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Edison Schools Accepts Buyout

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Edison Schools, a company created to run public schools like private businesses, accepted a $182 million buyout from Florida's pension fund Wednesday in a deal that follows years of losses but promises millions of dollars for the CEO.

The deal, engineered by Edison founder Chris Whittle and a few politically connected firms, will allow the New York-based entrepreneur to earn up to $28.6 million over five years in share options and pay. In that time, he'll be paid a maximum $600,000 yearly salary plus a 275 percent bonus if the company does well.

Stockholders, however, will receive $1.76 per share for a company that traded for as much as $36 in early 2001 and as little as 14 cents in late 2002.

The stock recently rebounded and the company shows signs it will soon profit. A company spokesman points to cost-cutting and renegotiated contracts.

William James, a senior investment officer with the state Board of Administration that oversees the pension fund, said it should earn a large profit in the next two to three years, regardless of the compensation for Whittle.

"He was the owner of the company. It's not terribly unusual. I would consider that a lot of money, but then I'm a state worker," James said. ``We look not in terms of individual components of a deal but to the deal itself. And frankly we're doing pretty well."

A darling of the early conservative movement to revamp public education, Edison is the largest private operator of public schools in the nation. It runs 130 schools in 20 states, sells computer testing systems and is expanding in the United Kingdom.

Still, the company has failed to turn a profit since it was founded in 1992.

Florida unions have criticized the buyout since it was announced in July. They complained that their workers invest in the state's $95.3 billion pension fund but have little say over who gets the money.

Democratic politicians say there needs to be more oversight, considering the pension fund once lost hundreds of millions on other bad investments such as Enron and WorldCom.

Perhaps most galling to them: the fact that teachers' earnings would help save a company that threatened the public school system itself.

AGAINST DEAL

"Why is Chris Whittle getting such generous compensation, when it's the Florida workers who pay for his mistakes? And then there's all the investors who get hit. It's a little hard to stomach," said Christina Brownlow, a member of United Teachers of Dade who teaches at Lindsey Hopkins Technical Education Center and spoke against the deal in New York.

The unions have suggested that the Edison purchase was driven by the politics of Gov. Jeb Bush, an enthusiast of the "school choice" movement who heads the Board of Administration.

But Bush said he knew nothing of the deal before it was announced. The governor said the administration board, consisting of Florida's Cabinet, sets investment guidelines that are enforced by a professional staff, which in turn hires investment firms.

Bush said the unions are seeking to influence investment decisions, not him.

"We shouldn't be making decisions based on politics," Bush said.

The major players in the Edison deal all have strong GOP ties.

On Oct. 29, Edison sponsored a school-choice banquet where Bush received an award.

To find a buyer, Edison hired the investment firm of Bear Stearns & Co., which is headed by James E. Cayne, who has raised more than $137,000 for President Bush's reelection campaign.

Florida's investment firm, Liberty Partners, was represented in the deal by the law firm of Blank Rome, led by David Girard-diCarlo, who raised more than $100,000 for the president in 2000 and plans to double that for next year's campaign. He also sat on the gubernatorial transition team of former Pennsylvania Gov. Tom Ridge.

Ridge had planned to turn over most of the Philadelphia school system to Edison in 2001. But the deal fell through, sending Edison's stock prices tumbling.

Edison spokesman Adam Tucker said the company began cutting costs and renegotiating contracts. As a result, Tucker said, the company earned $10.2 million in the final quarter of fiscal year 2003. Tucker said test scores in Edison-run schools are also improving.

Whittle did not return calls for comment.

Trace Urdan, a San Francisco-based brokerage analyst who has been following the company, said Edison profited largely because of its summer school programs, which are less controversial than privatizing public schools.

"If the trend continues, this will be a great investment for Florida," Urdan said. ``Of course, it stinks for stockholders."

$70 MILLION LOAN

According to an independent analyst, the deal contains at least one potentially bad element for Florida's pension fund. In negotiations, Liberty Partners agreed not only to buy the company's stock for $112 million, it decided to loan the company $70 million.

This "one-stop shopping" could lead to conflicts of interest, according to a July 2 report from Alignment Capital, which critiqued previous Liberty Partner deals and claimed the company charged irregular fees costing the pension fund upward of $82 million since 1993.

Peter E. Bennett, president of Liberty Partners, did not return calls seeking comment. State officials say they're renegotiating the contract with Liberty, which has made overall sound investments that benefited Florida.

Also, the company demanded the loan as part of its negotiations, according to a proxy statement to Edison shareholders. Many of the sticking points in the negotiations were over Whittle's compensation, according to the proxy statement.

He founded Edison in 1992, claiming he could educate children for less money than the public school system. To underscore his interest in the project, Whittle said he would collect a $1 annual salary. He bumped his salary to $345,000 in 2001 and borrowed money from the company that he has yet to pay back.

In his negotiations with Liberty Partners, Whittle renegotiated his debt -- which now totals $10.4 million -- by putting up $1.3 million in collateral. He also has the right to borrow nearly $1.7 million more.

Liberty Partners also agreed to buy upward of $17 million in shares from him over five years, according to the proxy statement.