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THE MEDIA BUSINESS

THE MEDIA BUSINESS; Whittle Communications' Fall Is Dissected

By STUART ELLIOTT

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The financial difficulties that prompted the collapse of the Whittle Communications Corporation, the once high-flying alternative media company led by the entrepreneur Christopher Whittle, were significantly more severe than previously believed and were masked in part by accounting misrepresentations, according to an article in the new issue of The New Yorker magazine.

The article also reported that Benno C. Schmidt Jr., the chief executive of the Edison Project, Mr. Whittle's expensive effort to found a chain of privatized schools, recommended to the Edison board that Mr. Whittle be removed as chairman.

Mr. Schmidt, the former president of Yale University, declined yesterday to comment on Mr. Whittle. He preferred to discuss the Edison Project, which he said continued to represent "an interesting business opportunity," adding, "Our partners remain enthusiastic, and a number of new investors have expressed a strong interest." He declined to provide details.

The New Yorker article, titled "Grand Illusion," was written by James B. Stewart, a former page one editor of The Wall Street Journal who is now a staff business writer at The New Yorker.

The article is one of several coming post-mortems on Whittle, which is based in Knoxville, Tenn. The company has sold or closed virtually all its operations. GQ and Vanity Fair magazines are also preparing articles on Mr. Whittle's rise and fall.

"The amazing thing is he escaped serious scrutiny for so long," Gary Belis, Whittle's former media relations director, said yesterday.

"Chris Whittle had a remarkable ability to get smart people to do stupid things," added Mr. Belis, who left Whittle late in 1991 and is now corporate publicity director at Wenner Media in New York.

The article reports that Whittle Communications failed to pay state personal property taxes on the hundreds of thousands of videocassette recorders and television sets used for Channel One, its controversial sponsored newscasts for high school students, and failed to file returns in many states that impose such taxes. The article estimated that Whittle may face more than $10 million in unpaid tax liabilities and penalties.

Those liabilities were a reason that the K-III Communications Corporation, which agreed in August to buy Channel One from Whittle, has reduced the purchase price to $240 million from $300 million, the article said, and insisted on indemnification.

Telephone calls yesterday to Mr. Whittle's homes in East Hampton, L.I., and Knoxville were not answered; his Manhattan phone number at the Dakota apartments is unlisted. Telephone calls to David Adler, a spokesman for K-III in New York, were not returned.

Some previous articles about Whittle, particularly a report in the Aug. 22 issue of Business Week magazine, described serious financial problems with projects like Channel One and Special Reports, magazines and television programs for doctors' waiting rooms that were discontinued after sharp losses; the New Yorker article recapitulates some Business Week material like a decision by Time Warner to write off its entire $185 million investment in Whittle.

But The New Yorker article is perhaps the most detailed to date about Whittle's finances, particularly what it described as "aggressive accounting practices" that resulted in "a significant overstatement of Channel One's revenue."

The article said that when Channel One failed to sell all its commercial time, extra spots for advertisers like Mars Inc. and Pepsico were run and accounted for as current revenue, overstating actual revenue in one instance by nearly 20 percent.

"Even inside the company, you were always trying to get a handle on what was real and what wasn't," Mr. Belis said yesterday. "The mantra was, 'Are these Whittle numbers or real numbers?' "

In Business Week, Mr. Schmidt was quoted as saying that Mr. Whittle "hasn't been involved at all in day-to-day activities" at Edison.

Edison might be "the greatest" of Mr. Whittle's illusions, The New Yorker article concludes, because Whittle's financial failings mean that "the likelihood at this juncture of major investors trusting their capital" to him "seems remote."

"An even more fundamental drawback," the article states, "is that once the public-school administrators of America have absorbed the magnitude" of Mr. Whittle's "failure with his other ventures, they are hardly likely to trust him with their tax dollars, let alone their children."

Robert Hope, the former head of a Whittle unit, Whittle Events, who now operates it as Hope-Beckman in Atlanta, said yesterday: "What happened with Chris is pretty simple. He bit off more than he could handle."

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Why Edison Doesn't Work Chris Whittle still dreams of transforming the nation's public schools--and making lots of money too. Good luck.

By Brian O'Reilly With Reporting by Julia Boorstin
December 9, 2002

(FORTUNE Magazine) – The idea sprang fully formed from Chris Whittle's mind about a decade ago, and it was a stunner: transform public education in America with a chain of 1,000 or more for-profit, privately run grammar schools and high schools, all crisply efficient and brilliantly designed, and all paid for with tax dollars and school vouchers.

Entrepreneur though he is, this was no get-rich-quick scheme on Whittle's part. Rather, the venture that came to be called Edison Schools--which currently runs 150 learning institutions in 22 states across the country--was a strange combination of idealism and opportunism, propelled by the idea that business could succeed where government had failed. Alas, instead of the bold assault on bloated, corrupt, and failing school bureaucracies that Whittle envisioned, it has turned into a long, slow, bloody war, like Napoleon reeling through Russia, with few tangible successes, enormous controversy and resentment, and hundreds of millions of dollars in losses since the company opened its first school in 1995.

Whittle, 55, who calls his CEO job "grinding," miscalculated how tricky and expensive it was to run a school. He expanded too far, too fast. He badly underestimated the suspicion and opposition he would arouse among parents, school boards, and school staff. As Edison's forecasts of huge leaps in academic achievement have failed to occur, a wave of unhappy clients has begun to terminate contracts with the company before expiration. Edison stock, which hit nearly $37 a few years ago, now trades at less than $2. Though Edison posted record revenues of $525 million last year, it also had record losses of $86 million, and it carries a heavy $160 million debt load. "Whittle was never willing to be a niche player," says

Dan Quinn, an analyst at Morningstar. "He wanted to be king of the world. Now it's all come collapsing around them. I don't know where they're going to get the money to pay off their debt."

We can all agree that it would be great if Edison were a success. After all, few things in this country need improvement more than our public schools. But Edison has been in business for seven years now, and the verdict is clear: It doesn't work.

Education, in some form, has been in Chris Whittle's blood from the beginning. His father, a doctor in rural Tennessee, was president of the local school board. While Whittle was at the University of Tennessee, he started a series of guides and magazines aimed at college students, which became the basis of one of his companies, Whittle Communications. At 32, he and a friend bought the venerable but ailing magazine Esquire. Later he launched a controversial ad-supported classroom television network called Channel One. As he visited innumerable schools to sell them on the network, Whittle became increasingly dismayed by what he saw: self-serving unions, uninspired administrators, ill-prepared students. All this could be fixed, he decided, with for-profit companies running public education.

When he made speeches about for-profit education before various conferences of state governors in the early '90s, many implored him to take over their troubled public schools. His gubernatorial fans--largely Republican--included Lamar Alexander of Tennessee, Tom Ridge of Pennsylvania, and George W. Bush of Texas. (William Weld, former governor of Massachusetts, later joined Edison's board.) Venture capitalists and investors became enchanted with the idea, too, lured by presentations from Merrill Lynch, an early Whittle backer, that spoke of an inefficient secondary-education industry that spent $1 billion a day, only half--half!--of which was spent directly on education. The rest, it was implied, was pork and featherbedding, easily trimmed by sharp-eyed, reform-minded businesspeople.

Backed by $45 million of early financing, Whittle pulled together a raft of academics and education experts in 1992 and spent three years researching the best ways to teach and run schools. The plan that emerged was ambitious. Lots of teacher training, longer school days and school years, enormous attention to reading. Foreign languages, art, dance. Home computers for every kid. Big schools reorganized into smaller "houses," with the same cluster of kids and teachers together for years. Lots and lots of benchmark testing designed to let schools know which kids needed help and which teachers were having trouble. Incredibly, it wouldn't cost the school district any extra money, Whittle's team figured. Edison would accept the same per-pupil allotment that the district was already spending, and profit from the efficiencies it would impose.

Whittle's first mistake was to count on the nascent school voucher movement of the early 1990s. Vouchers--where parents get a few thousand dollars from the government to spend at any school--were never popular. And Whittle's plan turned out to be extraordinarily difficult to sell. Middle-class suburbanites, it turned out, were almost always satisfied with their local schools and didn't want a for-profit company educating their kids. Teachers and teachers' unions objected to the longer hours, lower pay, and lack of tenure that Edison generally proposed. Existing administrators and support staff, who faced wholesale firings, were predictably unenthusiastic. Whittle "didn't realize how hard a sale it would be," says Henry Levin, head of the National Center for the Study of Privatization of Education at Columbia University. "They landed maybe one or two schools for every 20 they romanced. It was incredibly naive."

Whittle's second mistake was to position Edison, which went public in late 1999, as a growth company. To get big fast, Edison started making deals that have turned out to be foolishly expensive. The company signed several contracts that charged so little that Edison was practically paying school districts for the right to teach. Worse, the deals often allowed local boards to terminate agreements at any time for any reason--which could cause the company to forfeit much of the millions in startup costs it pours into each new school. If Edison wanted to get the contract to run a budding charter school, it often had to lend millions of dollars to the founding school board to construct or renovate each school building. Accordingly, Edison shelled out $200 million to dozens of charter schools and guaranteed loans worth another $20 million. In Las Vegas a few years ago, Edison was so sure that philanthropists would donate $10 million to establish its schools there that it guaranteed the contributions to local officials. The philanthropists didn't cough up, and Edison was on the hook.

Now Edison is desperately short of cash, with $80 million in charter school loans still outstanding. "The company needs to refinance those loans if it wants to keep growing beyond 2004," says Brandon Dobell, an analyst at Credit Suisse First Boston. "And its stock will have a hard time gaining ground until that happens." With Edison's track record, it's unlikely the company will be able to refinance at anything close to market rates.

Thanks to resistance from schools in middle-class areas, Edison's eventual customers wound up being vastly different from those Whittle had first imagined. The takers were charter schools started from scratch within existing school districts, and desperately troubled inner-city schools with rock-bottom test scores and little money. Says Adam Tucker, a spokesman for Edison: "They were the ones most willing to take the chance, who felt they had nothing to lose." But even troubled school systems were ambivalent about Edison. School boards were reluctant to give up control, unions were often vigorously opposed, and parents feared Edison "profiteers" would cut corners at their kids' expense.

In fact, Edison was spending ridiculous sums on its students. For example, at Boston Renaissance, a grammar school that Edison helped establish, the company gave home computers to all 650 students in 1995. The giveaway proved a fiasco. Not only did the computers cost nearly $1 million, but many parents--poor and poorly educated--didn't know how to set them up. Edison's tiny technical staff was swamped trying to install, maintain, and repair them. Nevertheless, Edison continued for years to provide home computers to most students in its other schools. Whittle concedes that he was slow to abandon the idea. "We couldn't afford any early failures," he explains, so "our schools were oversupported and overengineered at the beginning." He adds, "The costs of classroom technology--purchases and support and networking--are close to the entire losses of the company." That's more than $338 million to date.

Other losses are more recent. "I told Chris Whittle he wasn't going to make any money here," says Thomas Persing, a gruff ex-Marine who heads the school district in Chester, Pa., a deeply distressed town just outside Philadelphia. "But he said that if Edison could take Chester--urban, troubled, black--and show academic success, he could use it as a marketing tool and really make big money." Persing figures Edison lost $14 million in Chester in 2001, the first year it was there. Edison says its startup costs were closer to $11 million.

What about all those efficiencies Edison had promised to find? It seemed to have a hard time locating them. When managers did attempt to cut costs, they sometimes made embarrassing, even dangerous, blunders. For example, in Philadelphia last October, Edison eliminated all the so-called nonteaching assistants who monitor students in the hallways. Disaster ensued: Fights and fires broke out, and police had to be called into one school to restore order until staffers were rehired. As for the company's central office in New York, Whittle acknowledges that its expenses--originally expected to run about 7% of revenues--have been considerably higher than planned: 23% of revenues two years ago and about 15% last year. "We are still working," he says, "to drive them down." Last July he vowed to slash the central office's then-300-person staff in a "reengineering." So far he's cut 45.

As if Whittle didn't have enough problems, last May the SEC declared that Edison was confusingly inflating revenues by including salaries paid directly by Edison-managed public schools to teachers.

Edison argued that doing so didn't violate Generally Accepted Accounting Principles. After spending millions to defend itself, the company backed down. It agreed to restate revenues, lowering them by a total of $77.6 million over the past four years.

You'd be a lot more willing to overlook Edison's financial results if its educational results were outstanding. The company insists that its students' improvements on standardized tests are substantial and significant--an average of five to six percentage points a year--compared with one to two percentage points at most big urban schools. But to many, that difference just isn't dramatic enough. In Boston's Renaissance school, "the superior academic performance that the board sought never materialized," says Dudley Blodget, the school's COO, who nevertheless takes pains to praise Edison's extraordinary effort. "We were moving a lot of children from low achievement out of that category, and doing that more than most schools. But we were not moving children up to a higher level as much as we'd like." Renaissance terminated its contract with Edison, effective next June--three years early.

The Dallas school board announced last August that it was booting Edison prematurely too. The problem there wasn't declining test scores; they were up at six of the seven schools Edison runs. It wasn't that the schools were shabby either. A tour of Medrano Elementary near downtown reveals a sparkling place with friendly, uniformed students walking quietly, single file, hands behind their backs. The school board was unhappy because, in standardized tests, kids with similar backgrounds at other schools in the area did even better than kids at Edison. "I really wanted Edison to succeed," says Ken Zornes, president of the school board, who notes that Edison schools cost the district 10% more than other schools because it has longer hours. "If they proved their concept, it would have been worth it. But we did the numbers."

The biggest blow for the company this year came in April. Whittle had spent years negotiating with Pennsylvania governors Tom Ridge and Mark Schweiker, both staunch Edison supporters, and state education officials about taking over the entire 264-school Philadelphia district. But Philly mayor John Street wasn't so keen, threatening to barricade himself in a school to protest a deal with Edison there. Edison wound up getting a contract to manage just 20 schools, a fraction of what it had been hoping for. Investor confidence collapsed, sending the stock as low as 15 cents a few months later. Meanwhile, cash-strapped Edison had to scramble to raise money at a whopping 12% interest rate to buy supplies for those schools. (The Philly public-schools superintendent held up payments to the company until October, when he extracted a promise that the district could keep the textbooks and supplies if Edison went belly up.)

Perhaps the simplest reason Edison doesn't work, though, is that for-profit education just isn't a very good business. Though a dozen or more competitors have sprung up in recent years--most much smaller than Edison--about the only profitable ones are $15.6 million Nobel Learning Communities, which runs mostly private schools, and National Heritage Academies, which runs 28 quasi-religious schools. For-profit schools are "low margin no matter how you slice it," says Steven Wilson, who started Advantage Schools in 1996. Economies of scale are almost nonexistent, says Columbia's Levin: "Schools have very high variable costs, and as school systems get larger than 6,000 students they actually become less and less efficient." Edison, ten times bigger than the optimum-sized district and with schools scattered thousands of miles from its New York headquarters, has especially high costs, he says. Then there's the quality of the education. For-profit schools have to be orders of magnitude better than their public-school rivals in order to overcome the political opposition that confronts them. And so far that hasn't happened.

No one doubts that Whittle is passionate about his educational mission. "The changing of human institutions," he says, "happens to be one of the most important ideas." The team he's assembled seems to be equally committed. "I have a chart I stare at in bed at night," says Richard Barth, Edison's senior vice president in Philadelphia. "There's an elementary school in the city with 1,200 students, where only 3.5% are proficient in math. I will change this or die trying."

At the same time, no one doubts that Whittle would have loved to get rich from Edison. His holdings include a mansion in the Hamptons and a townhouse on Manhattan's Upper East Side. His chic Italian wife is a member of Fiat's wealthy Agnelli clan. And one of his former companies had two jet pilots on the payroll. Whittle is a complicated fellow, says a former colleague. "Is he a schemer or an idealist? I think he is both. Chris is a dreamer with a highly developed business sense: seriously interested in education and seriously horrified by what he has seen of public schools."

Edison's decline has left Whittle, who holds more than 14% of the company's shares, financially soaked. "I own only one stock," he says with a sigh. Last summer he was forced to put his huge Hamptons house on the market, for $45 million. "That was painful," he says. "It's where my children grew up." It remains unsold. Meanwhile, the company Whittle founded continues to bleed, prompting some analysts to predict that if things don't pick up dramatically next year, Edison won't be around much longer--at least in its present form.

But you won't hear that from Whittle. "Things are much better than you might guess," he insists. He points to growing revenues and growing enrollments: Edison currently educates 80,000 students--6,000 more than last year. He talks of scaling back the company's growth to save startup costs at new schools. He predicts that a new federal law, No Child Left Behind, which requires school districts with failing test scores three years in a row to change management, will boost demand for the company's services. Edison will show a profit in the fourth quarter ending next June, Whittle insists. "There are 15,000 school systems out there," he muses. "If we get 1%, that will make us a FORTUNE 500 company." Chris Whittle is clearly one die-hard dreamer.

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The Nine Lives Of Chris Whittle His ventures don't always succeed--but somehow he still manages to come out ahead.

By Nelson D. Schwartz Reporter associate Doris Burke
October 27, 2003

(FORTUNE Magazine) – Edison Schools founder and CEO Chris Whittle has always argued that the education business could be lucrative. He kept the faith even as his company--which runs 130 elementary, middle, and high schools across the country--racked up several hundred million in losses and its stock tumbled from above $30 to the low single digits. Now it turns out Whittle was right--except he's the one getting a lot of the lucre, some of his biggest shareholders argue.

On Sept. 12 he announced that Edison had finally turned a profit: It earned $10.2 million in the final quarter of fiscal 2003. But the timing has left some shareholders steamed. Two short months before, Whittle announced that he was taking the company private. "As an investor in Edison, we think they continue to hold great promise," says money manager Zack Shafran of Waddell &

Reed, whose mutual funds hold nearly four million Edison shares. "We're insulted by the fact that they want to buy this company back from us at a ridiculously low price."

Indeed, while investors like Shafran are getting a measly $1.76 a share and incurring huge losses, Whittle could eventually pocket more than $21 million on the deal (chump change by Dick Grasso's standards, but more than double what Edison earned last quarter). The buyout is being voted on early next month, and it is almost certain to pass, thanks in part to a special class of shares, held by Whittle and other insiders, that carry ten times the voting power of normal stock. "I'm disappointed in the shabby treatment of shareholders," says Trace Urdan of San Francisco--based ThinkEquity Partners, the sole remaining brokerage analyst following the stock. "This is a self-serving bid by management." While it's true that Whittle is also taking a hit on his shares, he's about to get a host of rich extras other investors won't.

A gifted salesman and an enormously likable personality ("spend an hour in a room with him, and you'll want to do what he tells you," says one Wall Streeter), Whittle has an almost Clintonian knack for coming out on top, despite controversy and fierce criticism. In the 1980s, his company, Whittle Communications, launched an educational-TV venture called Channel One. It was derided as a dubious attempt to get kids to watch commercials in the classroom--but he managed to sell it to K-III Communications (now Primedia) for more than $200 million. A planned TV network for doctors' offices burned through millions in investor money but never got off the ground. (Time Inc., FORTUNE's parent, made an investment in Whittle Communications and wound up writing it off.) After founding Edison in 1992, he attracted support from Republican governors like William Weld and Lamar Alexander, plus tens of millions in backing from the likes of J.P. Morgan and Microsoft co-founder Paul Allen.

In typical form, Whittle managed to catch the crest of the IPO wave in late 1999, taking Edison public despite a riptide of red ink. The stock soared, and Whittle borrowed nearly $8 million from Edison in late 1999 and early 2000 to buy stock in the company (he now owns 2.9% of Edison). "Those loans weren't my idea," says Whittle. "They were suggested to me by the board."

But a lack of profits and Edison's failed attempt to take over Philadelphia's troubled school system sent the stock plunging (see "Why Edison Doesn't Work" on fortune. com). By last November, Edison was hovering below 50 cents a share. That same month Whittle was busy renegotiating his contract. Instead of the $1 annual salary he had agreed to in late 2001 when Edison's shares were doing well, he would now get a base pay of $345,000. (Edison paid Whittle in another way too: Between 1996 and 2000, WSI Inc., a private company of which Whittle is the sole stockholder, received more than $1.5 million for "professional services," according to Edison's SEC filings.)

Despite strong revenue growth (Edison's sales last year totaled $426 million), early this year the stock was stuck between $1 and $2. Whittle began to consider taking the company private. In mid-July, Edison's board agreed to a bid of $1.76 a share from Whittle and Liberty Partners, a private-equity firm in New York. Liberty is paying $174 million. The $1.76-a-share offer represents a 39% margin over Edison's stock price this spring, "a premium that's considered above the norm for these kinds of deals," Whittle says. "We made a very significant effort to fetch the highest price." Based on the most recent quarter's performance, though, analyst Urdan contends Edison may be worth more like $3 to $4 a share.

For Whittle, who will continue on as CEO, the buyout is a coup. In addition to an immediate windfall of $4.2 million for all his Edison shares, Whittle will receive 3.73% of the now private company, with Liberty owning the rest. Plus, Whittle has the option to sell that stake back to Liberty over the next five years for up to $17 million, depending on Edison's performance. What's more, Whittle still has until 2004 and 2005 to pay back those personal loans, which now total $10.4 million thanks to accrued interest. Might those loans eventually be forgiven? Whittle says there's no plan to do that. But upon closing the deal, Liberty plans to lend Whittle another $1.68 million. If all that weren't enough, the deal also calls for Liberty to increase Whittle's base pay from $345,000 a year to "not less than $600,000," with the hike pro-rated back to July 1, 2003. Finally, Liberty will pay Whittle's WSI Inc. $587,968 plus accrued interest to satisfy an outstanding Edison note held by WSI.

Liberty's president, Peter Bennett, has no apologies for Whittle's payday. "We think Whittle's salary was below market for someone in that position, and his ownership stake doesn't go up much from what it used to be," he says. The Rev. Floyd Flake, a former New York Congressman who is a member of Edison's board of directors, also defends the CEO. "I don't know the exact numbers, but at the end it has to be fair to him," says Flake. "Chris has made a big investment. He's put all his intellectual and other capital into this process, and that has a value to it."

Whittle, for his part, insists he's suffered a big loss on his Edison shares just as other stockholders have (he says he's invested roughly $30 million in the company but won't disclose the size of his loss). "I have a decade of ways I've been supportive," he adds. "There were years I worked for a dollar, years where I took no bonus. If you look at the record, it's a pretty damn good one of how I supported the operation." If his critics looked at the past ten years, rather than just this deal, he says, "they would see it very differently." Shafran isn't buying it. "We don't believe that anybody deserves any special compensation just because of the difficulties the company has faced," he says.

One thing seems clear: We haven't seen the last of Chris Whittle. Says Jeff Silber, an equity analyst with Harris Nesbitt Gerard in New York: "If you look at his history, he's like a phoenix. Who knows what his next venture will be?"

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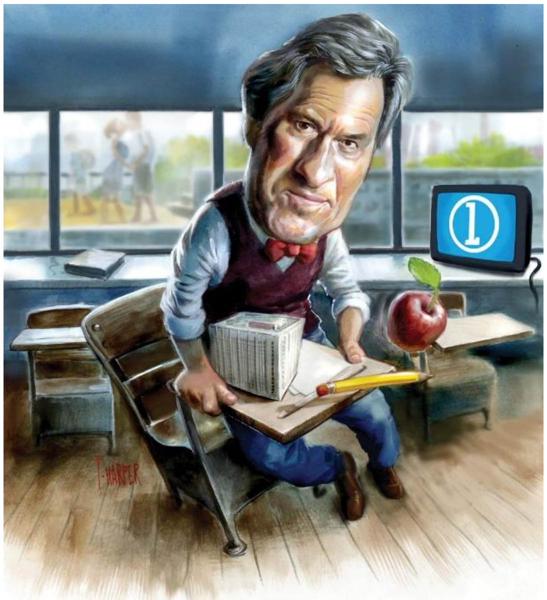
Has Avenues Mastermind Chris Whittle Learned His Lesson?

Scrappy media whiz kid–turned–education heretic crams for his make-up exam.

By Aaron Gell • 06/13/12 8:02am



One evening in late March, the entrepreneur H. Christopher Whittle found himself in a large conference room in Renda Fuzhong, an elite Chinese academy in Beijing's Haidian district, rattling off his pitch for Avenues, the bilingual for-profit New York preparatory school set to open in September in a former warehouse building on 10th Avenue in Chelsea.

Listening intently to the presentation were 20 Renda ninth-graders who were already committed to Avenues in the fall and about 100 parents and grandparents. Mr. Whittle explained that a decade hence, Avenues: the World School would comprise an international network of 20 academies, serving K through 12, spanning the globe from Doha to Moscow, and Mexico City to Johannesburg. Every student in the network will have an "automatic transfer right" to any other school—whether to expand his or her own educational horizons or due to the globe-trotting habits of their parents. (In that sense, it's a little like a pedagogic timeshare, offering an array of comfortable home bases to the next generation of rootless cosmopolitans.) He talked about the intense competition for Ivy League spots, and how it would only get worse. And he talked about the spectacular new facility taking shape beside the High Line.Continue Reading this Article

Mr. Whittle had made precisely the same presentation more than 100 times in the last year to audiences of mostly affluent New York parents at the Core Club, the Harvard Club and Avenues' startup-chic 17th-floor corporate office overlooking Madison Square Park. This was his first time doing it in Beijing, where the second of Avenues' 20 branches is expected to open, provided the delicate negotiations with the People's Republic remain on track.

When he finished the spiel, Mr. Whittle opened the floor to questions, and a student rose to her feet. Like her classmates, she was dressed in a white and red track suit, the Renda uniform.

"I watch *Gossip Girl,*" she said, prompting some titters. "Are New York City schools like that, and if so, is that a good place for us to be?"

Mr. Whittle, whose daughters both attended Nightingale-Bamford, alma mater of *Gossip Girl* author Cecily von Ziegesar, was not unfamiliar with the CW series. "*Gossip Girl* is terrific entertainment," he allowed in his gentle Tennessee drawl. "But let's just say it's a little overblown. That's not our day-to-day reality."

At least, not yet. After all, at the time of the Beijing presentation, the Chelsea school building was still in the midst of its $60 million renovation, with 300 hard-hats working in two daily shifts to convert the former ABC/Disney prop storage facility into a 10-story, state-of-the-art schoolhouse. A row of porta-potties were wedged like packaged hot dogs into what would soon be the lobby; a crew was pouring a cement underlayment in the 10th-floor gym, and an on-site construction management office had been set up in what was slated to become the music room.

But while Mr. Whittle is certainly no Serena van der Woodsen, it's fair to say he has encountered his share of drama over the years, had enough flutes of Krug splashed in his face—figuratively, that is—to fill out a full season of the sordid prep school melodrama. While he has often been hailed as a visionary, he has also been branded a huckster and a charlatan. *Vanity Fair* once wondered, on its cover, if he were "the devil." And that's nothing compared to what the trolls (or perhaps one very unhinged individual) are saying on the pitiless boards of UrbanBaby.com.

A charismatic, genial man of 64 with an unflappable air, Mr. Whittle is considerably more mild-mannered and disarming in person than his history might indicate. But beneath the folksy bow ties and cardigan sweaters lies the heart of a recidivist troublemaker with a habit of poking pointy sticks into institutional hornet's nests.

Mr. Whittle's first company, 13–30, which he launched with his friend Phil Moffitt shortly after college, pulled an audacious end-run around Madison Avenue and the publishing industry by creating a series of highly targeted, advertiser-friendly marketing vehicles distributed to beauty salons, auto mechanics' waiting rooms and the like. One of the most lucrative, a magazine for doctors' offices, came with a "handsome oak cabinet"—but only if subscribers agreed to forsake most other reading material.

The boldest of these schemes was Channel One, the teen news network, which beamed 10 minutes of current-events coverage (including regular dispatches from Anderson Cooper and Lisa Ling) and two minutes of Pringles, Clearasil and military recruitment ads per day to a captive audience of public school students, buying off school administrators with free AV equipment.

Pundits and pedagogues recoiled, denouncing the company for force-feeding advertising to children, who were required by law to watch it, but within a few years the broadcasts reached 8 million teenagers in 40 percent of the nation's schools, and 30-second spots were going for $200,000. (Channel One was purchased by K-III for $300 million, but the business soon began to tank. It was sold to Alloy Entertainment—publisher of, yes, *Gossip Girl*—for a reported $10 million in 2007.)

In 1979, 13–30 purchased the beleaguered *Esquire*, and pledged to turn it around. Editor Clay Felker was tossed overboard, and Mr. Moffitt took over the editor's job himself. Unsurprisingly, New York's literary establishment bewailed the takeover of one of the nation's most venerable titles by Knoxville philistines. But within a few years, the partners' strategy (more lifestyle content, endless special issues) succeeded in turning the business around. The partners eventually had a public falling out and divided the company, with Mr. Whittle taking 13–30 and Mr. Moffitt keeping *Esquire*, which he later sold to Hearst. (Mr. Moffitt is now a mediation guru.)

Mr. Whittle raised eyebrows again in 1989, when—having renamed his company Whittle Communications and selling a 50 percent stake to Time Inc. for $185 million—he broke ground on a baronial $50 million neo-Georgian corporate campus, soon to receive the nickname "Historic Whittlesburg." Occupying two razed blocks in the middle of downtown Knoxville, the headquarters was designed by leather-man starchitect Peter Marino, who also worked on numerous Whittle residences.

Just a few years later, Whittle Communications suffered a spectacular collapse, a saga chronicled in James B. Stewart's *New Yorker* profile "Grand Illusion," which uncovered problems with the company's accounting (it hadn't paid state taxes on Channel One's VCRs and TVs) and described Mr. Whittle as grandiose, profligate and self-deluded.

The company's assets were split up and liquidated, and its headquarters put on the market. It now serves as a splendid federal courthouse. (Lesson learned: At Avenues' corporate offices, Mr. Whittle occupies a cubicle.)

Mr. Whittle's involvement in education began when Whittle Communications was still a going concern, with his 1991 announcement of the Edison Project. The initial idea was to create a network of 1,000 newly built private schools within a decade—the largest business startup in history, Mr. Whittle called it—but as the privatization drive picked up steam, he saw an opening in simply managing existing public schools for local governments.

That turned out to be harder than he thought.

It's a measure of Mr. Whittle's white-knuckle thrill ride of a career that his biography, *An Empire Undone: The Wild Rise and Hard Fall of Chris Whittle*, by Vance Trimble, came out back in 1995, a good six years before Edison's bulb blew out. The company never posted a profit and, despite some success at raising achievement, there were notable failures. Union opposition was fierce. Numerous school systems fired the company. The SEC launched an investigation into its accounting practices, and investors fled. The company's stock, which reached $36 a share in 2001, plummeted 95 percent in 2002, prompting a management buyout. (The fact that the buyback was financed by Liberty Partners, a firm then dedicated to investing Florida's public employee pension fund, prompted another ferocious controversy.)

The company, now called Edison Learning, offers "turnaround services" and "solutions" but manages only a few schools on an ongoing basis.

While it remains to be seen whether Avenues will be a more lasting enterprise than Whittle Communications and the Edison Project, the endeavor has some of the hallmarks of its mastermind’s earlier efforts: a bold, game-changing vision, an all-star team and a certain messianic flavor.

The difference, it seems, is that Avenues is eminently doable. Whereas Edison sought to manage some of the nation’s worst public schools, and turn a profit doing so, Avenues has a far less extravagant objective: merely to instruct a hand-selected student body of well-to-do children (and a few scholarship kids) and send as many of them as possible off to the Ivies, and on to comfortable lives atop the economic scramble heap.

Actually, there’s a bit more to it than that. The school’s mission statement grandly proclaims its intention that graduates will be “at ease beyond their borders”; “artists no matter their field”; “humble about their gifts and generous of spirit”; “architects of lives that transcend the ordinary”; and 11 other nice-sounding things.Continue Reading this Article

In exchange, the school will collect an annual tuition of $39,750, the going rate these days for a top-drawer private education in New York.

One morning in January, Mr. Whittle sat at a large marble conference table at the Avenues offices and explained the difference between his two great education schemes. Compared to Edison’s $5,000-$6,000 per-student war chest, he pointed out, “$39,000 is just a different planet, O.K.?”

He added that “operating as a private institution rather than a public one means there’s virtually no regulation. And you don’t have unions, which is another form of regulation, basically.”

Indeed, at that very moment, several members of the carpenter’s local were just outside the front door on 26th Street, picketing the company for renovating the site with nonunion labor. “I went to them initially,” he said of the various building trade unions, “but when we got the bill I realized the price differential is real—about 25 percent more. We would have had to take so many features out, I just said, ‘We’ll take the pickets.’”

The plan began to take shape in 2007. “I said, O.K., I have one more time at bat,” he recalled. “I thought, maybe if I can mimic Buffett and Murdoch—you know, in terms of longevity if not in terms of wealth—then maybe I could work 15 or 20 years on something. So I literally sat down one day and thought, I still want to invent the next generation of schools. And we moved the needle on that but we didn’t get it to where it should be.”

Returning to the original Edison vision of remaking private education, he began sketching out what he called “the first global system of top-tier private schools.”

He immediately recruited two partners whom he’d worked with for years, Alan Greenberg, who has known him since their days at the University of Tennessee, and Benno Schmidt, the former president of Yale, whom he’d famously lured from that post to head up Edison years before. Those who witnessed Edison’s unraveling may find it surprising that Mr. Whittle and Mr. Schmidt are even on speaking terms, much less working together. At one especially charged juncture, according to *The New Yorker*, Mr. Schmidt aggressively lobbied the board to remove Mr. Whittle from the company.

“There was a period when we had a spat, O.K.?” Mr. Whittle acknowledged when asked about the incident. “But we were together again almost immediately. There was hardly a skipped beat.” Both now serve on the board of Edison Learning.

“I think it has actually been very good for both of us,” Mr. Whittle said, “because we managed through it and have been together for two decades.”

“I don’t want to talk about that,” Mr. Schmidt said of their long-ago turf battle. Nonetheless, he conceded, “I was wrong, absolutely. And I proved it when I willingly and happily stepped aside as CEO and became chairman and Chris became CEO. Chris is 100 times better than I am at execution.”

The fact that they’ve been through so much and remain close after 22 years, he added, “pretty well speaks for itself. At the end of the day, this is a very, very good friend.”

Mr. Whittle knew that for his global plan to succeed, the New York campus would have to be spectacular. He first set his sights on an empty lot on far West 57th Street. He and his colleagues had signed off on the design and were within days of moving heavy equipment onto the site when “the world just fell apart,” as Mr. Whittle put it. “We had a good chunk of seed funding and we were about to go to market on the construction capital when the world financial crisis hit and everything stopped.” They lost the option on the site, which is now set to become an apartment building. “We just sat on the sidelines and waited,” he said.

Eventually the Chelsea location became available, and the company raised a $75 million series A round—split equally between two private equity firms, Liberty and LLR.

With the money in hand, Mr. Whittle went about hiring the rest of his executive team. “There was a very clear strategy from day one,” he said. “We had to have an all-star cast. Our thesis there was, the only defense against a parent going, ‘This is a new, untested school,’ was to have a leadership team that just overwhelmed them.”

The core group includes Ty Tingley, the former head of school at Phillips Exeter, and Skip Mattoon, recently of Hotchkiss, as Avenues’ co-heads. Nancy Schulman, the well-regarded director of the 92nd Street Y Nursery School, became head of the Early Learning Center. Gardner Dunnan, longtime head of Dalton, came on as academic dean, and Libby Hixson, also of Dalton, would head the Lower School.

Mr. Tingley had recently retired from Exeter and was living in Maine, doing a lot of fishing and working on a book on J.R.R. Tolkien’s tenure as a don at Oxford, when Mr. Whittle approached him to become part of a working group to develop the new school. He agreed, he said, “and by the following summer it was looking like a full-time job.”

He hadn't planned on plunging back into the work force at 66, he admitted, "but in education, new ideas come along so rarely, and this is a really new idea."

As to Mr. Whittle's track record in business, he said, "I was certainly curious about that. But when I got to engage with him, I discovered an enormously open guy and a very, very creative thinker about education, who is totally committed to this project. He works harder than anyone. He's had good luck and bad luck, and lots of people have said snarky things, but that's all in the past."

Mr. Greenberg, who witnessed Mr. Whittle's trials from courtside seats as publisher of *Esquire* and an executive at Whittle Communications, was equally sanguine. "I think if you look at most real pioneers, they're going to have those kinds of highs and lows," he said, "but the great ones endure and Chris is a great one. From an ethical perspective and a vision perspective, there's magic there."

Mr. Mattoon recalled a conversation he'd had with a California venture capitalist. "I asked him, 'How do you decide to back someone?'" he recalled. "And he said, 'First, I almost never support anybody who hasn't failed.' I wouldn't actually say that's true of Chris. He's had his ups and downs, but Edison is still operating and doing all kinds of stuff. Had I been 35 with a young family, the risk would have loomed larger, but I had nothing to lose and everything to gain."

The co-heads divided up the responsibilities: Mr. Tingley would spearhead development of the curriculum while Mr. Mattoon set about hiring the 120-member faculty, 30 percent of whom would need to be fluent in Mandarin or Spanish. "I joked with the group that I could imagine us getting on an empty cargo plane and flying to China or Mexico to find the teachers," he said.Continue Reading this Article

As Mr. Whittle expected, the marquee hires proved reassuring to parents. "I'm incredibly impressed with the team," noted one parent with a child entering kindergarten in September. "They have people from Brearley, 92nd Street Y, practically the entire math department of Trinity." Mr. Whittle said Avenues had hired two math teachers from Trinity, including the department head, but emphasized that they had made it a rule not to poach teachers. The parent added, "Clearly these people see an opportunity to do something amazing." Still, one observer, a former Wall Street executive who used to sit on the board of another top private school, referred to a leadership team made up of "formerlies—formerly of Dalton, formerly of Yale, people who are famous for what they were." Suzanne Rheault, founder of the school admissions consultancy Aristotle Circle, pointed out that "getting too many cooks in the kitchen" can lead to problems. "People say, 'Gosh, so many heavy hitters. Two co-heads. Are they all going to get along?"

Mr. Whittle was asked whether the set-up might lead to conflict. "You're asking, how do we manage the egos?" he said with a smile. "I think there may be an inverse relationship between ego and age. At a certain point it becomes much less about titles and turf and 'I've got something to prove,' and more about 'What are we actually doing?' When you've run Exeter for a decade, you're pretty much at the top of your game. I've found, where politics creep into an organization is when you're not growing and there's not enough to do. That's not a problem here."

Indeed, between managing the Avenues launch, conducting hard-hat tours, coordinating press, leading parent meetings, flying to Beijing once a month to work on plans for what he hopes will be the second campus and overseeing early negotiations for schools in London, Sao Paolo and other cities, Mr. Whittle is fairly busy himself these days. “I’ve always worked hard, but whoa,” he said with a laugh.

While most private schools in New York establish themselves incrementally, opening with just a few classes in a brownstone Uptown and expanding gradually into adjacent properties, Avenues is going all in, launching from a standing start with nursery school through ninth grade and adding a grade every year. The building’s interior, which was designed by Perkins Eastman, features a full gymnasium on the 10th floor (administrators have also negotiated use of the nearby Chelsea Piers), enough “teaching stations” to serve 1,635 students and an “imagination room,” which Mr. Tingley described as a space “for the magic to happen.” There is also a full industrial kitchen in the basement connected by dumbwaiters to a bright cafeteria that seats 500, featuring massive bay doors that open, DeLorean-like, directly onto the High Line. Student work will be displayed on large digital monitors outside each room; “smart boards,” of course, are standard.

Mr. Whittle offered *The Observer* a tour of the facility in early May, handing us a white hard hat that bore the Avenues logo and donning another himself as we stepped into a construction elevator that clung to the building’s south face.

In a room on an upper floor, he excitedly demonstrated how the windows blocked out the traffic noise from 10th Avenue. Eventually, he noted, they would all be fitted with matching wooden-slat blinds. “I used to have an office in the Seagram Building,” he explained, “and the rule there was that all the window treatments should be the same, to create a nice-looking building. That way you’re not seeing all the hodgepodge.” He pointed out the double-height commons on most floors and the various “interesting moments” that the architects had scattered throughout the space. He pictured students sitting at “two-tops” within spitting distance of the High Line, noting that there would be a security guard watching over the 200-foot porch at all times when the bay doors were open.

On the second floor, we checked out a test kindergarten classroom—er, teaching station—noting that the little chairs had been carefully selected. “They move slightly, but not too much, which is good when the kids are fidgety,” he said with a smile. “And they don’t roll.”

In addition to creating Whittlesburg, Mr. Whittle has overseen renovations on two lavish apartments in the Dakota and now lives with his wife, photographer Priscilla Rattazzi (niece of longtime Fiat overlord Gianni Agnelli) and daughters in a townhouse in the East 90s. He has curbed his expensive habit of collecting 19th-century artworks—he sold the Sargent but kept the Chase and Doré—after running out of walls. During a particularly difficult moment in 2002, he placed his Georgica Pond estate (also designed by Mr. Marino) on the market for $46 million, eventually opting to hang on to it, along with a getaway in Palm Beach.

Mr. Whittle’s many adventures in architecture and interior design have taught him a few things that have informed Avenues, he said. For instance, “You cannot approach a job of this scale with the same attentiveness to detail that you would do a residence, or you will absolutely drive yourself crazy—and broke," he said. "Part of it is, you're going to be disappointed and you just have to suck it up. You have a budget, and that's it. You may have a personal set of standards but those are not applicable." New York City's new rule dictating that sprinkler pipes be painted red has thrown off the aesthetic, for example. But he's dealing with it.

The Avenues team, under the direction of Mr. Tingley, has spent months hashing out the curriculum from scratch based on the latest educational research. But the biggest debates, Mr. Whittle said, involved the school's physical design, "where the designers are going, 'Let's spice this up a bit, make a beautiful classroom,' and the educators are going, 'Yeah, but where are we going to put our manipulatives?'"

Not unexpectedly, the issue of uniforms also provoked a raging debate. In the end, they settled on a subtle look: black, grey and white, with "lots of mixing around," Mr. Whittle said. "Our strategy is, on the street nobody knows you're in a uniform, but when you're in the school it becomes apparent."

Mr. Whittle, it must be said, is partial to a uniform himself—he is almost never seen without a bow tie and sweater. "One day about 30 years ago, I said, 'I like what I'm wearing. Why don't I just wear it every day?' So that's what I did. It's a great thing."

While Avenues' first classes are still months away, enrollment has gone well, Mr. Whittle said. Contrary to anonymous reports on UrbanBaby suggesting that the school is taking anyone with the means to pay, *The Observer* heard several examples of seemingly qualified kids who were turned away, something of a surprise given how many spots were available for the first year. Mr. Whittle, who estimated that the school would open with somewhere between 700 and 800 students, said that he was careful not to give the admissions department a quota, but instead instructed them simply to assemble the best possible class. He added that the New York campus has already broken even.Continue Reading this Article

New York's cut-throat independent school community seems ready to declare the roll-out a measured success. "They've done an absolutely terrific marketing job," noted Emily Glickman of Abacus Guide Educational Consulting. "For a school that has yet to exist they have inspired tremendous interest and even created a feeling of scarcity, which is pretty amazing when they have so many seats to fill."

In addition to an expensive-looking website and a slick ad campaign in *The New York Times, The Wall Street Journal, The New Yorker, The Observer* and elsewhere, Avenues has done a "big keyword buy," Ms. Glickman noted. "I've searched for my own name and they've come up!"

"I think there were a lot of people who said, 'Serious advertising will backfire, because it's just not something good schools do,'" Mr. Whittle acknowledged. "I think we proved that's not true."

"Personally, it doesn't feel right to see schools marketed like that," said Victoria Goldman, author of *The Manhattan Family Guide to Private Schools.* "It feels aberrant, but it's worked for them. They've increased awareness. It's a genius marketing plan."

“The widespread feeling is that this is a desirable club to get into,” Ms. Glickman said. “They have really studied what gets the 21st-century parent excited.”

Among those key elements: a serious language-immersion program that begins in nursery school, in which each child chooses a second language (Mandarin or Spanish) and spends fully half of every school day in a classroom in which all lessons and materials are in that language through fourth grade. The global approach also seems to be a big draw, as is the dream team of educators. Avenues has assembled an impressive faculty not only by highlighting the opportunity to create a new school from scratch but by paying up to 25 percent more than its competitors. “They’re coming after a lot of people,” noted David Harman, headmaster of Poly Prep. “We’re all afraid. We have a great head of the Chinese program. I think, ‘Are they coming after her?’”

Nonetheless, many parents are still proceeding with caution. Some are troubled by Avenues’ for-profit status (most independent schools are not-for-profit). Others don’t want their children to be the “guinea pigs,” as one mother put it. “As a general rule, nobody wants to be in a new school,” Ms. Glickman noted. “Parents are worried children will walk in the front door and the ceiling will fall on their head. Nothing is known and they don’t want to be left holding the bag. You could enter and suddenly the school gets a bad rap and your child is stuck.”

Most top-tier schools are judged by outgoing college placements, a yardstick that’s not yet applicable to Avenues. “The trouble with saying, ‘We’re going to be the best,’ is that it’s 10 years before that message is understood by colleges,” noted Jeff Beard, director of the International Baccalaureate, which offers standardized curricula recognized around the world (Avenues has chosen not to offer an IB program for now).

“It took us 50 years to achieve what they want to do right away,” said Dwight chancellor Stephen Spahn. “They have really good people at the top. They have good ideas, but it takes five years to get the kinks out. We’ve been around 140 years.”

Given the scarcity of desirable schools in New York these days, none of that may matter. “We have so many clients staying in the city longer, and when the music stops, great kids don’t have a chair,” Ms. Renault said. She added that increased demand had created “a perfect storm” in Manhattan, where even the once fail-safe plan of buying a home in an area with a decent zoned school was no longer a guarantee. “We have parents who buy near P.S. 41,” in Greenwich Village, “where the average apartment value is $1 million, and at the last minute they’ll find out there’s no room.”

“There’s a lot of excitement about Avenues,” said a mother of a prospective kindergartner. The girl got 99 on the ERBs, her mother said, and had strong recommendations and connections. She applied to 10 schools, got into two and was waitlisted at three more. In the end, the family chose Avenues. “We and the other parents we know feel like pioneers,” the mother said. “We feel like we’re going to be in this together. Part of it is there are people out there who want it to fail—why, I don’t know. But we want to prove it can be done.”

Mr. Whittle may have something to prove as well. The mother had watched the saga of Edison with alarm, but “meeting him now, I’ve overcome all my misgivings,” she said. “The fact that he's had such a hard time of it—clearly he wants to make this work. It's his reputation on the line."

The motivation for Mr. Whittle has more to do with what he'd like to accomplish, he said, than saving face. "I view my entire career as an evolutionary process, and I hope I'm learning all the time."

He seemed confident that the New York campus would be a smashing success—he has rarely lacked for confidence—but Mr. Whittle made it clear that merely launching a first-rate school was not enough for him. "What I hope," he said, "is that a decade from now people will look at it and go, 'That's what a new kind of school looks like.'

"To me the biggest risk is that we're just another fine school," he added. "If that's all we are, this was a waste of time. That's not what this is about."

Education Entrepreneur Chris Whittle Resigns From Avenues School

Avenues: The World School plans expansion into Brazil and China

By

Sophia Hollander

March 5, 2015 5:48 p.m. ET

Chris Whittle, the education impresario who some credit with igniting the national charter-school movement, has resigned from his latest, high-profile venture, Avenues: The World School, officials at the Chelsea private school said Thursday.

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Public Company
Incorporated: 1999
Employees: 3,868
Sales: $224.58 million (2000)
Stock Exchanges: NASDAQ
Ticker Symbol: EDSN

Christle Whittle: Bad Management

NAIC: 541611 Administrative Management and General Management Consulting Services; 61111 Elementary and Secondary Schools

Company Perspectives:

We believe that every child should be given exciting educational opportunities and that every child has a tremendous capacity for learning. And, we believe that great schools are places that nurture the creative spirit, prize the beautiful as much as the useful, and inculcate a love of learning. Key Dates:

Key Dates:

1991:

Christopher Whittle announces the plan that becomes the Edison Project.

1995:

Operations begin with contracts to run four schools.

1997:

The Edison Project is running 25 schools to start the 1997--98 academic year.

1999:

Edison Schools goes public with an initial offering of common stock.

2000:

Edison Schools has lost more than $140 million since 1995.

Company History:

Edison Schools Inc. is the leading for-profit manager of public schools in the United States. In July 2000 it was running 108 schools in 21 states, operating them under local school districts or charter-school boards. In return for administering these schools, Edison receives per-pupil funding generally comparable to that spent on other public schools in the same area.

Launching the Edison Project: 1991--95

Christopher Whittle, a publishing entrepreneur who, in 1990, had introduced a commercial-sponsored television news program&mdash-titled 'Channel One'--for high school students, established the Edison Project in 1991. It was funded by Whittle Communications L.P., in which Time Warner Inc., Philips Electronics N.V., and Associated Newspapers Holdings P.L.C. held the major stakes. The ambitious Edison Project endeavor aimed to design a new education system that would provide a better education than public schools. These for-profit schools would charge as tuition the average cost per pupil in public schools, but one-fifth of all students would receive full scholarships. The plan originally called for 200 'campuses' combining day care and pre-elementary education by the fall of 1996, at a cost approaching $2.5 billion to $3 billion. One additional age group would be added each year. Whittle hoped to expand to 1,000 campuses, with an enrollment of two million students attending through high school, soon after the new millennium. His project also planned to contract services for public and private schools.

The Edison Project received instant credibility when it hired Benno C. Schmidt, Jr., president of Yale University, to become president and chief executive officer of the enterprise. 'The reason this hasn't been done before,' Schmidt told the press on reaching his decision in May 1992, 'is that thing is a matter of D-

Day dimensions. Only someone with a high tolerance for risk would even be willing to contemplate it.' A blue-ribbon panel of educators and entrepreneurs already had been established by Whittle to explore every aspect of education and how to redesign American schools.

The concept developed leaned strongly on electronic technology, with all students supplied with a personal computer linked, by video-satellite network, to their teachers, other Edison schools, libraries, lecturers, newscasts, and interactive town halls. Textbooks would be online, with students taking home a two-page printout of the day's lessons instead of a backpack of books.

By 1993 Whittle Communications was in financial difficulty, and as a result the Edison Project dropped its private school approach, vowing instead to seek contracts from local school districts or state-sanctioned charter school boards to teach students in existing buildings. After more drastic economies, the company sold Channel One to K-III Communications Corp. in 1994 for about $240 million. This enabled Whittle Communications to avoid bankruptcy but effectively liquidated it by early 1995, following the sale of other divisions and properties.

The Edison Project was spun off as a separate venture, but Time Warner, which had lost $120 million of its $185 million investment in Whittle Communications, dropped out. Philips and Associated Newspapers, although declining to invest more money, stayed on as equal partners with Whittle, who had pledged to put up an additional $24 million. These funds were sorely needed, for, although the project had spent $40 million by the fall of 1994, it was in need of $25 million to $50 million more to buy computers, wire classrooms, hire teachers, and bring its first schools into operation by the fall of 1995. Only two contracts had been signed: to run a public school in Mount Clemens, Michigan, and a charter school in Boston. Schmidt reportedly tried to oust Whittle as chairman, without success.

The Edison Project was rescued from liquidation at the eleventh hour in December 1994, when Whittle sold his Manhattan East Side townhouse, his apartment in the Central Park West landmark Dakota building, a mansion in his native Tennessee, and most of his art collection. The $15 million infusion was initially applied to keeping the company afloat long enough to find a new partner to replace Philips and Associated Newspapers. In February 1995 the Sprout Group--the venture capital arm of Donaldson, Lufkin and Jenrette Securities Corp.--agreed to invest $12 million. Schmidt and two friends put up another $3 million. Whittle controlled or owned 75 percent of the stock but, at Sprout's insistence, had to step aside temporarily as chairman of the venture. Whittle replaced Schmidt as president in 1997 and chief executive officer in 1998, with Schmidt replacing Whittle as chairman in 1997. By midsummer 1999 the Edison project had raised $232 million from private placements, including capital from J.P. Morgan Investment Corp.

Making Progress: 1996--98

When the academic year 1995--96 began, Edison was operating four schools: the ones in Boston and Mount Clemens, as well as schools in Wichita, Kansas and Sherman, Texas. The number expanded to 12 for the 1996--97 year and 25 for the 1997--98 year, when 13,000 children were enrolled in Edison-operated schools. By the beginning of the 1998--99 school year, the company doubled its scope, raising the number of schools operated to 51. Encouraging initial results were reported in the schools, which followed an educational plan that called for a school day at least one hour longer than usual and a school year of at least 200 days instead of the usual 180. The project also provided an Edison-owned computer in each student's home--linked to the company's local and national school networks--and reading and mathematics curricula developed by Johns Hopkins University and the University of Chicago, respectively. Most students were chosen through a lottery system.

By the end of the 1996--97 school year the Edison Project could point to some educational achievements. All but one of the eight local authorities that had extended contracts had expanded their relationships with the company. At the Dodge-Edison Elementary School in a poor part of Wichita, fifth graders raised their reading performance from the 46th to the 59th percentile nationwide, and from 35th to 64th in mathematics. Another survey reported that Edison kindergarten and first grade students greatly exceeded students in a control group at two sites. Music, art, and physical fitness were being taught every day, according to an Edison executive, and all students were studying Spanish, beginning in kindergarten. Critical observers, however, claimed problems with providing special education services at some Edison sites, difficulty in adapting to the company's complex design at others, and differing interpretations of the project's early test results.

Most of the administrators and teachers Edison was hiring were not union members. Interviewed by A.J. Vogl for *Across the Board,* company vice-president John Chubb said in 1998 that teachers were being paid initially 'whatever they would've been making on a district scale ... plus 8 percent to 10 percent for the extra time.' Each year after that, he added, compensation was determined by merit increases and bonuses. Where hired by a charter board, Edison had complete freedom to establish compensation, but where answering to a public school district, compensation was constrained by whatever agreements had been worked with the district or with a union, if the teachers were organized. He conceded that teacher turnover was 24 percent, compared with about 15 percent for public schools.

Chubb called Edison's provision of a home computer to students crucial because it enhanced parent participation. Before taking a computer home, parents had to spend six hours of training at the school. Pupils also had access to computers in the classroom. 'You want [the children] interacting, working with one another, learning from one another, using computers on a team or project basis,' Chubb explained. 'But then, if children go home and write their papers on a yellow pad or in a loose-leaf notebook, their computers are never going to be integral to their lives.' Chubb said that parents supported the longer school day--eight hours for third grade and up--because it relieved them of much of the burden of after-school care and baby-sitting. He added that in the elementary schools, 90 minutes were being devoted to reading and 60 minutes to mathematics each day. Chubb said that the longer, 205-day school year was 'attractive to working parents who need to find quality activities for their kids' and added that 'disadvantaged children ... tend to fall back more in the summer than middle-class kids, who tend to have academic reinforcement in the summer.'

Mixed Report Card: 1999--2000

At the beginning of the 1999-2000 academic year, Edison was in charge of 79 schools in 16 states and the District of Columbia, mostly under contract with traditional school districts but about 30 percent with organizations authorized to run charter schools. The company was receiving an average of about $5,500 per pupil, the same amount allotted, on average, to publicly run schools. In a November 1999 article appearing in the *Wall Street Journal,* Thomas Toch wrote that several Edison schools had failed, some had indeed poorly served special education students, many of the company's teachers had failed to apply its technology effectively, and most of the new schools that had opened in the fall of 1999 lacked books and supplies because of errors that resulted in Edison firing the entire purchasing staff. Cost-cutting had reduced the school year by ten days and led to scaling back the home computer program to begin in third grade instead of kindergarten. Because of low state spending, Edison had found it could not profitably operate schools in much of the South, California, and the Rocky Mountain states.

Nevertheless, Toch concluded that Edison students were performing better than others with similar backgrounds, that student attendance was generally high, and that dropout rates were low. Student achievement in basic subjects was being surveyed each month. Principals were being awarded performance-based bonuses by the company, and principals and teachers deemed to be doing poorly were being quickly fired. 'Whatever Edison's flaws,' he summed up, 'the mostly disadvantaged kids on Edison's campuses are by and large in more attractive, safer schools with higher standards, more resources and a greater sense of purpose than the traditional public schools most would otherwise attend.'

According to a *Time* article by John Greenwald published in March 2000, Edison was focusing on installing pride and discipline in its students, 60 percent of whom came from families with incomes below the poverty line. The company, he said, was only spending about 16 cents per dollar on administrative costs, compared with 20 to 30 cents for the typical school. (In a later *Washington Post* interview, however, Whittle gave the figure of 21 percent for Edison.) Greenwald reported Whittle's claims that Edison students had raised their results on standardized tests by an average of five percent a year and quoted Whittle as saying, 'We either make it or don't make it on the basis of test scores.'

By the beginning of the 2000-2001 school year, Edison Schools had signed contracts to run 30 more schools, including three low-performing ones in Baltimore taken over by the state of Maryland--this contract being the first the company had signed with a state government. Independent studies were said to have shown greater parental involvement and satisfaction with Edison schools than comparable neighboring public ones. The company reported that test scores among its students at 40 schools had risen by an average of seven percent during the previous school year.

On the other hand, a survey of the 1,100-student Boston Renaissance Charter School, which Edison started in 1995, found that examination scores had generally declined between 1996 and 1999. An evaluation of an Edison-run elementary school in Miami reported poorer than average results compared with students from neighboring schools. Minnesota state educators said that students at three Edison schools in Minneapolis and Duluth were scoring at or below average in reading and mathematics. A charter school study commissioned by the state of Michigan, where Edison was running more than 20 schools, was reported to have shown Edison schools trailing the others. An analysis of Edison test scores by teachers' unions, from data provided by state education officials, reported poor results in California and mixed ones in Colorado, Kansas, and Michigan, compared with similar schools. Edison officials also acknowledged a staff turnover rate of 18 percent.

While educators debated the Edison Project's academic performance, prospective investors were looking at an unpromising bottom line. Revenue from educational services grew from zero in fiscal 1995 (the year ended June 30, 1995) to $11.77 million in fiscal 1996 and $38.56 million in fiscal 1997. Edison had a net loss, however, of $14.13 million in fiscal 1997, $10.1 million in 1996, and $11.42 million in 1997. In fiscal 1998, revenues almost doubled again, to $69.41 million, but the project's net loss grew correspondingly, to $21.92 million. Revenues once again almost doubled in fiscal 1999, to $132.76 million, but the net loss for the year more than doubled to $49.43 million, a sum that included a $22 million charge to reissue stock options.

Despite this consistent red ink, the company, as Edison Schools Inc., announced in August 1999 its intention to issue an initial public offering of stock. The prospectus made for queasy reading, even stating, 'We are not certain when we will become profitable, if at all.' Edison was seeking to sell $172.5 million worth of common stock to the public, after which, according to Diane Brady of *Business Week,* 'both Whittle and Schmidt are expected to walk away with millions.' She concluded that the offering deserved a grade of D-. Edison Schools subsequently settled in November for net receipts of $109.7 million by selling 6.8 million shares at $18 a share. Earlier, during the summer, the company had sold a $30 million, 5.8 percent stake to Microsoft Corp. cofounder Paul Allen, through Allen's Vulcan Ventures, Inc.

Edison Schools had revenue of $224.58 million in fiscal 2000 and incurred a net loss of $36.59 million for the fiscal year. Company debt rose to $36.28 million, compared with $2.83 million in fiscal 1996. Officers and directors **owned 49 percent of Edison's Class A common stock at the end of fiscal 2000**, with Whittle holding 12 percent through his personally owned corporation, WSI Inc. He controlled about 30 percent of the voting shares.

Principal Competitors: Bright Horizons Family Solutions Inc.; Nobel Learning Communities Inc.; TesseracT Group.

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Source: *International Directory of Company Histories*, Vol. 37. St. James Press, 2001.

Expansion and contraction

Edison's stock was publicly traded on the NASDAQ for four years. The company reported only one profitable quarter while it was publicly traded.[9] After reaching a high of close to USD $40 per share in early 2001, shares fell to 14 cents. Also in 2001, the Securities and Exchange Commission charged that Edison failed to disclose that as much as 41 percent of its revenue that year consisted of money that it never saw: $154 million. By 2002, Edison was courting Roger Milliken for a possible bailout. The company was eventually taken private in 2003, in a buyout facilitated by Liberty Partners on behalf of the Florida Retirement System, which handles pension investments for the state's public school teachers; The deal valued the company at $180 million[10] or $1.76 per share.[11]

After losing many contracts,[12] Edison diversified away from the management of public schools and into marketing conventional supplemental services such as testing, summer school and tutoring. Most of its new business involves providing such services rather than trying to manage schools.[13]

In 2008, the School District of Philadelphia, Edison's largest single client with 20 schools (Edison was originally planned to take over the entire district), later announced plans to dismiss the company as a manager, noting that it and other private firms would be eligible to reapply.[14] By June 18 that year, Philadelphia's School Reform Commission voted to seize six schools from outside contractors— four of them run by Edison— citing lack of improvement.[15]

In 2011, former Los Angeles Lakers star Earvin "Magic" Johnson announced that he was partnering with EdisonLearning to set up dropout prevention and recovery centers for high school-age students who have already left school or are at risk of leaving and want to earn a standard high school diploma. The centers would be called "Magic Johnson Bridgescape Academies." [16]

In 2014, Thom Jackson bought the company. Jackson serves as Chief Executive Officer and President at EdisonLearning, Inc. Jackson had served as Chief Operating and Legal Officer at EdisonLearning, Inc.

Criticism

Edison's educational and financial performance has been the subject of criticism. Despite initial promises of costs reductions client districts reported higher costs for their Edison schools.[17] Edison's claims about academic improvement failed to live up to the company's promises. A July 2002 *New York Times* analysis of Edison's claims found that the troubled Cleveland, Ohio, school system achieved higher gains than Edison's schools when analyzed with the methodology Edison applied to its own schools' achievement.[18]

In the period the failure of Edison Schools to revolutionize education became apparent, supporters of privatized education have criticized Whittle's for entering contracts with public school districts rather than setting up completely private schools.[19]

http://getfilings.com/o0000950123-02-009308.html

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

|X| Soliciting Material Pursuant to Rule 14a-12

Edison Schools Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

(3) Filing party: Edison Schools Inc.

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(4) Date filed:July 15, 2003

For Immediate Release, July 14, 2003

Contact: Adam Tucker - VP, Communications
212-419-1602

Edison Schools Announces Merger Agreement
with Management Team and Liberty Partners
to Take Company Private

New York, New York, July 14, 2003 -Edison Schools (NASDAQ, EDSN), the nation's largest manager of public schools, announced today that it has signed a definitive merger agreement with a company formed by Chris Whittle, its Founder and Chief Executive Officer, and an affiliate of Liberty Partners, a private equity firm based in New York City.

The transaction is valued at approximately $174 million (including the assumption or refinancing of outstanding indebtedness). Chris Whittle and other members of the Company's senior management will continue to manage the Company. Liberty has provided commitments in order to fund the acquisition of Edison's common stock and related expenses and to refinance outstanding indebtedness.

Pursuant to the merger agreement, each outstanding share of Edison Class A and

Class B Common Stock will be acquired for $1.76 per share in cash. Edison currently has approximately 53.1 million shares of Class A and Class B common stock outstanding, excluding options and warrants.

Edison's Board of Directors, based upon the unanimous recommendation of a Special Committee of disinterested directors, has approved the merger agreement. Evercore Partners served as financial advisor to the Special Committee and rendered a fairness opinion. Skadden, Arps, Slate, Meagher & Flom LLP provided legal advice to the Committee.

The management team was represented by Bear Stearns & Co.

In describing the proposed merger, Mr. Whittle said, "Edison's shareholders will receive an attractive premium in this transaction, representing an increase of approximately 39% over the $1.27 per share closing price of the stock on May 7, 2003, the last trading day prior to the announcement that management was considering an offer to purchase the Company. In addition, we believe that in the current financial, business and industry environments it is in the best interests of the Company to be privately held. As a private company, Edison will continue to pursue its mission of providing a world-class education to its students. Our schools and clients will continue to receive our support and solutions in raising student achievement."

Liberty Partners' President, Peter Bennett, expressed a high level of confidence in the Liberty partnership with Edison's senior management. "Liberty believes that Edison will continue to be the leader in the K-12 sector of education in the United States. Edison provides valuable school management assistance to school districts and charter boards, as well as tools and services to enhance students' academic performance. We expect Edison's leadership in this important sector to continue to grow."

The acquisition is expected to be completed in the fall of 2003 and is subject to the approval of the Company's stockholders, the availability of funding and other customary conditions. A special meeting of Edison's stockholders will be scheduled as soon as practical following review of proxy materials by the Securities and Exchange Commission.

Full proxy here: https://www.sec.gov/Archives/edgar/data/1089567/000095012303011318/y89090ddefm14a.txt

About Edison Schools

Founded in 1992, Edison partners with school districts and charter boards to raise student achievement through its research-based school design, aligned assessment systems, interactive professional development, integrated use of technology, and other program features. Edison students are achieving academic gains above national norms. Edison Schools now serves more than 110,000 public school students in more than 20 states through four business channels: (1) the management of schools for school districts, (2) charter schools, (3) summer and after-school programs, and (4) achievement management solutions for school systems. For the 2002-2003 school year, the company operated 149 full-year schools and 178 summer schools.

Between 1992 and 1995 and in ongoing efforts, Edison's team of educators and scholars conducted research to develop its school design and support systems. Edison opened its first four schools in August 1995 and has grown in every subsequent year. For more information, please visit www.edisonschools.com.

About Liberty Partners

Liberty Partners is a private equity firm whose mission is to generate value in middle-market and growth enterprises by partnering with management to merge capital and intellectual resources with management's operational expertise. With $1.8 billion in assets under management, Liberty has a 10-year track record as a partner to middle-market and growth companies.

Any statements in this press release and any other press release issued by Edison on or about the date hereof about future expectations, plans and prospects for Edison, including statements containing the words "believes," "anticipates," "plans," "expects," "will," and similar expressions, constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including the risk factors discussed in our most recent quarterly report filed with the SEC. The forward-looking statements included in this press release represent Edison's estimates as of July 14, 2003. Edison anticipates that subsequent events and developments will cause its estimates to change. While Edison may elect to update these forward-looking statements at some point in the future, Edison specifically disclaims any obligation to do so. These forward-looking statements should not be relied upon as representing Edison's estimates or views as of any date subsequent to July14, 2003.

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END OF PRESS RELEASE

obtain additional information regarding the interests of such participants by reading the proxy statement when it becomes available.

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Other Failures in Educational Ventures

Aug. 29 2013: Inside Amplify's Classroom http://mashable.com/2013/08/29/news-corp-education-tablets/#NcoiGDk9hsqQ.

http://www.edweek.org/ew/articles/2015/10/07/news-corp-sells-amplify-to-joel-klein.html

Big Hype, Hard Fall for News Corp.'s $1 Billion Ed-Tech Venture

Joel Klein, executive vice president of New Corp., left, along with Rupert Murdoch and Murdoch's wife, Wendi Deng, during the height of News Corp.'s 2011 phone-hacking scandal.

—Matt Dunham/AP-File

By Benjamin Herold

August 25, 2015

The global media giant News Corp. sought to push its way into the K-12 marketplace five years ago by betting big on technology.

Now, despite a $1 billion investment and a steady stream of brash promises to radically disrupt the way public schools do business, the company's education division, known as Amplify, is deeply in the red and on the auction block.

Veteran observers of the fickle K-12 ed-tech market say they aren't surprised.

"There's a long history of education entrepreneurs who have crashed on the rocks because the market was not what they thought it would be," said Douglas A. Levin, a consultant on the ed-tech market and the recent head of the State Educational Technology Directors Association.

Earlier this month, it became clear that the highly publicized venture had become a financial albatross. When News Corp. announced that it would write off the education division's $371 million in losses over the past year and look to sell off Amplify, investors cheered, sending the parent company's share price up 7.5 percent, to $14.89.

Inside schools, meanwhile, the ripple effects of Amplify's striking demise promised to be minimal. A majority of the 30,000 or so tablet computers sold by the company went to a single district, and Amplify fell far short of its modest goal of getting its no-expense-spared digital curriculum into the hands of 30,000 students by the 2015-16 school year.

Experts attributed the company's lack of impact on the K-12 market to a series of miscalculations.

First, News Corp. wagered that it would be able to leverage the established assessment and analytics business of Wireless Generation, the nonprofit company that it acquired for $360 million, as a vehicle for selling whole new product lines to schools. (Wireless Generation co-founder Larry Berger, who moved into a top post with Amplify, was a board member of Education Week's nonprofit parent company until last month.)

Then, News Corp. gambled that a digital device designed specifically for classrooms could compete for market share inside schools with popular consumer electronics, such as Apple's iPad.

And ultimately, Amplify staked its future on the mistaken belief that it could dramatically disrupt the K-12 instructional-materials market—a notoriously slow-to-change field long dominated by a few major players.

The irony of Amplify's rapid rise and fall, Levin said, is that the company was correct in asserting that public schools in the United States are finally ready to shed the status quo and embrace the digital revolution.

But the company miscalculated, he said, in thinking that schools would shift their dollars and **loyalties overnight** from the large companies they knew to a large company they didn't.

"Schools weren't looking for a substitute," Levin said. "They were looking for more choice."

Grand Vision Collapses

When asked for comment about Amplify's troubles, a spokesman for the company said only that it was "focused on the growth and success of our digital curriculum and assessment products," and that it looked forward to "partnering with those who share our commitment to reimagining the way teachers teach and students learn."

Amplify's tablet business has been discontinued.

That new reality is a far cry from the vision that Joel A. Klein—the hard-charging former New York City chancellor hired in 2010 by News Corp. Chairman Rupert Murdoch to run the company's new education division—laid out to investors at a June 2013 conference.

Then, Klein described Amplify's strategy as a "three-part play" that would "radically transform the system."

Amplify Insight, Klein said, was "all about analytics, data, and assessment." That was the work of Wireless Generation, which had already established a strong presence in the K-12 market, with tens of millions of dollars' worth of contracts from districts, states, and federally funded consortia developing tests aligned with the new Common Core State Standards.

Amplify Access was to be the company's "platform play," through a "tablet that we've optimized for K-12," Klein said.

And Amplify Learning, a core curriculum originally intended to cover math, science, and English/language arts for grades K-12, was to be the company's "leapfrog play" that would allow Amplify to surpass its competitors.

Klein boasted that Amplify would be able to quickly outmaneuver such established education publishers as Houghton Mifflin Harcourt, McGraw-Hill, and Pearson because it would not be tethered to "legacy" print products already in circulation.

By designing its materials to be digital-first and tailoring them to the common-core standards, Klein told potential investors, Amplify was going to "attack" what he described as K-12 education's $17 billion instructional materials and technology markets.

From the very beginning, that vision ran smack into messy realities.

In September 2011, before News Corp. had even rechristened its prize acquisition, Wireless Generation lost a $27 million no-bid contract with the New York state education department. The state comptroller raised concerns about the scandal over illegal phone-hacking then engulfing a British newspaper owned by News Corp. and, perhaps, bowed to pressure from New York teachers' unions long-hostile to Klein.

Then, in October 2013, Amplify's first—and, as it turned out, only—significant digital-tablet client suspended use of the devices after reporting high breakage rates and related hardware problems.

The 73,000-student Guilford County, N.C., district eventually got its tablet-computing initiative back on track, thanks in large part to Amplify's willingness to absorb millions of dollars in losses to keep the project alive.

By that point, however, the Amplify brand had been tarnished, and the landscape had shifted. Tablets of all sorts had begun to lose K-12 market share to Google's Chromebook.

In retrospect, said John Richards, the president of Consulting Services for Education Inc., which advises education companies, attempting to create its own hardware to compete with consumer products was Amplify's first big mistake.

"There has never been a successful 'education machine,' in part because of the speed of improvements in consumer electronics," Richards said.

"It's best to leave the hardware to the professionals."

Curriculum Falls Flat

Amplify's biggest bet, though, was on its curriculum.

During that same 2013 talk to investors, Klein referred to the company's $180 million investment that year, which had shown up as operating losses on News Corp.'s books. Klein said to expect more of the same the following year.

See Also

“Timeline: Amplify's Big Flop”

"While it's obviously significant, I think it's absolutely essential," he said of the gobs of money the company was pouring into product development. "This is not a market you're going to disrupt … unless you're willing to put in the resources."

At the South by Southwest education conference in March 2014, Amplify unveiled its middle-grades English/language arts curriculum—replete with dramatic readings by famous actors, graphic-novel-style animations, and heavy use of educational games.

During an earnings call shortly before the launch, News Corp. CEO Robert J. Thompson expressed confidence that the new product, which he described as "the most important part of the Amplify suite," would take off.

"We'll be more than competitive come the time for [contract] tenders," Thompson told analysts, specifically mentioning upcoming statewide materials adoptions in California, Idaho, Oklahoma, and West Virginia.

But that year's instructional-materials selling season was already well underway, putting Amplify at a huge disadvantage. Poor sales left the company under pressure to win contracts for its curriculum during the winter and spring of 2015.

During the most recent instructional-materials sales cycle, the curriculum flopped again.

News Corp. Chief Financial Officer Bedi Singh was left to break the news during the company's Aug. 12 earnings call.

"The recent selling season for the new school year for our digital ELA curriculum overall has been disappointing, and the marketplace for digital curriculum has been much slower to develop than we initially expected," Singh said. "We are in the advanced stages of reviewing strategic alternatives for Amplify."

Disruption Lessons

It's not unusual for large companies with limited experience in the education market to make such big missteps, said Karen Billings, the vice president of the education division of the Software & Information Industry Association, a Washington-based trade group.

Selling to schools is difficult because the process is so decentralized and bureaucratic, Billings said. And because districts' central offices are often divided into distinct silos, there are no guarantees that success selling one line of products and services will translate to other offerings. Companies also often underestimate just how big a deal it is for a school district to shift from one product line to another.

The result, Billings said, is that supplanting the big educational publishers is easier said than done.

"To disrupt them, you have to really understand what they do," she said. "And what they do well is take care of [school] customers and transition them on a time frame that they are accustomed to."

That reality, combined with the rapid proliferation of smaller ed-tech companies selling niche instructional materials targeted to specific grade spans, subject areas, and even skills, left Amplify out in the cold.

Related Blog

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Perhaps a buyer for the company will soon be found, as News Corp. officials suggested this month. The obvious candidates would include the big publishers Amplify failed to displace, or possibly a large technology company hoping it can succeed in the education market where News Corp. did not.

Whoever it may be, Billings said, the biggest lesson to be gleaned from Amplify's failures is the importance of patience.

"With such a huge number of companies coming into the education market, it's really going to be difficult to be successful quickly," she said.

"I think Amplify's expectation was that it could sell a lot more products a lot more quickly than it did."

Staff Writer Michele Molnar and research library intern Maya Riser-Kositsky contributed to this article.

Vol. 35, Issue 02, Pages 1, 12-13

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Vivendi to buy Houghton

June 1, 2001: 12:55 p.m. ET

Boston-based educational publisher sold to media power for $1.7B

NEW YORK (CNNfn) - Global media conglomerate Vivendi Universal agreed Friday to acquire Houghton Mifflin, a publisher of educational textbooks, for $1.7 billion cash and the assumption of $500 million in debt.

Terms of the deal call for Paris-based Vivendi to offer $60 for each share of Houghton Mifflin's common stock. That represents a nearly 10 percent premium over Houghton Mifflin's closing price Thursday of $54.56.

The acquisition is expected to boost Vivendi's publishing position worldwide to the No. 2 spot from No. 5 in the education field.

"This strategic acquisition will put us in an excellent position to capitalize on the growth of the education sector by leveraging the content and technologies of both companies across all of Vivendi Universal," company Chairman and CEO Jean-Marie Messier said in a statement.� "We now have worldwide leadership positions in music, film, games, and education."

News of the purchase caused Boston-based Houghton (HTN: up $4.96 to $59.52, Research, Estimates) shares to surge nearly 9 percent in midday trading Friday while Vivendi (V: down $0.32 to $63.48, Research, Estimates) �fell marginally.

Vivendi will finance the purchase by divesting its publishing unit's professional information and free sheets division. The company said the purchase will have no significant impact on its balance sheet, but will contribute at least $75 million a year to cash flow before the end of 2002.

The 169-year old Houghton, the fourth largest U.S. educational publisher with over $1 billion in annual sales, serves the elementary and secondary school market as well as supplemental, testing and college sectors.

The transaction is part of Vivendi's overall plan to build a multi-informational platform that will provide everything from music, movies to video games and books, said analyst Ed Atorino of Dresdner Kleinwort Wasserstein. Last month, the company -- owner of the world's largest record company, Universal Music Group -- agreed to buy one-time legal foe MP3.com Inc. in a bid to bolster its online music business.

"Houghton was the last 'independent' educational publisher left," Atorino said. "To get into the school market, Houghton was the last one."

Vivendi Universal Publishing will now offer products in four languages -- French, English, Spanish and Portuguese -- and will focus on games, education, and literature and health.

The transaction, which has been approved by the boards of both firms, is subject to regulatory approval. ■

PARIS (AP) — French media company Vivendi Universal said Tuesday it has completed its sale of U.S. publishing house Houghton Mifflin to a group of private investors for $1.28 billion in cash.

Under the deal, the U.S.-based investment groups Thomas H. Lee and Bain Capital are also assuming $380 million of Vivendi's debt.

Houghton Mifflin publishes a wide range of educational textbooks. Vivendi purchased the company in 2001 for $2.2 billion including debt.

Two other firms — Blackstone Group and Apax Partners — had originally planned to join an investor consortium buying Houghton Mifflin when the deal was first announced in October but they did not sign the final sale agreement last month.

Vivendi Universal is in the midst of a broad program to sell off assets to reduce debt. Earlier this year, it sold its European publishing assets to French media company Lagardere Group for 1.25 billion euros (about $1.3 billion).

The sales are part of Vivendi's goal of raising 16 billion euros ($16.7 billion) from disposals by the end of 2004.

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In 2001, Houghton Mifflin was acquired by French media giant Vivendi Universal for $2.2 billion including assumed debt. In 2002, facing mounting financial and legal pressures, Vivendi sold Houghton to private equity investors Thomas H. Lee Partners, Bain Capital, and Blackstone Group for $1.66 billion, including assumed debt (approximately 25% less than Vivendi had paid a year earlier).[7][8]

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First off, Class Clowns (by Jonathan A. Knee, 2017) is not an Education book. It does not evaluate strategies, technologies, or theories in Education. It is a finance book, almost lovingly detailing the stupidity, willful blindness and hubris of financial titans. They don't follow their own advice. They don't do their homework; they can't be bothered with business plans. They know what they want, and they make their company buy it. If someone had brought them the idea, they would have refused to fund it. The book is technical in financial terms. It's mostly about capital structure.

Secondly, it is an excellently researched and written history of four financial titans' dismal failure in Education. Education is a magic kingdom that continuously draws people with too much money. They see how big the pot is (well over a trillion dollars – mostly taxpayer), see that there is absolutely no barrier to entry, and they plunge in to take it away like candy from a baby.

Incredibly, they go at it without even a basic understanding of the field, or of the industries serving it. They hire famous names with no Education chops and no Enterprise chops, because the chosen are celebrities or they know them personally, or both. Instead of focusing on a niche or a tight geographic space, they set sights on the nation or the world. It is a recipe for disaster.

The four case studies are Whittle, Murdoch, Paulson and Milken. Between them they lost billions and destroyed untold value.

In no case was failure a result of poor product or adverse economic conditions. In every case, failure was the result of bad management, greedy management, and blind management. Their firms all seemed to lack any kind of core competency (except for Houghton Mifflin which had been big in textbooks for a century). And without any barriers to entry, anyone could play.

Christle Whittle: Bad Management

Knee was there. As a banker, he sat through the roadshow presentations, analyzed the proposals and balance sheets, and was justifiably amazed and skeptical of it all – especially that otherwise reputable firms would fund them. In some cases, repeatedly. Now as a Columbia professor, he lectures us on how they wrong they all were, and how to do it right.

Class Clowns if frightening for two reasons. The clowns attacking Education are diverting attention and funds for their own greater glory – and failing at it, damaging everything in their wake. And investors should shudder at the reality of reputable, all-star teams trying to take over whole segments of economic sectors by power alone. Their ideas are unfocused, their figures irrational, and their staffing inappropriate. And we buy into it because of their names and record. There is simply no one to trust.

David Wineberg

See Industry Map https://www.amazon.com/Class-Clowns-Investors-Education-Publishing/dp/0231179286/ref=sr_1_1?ie=UTF8&qid=1492191931&sr=8-1&keywords=class+clowns+how+the+smartest+investors+lost+billions+in+education#customerReviews

https://www.help.senate.gov/imo/media/for_profit_report/Contents.pdf

Why For-Profit Education Fails

Moguls' good intentions too often betray them.

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EARLIER THIS YEAR, LeapFrog Enterprises, the educational-entertainment business, sold itself for $1 a share. The deal came several months after LeapFrog received a warning from the New York Stock Exchange that it would be delisted if the value of its stock did not improve, a disappointing end to the public life of a company that had the best-performing IPO of 2002.

LeapFrog was one of the very last remaining of the dozens of investments made by Michael Milken through his ambitiously named Knowledge Universe. Founded in 1996 by Milken and his brother, Lowell, with the software giant Oracle's CEO, Larry Ellison, as a silent partner, Knowledge Universe aspired to transform education. Its founders intended it to become, in Milken's phrase, "the pre-eminent for-profit education and training company," serving the world's needs "from cradle to grave."

Investors aiming to start an education revolution have, with regularity, lost their shirts.

Knowledge Universe businesses included early-childhood learning centers, for-profit K–12 schools, online M.B.A. programs, IT-training services for working professionals, and more. Milken's penchant for secrecy makes a comprehensive assessment impossible—most of the businesses were privately held and some were sold to private buyers for undisclosed sums. But of the companies about which there is public information, most, like LeapFrog, ended badly. Education remains untransformed.

Milken was far from alone in the belief that education could be revolutionized through radical new business models. In 2012, the media mogul Rupert Murdoch and the former New York City schools chancellor Joel Klein established the Amplify division within News Corp. At the time of his initial investment, Murdoch described K–12 education as "a $500 billion sector in the U.S. alone that is waiting desperately to be transformed." Their idea was to overturn the way children were taught in public schools by integrating technology into the classroom. Although inspirational, the idea entailed competing with a series of multibillion-dollar global leaders in educational hardware, software, and curriculum development. After several years and more than $1 billion, with no serious prospect of ever turning a profit, Murdoch and Klein sold their venture for scrap value to Laurene Powell Jobs, Steve Jobs's widow, last year.

Indeed, over the past couple of decades, a veritable who's who of investors and entrepreneurs has seen an opportunity to apply market discipline or new technology to a sector that often seems to shun both on principle. Yet as attractive and intuitive as these opportunities seemed, those who pursued them have, with surprising regularity, lost their shirts. JP Morgan backed Edison Schools' ill-conceived effort to outsource public education in the late 1990s and saw the business lose 90 percent of its value during its four years as a public company; Goldman Sachs was one of many private-equity firms that came up empty after betting on the inevitable ascendance of for-profit universities; the billionaire Ronald Perelman shut down his futuristic K–12 educational-technology company, GlobalScholar, after spending $135 million and concluding that the software was faulty and a "mirage"; by the time the hedge-fund titan John Paulson was able to sell the last of his stake in Houghton Mifflin Harcourt, in 2015, he had likely lost hundreds of millions financing the company's misguided mission to remake textbook publishing.

Not all financial investments in education end badly, but the number that have is notable, as are the magnitudes of the fiascos, in stark contrast to the successes of many of these same investors in other domains. The precise sources of failure in each instance are diverse, as are the educational subsectors targeted and the approaches pursued. But what many share is the sweeping nature of their ambition.

YOU CAN SEE this ambition in both the scale and the scope that many of these ventures sought out—often simultaneously. Scale can be an important driver of sustainable profitability, but it is striking just how many for-profit educational ventures—particularly those centered on bricks-and-mortar educational services—have confused scale, which is a relative concept, with absolute size. For services like day care and classroom education, local or regional density of operations can be advantageous, because it enables efficient management of personnel (by far the largest cost), the sharing of fixed expenses like marketing, and sometimes even pricing power. The benefits of a national footprint are seldom as obvious. Yet it is national scale that many ventures have sought. For example, Milken's effort to roll up many of the nation's day-care centers began in 1998 and reached its zenith with the $1 billion purchase of KinderCare in 2005. The inherently local nature of this business, however, ensured that its profitability did not improve as it grew larger. When Milken finally sold the business last year, he received less than what he'd paid for his day-care acquisitions over the previous 17 years.

Scope, meanwhile, can be the enemy of scale, particularly when pursued at the same time. Spreading investments across a variety of segments can impede the achievement of scale in any of them and also scatter the attention of executives. Time and again in education, big-name investors have launched companies with the broadest ambitions, only to be undone by more-focused players. For example, an early Milken investment wisely targeted a growing population of families who wanted to homeschool their children and were increasingly eligible for public funding through distance-learning charter schools. The business, founded in 1999 and called K12, managed the technology, teaching, and curriculum needed to deliver the full educational experience to kids online. The problem was that Milken wanted to do more than provide a technology-enabled service or run a profitable business; he wanted to transform education by also delivering an entirely new, proprietary, all-digital curriculum.

A competing business, Connections Academy, started later but decided to concentrate on perfecting its technology service and simply adapting the best of existing curricula to its digital environment. Even at a fraction of the size of K12, Connections Academy had a higher profit margin, and five years ago, it sold for a price far higher than K12’s current valuation. Today, K12’s stock trades at a price far below that of its 2007 IPO.

There is reason to suspect that ego has played a meaningful role in many of these investments. What else, for instance, could explain the consistent fascination with business models that hinge on relationships with elite universities? Great universities have a number of exceptional qualities, but they are not good organizations with which to partner. They are generally much more interested in protecting their exclusivity than in growing, and their bureaucratic decision making leads them to act slowly and cautiously. These inclinations serve them just fine: Exclusivity and reputation are essentially self-perpetuating for top schools, as reflected in how rarely university rankings change significantly. But that also means the outcome of any commercial arrangements the universities enter into are likely to be lopsided in the schools' favor.

An extreme example of this unhealthy preoccupation with the most-selective institutions is a Milken-backed business originally called Knowledge University, which agreed to finance the expensive development of online-M.B.A. course material and then share revenues, largely in exchange for simply being able to mention its association with institutions like Columbia, Stanford, and the University of Chicago. When Columbia Business School, where I am a co-director of the media-and-technology program, signed its deal with the company—which guaranteed a minimum payment of $20 million over five years—my colleague Bruce Greenwald was quoted as being supportive because the deal "looked like money for nothing." It was, and the company eventually pivoted to another business model (and then collapsed in the face of a federal civil fraud lawsuit). The carcass of the business was sold to K12 for a nominal amount.

YET DESPITE THE FACT that ego and the drive for status are inseparable from many of these ventures, and that they are for-profit enterprises, my own study of these businesses and the people behind them strongly suggests a genuine—and in many cases intense—desire by the founders and investors to improve education. That desire is often associated with deep-seated beliefs about what is wrong with the current system. The evidence suggests that the intensity of desire and belief can cloud the judgment of even the most sophisticated investor. The pursuit of high-minded ideals and the belief that the status quo is so bad that it can't be hard to improve upon causes many investors to devalue execution—yet execution is particularly crucial to the survival of organizations that take on overly broad mandates.

Should anyone care that a bunch of very rich people have failed in these ventures? In fact, this should matter to anyone concerned about education. That failure, repeated so consistently, has given credible fodder to people who resist the active participation of for-profit enterprises in the educational sphere. But that sphere will always comprise public and private, nonprofit and for-profit institutions, and for-profit businesses play an essential role. Public-sector funding is subject to political whims, and the nonprofit sector's funding sources are also typically uncertain. Advocates of for-profit education often understandably emphasize the role that market forces play in improving quality and efficiency. But the most constructive role the for-profit segment may play is in providing a unique level of stability to the educational ecosystem when (and only when) it establishes sustainable business models.

Regardless of whether investors try to do well by doing good, with respect to the operation of for-profit ventures, one basic fact is incontrovertible: One cannot do good for very long if the business does not do well enough to survive. The possibility of doing good would expand exponentially if more investors and managers shifted their attention toward the question of what qualities are most important in building a successful educational franchise.

The greatest educational-business successes have come from a series of targeted, incremental steps forward within tightly defined markets. Recent examples include a business based on plagiarism detection; another that provides tools to high-school students and guidance counselors for college and career selection; and another that delivers day care and early-learning programs sponsored by employers. It is no coincidence that Laurene Powell Jobs insisted that News Corp radically contract the scope of Amplify's operations before she agreed to buy the company. Since the purchase, she has continued to spin off marginally related businesses and has greatly narrowed the subject-matter and grade-level focus—targeting middle-school reading, for instance. It is precisely the exit of Amplify's two original visionaries—Murdoch and Klein—that has created the possibility of a successful and socially beneficial future for the company.

As frustrating as they may be to education investors, modest, incremental successes can serve as both a platform and a stimulus for broader transformations to come. Without a sustainable business model, however, even the most inspired investors and entrepreneurs will ultimately only build a legacy of disillusionment.

This article is adapted from *Class Clowns: How the Smartest Investors Lost Billions in Education*, published in November.

Christle Whittle: Bad Management