerful conservative bastions as the Wall Street Journal editorial board and the Hoover Institution.

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For more information on Edison Schools, go to www.pasasf.org. PASA is an advocacy organization and our press releases reflect our point of view. Our material is reported and written in accordance with professional standards for accuracy. Any problems called to our attention will be corrected or responded to publicly as appropriate.