This discussion forum focused on Edison Schools and their new business initiative, Edison Affiliates. The forum included two vice presidents of Edison and the president and chief operating officer of Edison Schools. The first speaker explained that Edison Schools operates 150 schools with about 82,000 students nationwide. They constitute the 35th largest school district in the United States. They serve increasingly diverse student populations, with 70 percent of students eligible for free or reduced lunch (about twice the national average). About one quarter of the schools are charter schools, and the rest have direct relationships with school districts. Every year for 8 operating years, Edison Schools have increased their scores by six percent per year and five percentiles per year on norm referenced tests. The second speaker described her shift from opposing Edison Schools to supporting them, providing a template that describes the components of the Edison Affiliates approach: benchmark assessments, an achievement management system, and professional development, all shepherded by an achievement advisor and all targeted at greater student achievement. The third speaker answered questions related to such issues as why Edison stock has come down so much, resource allocation, educational economics and finance, and new initiatives within Edison Schools. (SM)
PROGRESSIVE POLICY INSTITUTE

EDUCATION FORUM

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ANDREW ROTHERHAM: Welcome to the Progressive Policy Institute this morning. I'm Andrew Rotherham. I'm director of education policy here at Progressive Policy Institute. It's a pleasure to welcome you this Friday forum. For those of you who don't know, Friday forums are a regular feature at PPI on a variety of issues, not only education, but where we bring together people to present different perspectives, current things that are going on and to have sort of a small, more intimate discussion.

The topic of this morning's session, you all know, is Edison Schools and specifically their new business initiative, Edison Affiliates. I will take, as a matter of course, that everybody here knows about Edison, most likely has an opinion. There's a wide range of opinions on Edison so I'm not going to belabor that, but I do want to point out that this forum is a little different than our usual format where we generally have a debate and a pro-con. Because Edison is so much in the news so frequently and there's so much going on with it and people have such strong opinions, that we're going to try to do something a little different this morning and see how that goes and that's to bring in some folks medicine, to talk about the company itself and their new venture and then just open it up to Q&A. We think we'll get enough diversity of opinions in the questioning and so forth that we didn't need to take too much time up front with back and forth presentations, making points that I think you all are at least aware of sort of the overall points.

So we have a terrific group of presenters. We have two vice presidents of Edison and we also have the president and chief operating officer of Edison Schools. So what they're going to do is speak for about 15 or 20 minutes and then we'll open it up to questions and I'll moderate the discussion. So let me introduce our speakers and we'll get right into it.

The president and chief operating officer of Edison School is Chris Cerf. Before joining Edison, Chris and I think all three of these people, I'll say, sort of represent something I've always found interesting about Edison personally, is the diverse backgrounds that people bring to it. In Chris' case, he was a rising legal star. He was a Supreme Court clerk, as well as a clerk at the federal court level. He was a partner at Riley, Ryan and Fielding here in Washington and then went on to be associate council to the president at the White House during the Clinton administration before joining Edison Schools.

We also have Blanche Fraser, the vice president of Edison Affiliates. Blanch has 27 years experience in public education, including 13 as a school superintendent where I got to know her in Michigan. She's also an adjunct professor at Michigan State University. She's received numerous awards throughout her career that she'll be too modest to tell you about but I will just point out that she is the past president of the
Michigan Association of School Administrators. And also served for five years on the executive committee of the American Association of School Administrators and is widely recognized as a leader in her field.

Kyle Rutledge, who’s also with us, is also a vice president of Edison Affiliates. Prior to coming to Edison, Kyle was a national marketing representative for the National School Conference Institute. He’s a 17-year veteran of various business initiatives and public education. He’s worked with school districts throughout the country and he was a vice president of Educational Partnerships for Kaplan Learning Service so that’s the perspective that he brings to it. And he also worked with Whittle Communications, which Chris Whittle, the founder of Edison Schools, was a precursor adventure that he was involved in.

So you can see sort of the different range of experience and backgrounds that these folks, and I would say most of the folks who are involved with Edison bring. It’s an interesting operation, very controversial. I’m going to turn it over to Chris to kick it off and we’ll be finding out more about that. And thank you all very much for coming today.

CHRISTOPHER CERF: Thank you very much, Andy. I’m going to try to do no damage here. Okay. Thank you. It’s terrific to be here. It’s nice to be back in Washington. I lived here for some I think 17 years in one capacity or another. It’s also nice to be back here at PPI and the DLC. As someone who spent a few years in the Clinton administration, many of us thought of this as the, in many respects, the origins of that presidency.

I am particularly delighted to be here today because – well let me start with a little factoid for you. Over the last year there have been some 500 articles in the Philadelphia Press alone about the fact that we just opened our single largest arrangement in the history of Edison or the history of private involvement in public education – some 500 articles about that. I think it is fair to say that when you add to that the national press and various local press around the country, brand recognition is not one of our problems. (Laughter.) But I would also say that it is, even as a veteran of the Clinton administration, which took more than its share of slings and arrows, many from some of my friends and colleagues in the audience, I think it is also fair to say that the full and complete story of Edison has been widely disregarded in many important respects. And I appreciate an opportunity to address mostly your questions but also to hear a little bit from my side of where we are.

But I want to start with a very personal note. Andy didn’t mention that I started out after college as a high school teacher so education has always been very near and dear to me. I did that for four years. I taught U.S. history. It was the hardest job I ever had by far. I have the deepest respect for teachers. It’s a tough, tough, tough work -- way tougher than being a Supreme Court clerk or anything like that. I do this job every day because I passionately believe that what I and my terrific colleagues are devoting their life’s work to is making as big a difference for children as anything that anybody could
possibly do with whatever talent and energy that they have. I believe that to the very core of my being.

And it has been a source of enormous personal pain to see the great work that’s been done for children distorted, often knowingly distorted, by various folks, some of who are represented here today and others do it just because. My wife, by the way, is a Ph.D. in psychology and she was also an English major. And she said, “Chris, you have to understand, all novels, all drama is organized around conflict and confrontation. Those are easy stories to write. Nobody writes stories about something that lacks conflict and confrontation.” And so what I want to do a little bit today is to tell you some of the things we are doing and some of the things that we think we’re doing very well. I don’t want to hide the bad but I also want to make a point to mentioning some of the good so you can leave this room with a fuller picture of what we do and how we’re doing.

Two big themes. One is – how did Mark Twain put it? The rumors of our demise or my demise are grossly exaggerated. We’re just fine financially. In fact, we’re in as good as shape as we’ve been in a long, long time. And the second is, what we are doing for children I believe places us at the top of the country with regard to other comparable districts of the same size. In other words, I challenge anybody here to find a school district of our size and magnitude that has greater achievement gains for children.

With that as introduction – oh, I’m supposed to use this, I think. This is where a 47-year old guy needs his reading glasses – forward. Just a little bit about just some basic background. Today we operate 150 schools across the country. About 82,000 students wake up every day, including about 13,000 in Philadelphia. We have invested by the way, here’s one nice thing that’s never been said about us, since we’ve never made a profit -- we’ve invested $500 million in public education reform in this country. I haven’t seen that headline written yet. We haven’t made a nickel yet but as I’ll show you in a moment, we’re making some progress.

We have a national footprint and we’ve done this very deliberately. By the way, I couldn’t figure out on the Power Point last night how to shade in Indiana. That state should be added as well. We are in a variety of different circumstances in large urban situations, and – (unintelligible) – midsize cities, in suburbs and towns and I’ll move beyond that.

Demographically we serve an increasingly diverse population. I don’t yet have the figures to put up for you for 2001/2002 but I suspect the trends that you see here will continue with the addition of Philadelphia. The most important figure is the one at the bottom. Seventy percent of our children are eligible for the free or reduced-price lunch program. And as you can see, that’s against national standards, that’s approximately twice as high as the national average. So we serve a predominantly disadvantaged population.

There are several things that make us from different from others. There are dozens of Edison - how can I say? - look-alikes, wannabes, competitors for all of whom,
by the way, I wish the very best. Their success is good for us. But we are considerably larger than the next-sized competitor. We’ve been operating schools for eight years now so we have an operating track record that is something that could be reviewed and evaluated. One of the reasons that we spent $500 million is we put a huge investment in our operating systems, our achievement management systems, our benchmark assessment systems and so on. We’re the only publicly traded company. I’d rather -- a fact I’d prefer to ignore at the moment. But that has given us access to a huge amount of capital to invest in developing new systems and new schools.

And I would say we’re the only union-experienced entity, meaning where everyone else at a space is substantially involved in charters. Only about a quarter of our schools are charter schools. The balance are -- actually about 33 percent are now charter schools and the balance are now direct relationships with school districts. In other words, we’re hired by a school district to manage one or more schools in their district.

Here’s our growth. People are always stunned by this. They look at all of the noise that many have generated around us. They look at the AFT web page or they look at the coverage in the New York Times or they look at the coverage in the Philadelphia papers. And what they forget is that every single year, despite all of that coverage, the demand for what we do is so great that we are able to cut through it and grow year in, year out. This shows you the trend as measured by schools. This shows you the trend as measured by thousands of children that we serve. This tells you in the gross revenue sense the trends.

Let me start with this. There are two things that I wish that education reporters would do differently. One, I wish they wouldn’t write about business because as a rule they have no idea what they’re talking about. And I’ve seen this over and over and over again, where education reporters write about our financial health in a way that is just laughable from a business perspective. I’ll give you flaw number one. They say that your stock price, which is right now under a dollar, is a proxy for your financial health and your viability. That’s flat out wrong. That is simply not the case. The measure of a business is it’s ability to attract capital and it’s ability to have operating cash to succeed. We have a terrific track record on both. We have plenty of cash and while, as I mentioned, we are not yet profitable, our trends are very promising, and I’ll develop that theme as well. And I’ll save the other thing that I wish education reporters wouldn’t write for a moment.

Just in terms of our cash position, at the end of our fiscal year we had $40 million in hands. We have raised another $40 million since August first, much of which was reported. Most of that is being put into Philadelphia and other new schools that we are building and operating. We have ample cash to get us through another fiscal year. We raise capital every year. We have plenty of cash to take us through another year. In addition, our growth for future years is likely not to be drawn from the public equity markets. We think we’re going to be able to get it by other less-diluted means by virtue of – many of our charter schools we built with our own equity capital. In other words, we took Edison money, invested it in building buildings – charter school buildings. We get
that money back when we get bank financing or bond financing. So that cash comes in and that will be used to fund our growth. So our cash position is solid and from an earnings perspective, this is what the world believes. Look at the bottom line. The rest I won’t take the time with.

This fiscal year, on a cash basis, we lost six million dollars. That is, by far and away, our best year. Some guys call it EBITDA but think of it as operating profit. It’s not bottom, bottom line. It’s the cash you have to sustain the continuation and the growth of business. This year we’re projected to break into the positive, to be 20 million or more in terms of EBITDA, or operating profit. This is a trend that when people start believing that this is going to happen we’ll have, I believe, a very substantial impact on the perception of the company as a business.

Let me talk a little bit about achievement results before I hand it over to Blanche. Let me absolutely not hide the ball here. We think that viewed as who we truly are, which is a national school district – there are 15,000 districts in the United States – 15,000 districts. We are the 35th largest district in the United States. Viewed as a district, there is no district in the United States of comparable size and certainly none with comparable demographics that has shown the same achievement gains that we have shown as a whole. Does that mean that we are succeeding everywhere? Absolutely not. And if your mission in life is to go out there and find schools that we have not succeeded at, let me give you the list and we have never suggested otherwise.

But if you were evaluating the school district of Denver or the school district of Atlanta or the school district of Boston, and we are larger than all of those, what you would be asking yourself is what are the achievement gains as a system over time? Are they up two points? Are they down two points? Are they up six points? If you ask that question of us rather than saying, hey, your school at Macon was not successful, or your school in Rochester was down five points, or your school in Albany was up last year and down this year – but if you ask as a system as a whole there literally is none better and nobody, to my knowledge, has disputed that.

Again as a reminder of what is the appropriate comparison, I’m going to show you the 50 largest school districts. It’s highly skewed because if you take the top four or five – the New York’s, the Los Angeles’, the Dallas’, the Chicago’s, it brings that average way, way, way up. But again, with 82,000 we are the 35th largest school district in the United States and here’s some of the demographics that I showed you before. Here’s what the data says. As you know, more of you are either in education or cover it, there are two basic kinds of test. There are criterion-referenced tests, like the MEEP in Michigan where the state defines a level of proficiency and then you measure what percentage of the children that take the test hit that level of proficiency. And then there are norm reference test and I’m old enough that those are the ones that I took – the Stanford, the Iowas, the MATs and so on.

And here’s how we’ve done. Every year, year in year out over eight operating years, we have been increasing our scores by six percent a year and five percentiles a
year on norm reference tests. This is above the full headline news in any major city in
the United States. If you had an eight-year track record doing this, this would be the
biggest story in education ever. It has not been reported. Here’s a way to look at it in
comparison with, in fact, the data for the 50 largest school districts. Here is, in fact, the
gain rate on CRTs, criterion-referenced tests. There’s absolutely nothing controversial
about this data, no matter what anyone tells you. These data right here – you can go to
websites, you can look at it, you can pull it out, you can look at their gain rates, it’s that
simple. The 50 largest school districts are gaining 1.3 a year and 2.4 percent on a
criterion-referenced test.

In any other world, you have something called a league table, whether it’s a
business, whether it’s an analyst, whether it’s an investment counselor. You go, who’s
doing well and who’s not doing well. It is remarkable that you all are not reporting the
fact that nobody keeps this league table. Nobody looks at how the school districts of the
United States are doing by this very simple measure, how fast are their growing? Well
we’ve done that and these are the top 50 school districts. And unfortunately, or
fortunately, I know you can’t possibly read that but it’s reflected in the bar graph before.
And all this is suggested to show is these are the gain rates of these school districts and
this is how Edison stacks up against them.

I want to take you through a few situations. And again, I’m showing you some
very good scores and I’ve shown you the aggregates but again I want to be absolutely
clear, this is very, very hard and there’s no one at the NEA or the AFT or any serious
educator or education reformer in the country who’s going to tell you that you are going
to succeed in every situation, when you’re taking over, not only schools with 70 percent
poverty, but schools with a long and sometimes highly tragic history of failure. If it were
easy, given the money and attention that has been thrown at this over the last several
years, it would have been done already. It isn’t easy. It’s painfully hard. It’s two steps
forward, one step back. So I’m not telling you we do it everywhere but I am going to
show you a very significant number of situations where something very exciting has
happened.

These are three schools that the state took over against the vehement, violent
opposition of the Baltimore school district, the lowest performing schools in the state.
The local union supported by the National Federation of Teachers filed litigation, did
everything in its power to stop this from happening. Litigation, frankly, is still pending.
By the way, last year I visited 75 of our schools across the country. I challenge anyone to
walk through these schools and not feel great as an American about what is happening in
these schools. I challenge you to talk to any teacher in those schools about the coverage
they’re getting and about how they’re union and they’re school district has treated the
successes they’ve achieved for children.

Gilmore from 20 to 41 percent – the 20th percentile, the 41st percentile – 22 to 45,
29 to 75. This is – Montebello is an extraordinary place lead by a woman who is an
American hero. Her name is Sarah Horsey. Washington, D.C. Where is this story? I
haven’t seen this story yet. By the way, the American Federation of Teachers report
about us conveniently omitted mentioning Washington, D.C. in one of its iteration – just simply skipped it altogether. There are four schools here. We serve about four percent of the schools in the district. You see the demographics associated with these schools. These are all charter schools, independent charter schools, because the district wouldn’t talk to us in a serious way about doing partnership schools. We have invested as a company about $25 million just to acquire and renovate the buildings, which are former, long-abandoned D.C. public school building.

The average gain of this school – of 106 schools in D.C., this is the 105th highest gaining last year, the other one is deep in Northwest somewhere – gain of 34 points in reading and 41 points in mathematics. This is from the opening in fall ’98. By the way, it’s right down the street. Go visit it. It’s on Potomac Avenue, the Chamberlain School. Woodridge, in another corner of town, you see equally substantial gains. Blow Pierce, a middle schools, these are also substantial gains. Do these schools have problems? You bet they do. Are they doing some interesting, creative and controversial things? Absolutely. Are they getting the job done by this measure? I think it’s pretty hard to debate.

And just to show you the whole story here, here’s the youngest school. This is the high school we opened. I, by the way, every year teach an A.P history class at this high school – one or two classes a year so I know this one pretty well. The job has not yet been done at this school. There’s a new principal this year. There has been some progress underneath the top line in terms of moving kids from the failing level to levels that are not yet proficient so I think this school is poised to take off. By the way, if you go back to many of our schools, it takes three years to really get traction to succeed. But those are our four schools in D.C.

We take very seriously the idea of parent satisfaction. We give an instrument called the Harris Interactive Poll and we really care. And the bottom line is, parents like Edison schools and that gives us great comfort because we care more about them than anybody but the children. And you’ll see that 89 percent of the children – by the way, the national figure is about 68 percent As and Bs, that’s the national comparison. In California, these are all our schools -- another group that’s been omitted from some reports -- you see that all schools are up in all areas over time.

I love this one. For those of you who tracked us, you couldn’t help but track very closely the story about San Francisco. This was a school that was initially granted as a district-granted charter in the city of San Francisco, probably three or four years ago now. It stirred an extraordinary amount of controversy. There were members of the school board who were elected on platforms that the private sector has no place in public education. They so far as to say that we literally don’t care what the parents want. We don’t care how the school is doing. We are so ideologically opposed to this that that is going to drive our point of view. It got so ugly, frankly, that the state of California – by the way, under a Democratic governor – stepped in, removed the charter from the city of San Francisco and granted the charter from the state of California back to us. So nothing changed operationally about the school but the charter-granting authority went from the
city of San Francisco to the state of California. As you see, this was, hands down, the worse school in San Francisco and this is the progress that we’re seeing.

Here’s another school I think about four miles north of the Mexican border in Chula Vista. Consistent gains over time. These are literally life-changing gains. I know we can have a very interesting metaphysical debate, much more interesting, by the way in McClean and Scardsdale than I think it is in Chula Vista or the worst parts of town, about whether academic achievement by these tests is the right measure or a complete measure. I’ll give you my point of view, until you get kids to the 50th percentile in reading, basic reading skills and basic computational skills, nothing else matters. That’s my point of view and I’m sure that will inspire some – when you’re talking about science, whether you really want to move heaven and earth to get kids from the 70s to the 80s, that’s an interesting debate.

These kids in the 18th percentile, as a matter of statistics, would not have graduated from high school – full stop, not even debatable as a statistical prediction wouldn’t happen. So I do think that – and I shouldn’t say it’s the only thing that matters. Of course it’s not the only thing that matters but it does matter and focus not on test taking but on how kids are doing against the standards that policymakers of their respective states have identified as what counts, what set of skills, what body of knowledge should children have by a particular age. That is a public policy decision that this country has made, that that’s how we’re going to measure success and that’s what this measures. And I better move quickly because I’m sure my time is moving.

This is a charter school in Colorado. The state of Colorado is up point six. The annual average gain of Denver Public Schools is 1.1 and you can see we’re over three times that. This is a very large charter school in Chicago with the comparable demographics from the others, as you can see the gain rates there. Here’s what Chicago has done over the same period of time and this is what this school has done. I’m very, very pleased about this one. This is Peoria where we are in another nasty press battle led by the Federation president who is an extraordinary person in his own right. This school is doing a terrific job for children and as against Peoria and the state of Illinois in particular, these are how all of our four schools in Peoria have measured up over time. And I better move on or we’re going to quickly run out of time.

Let me say a word about Dallas – also much in the news. And I have to be a little bit measured both in what I say and how I respond to your questions because this is a situation that is not yet fully settled one way or the other. But I will tell you this, that anything you read about a performance-based judgment about whether we should continue in that relationship over the years, anything that suggests that we have not done a terrific job for kids in this seven schools is absolutely, knowingly incorrect. And I’m going to show you the basis for the confidence I have in saying that. We have seven schools there. In six out of seven we have succeeded – by the way there are no other comparable schools in Dallas. These were the worst schools by far in Dallas when we took them over.
Here's how these schools are doing. This is a school called Medrona, serving a substantially Hispanic population -- really an extraordinary performance. Here's another one called Maple Lawn, Henderson, Runyon, Titche, Blair -- you see a slip-off in writing. This is sort of one of the two weaker sisters and then -- what did I do? This is the one that has been a negative. This is one of the seven. By the way, Dr. Moses in Dallas is doing a brilliant job and he has raised achievement in that district in his tenure way, way -- it's a short tenure but over time he's done a terrific job. And you can see that the Dallas scores, the yellow column, have been up, up, up since he got there and I think that's fantastic. But even by that measure, not by huge margins in some areas, we have risen faster than the Dallas public school district over the same period of time.

With that, I think we've been asked to hold questions for a moment while Blanche completes the presentation. And the transition here, while she does a little bit of tech work, is one of the things we sat up and realized that we'd done seven years ago is develop a body of intellectual property organized around driving student achievement. We are now sort of re-packaging that as what you might call a sort of new line, a way to provide to whole school districts, as opposed to individual schools, a different way to drive achievement. Blanche.

BLANCHE FRASER: I'm going to sit because the remote control doesn't work with what I'm going to show you. Good morning. A little bit about my background and what I do with Edison and why. Andy probably knew me when I was a vocal critic of Edison Schools. I'm Blanche Fraser, public educator, 27 years in Michigan, eight as a classroom teacher, 13 as a school superintendent. I was president of the state association for School Administrators. I turned Channel One away from two of my school districts because I didn't want capitalists in my classrooms. I was convinced by my teachers that Channel One had things that they wanted so I did relent eventually. But I remained a critic of the Edison Project, as it was known at that time. I thought Chris Whittle was an interesting character. And I can remember laughing out loud when I heard on public radio when Edison Project had switched gears and was no longer going to advance the notion of a private network of schools because it would be too expensive. I thought, well, I could have told you that.

I went from being a critic to a convert. Deborah McGriff, who I'd gotten to know when she was superintendent of Detroit public schools and I was a superintendent as well -- I developed a profound for her and what she was doing in Detroit. And when she left Detroit and joined the Edison Project it gave me pause. I thought, well, maybe there's something there that I haven't see. Debbie called on me shortly after joining Edison, was aware of what we were trying to do in the Mount Clemens school district at the time and thought that Edison had something to offer in partnership. Out of sheer professional courtesy, nothing more, I invited her to come. Long story short, we entered into the first partnership with Edison Schools in 1994 and, I am proud to say, with the complete support of the local teacher's association and with the support of the Michigan Education of Association. We did it with our teachers and we're very proud of the relationship we built.
So I went from a critic to a convert to a client. My youngest daughter Lauren (sp) is a graduate of an Edison high school program so I’ve also been an Edison parent. Five years ago I retired from the superintendency, and when people ask me why, I say “Because I could” and I went to work as the director of charter schools for Central Michigan University. Those of you that follow charter schools know that Michigan’s one of the early charter states, has one of the strongest pieces of legislation. Most of the charter schools in Michigan are authorized by universities. Central Michigan University, which at that time authorized 49 charter schools, was by far the largest authorizer of charter schools and I was asked to lead that office, which I did. So I then became a charter authorizer.

All that’s to say I’ve watched the Edison Project and Edison Schools over a very long period of time. And in 1998 I was asked to join their team as a vice president for development and for the last five years have been working as a development vice president in what at that time was our only product line, which is our managed school business and that’s really what Chris Cerf has discussed.

During my last five years, most of which I’ve spent in places like Pennsylvania and Illinois and Indiana, I’ve made hundreds of calls on school districts and community groups and repeatedly was asked the question, you know, we really love your school design. We know it’s research based. There’s nothing controversial about the school design. Is there any way that we could take pieces of what you do and use them here in our local community, our local school district. And at the time, because we were building a scale and a system of schools and didn’t want to be taken off that task, Chris Whittle would say we weren’t in a position to do Edison ala carte. But we kept hearing that request, that there were tools, there were systems that public educators desperately wanted and needed. Couldn’t they get them themselves by virtue of the fact they didn’t have the resources, the scale, the expertise locally to amass the systemic approach that Edison had done?

And so about eight months ago, Edison launched a new way in which school districts and Edison schools can engage in order to drive greater student achievement and I was asked to lead the sales effort for Edison Affiliates in Michigan, where I continued to live and in Illinois. There is literature in the back of the room. One of it’s a brightly-colored brochure and the other is the Power Point presentation that I was going to make and decided not to give. I decided that you’ve probably had enough Power Point and remembering the classroom teacher in me know that it’s better to show an audience rather than to tell an audience.

So I’m going to show you two slides that are in the material that you have and then I’m going to go right to a static demo of the technology that is the foundation of this approach and let you see, from the perspective of a student, the perspective of a teacher and the perspective of an administrator, the kinds of system support that Edison has developed to put meaningful data into the hands of teachers and principals -- data that will inform their instruction, data that will provide just-in-time intervention, data that
will, in schools across the United States, help drive student achievement in the way we believe student achievement has been driven in Edison Schools.

So with that, this is a template that describes the four components of the Edison Affiliates approach: benchmark assessments, an achievement management system, professional development, all shepherded by an achievement advisor, all targeted at greater student achievement. Just as a backdrop for what I’m going to demonstrate, Edison benchmark assessments are in their fourth year. They were developed as the result of a directive from Chris Whittle, who was very frustrated. As any business man would get monthly financial reports on the financial health of a company, Chris discovered in public schools across the United States, such kind of information typically was not available. In Michigan, we administer the MEEP test. The math MEEP test was administered in the spring and arrived in school offices a week ago, long after the children had moved on, long after anything other than a historical review could be done with the data.

So Chris directed that we develop benchmarks and the first generation of our benchmark in Edison Schools were paper and pencil. The good news is that we had them. The good news is the teachers loved the data on their children that they provided. The bad news is that they were labor intensive. They took a long time to grade and to collate in terms of reporting – and we listen to our teachers because our teachers are customers of ours.

We then, the next year, did an Internet-based application of the benchmarks. Many things improved when you put it out on the Internet but there was a big problem we had with bandwidth. We would have kids in a computer lab and the Internet would shut down or the system would slow and kids would start acting out.

So then we moved to a new technological model, which marries the strength of the Internet with the power of a local server. And now we have a system, which I’m going to demonstrate to you, that is fast. Teachers don’t have to grade it. The reports are generated quickly and we’re really, really excited about this benchmark system, which will only continue to improve because it’s designed by teachers for teachers and it’s a system that we use in the 150 schools, and we’re making it available to school districts across the United States if they are interested. So it’s online assessment, it’s monthly and it’s state-specific.

In the early years, benchmark assessments were correlated to the SAT 9 Norm Referenced test because Edison viewed itself as a national system of schools. Well, now, with no child left behind of course the emphasis is on state reporting of standards, and so we are recalibrating our benchmarks to be state-specific. So in Michigan, where I live, everything you’re going to see is correlated to our Michigan curriculum frameworks and our benchmarks are designed to approximate the content and the presentation that students would find when they take the state test.
The examples I’m going to show you here, however, are Illinois-based, another state in which I work. And we decided to pick Illinois for a number of reasons. They have a long-established assessment system. It’s criterion-based. It’s a challenging test for students to take. We have launched a relationship in Illinois that you may be interested in. We have a third-party service provider relationship – Edison Affiliates has a third-party relationship, service provider relationship, with the Consortium for Educational Change. CEC is a 40-district consortium of districts that are dedicated to school reform and the CEC is funded in part by the Illinois Education Association.

Having sold Edison’s managed schools for the last five years, one of the things I like about selling Edison Affiliates is that teachers that I have engaged with so far with this offering see this as wind under their wings because we don’t manage the school, because we don’t hire or evaluate the teachers in any way. We give them tools through their school district. Teachers, by and large, have been very excited about the power that these tools offer. They come with teaching notes -- which you’ll see in a moment -- give teachers just-in-time information on how to monitor and adjust their teaching. There’s multi-level reporting and the professional development associated with Edison Affiliates takes a different view of professional development than what has classically been advanced and public education.

I think one of the big strengths of the no-child-left-behind legislation is that it has legislated a shift in focus from teaching to learning and don’t misinterpret what I’m saying there. Teaching is important but what no child left behind is measuring is what students have learned. It isn’t enough that the teachers have taught it. What’s important is the students have learned it. And so what this system does is on a monthly basis in math and reading, grades two through eight, measures student by student gaps in their learning against these end of the year state standards and allows teachers the information, the time and the tools to focus in on those learning gaps and thereby move forward.

We have designed our screen to speak to students. These are not screens designed for adults. They’re designed for students. They are clear. There are few distracters and a heavy emphasis on primary colors. This boy’s name is Darius Andrews (sp). The names have been changed to protect the innocent. Darius is in 5th grade and I’m going to demonstrate a 5th grade reading benchmark that he would see if he was going to school in Illinois. The reading passage is on the left. It scrolls so that Darius doesn’t lose track of the question. The questions are easily selected by the student, either on the bubble or on the text. They can change their mind. They can skip questions. And I’m going to skip way ahead to question twenty because the panda bear story is more informational text. This is more of a literature-based selection.

While we wanted it easy for kids to get into, we didn’t want it easy for kids to inadvertently exit by mistake. And so you can see, the screen is flashy, that Darius, you have answered questions. Go back. Go back. Okay, I’m going to go back. I’m going to answer question four but there’s a fire alarm going on and my teacher’s making me leave so I’m finished. Yes, I’m really finished. And it automatically scores for Darius the percent that he got right thus far. With the next student’s example, you’re going to see
that when the student exits in an emergency or because they’re sick, the system takes them right back to where they left off.

Tiffany is an eighth grader in Illinois. I’m going to show you what a math benchmark test might look for a child in her category. Welcome Tiffany. Benchmarks. And you can that on November fifth, that she didn’t complete her math benchmark so she has to go back and finish it. And these are questions that are aligned with the state of Illinois learner standards – learning standards. The nice thing about this tech demo is no matter what I answer the score never changes. So I don’t even have to think about – some of these questions I’d have to think about before I could answer them.

We have found that our students value and are motivated by data. And so what we’ve allowed the system to do is to allow a student to review their benchmarks. Why isn’t that letting me review? There we go. Many of us are parents in the room. Some of us that have had older children study very hard for an algebra test and wait a week or two to get that test result back from a teacher, understands the frustration for the student in wanting to know how they did but is empathetic for the teacher knowing that that teacher has 150 papers to grade and it’s not humanly possible to give this kind of feedback. So the system can be set up to give the student the information on the correct answer and the wrong answer and then create, of course, a dialogue in the classroom about why they understood or misunderstood the particular problem.

The next example is what a teacher – and actually everything I’m showing you is what is in place in Edison-managed schools across the United States. We are not a textbook company that creates a software package like this in isolation, puts a pretty packaging on it, throws it over the fence to a school. We design this for our teachers and for our principals and we use it every day of the month. And it has to work and it has to be good because we use – we do regression analysis each year to help predict where are students are going to, you know, fall at the end of the school year.

The teacher’s name is Rod Van Curan (sp) and I don’t know why they didn’t pick an easier name for us to use as a demonstration but – so it says welcome Rod Van Curan (sp). Rod is a fifth grade teacher and his students take both math and reading every month. Our teachers said they wanted an easy way to know who had taken the benchmarks and who had not so we created that for them. You’ll see that of the 50 percent who have taken this reading benchmark, 56 percent – those that have taken it have gotten 56 percent correct. There’s a report that generates for the teacher every month.

This again happens to be fifth grade reading and across the top of the screen you’ll see the Illinois learning standards. Underneath that you see questions that are designed to measure the benchmarks in those standards. At the bottom of the page it tells the teacher what the percentage of students that got that benchmark correct and I’m going to show you two examples -- one where the students did very well and one where the students didn’t do quite as well -- and show you the kind of information would have at his or her fingertips.
Question number one – and by the way, this is the teaching note that is referenced in the printed materials. Above it is the reading passage that the question was written off of. Question one is a word analysis vocabulary context clues informational question. Ninety percent of the students got the correct answer. That’s good. The teaching note tells the teacher what standard was being measured by this question and then does a Q&A review that explains to the teacher what exactly the question was asking, the kinds of prerequisite skills the students would need to be successful and gives some suggestions on how to address gaps that may exist.

And at the bottom of the page there are skill boosters for imbedding the concept into every day. How many of you that know teachers have heard teachers say, but I taught that. I know I taught that. But it was taught in isolation and when the students saw the same question, pitched a little different way in a testing environment, they didn’t make the bridge between what was taught on Thursday and what was tested a week later. And so the skill boosters suggest to the teachers ways in which they can reinforce this concept. For practice, have students try to define unfamiliar words in their reading materials without using a dictionary, encourage them to be word detectives, and so on and so forth.

The other question that I’m going to show as an example is a question in informational explicit ideas where only 18 percent of the students got it correct. And so this is an area that identifies some gaps in student learning. It also identifies the standards being measured. It says that questions asking students to locate or recall facts or details or seeking to assess overall comprehension of main points, therefore such questions rarely ask about obscure details. Remind students to check da-da, da-da, da-da. Give suggestions to teachers on how to re-teach a concept that was missed by students and again skill boosters at the back.

I’m a former school superintendent. In any given year of my career I had brand new teachers teaching right next door to veteran teachers; brand new teachers that were working really, really hard spending weeks and months on lesson plans, wanting to do a great job, hoping they were, not knowing whether they were. With this sort of just-in-time intervention, it allows a brand new teacher information perspectives that typically they would have to glean over a career. The senior teacher, however, is often reminded of things that perhaps they forgot.

Andy, you want me to wrap right now? I’m going to leave it at  - oh, I’m going to show you one thing. I’m sorry, Andy, but I came a long way for this and they’ll be glad to see it. I promise you’ll have lots of time for questions. My plane doesn’t leave until four. Okay, this is a report that principals or teachers can see and this is really cool. This is an overall benchmark report that a principal would get and with two clicks of the mouse I’m going to take you from a birds-eye view of the whole school, grade level, subject to a group of classrooms, to an individual teacher, to an individual student.
So imagine if you were a principal and you want to look at how your fifth grade group was doing, one click takes you to your four teachers in fifth grade. You want -- Mr. Van Curan's (sp) a brand new teacher. You want to see, you know, if he needs some support, if he needs some assistance. And now you're down into Mr. Van Curan's (sp) class. And then you can also go to Darius Andrews and click and found out exactly where Darius' strengths and weaknesses are in November as measured against standards in reading. And it just so happens Mrs. Andrews has made an appointment with you as a principal for two o'clock this afternoon because she has some concerns about Darius and wants to know how she can help. You can print the teacher notes for her and give her some specific ways to be helpful.

As you can see, I'm very excited about this. It's the reason I joined this sales team. I think that this puts very powerful tools in the hands of educators that will help them in their efforts to leave no child behind. Thank you.

KYLIE RUTLEDGE: Thank you, Blanche. Thank you, Chris. I'll admit to being a little skeptical -- (off mike) -- but why don't we go ahead and we'll open it up for questions running the gamut -- this is obviously a very fascinating innovative technology in terms of data, the tools and classroom level -- the points that Chris hit on. So that we'll just go ahead and answer it up. I had a few questions. I'm sure you all had many more so we'll just jump straight out there. Who wants to be our leader? Claudia.

Q: Why has Edison stock come down so much?

MR. CERF: I'm going to repeat the question. Why has Edison stock come down so much? I think it is a combination of self-inflicted wounds and external considerations, many of which are not completely reality based. I'll start with the most obvious point. We just opened the largest single arrangement ever in the history of private management of public education and certainly the history of Edison by opening 20 schools in Philadelphia about a week ago -- about 10 days ago. That was experienced as a huge disappointment by Wall Street because we had been told literally the day before that number was going to be 45 schools. One of the mantras is you should under promise and over perform and we violated that repeatedly and badly and lost some credibility and paid a price for that.

The other -- and there are other examples of the like. Another one is just flatly market related, meaning that you may have noticed the Stock Market -- this will shock you to hear -- I believe I have this right, someone can correct -- the NASDAQ as an exchange is at 85 percent lower than it was. Remember we came out at the Internet frenzy in November 1999.

The third I will tell you is that this a challenging stock to own in this political environment; meaning, the coverage of us has been so extraordinarily slanted and one-sided that people who don't really understand the full story get spooked. For example, we -- someone reports that we lost a school in Macon, Georgia, and they never get beyond that to say, yes, but they have 19 situations that are renewed that they face. After
five years we renewed about 75 percent of those. As a percentage of the business it’s absolutely minute. When The Gap closes a store it’s not newsworthy but when we decide, for one reason or another, that a school isn’t working or it’s decided for us, it all of a sudden becomes something that’s breathlessly reported. And I think that over time that wears people down and people have gotten the impression that a, we’re in trouble as a business, and I think I address that, and b, that our student achievement isn’t succeeding, and I think the facts speak for themselves. And in a public market I think a lot of people sort of get worn down by that.

Q: (Off mike.) Aren’t there really smart people on Wall Street who can look through or beyond all the negative publicity and be in a position to say this is a really solid company? (Inaudible.) I don’t understand how just the negative publicity could generate so much skepticism on the part of --

MR. CERF: I find that utterly implausible. (Laughs.) And I’ll tell you why. The value of a stock is literally what the last guy will pay for it. The intrinsic value of the stock is – not completely hypothetical because it’s keyed to earnings and so on. But a huge amount has to do with exactly that. It has to do with perception. And so the coverage, I do think, is highly relevant. I will also tell you that patience for no-earnings companies, that there will come a day when we in fact are profitable, I think the general patience for that kind of business is – and people are going, you know, fine. I’ll buy the stock in time once you’ve proved that proposition.

MR. ROTHERHAM: We’ll work our way back.

Q: Blanche, I have a question about Edison Affiliates – (inaudible) – and your experiences. In the early stages from a business-model perspective. One of the challenges, of course, working in the education industry is that the sales cycle is incredibly. Schools have very little discretionary income to spend on additional services such as in Affiliates so I’d like you to address that sort of as a challenge and how you’ve found overcoming that. And then the second piece of that is, in terms implementing the technology designs – (inaudible) – school systems that I’m curious as to the follow up. Do you have a consulting – (inaudible). Once you get the data, so what? Do you get into a resource allocation question? (Inaudible.)

MS. FRASER: Let me answer your last question first. The technology is designed to be no assembly required, batteries included. It’s plug and play and our perspective costumers are very intrigued by that. It does not require a support team from the district to maintain because that’s part of what we commit in the relationship – our ability to download and upload data and to repair software from afar is one of the things we’re very proud of in this particular system.

The counselor or the advisor or the support person is the Edison – the achievement component that I glossed over and it’s a distinguishing feature. One of the things Edison learned in it’s schools early on – it wasn’t enough to hire a great principal and to give that principal operational support. In public schools every day, in traditional
public schools and Edison public schools, stuff happens, which cause educators to be diverted by the urgent away from the important. And so in Edison schools we added a support and the term was an achievement advisor that was assigned to a cluster of Edison schools, whose sole focus, whose only accountability, was to make sure that these systems were in place and that teachers were engaged in conversations around the data and that the data was informing their professional knowledge about how best to address the learning gaps of their students.

And so one of the things that the perspective clients that I’m meeting with are very much interested in is the capacity building that this system provides. I’m talking to districts that are very small, like 1,000 students, and I’m talking to intermediate regional service agencies that service 38 schools – districts serving 228,000 students and across that spectrum there’s capacity issues. The superintendent with 1,000 kids may not have an assistance superintendent for instruction, would love one. Through this system it’s a way of at least dedicating some time and some energies on student achievement. The very large systems also have assistant superintendents that are taken off track by all kinds of things that the superintendent doesn’t want to do. So that is a distinguishing feature of this offering is that support.

In our relationships in Illinois, with the CEC, which is a not-for-profit 501C3 organization, they have consultants on their staff, highly trained, highly skilled in school improvement professional development. And in that relationship, those people will continue to work with their member districts but they’re going to be specially trained in our systems so that the districts that want this service are supported by trusted, credible educators that they know but have our expertise and our knowledge to bring to them.

The sales cycle – again this is our first sales cycle. I’ve been with Edison Schools for five years and it sometimes takes a long time to work through the politics and everything that you have to work through. My belief is that this sales cycle will be shorter because we aren’t managing the school. I do not expect any labor contract kinds of ramifications. It doesn’t require a specific curriculum or a specific technology base. There are lots of companies that sell pieces of what we do so the whole for-profit debate comes off the table. There will be much fewer stories written about this than the Edison-managed schools.

But you’re right. Districts are facing resource allocation challenges. They’re having to reorder priorities. I happen to believe, from my personal experience and my professional experience, that you can judge people and organizations on their priorities by two things – what they spend their time and money on. And basically, I was never a superintendent that worked in a rich district. Whenever I wanted to invest in teacher training or new curriculums I had to – what am I going to do less of? What am I not going to do? In order to do something that gets a bigger bang for the buck. And think no child left behind has created, for districts that are looking for that opportunity, some momentum in order to do some reordering of priorities, some reallocating of resources to get better results in classrooms.
Q: (Off mike.)

MS. FRASER: As originally conceived, the achievement advisor was to be an Edison employee that was regionally based, who would be assigned a cluster of affiliate districts. They wouldn’t do Edison-managed schools and affiliates. There’d be a separate group of those folks. But in our conversations with regional service agencies, with not-for-profits like CEC, who already have trained consultants on staff, we are talking to them about leveraging their human resources supplemented by some of our training. And in that case the individual would not be an employee of Edison Schools. They would remain an employee of the district or the regional service agency or the not-for-profit organization but we would support them through our training and work closely with them.

Q: (Off mike.)

MR. CERF: As a business, zero. Meaning the ability to buy the shares would still continue, would be on another exchange. It wouldn’t be on the NASDAQ, it would be on another exchange. In terms of its ability to raise public capital, that is as opposed to private equity. The people who were looking sort of for a quick in and quick out would be less attracted to it. But when I say it wouldn’t affect the business, it does not affect our ability to raise capital, private equity capital for example, or other public capital from people who work in other exchanges.

And secondly, I think the prospect of delisting has been somewhat exaggerated. Meaning there are a number of different metrics, including one that’s called the net worth metric that are evaluated and you have lots and lots and lots of time to work things through with the NASDAQ. By the way, if they applied that rule in an undifferentiated way, virtually every Internet stock would no longer be listed and that is not the case. So one can have a discussion with them, get waivers and so on. So I don’t see an impact in that regard. I don’t want it to happen by the way.

And by the way, we could fix it in 30 seconds by what’s doing called a reverse-stock split. Meaning we could be a $40 stock tomorrow by an exchange that simply causes to have fewer shares outstanding and each one of them worth more so it’s a somewhat arbitrary metric.

Q: (Off mike.)

MR. CERF: Well it’s, what you might call, a separate line. There’s only one company but it’s – it’s a division, think of it as a division. And I think –

Q: (Off mike.)

MR. CERF: No. No plans to do that.

Q: (Off mike.)
MR. CERF: Correct.

Q: Is that what you’re getting at? (Off mike.)

Q: (Off mike.)

MR. CERF: We are on record, and that hasn’t changed, as saying that we do not do voucher schools. I guess there’s a technical difference between doing a private school in a voucher environment and one in a non-voucher environment. I cannot tell you it’s under any kind of active consideration to do that today.

MR. ROTHERHAM: We’ll come back down in front.

Q: I imagine that you – the company approach is certainly – (inaudible) – in some sense you’re more confident with and always that question of the biggest expense is just teachers. That doesn’t seem like it would shrink, at least very much. You still have to pay teachers presumably the same amount, no matter if there are, you know, a couple hundred or ten thousand schools. I wonder if you’d talk with me about –

MR. CERF: Sure. Let me talk – it’s a terrific question. Someone may be able to correct this but roughly 75 to 80 percent of the cost of running a public school is personnel and obviously a very big piece of that is teachers. So the question is, unless you are going to pay teachers or personnel less is there a way to find a profit in here somewhere.

Let me start with what is a deeply held point for us is we are for more pay for teachers and we think that the great political debate about that has come off track a little bit by some of the folks who’ve come at it from the right side of the house. We have made a point not to underpay teachers. We tend to pay – many of our schools operate in a union environment. Obviously we adhere to the teachers’ contract. Now there are differences because in most of our schools we have performance bonuses, we get a waiver under the contract. In most of our schools we have hierarchies of teachers, senior teachers, lead teachers and so on so the pay scale isn’t exactly identical but in the aggregate it is.

But that last 20 percent – remember, the margins that we aspire to have are really quite small. They’re in the sort of four, five, six percent. And I think there is plenty of room. Virtually all of our – in fact all of our schools, on the day that they open, send cash back to central. Now it doesn’t yet cover the cost of central headquarters or the capital we invest in schools in the form of computers and so on.

But you made another point, I think, on the way – and this actually goes back to a question that was answered earlier. When I say some of where we are as a stock is self-inflicted, I think that we made a tactical mistake in growing as quickly as we did. And to some degree we outran our supply lines to use a military term, meaning that our
operations was not succeeding in keeping up and to another degree we were less careful than we should have been about taking on – this isn’t about profit. It’s about sustaining what we’re trying to do in the aggregate. And we took on a number of situations where the economics frankly didn’t make sense and we’re in the process of transitioning out a number of those.

I can give you dozens and dozens of examples in our current schools where the economics work just fine.

MR. ROTHERHAM: (Inaudible.)

Q: (Off mike.)

MR. CERF: Hi, Nancy. How are you?

Q: (Off mike.)

MR. CERF: Correct. Actually we said we are cutting 50 percent of headquarters’ expenses, not FTEs.

Q: (Off mike.)

MR. CERF: I hope the impact will be positive in the following sense. This was a – it’s the first one of these I’d ever been through and we spent the summer in 18 different working groups, each of which focused on a different piece of what we called re-engineering. Among it’s goals were cost-cutting but that was, by no means, the only goal. Most of it was to make sure that the resources that we have are properly deployed at the things that count. For example, are we spending the right number of dollars on principal recruiting or are we overspending on technology aid to the school, just to give you one example. So a number of subs and of things came out of that when they’re fully implemented, I believe will make us a stronger, more client-service, more academically oriented company than we are.

In terms of what’s getting cut, in terms of the services, there’s no aspect of the Edison’s curriculum or design that is being cut. There is no – it’s not like there’s less – I guess there is less administrative staff at the school level supporting technology and more on a regional and cloistral level. It sort of changes of that nature. And partly, it’s an eight-year old organization that’s never been through this and I’m sure this is hugely politically correct is there is a process of accretion both at the talent level and at the bureaucratic level, just like in a school district and going through this process both leans you and improves the quality of what you do. That’s certainly the goal. And you had a second question Nancy.

Q: (Off mike.)

MR. CERF: The premise of your question is incorrect and that’s all I can say.
Q: Does that mean you never had it in the first place or – (inaudible)?

MR. CERF: Neither. No it doesn’t. (Laugh.) Just to fill you in – I’m sorry to be cryptic – we announced that we had entered into what amounts to commitment letter to have $40 million funded by an organization called Chelsey Capital and then we announced that we’d actually closed on the funding it was another company that ended up providing the capital. So from an operational point of view, the last time I checked $40 million is $40 million but the question was is there a story behind the story as to why there was a switcheroo. And the answer is there is and because it’s not yet in the public domain and one that is probably best not to talk about, I prefer not to go into that. Thank you.

Q: How many –

(Cross talk.)

Q: How many places does Edison get more money per student compared to the average – (inaudible) – and why did you want $1,500 in Philadelphia?

MR. CERF: I appreciate your asking both of those questions. The answer is in no district, including in Baltimore, which is one of the great myths that has been perpetuated, does Edison get more than the average per pupil that is spent on schools in the district. And by the way, in the great majority of situations we get less. For example, one of the things that the legislative debate around charter schools – and I love the fact that certain organizations in this town say there are four charter schools but when they get into the actual legislative debate, one of the games that they play is to make sure that they’re not funding on an equal level to other public schools in the country. So on almost all of our charter schools the funding is dramatically less than it would be in a traditional public school. And even in our traditional public schools typically there’s a holdback of roughly three to five percent. They argue and with some good reason, that our superintendent has a salary whether there’s 100 schools or five schools and so you have to pay some share of the administrative load.

The second part of your question was what about the economics of Philadelphia and I believe you phrased it, why did you want $1,500 more than other schools in Philadelphia. We didn’t.

Q: (Off mike.)

MR. CERF: We didn’t ask for anything more than the other schools in Philadelphia. That’s been misreported.

Q: (Off mike.)
MR. CERF: No, the question is, is the economics of our arrangement comparable to other schools in Philadelphia. The answer is absolutely. How you add up the different pieces, the $1,500, the -- (unintelligible) -- funds capital and so on, you can just do the math. But when you get to the aggregate, it is not more than comparable schools of Philadelphia.

Q: But I’m talking about the 20 schools that you –

MR. CERF: That’s what I’m talking about, too. We’re talking about the same thing.

Q: That’s – (unintelligible) – over 8,000 more than what the average –

MR. CERF: It’s not true and I’d be glad to sit with you and show you the numbers any time you want to do that. I’d be delighted to do that.

Q: I just wondered, what’s the average per pupil expenditure in this 35 largest school systems – (inaudible).

MR. CERF: The average per pupil expenditure. That’s a good question. Well first of all there is – help me understand what you mean by that. How much do we spend on schools? Well let me put it to you this way –

Q: Just like, you know –

MR. CERF: That’s actually easy. Our actual operating loss was about $40 million. If you divide that by 77,000 that’s what our per pupil loss would be.

Q: But you can’t say you’re spending $6,000, $7,000, $8,000 per student in –

MR. CERF: Well I could say that in the aggregate we spent more than we got. That’s what a loss means. I’m actually trying not to hedge here. I don’t have, at the tip of my tongue, an exact dollar figure. But I can tell you how I’d work it through. I’d go, let’s say a school pays $6,500 per student. I mean that’s the fee, the capitation fee, the per student fee. Then you’d go, what does it cost to operate the school and it typically costs that amount minus about 15%, meaning the operating expenses of the school are about 85% of that – that is the cash needs.

Okay, what do you do with the rest of the 15 percent? About seven percent of it is an investment in technology and books, which is depreciated over a five-year period. And then the rest of it goes back to headquarters. When you add up each of those seven percent that go back to headquarters after you’ve paid your capital investment, after you paid your operating expenses. The sum total of those seven percents do not yet catch up to the cost of the central office. That’s the best way I can answer that.

MR. ROTHERHAM: Sir you had your hand up in the back.
Q: (Off mike.)

MR. CERF: The Edison Baltimore schools?

Q: Right and the rest of the Baltimore schools they’re all –

MR. CERF: Right.

Q: (Off mike.)

MR. CERF: Give my best Dr. Grasbak (ph) please.

Q: I mean what’s your commitment to that part of business because this money – (inaudible).

MR. CERF: Let me put it to you this way and a lot of us didn’t get into this just to do what I think is a very terrific and helpful service in the form of affiliates. Our commitment to the whole school business is undiminished, unchanged and full throttle ahead, without any qualification.

MR. ROTHERHAM: We have time for about two more. Does anyone else have – yes.

Q: To go back to the facilities and actually to segue to the last question. Given the fact that this may be an interesting new line or – (inaudible) – and you’re starting with – (inaudible) – and looking at ways that you can be able to provide additional information and data to the schools, do you see Edison Affiliates beginning to build a number of other services to support the schools?

MS. FRASER: Well actually, Edison Affiliates is but one of several new initiatives within Edison Schools. We have a summer school program that has been very successful in Missouri and we are talking to other states about providing summer school programs in partnership with local school districts. We also have an after school program, Edison Extra, that’s being developed. So with no child left behind and the supplemental services requirements for districts that aren’t making adequate yearly progress, we think we’re well positioned to give supports to school districts and partner with them in ways different and perhaps beyond what the original model address.

I think, as an educator and as just an observer of public education, that Edison is leveraging it’s expertise, it’s scale, it’s resources to make similar systems that drive student achievement, support teachers and students, available in partnership with local school districts. And I’m excited that we now have that diversity within our organization to address. I also predict that down the road it will not be unusual to see a district that has some Edison-managed schools in it, that also likes the Edison Affiliates component in some of their other schools, that may offer the summer school program in the summer
months. So I think you’re going to see some hybrids develop down the road. We’re not there yet but I think that potential exists.

Q: (Off mike.)

MS. FRASER: No, Edison Affiliates is what I presented the four-prong approach really focused on getting news teachers can use in their hands to drive student achievement. And I’m not aware of or could comprehend any back office kinds of spin-offs from that.

Q: (Off mike.)

MS. FRASER: We’d be working with school districts and they would request the resources.

Q: (Inaudible) – supplemental services would have to be approved by your state

MS. FRASER: We’re in the process of being on those approval lists.

Q: (Off mike.)

MS. FRASER: I know that we’ve made those efforts in Illinois specifically to get on their list with regard to summer school. I can’t speak for all the states because I’m not working in all those states. Chris, maybe you could – can you answer?

MR. CERF: That process is under way in a number of states and I don’t have a list.

Q: (Off mike.) If Edison then would be working with the – (inaudible) – to apply for those kinds of programs, would Edison, as you describe – (inaudible) – want to be applying for that – (inaudible).

MR. CERF: I’m quite sure your expertise is greater than mine and this is a highly technical area but I do believe it is fair to say that with regard to all federal grants it goes from you all to the SCA, to the LEA and then derivately to the schools. So we do not make direct applications.

Q: (Off mike.)

MR. CERF: You have tapped into any area of deep ignorance and I – (laughs.)

Q: (Off mike.)

MR. CERF: Sure.
Q: What happens when it – (off mike).

MR. ROTHERHAM: (Inaudible.)

MR. CERF: Yes, the question – it was introduced by saying, I’m going to ask the doomsday question and the question is what would happen to these 85,000 kids if Edison were to go out of business. I think the short answer is very, very little and I’ll tell you why. These are all schools that have – they’re not Edison schools in a sense. They are run by charter boards and by public school boards and they would simply transition back to the charter board or to the public school board without the benefits of the relationship with Edison. We have, as has been breathlessly reported, closed a number of schools over the years. Every one of those schools is still operating today as a public school and I think that’s pretty good evidence of that.

MR. ROTHERHAM: Okay, last question. Now – (inaudible).

(Laughter.)

Q: Chris, you’re number 35. (Inaudible.) Determined on growth, what’s your goal? Number ten, number five?

MR. CERF: My goal is to be indisputably the best – my personal goal indisputably the best public school system in America of any size. That’s what’s important to me personally. In terms of, do we have a growth target? Not really. Meaning – the one growth target we don’t have is the one we had two years ago, which is to keep growing at 30 to 40 percent a year, which is what those bar graphs would add up to.

Q: (Off mike.)

MR. CERF: I wouldn’t hold my breath on that. That’s a massive, massive – I think there are 11 – I don’t know how big it is – billion – is that what it is? I would anticipate a comparatively modest growth over the next few years while we continue to work on getting things operationally tighter and better and really getting the educational side of this tuned up.

Q: (Inaudible.)

MR. CERF: The answer is it depends and I’m sorry to be absurdly coy about that but it depends on a number of different variables. It depends on the mix of –

(Audio break, change tape.)

MS. FRASER: We’d be working with school districts, and they would request the resources.
Q: (Off mike.)

MS. FRASER: And we’re in the process of being on those approval lists.

Q: (Off mike.)

MS. FRASER: I know that we’ve made those efforts in Illinois specifically to get on their list with regard to summer school. I can’t speak for all the states because I’m not working in all those states.

Chris, maybe you could – can you answer?

MR. CERF: That process is underway in a number of states, and I don’t have the list.

Q: (Off mike.)

MR. CERF: I’m quite sure your expertise is greater than mine, and this is a highly technical area, but I do believe it is fair to say that with regard to all federal grants, it goes from you all to the SEA to the LEA, and then derivatively to the schools. So we do not make direct applications.

Q: (Off mike.)

MR. CERF: You have tapped into an area of deep ignorance, and I apologize. (Laughs.)

Q: (Off mike.)

MR. CERF: Sure.

Q: (Off mike.)

MR. CERF: We couldn’t hear what she –

MR. CERF: Yes, the question – it was introduced by saying, “I'm going to ask the doomsday question,” and the question is, “What would happen to these 85,000 kids if Edison were to go out of business?”

I think the short answer is, very, very little, and I’ll tell you why. These are all schools that have – they’re not Edison schools in a sense. They are run by charter boards and by public school boards. And they would simply transition back to the charter board or to the public school board without the benefits of the relationship with Edison.
We have, as has been breathlessly reported, closed a number of schools over the years. Every one of those schools is still operating today as a public school, and I think that's pretty good evidence of that.

MR. ROTHERHAM: Okay, last question. (Off mike.) (Laughter.)

MS.: It means you’re number 35. (Off mike.)

MR. CERF: Yeah.

Q: On growth, what’s your goal? Number 10, number five –

MR. CERF: Well, my goal is to be indisputably the best – my personal goal, indisputably the best public school system in America of any size. And that’s what’s important to me personally. And in terms of, do we have a growth target? Not really, meaning – the one growth target we don’t have is the one we hit two years ago, which is to keep growing at 30, 40 percent a year, which is what those bar graphs would add up to.

Q: (Off mike.)

MR. CERF: I wouldn’t hold my breath on that. That’s a massive, massive – I think there are 11 – I don’t know how big it is, but – is that what it is? I would anticipate comparatively modest growth over the next few years while we continue to work on getting things operationally tighter and better and really getting the educational side of this tuned up.

Q: (Off mike.)

MR. CERF: The answer is it depends – and I’m sorry to be, you know, absurdly coy about that, but it depends on a number of different variables. It depends on the mix of schools. We have projected that next – that this fiscal year, our fourth quarter, will be the first of what’s called “net income positive” quarter in the company’s history. So that is the fourth quarter of this academic year – of this fiscal year.

MR. ROTHERHAM: All right, thank you, Chris. I want to thank you all very much for coming and throwing out some questions. Let’s thank our panelists, and I think we can prevail upon them to stick around for a few minutes afterwards if you have something else you want to follow up on or ask.

I want to make a couple of quick – brief announcements. First of all, we put out a newsletter every other week that, in addition to the things that are going on, will give you a preview of these events, and so it’s a good way to keep up on what’s going on. The next forum on education in this series is going to be on high school reform. That will be October 4th, which – I believe October 4th, the first Friday in October, and Mike Cohen, Tom Tak (ph) and a couple of others from the Gates Foundation are going to come in and talk about what’s going on with – (off mike). And I encourage you to attend that. And
then finally, there's food in the back. You're not allowed to donate or anything because of the archaic laws of this city, and so I would encourage you on your way out, if you're hungry, to please take some of the food so it doesn't go to waste.

Thank you very much for coming, and keep in touch.

(END)
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