

***Knowledge Universe and Virtual Schools:  
Educational Breakthrough or  
Digital Raid on the Public Treasury?***

**Report**

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**Introduction**

Correspondence schools, motion pictures, radio, educational television, and computer-assisted instruction have all been hailed as technological innovations that would revolutionize education, reducing, if not eliminating entirely, education's dependence on traditional schools and their teachers. The latest innovation is "virtual schooling," the delivery of curriculum over the Internet to homes, schools, or wherever the learner might be. "The virtual school movement," according to a report from WestEd, a San Francisco-based consulting firm, is the "next wave in technology-based education."<sup>1</sup>

Whether or not virtual schools are "The New Paradigm" or merely the latest in a series of technological innovations to come and go remains to be seen. It is already evident, however, that schools, universities, educational organizations, and entrepreneurs are rushing to adopt the new technology without adequate data to advise them of a wise course of action. The various advocates and entrepreneurs are using information technology in a variety of ways. This report considers one little-known—but large and influential—technology enterprise, Knowledge Universe, and examines the operations of its school-related division, K12, Inc.

## *The Creation of Knowledge Universe*

Brothers Michael and Lowell Milken, together with Oracle founder Larry Ellison, created Knowledge Universe in 1996, initially investing \$1.5 billion in the enterprise. Michael Milken has stated that the idea for something *like* Knowledge Universe actually came to him when he saw the devastation of the Watts riots in Los Angeles in 1965. Returning to the University of California at Berkeley, he changed his major from mathematics to business, the story goes, and decided to dedicate himself to social progress through the development of what came to be called “human capital,” a concept put forth by a friend, Gary Becker, who would later (1992) win the Nobel Prize in economics.<sup>2</sup>

Milken went on to pioneer the use of so-called junk bonds to reshape the corporate landscape in the 1980s—becoming fabulously wealthy before going to prison on charges of insider trading. Following his release, a publicly chastened Milken turned his attention to what looked—to some in the world of investment and finance in the late 1990s—like the next “killer app”: e-learning. Peter Stokes of Eduventures, a consulting firm that tracks the “education industry,” told *ForbesASAP* magazine in 2001:

“Knowledge Universe is at the very center of the storm. All the competitors look to KU to see what it is doing, so it is really hard to overstate KU’s centrality to this industry.”<sup>3</sup>

In fact, one might argue that KU is *creating* the storm. Moreover, none of the investment firms listed as KU’s top competitors by the business news and information website Hoover’s Online<sup>4</sup> has any involvement with education. Internet Capital Group does mostly business-to-business investing and was “hit hard” in the dot-com shakeout<sup>5</sup>; Gores Technology<sup>6</sup> once owned The Learning Company, but that’s in the KU fold now;

and Bain Capital is mostly in retail and consumer products: it controls about 95% of Domino's and a substantial chunk of Staples.<sup>7</sup>

Despite KU's apparent dominance of its market niche, little is known about its operations. Yet the reach it already enjoys in education, not to mention its stated ambitions, warrant a deeper examination of the company.

### ***The Founder***

Michael Milken gained fame using “junk bonds”—bonds ranked below investment grade—to finance corporate mergers and acquisitions in the 1980s. His soaring star fell suddenly, though, when Milken pleaded guilty to six felonies involving allegations of racketeering and securities fraud, and served two years in prison in the early 1990s.<sup>8</sup> In the years since his release from prison, Milken has largely presented himself as a philanthropist. Having survived prostate cancer, Milken invested \$25 million in CapCure, which funds research about the disease, traveled the world to promote cancer awareness, and wrote what is claimed to be a prostate-friendly cookbook (diet does appear to have a large influence on whether or not people develop the cancer). Since his release from prison, Milken has had one instance of recidivism. After he brokered a deal between MCI and Rupert Murdoch's News Corporation—the court had permanently enjoined him from such activity—he was fined \$47 million.

Michael shares the operations of the Milken Families Foundation with Lowell. The MFF, as it is known, promotes teacher professional development, youth involvement in community service, and the celebration of American Jewish Music. Within the field of education, the MFF is best known for Lowell Milken's 1985 creation, the Milken National Educator Awards, typically presented to teachers in school-based assemblies

and often referred to as the “Oscars of Teaching.” The MFF bestows 100 of these \$25,000 prizes annually, usually with substantial drama.<sup>9</sup>

Michael Milken oversees the Milken Institute, described on its website as “an independent economic think tank [whose] mission is to improve the lives and economic conditions of diverse populations in the U. S. and around the world...”<sup>10</sup> The Institute operates a Global Conference each year. The 2003 conference, “Creating Value, Opportunity and Economic Growth,” featured a panel on education that included Arlene Ackerman, Superintendent of Schools in San Francisco; William J. Bennett, former U.S. Secretary of Education; Eugene Hickok, Under Secretary of Education in the George W. Bush administration; and Roy Romer, former governor of Colorado and current Superintendent of the Los Angeles Unified School District.<sup>11</sup>

The list of familiar names among the 150-plus other speakers indicates the kind of star power with which Milken likes to surround himself: David Baltimore, Gary Becker, Gray Davis, Jerry Brown, Paul Ehrlich, Steve Forbes, Gary Hart, Larry King, Steven Pinker and Alvin Toffler (ninety percent of the speakers were men). Less publicly known persons included many CEOs of well-known companies such as Deloitte & Touche, Amgen, Hilton Hotels, Safeway, America Online, Aramark, the *Los Angeles Times*, the William Morris Agency, and MGM Mirage. The 1,500-1,600 attendees paid up to \$2,000 each to hear the speakers address global issues.<sup>12</sup>

While Milken takes center stage at his Global Conference, circles the globe for prostate cancer research, and hands out the checks at the National Educator Awards, Knowledge Universe is never a topic of discussion. Milken is mum about KU, even declining questions on The Charlie Rose Show about anything other than charity work.<sup>13</sup>

Milken's approach contrasts sharply with that of H. Christopher Whittle. From its inception, Whittle's Edison Project, initially a system of private schools, later one of publicly funded charter schools or privately managed public schools, has sought and received nearly continual publicity—for both its steady growth and its continued financial losses. The press, meanwhile, has paid little attention to KU, in keeping, it would appear, with Milken's preference. What has been written emphasizes KU's secrecy and its size, and frequently suggests it is about to burst into public prominence.<sup>14</sup> *New York Daily News* reporter Amy Feldman wrote: "Owned directly through a complicated maze of partnerships by Milken, his brother Lowell and software mogul Larry Ellison of Oracle Corporation, the octopus-like group has snapped up a slew of education-related firms in an effort to gain dominance in areas such as computer training, private grade schools, and educational toys."<sup>15, 16</sup>

### **What is Knowledge Universe?**

Knowledge Universe is a holding company that makes investments, but it is not an investment firm, which Milken could not legally operate under terms of his insider-trading sentence. It is divided into a business group and an education group. The KU website lists only some of the firms it holds, and defines them with varying degrees of clarity.<sup>17</sup>

The KU homepage sets forth a "vision" presenting three "challenges" KU seeks to address:

- Physical labor is becoming relatively less important in the information economy, resulting in a growing disparity in wages paid to those with differing levels of education.

- The population is aging in most countries of the developed world, and there will be fewer working-age people to support traditional retirement lifestyles. This means that retirees will need additional training to continue being productive throughout their lives.
- Skills that used to serve a lifetime now become obsolete in a few years, and people of all ages will continually need to refine and expand their knowledge and skills.<sup>18</sup>

Milken's silence about Knowledge Universe extends to the firm's website, where there is much less information there now than there was five years ago. KU's homepage offers neither a "search" option, nor a "contact us" button. The "press room" is open "exclusively for accredited media representatives." This author's inquiry to the firm was met with extensive (and skeptical) questioning. Shortly thereafter an email arrived from a Robin Sherman:

I've been asked to advise you to contact the individual companies directly as our Website shows only samples of investments. As a private company, we do not publish a full list of companies and the companies change from time to time as investments change. K12.com has contact information for K12. Please contact them directly.<sup>19</sup>

### ***The Complexity of KU: A Case Study***

KU has a history of creating multiple layers and complex transactions that would appear to be aimed at obscuring the role of the company and of Milken in the operations of its offshoot companies. For instance, early on, Milken established Knowledge University as a Knowledge Universe subsidiary. He planned to contract with a half-dozen or so prestigious universities. Professors would develop online course materials leading to master's degrees in business administration, which Milken would market

through his own institution of higher education. The universities would have received at least \$10 million each for their participation. Milken's criminal record apparently discouraged academics from hiring the firm to market their materials, however.<sup>20</sup>

To get around these objections, Milken had one subsidiary, Nextera, spend \$60 million to purchase Lexecon, an economics consulting firm, from Andrew Rosenfeld, who had been bullish on Milken's junk bonds in the 1980s, and was now a trustee at the University of Chicago, one of the institutions Milken had courted. According to Stephen Pizzo, "Rosenfeld formed a new company, Unext.com, which purchased a majority interest in Knowledge University for an undisclosed sum. Knowledge University was soon replaced by a new school, Cardean University, owned and operated by Unext.com (now simply Unext). In fact, Unext bought Knowledge University in the same month, January, 1999, that Knowledge University purchased Lexecon."<sup>21</sup>

These operations obscured Milken's presence from the universities, and with Knowledge University morphing into Cardean University, Unext.com went on to sign deals with the cream of business schools: Columbia, Stanford, Carnegie Mellon, the University of Chicago, and the London School of Economics. Although Rosenfeld says that contracts with each university were different and confidential, it was reported that they were each offered at least \$20 million over five to eight years.<sup>22</sup> In order to gain accreditation, which Cardean<sup>23</sup> itself lacked, Unext purchased ISIM University, established in the 1960s and accredited in 1993. Under the rules of the Distance Education Training Council (DETC), the accrediting authority, Cardean was now able to obtain conditional accreditation. DETC's accreditation standards require that owners, principals, and executive staff of applying institutions "show a record of integrity and



ethical conduct in their business relations.” Milken’s own criminal record would probably not have met that standard, a likely reason for obscuring his involvement.

The Cardean website does not mention ISIM. It states only that “Cardean grew from an idea developed by Andrew Rosenfeld (an economist, educator, and lawyer) and Gary Becker, a professor of economics at the University of Chicago.” Logos of the five universities mentioned above are prominently displayed.

Nextera, the subsidiary used to buy Lexecon, was expected to become a large technology consulting business. The dot-com collapse curtailed the need for the kinds of advice Nextera had to offer, however. In December, 2003, Nextera sold Lexecon for \$130 million. Some \$23 million of that went to Nextera CEO Daniel R. Fischel. The sale left Nextera, one of the few KU publicly held operations, with no businesses to manage. It hired Joseph Harch, founder of Joseph Harch Capital Management, a Florida-based hedge fund operator, to search for businesses Nextera might acquire. Harch had been an executive at Drexel Burnham Lambert when Milken ran the firm’s junk-bond operations and is described as “an old ally” of Milken’s.<sup>24</sup> The sale of Lexecon leaves Nextera as the only business wholly owned by Knowledge Universe.

### ***Mapping Knowledge Universe***

Table 1 lists every firm for which a KU connection has been able to be ascertained. Because of the company’s opacity, it is not a definitive list.

**Table 1: KU Majority and Minority Owned Companies**

<b>Majority owned companies</b>	
<b>Firm</b>	<b>Description</b>
K12, Inc.	Online curriculum and construction
Knowledge Net	Incubator of Web companies.
Productivity Point	Information technology training systems.
TeckChek	Online testing of information technology skills
Vidyah (formerly knowledgebroadcasting.com)	Business-to-business integrated digital media.
LeapFrog	Interactive learning toys.
TEC Worldwide	Consulting to corporations
Knowledge Planet	Consulting to corporatons
Unext	Distance learning
Nextera	Technology consulting company
Knowledge Kids Network	Products and services to children, families, and teachers
<b>Minority owned companies</b>	
<b>Firm</b>	<b>Description</b>
Ed Solutions	K-5 after-school programs
Nobel Learning Communities	Private schools
Spring Group	Management consulting in information technology and temporary employment
Paradigm Media Investments	Investment firm specializing in Internet technology and media
Entertainment Media Ventures	Seed capital for online media companies
Hypnotic	Film production company
Mshow	Internet broadcasting/streaming video
Miavita	Online health information
Emind	Online financial industry compliance management training
Advance Online	Online regulatory training.
Hoover's Online	Online data on businesses
Community Science Network	Research-funding consultant
MeansBusiness	Database of business ideas

Source: Pizzo, S. P. (2001, September 10). Master of the Knowledge Universe. *Forbes ASAP*. Retrieved March 26, 2004, from <http://www.forbes.com/asap/2001/0910/064.html>

## Majority Owned Businesses

Unext is a university-level distance learning company. LeapFrog was developed by KU into the number-three toymaker (behind Mattel and Hasbro), whose reading-teaching LeapPad was the best selling toy of 2002.<sup>25</sup> Productivity Pont International offers computer training to corporations, government, and technology professions. Descriptions of other companies are more opaque: TEC Worldwide provides “business leaders with comprehensive business solutions and effective approaches to personal growth.”<sup>26</sup> Knowledge Planet “aligns workforce performance with business strategy, and provides professional services that help improve time-to-market with new product launches, reduce regulatory risk for non-compliance in certification and continuing education and implement e-Business initiatives.”<sup>27</sup>

Some of these ventures have been quite successful. LeapFrog, as noted earlier, is now the third largest toymaker in the country. It is also the fastest growing.<sup>28</sup> As of June, 2003, it had sold 8.6 million units of its principal product, LeapPad. KU controls about 90% of the voting power. It took the company public in July 2002 at \$13 a share. The stock climbed to a high of \$47.30 in October, 2003, before declining sharply to about \$31, due to weak third-quarter sales. The third-quarter reports generated shareholder suits. The suits claim that LeapFrog’s new third-quarter sales would be weak. They further state that Leapfrog made bullish projections anyway, and then shipped dealers goods they did not order.<sup>29</sup>

That LeapFrog became attractive to KU in the first place might stem from the background of Thomas Kalinske, KU’s CEO. Kalinske formerly headed up Mattel, where he resuscitated Barbie dolls and made Mattel the nation’s largest toymaker. Prior

to that, he was CEO at Sega of America, where he introduced Sonic the Hedgehog. According to Robert Calfee, a University of California cognitive psychologist and chairman of LeapFrog's educational advisory board, LeapFrog was already growing nicely and had received a number of industry awards when KU invested in it. That is to say, it had already become visible to the corporate world.<sup>30</sup>

The Knowledge Kids Network has grown (though its profitability as a private firm is not known) through a contract with Irish software company, Riverdeep, which had bought The Learning Company from Gores Technology Group, LLC. The deal makes The Learning Group's characters such as Carmen Sandiego and Reader Rabbit available to LeapFrog software.

Productivity Point is now a subsidiary of Vidyah, after a 2002 merger. According to its homepage, Vidyah's purpose is to "create and deliver education through integrated digital and classroom-based solutions."

### **Minority Owned Businesses**

EdSolutions offers after-school programs in the K–5 age range. Its website claims, "Our curriculum is customized and aligned with individual state standards to insure a seamless transition from the traditional school day to the extended day program."<sup>31</sup> Nobel Learning Communities is a national network of private schools that target upwardly mobile families. KU controls 16 percent of the company. Joseph Harch, hired to find businesses Nextera might purchase, represents KU on Nobel's Board of Directors. Paradigm Media Investments is a London-based investment firm specializing in Internet technology and media that has recently broadened to include opportunities outside of the technology sectors.

Entertainment Media Ventures provides seed capital for online media companies. Hypnotic is a film production company that describes itself as “leading the industry in developing brand-based content and marketing programs for the world’s most innovative advertisers.”<sup>32</sup> At its home page, Hypnotic describes manufacturers’ goals and its role in accomplishing them: “To brand beyond the current cluttered world of advertising and establish a deeper emotional connection with consumers, brand marketers are beginning to deploy a new form of marketing communication, Branded Entertainment.” The most successful of these unique and cost-efficient marketing programs account for new technology, take advantage of integrated marketing initiatives and capture the hypnotic effect of pop-culture.”

Mshow.com provides Internet broadcasting and streaming video. Mshow’s site claims, “Mshow will turn your ordinary conference into an extraordinary Web conferencing event.”<sup>33</sup> People can calm down from Hypnotic and Mshow with Miavita, which offers online health and nutrition information, weight loss plans, and exercise programs.

Emind is an online company specializing in “compliance management training for securities, banking, insurance, and accounting professionals.” AdvanceOnline offers similar training for companies and government, particularly related to regulations from OSHA, EPA and DOT. Hoover’s Online provides financial and other data about public and private companies.

The Community Science Network’s site declares that it brings together 480,000 scientists and 1,600 universities, corporations, and government agencies. It assists institutions in promoting research and obtaining funding for research.

For those seeking ideas about business methods and creativity, there's Boston-based MeansBusiness, "the world's largest and fastest growing online database of business ideas," over 20,000 according to the home page. It is not clear where MeansBusiness resides in the KU firmament. A January 2000 press release from Nextera announced Nextera's investment, but, as indicated earlier, when Nextera divested itself of Lexecon, articles reported that it had no other investments. A similar press release from MeansBusiness appears on its press release page, but there are no subsequent releases related to Nextera or KU. A March 8, 2004 search of the Nextera website reveals a statement asserting only that "Nextera Enterprises, Inc. is a publicly traded holding company which currently does not have any operating business units...As of December 31, 2003, Nextera has a \$20.1 million of cash [sic] AND A Net Operating Loss Carryforward [sic] (NOL) of approximately \$44 million."<sup>34</sup>

### ***The Big Picture***

KU maintains a presence in virtually all aspects of play, education, and work. Young children will play with KU toys and enjoy KU-produced programs on television and through multimedia, no doubt with a deeper emotional attachment provided by Hypnotic's branded entertainment. Some of these children will progress to KU preschools and schools, using KU brand curricular and instructional materials. KU does not appear to have a toehold in the realm of undergraduate education, but graduates in search of an MBA can find it at KU. Workers seeking re-training can obtain ideas and training from KU online firms. As parents, and later as grandparents, these same workers can use KU's online ParentsEdge and GrandparentsEdge (part of the Knowledge Kids Network) which provide child-rearing and child-interaction information.

## Knowledge Universe Goes to Virtual School

When you hear the next pitch about cyber-enriching your child's education, keep one thing in mind: So far, there is no good evidence that most uses of computers significantly improve learning.

William J. Bennett, John T. E. Cribb, Jr., and Chester E. Finn, Jr. *The Educated Child*, 1999, p. 619

Among this trio of authors, Bennett has, publicly at least, cast aside his reservations and, along with Yale computer scientist and Unabomber victim David Gelernter, and with former U. S. Congressman Ronald Packard, has launched a “cyber-enriching” elementary and secondary curriculum, through a company known as K12, Incorporated. K12 currently offers materials through grade 7, but will eventually provide a curriculum for high schools as well. KU has invested \$10 million dollars in the company.

K12 has obtained an additional \$20 million from Constellation Ventures. Constellation managing director Dennis Miller stated that “Our investment is consistent with Constellation’s philosophy of investing in companies focused on rapidly growing, untapped markets with unique distribution systems that are led by world class management teams. William Bennett and Ronald Packard, with the strong support of Knowledge Universe, have built a scalable model based on a comprehensive curriculum that is lacking in today’s educational marketplace.”<sup>35</sup>

The upper echelons of K12 are staffed with people from a variety of professional backgrounds, but most come in from the political right. Packard, a vice president for KU, has assumed the mantle of CEO for K12. Among eleven vice presidents are Charles

Zogby, Education and Policy; David Niemi, Testing and Assessment; and Gregg Vanourek, School Division.

Zogby was an aide to Tom Ridge when Ridge was governor of Pennsylvania. When Pennsylvania Secretary of Education, Eugene Hickok, departed to be George W. Bush's Under Secretary of Education, Ridge appointed Zogby as secretary. In his various positions, Zogby championed vouchers and charter schools and was particularly enthusiastic about—and active in bringing in—for-profit Educational Management Organizations, such as Edison Schools, Inc., to take over some schools in the Philadelphia public school district.

Vanourek has teamed with Chester E. Finn, Jr., Bruno V. Manno, and Lou Ann Bierlein in a number of articles and books about charter schools, such as *Charter Schools in Action*. He was a vice president at Finn's Thomas B. Fordham Foundation.

Niemi also holds a position with the Center for Research in Evaluation, Student Standards and Testing (CRESST). Niemi's presence suggests that K12 will invest more in assessment and program evaluation than other private companies have done to date. Edison Schools, for instance, presented annual reports with testing results that one presumes Niemi or any other psychometrician would not accept. The analytical methods gave Edison every advantage to look good. When *New York Times* reporters Jacques Steinberg and Diana Henriques applied Edison's techniques to the Cleveland Public Schools, they found a higher percentage of Cleveland schools than Edison schools performing well.<sup>36</sup>

Niemi sees no conflict between his role as a professor in a public university and as a vice president in a for-profit firm. By phone, he invoked Educational Testing



Services (ETS) as an example of a firm that makes money and conducts quality research. As long as K12 conducts research of the same standard as disinterested researchers, there should be no problem, he feels.<sup>37</sup>

Those K12 schools that are charter schools participate in their states' testing programs as well as the testing required under the federal No Child Left Behind Law, and K12 examines the results. K12 has conducted little evaluation to date because the company started operations in grades K, 1, and 2, grades where virtually no states test children.

Although enrolled in "virtual charter schools," most children receiving the K12 curriculum are home-schooled. K12 will establish sites around the state to which the children will be brought, and the various local districts will have to determine how or how much to adjust the sequences of their curricula in order to prevent a mismatch between what is on the state test and what the children have been taught.

K12's market entry tactics vary with the barriers it faces. Wisconsin and Texas, for instance, presented two very different entry requirements. In Wisconsin, no new laws were needed to allow K12 to conduct operations in that state. K12 first contacted John Anderson of the Lake Mills School District. Anderson had written the Wisconsin charter school law and had an interest in technology, as did Ron Childs, the Superintendent of Lake Mills. The Lake Mills administration was enthusiastic, as were most members of the board of education, but one board member adamantly opposed it and, according to Childs, "things fell apart."<sup>38</sup> A foray into the Northern Ozaukee district did result in a contract, however, as will be discussed later in this report.

In Texas, a new law was required to permit the kind of virtual charter schools that K12 envisions. K12 hired 11 lobbyists, variously described as high powered and highly paid, to make its case. Sandy Kress, former Bush adviser and principal creator of the No Child Left Behind legislation, signed on for up to \$10,000 (when Texas lobbyists register, they must state the maximum they can be paid by their patron). Other salaries ranged up to \$99,000 for Andrea McWilliams, a Bush “Pioneer”—the title given to any person who had raised more than \$200,000 for Bush’s 2000 presidential campaign. Earlier, McWilliams had served as a lobbyist for Kenneth Lay and Enron. The University of North Texas, long involved with the application of technology to education, also pushed for a new law.

This type of law was brought before the legislature three times during the 2003 legislative session; three times it was defeated. The *Fort Worth Star-Telegram* observed that the Bible relates a story of Jesus raising Lazarus from the dead only once, and looked askance at yet a fourth effort to bring virtual charter schools to Texas, this time through an action of the State Board of Education. The *Star-Telegram* objected to the State Board’s “thumbing its nose at the legislature” and objected to using public funds to subsidize homeschoolers—especially during an acute fiscal crisis such as Texas is currently experiencing.<sup>39</sup>

The issue is dead for the moment. The State Board took no action. The University of North Texas announced it would withhold any further appeal for a law until directives flowed from the Board or from the legislature. However, a special session of the legislature convenes in 2004. It is supposed to deal only with school finance matters, but another back-door opportunity for K12 could arise.

Students may enroll in K12 either through “virtual academies” run by school districts or other entities, or they may enroll as homeschooled students. In the former case, K12 receives money from the public school budget and supplies a computer. In the latter, the parents pay for the materials and must have their own computer. In the instance of virtual academies, the computer reverts to K12 when the district terminates the contract.

As of April, 2004, K12's web site advertises prices for individual courses and for various programs. Individual courses run \$325.00 to \$375.00 per year. A complete program of six courses costs \$1,495.00 per year in grades K-2 and \$1595 in grades 3-8. The four course core programs run \$1195.00 and \$1295.00 for K-2 and 3-8, respectively. There's a shipping charge of \$49.95 for either complete or core programs and \$19.95 for individual courses. Supplemental materials range from \$25 for K-2 individual courses to \$125.00 for 3-7 complete or core programs, no additional shipping.

***Case Study: Northern Ozaukee and the Wisconsin Virtual Academy (WIVA)—***

***Competition or Cannibalization?***

While Lake Mills was still considering linking with K12, in October 2002, William Harbron, Superintendent of the Northern Ozaukee, Wisconsin, school district, contacted K12. He advised that if K12 was still looking in Wisconsin, he might be interested. Paul Thallner, K12's manager of school partnerships, flew to Wisconsin and spoke to the Northern Ozaukee School Board. Less than a week later, the Board adopted the K12 curriculum. Twenty-four hours after that, K12 and Northern Ozaukee launched a marketing campaign for the Wisconsin Virtual Academy (WIVA).<sup>40</sup>

The quick start was necessitated in part because the Board's approval of K12 coincided with the start of Wisconsin's open enrollment period. Wisconsin law provides a three-week period in which students may enroll in school districts other than the one in which they live. From the campaign, WIVA received 1,100 initial applications, but only 455 enrolled, leaving WIVA short of its 600-student target. K12 hopes to use parents who enrolled their children in 2003-2004 as marketing tools in the future, a tactic that the Appleton, Wisconsin, Connections Academy claims is useful (Connections Academies are virtual schools operated by Baltimore-based Sylvan Learning Systems, Incorporated).

Under the agreement, for each child enrolled in WIVA, the state takes away about \$5,500 from the school district and awards this money to WIVA. In 2003-2004, Northern Ozaukee kept five percent of the \$5,500 as an administrative fee. In 2004-2005, the fee drops to four percent and is three percent thereafter. At 455 students enrolled, WIVA brings an additional \$125,125 to the district. Resident students in 2003-2004 numbered 849, with other open enrollment students bringing the total to 879.

Some districts have lost nearly as much. Waukesha District, for instance, had 33 students enter WIVA, a net loss of \$181,500.

As a consequence, Waukesha launched its own venture into virtual learning "as a business decision to recoup our losses."<sup>41</sup> Assistant Superintendent Heidi Laabs reported that she had seen many "high quality" programs at a recent Virtual High School Symposium in Anaheim sponsored by eClassroom, a division of eCollege, located in Denver. The District decided to go with one of them, KC Distance Learning, Inc., (KCDL) of Portland, Oregon, a subsidiary of KinderCare Learning Centers, Inc., and a high school, iQ [sic] Academy, will open in the fall.

Waukesha brought forward \$400,000 for marketing, and KCDL expects to spend \$1.1 million “up front.”<sup>42</sup> In the three-week open enrollment period which ended February 20, 2004, Waukesha-KCDL spent \$300,000 on radio ads, direct mail and billboards. Wisconsin Connections Academy in Appleton spent \$90,000. WIVA declined to say how much it had spent. Northern Ozaukee Superintendent Harbron was quoted as saying, “We just told people to disregard the glitz and glamour of the marketing.”<sup>43</sup>

For the 2004-2005 school year, the new iQ high school received 396 applications, lower than the goal of 500, but considered encouraging by Waukesha officials given the short time iQ has existed. Wisconnections received 717 applications, while WIVA obtained 889.<sup>44</sup>

Other districts are reportedly considering virtual schools. The specter of cannibalization, of one district taking students from another district, is there. It is perhaps limited. Under Wisconsin’s Open Enrollment Law, if a student’s departure from a district poses significant financial hardship to that district, the application to attend another district can be rejected. Typically to date, such rulings have attended expensive instances of special education.

It is not clear what proportion of the money K12 that receives becomes profit. K12 has established a firm to “manage” K12, “K12 Management, LLC.” An LLC—Limited Liability Corporation—is not subject to the same freedom of information laws as regular corporations. In fact, the existence of K12 Management LLC makes it impossible to determine who actually owns K12, Inc: all inquiries stop at the LLC. The LLC has

only one employee, Charles Zogby, a vice president. The LLC does not, however, pay Zogby—K12, Inc provides his salary.

The profit margin would appear to be high. According to S. V. Date of the *Palm Beach Post*, K12 charges rent on the computers in the amount of \$1,200 a year. Date says that in 2004, people could buy the same computer in Best Buy or Walmart for no more than \$500.<sup>45</sup>

The Wisconsin Education Association Council (WEAC) has filed suit.<sup>46</sup> It earlier lost a similar suit against Appleton Connections Academy, which WEAC has appealed. WEAC argues that the virtual schools violate Wisconsin's open enrollment and charter school law. It contends that because the costs of operating a virtual school are less than those of a brick and mortar school, K12 will reap windfall profits. It also contends that the virtual academy establishes a charter school that operates largely outside the district's boundaries, that the majority of the academy's instruction is not provided by certified teachers but by parents, and that non-resident students do not receive educational services within the boundaries of the district.

K12's site refers to K12's curriculum as "rich," "world class," and even "proven," which it certainly is not. The site claims:

We searched the world's educational systems and found the most effective content and techniques to create our curriculum. The K12 curriculum is designed to help you meet or exceed national and state standards. A K12 education is comparable or superior to an education provided by the nation's best private and public schools.<sup>47</sup>

Some find these claims spurious. Said a Wisconsin parent, “Look at the sample lesson plan for K12. It’s very Pavlovian. Young kids are being encouraged through technology to run a maze, ring a bell, and eat the cheese.”<sup>48</sup>

Although this parent actually means to refer to operant rather than Pavlovian conditioning, the message is clear: the curriculum is not interesting and it promotes a one-size-fits-all approach. The instruction is mechanical and the system does not encourage creativity. Since the K12 curriculum borrows heavily from the Core Curriculum developed by E. D. Hirsch, Jr. at the University of Virginia, one *would* expect it to be heavily fact-based.

Elliot Soloway of the University of Michigan reached a similar verdict: “In the 21<sup>st</sup> century, they’re delivering a 19<sup>th</sup>-century curriculum.” Soloway pointed to the typical worksheet-style computer lessons that use brief bits of animation and sound effects as “rewards” and pointed out that they were hardly revolutionary.<sup>49</sup> Similarly, a review of K12’s elementary history curriculum by Susan Ohanian finds that company’s use of technology primitive.<sup>50</sup>

Two years later, Soloway remained unconverted, commenting, “the educational philosophy is still, under it all, very much a teacher-teach, student-remember type of model. I find that model too limiting; it doesn’t help develop creative problem solving skills, which is what we must do.”<sup>51</sup>

Gelernter’s position is, essentially, “That’s the point.” The company’s stated goals were to “first do no harm”; and, to use technology to deliver “good materials, without generating dangerous nuisances, useless distractors, and educational cul-de-sacs.” The computer should act as “an intelligent blackboard for parent and child to look

at together.”<sup>52</sup> Gelernter did not, however, provide examples of what he might consider dangerous nuisances, useless distractors, or educational cul-de-sacs.

## **Conclusion**

The sprawling reach and the accompanying secrecy that surround Knowledge Universe have fostered conflicting beliefs about Milken’s motives. Some believe that Milken’s experience with prostate cancer left him a changed man with a genuine desire to do good, although they may question whether his vision is grandiose. Stan Lepeak, a consultant with Meta Associates in Connecticut, told the Los Angeles Times six years ago: “It’s a big leap of faith for Mike and Co. to come in and think they can fix America’s educational system. I think it’s visions of godhood. After being vilified in the 1980s he wants to go down in history as the savior of the next decade.”<sup>53</sup>

Others view Milken more darkly, as someone more interested in buying companies than in delivering education. Freelance writer Russ Baker observed that when Milken brought in Joseph Costello as CEO of KU, Costello lasted less than three months. He objected to Milken’s flitting around, his having no focus about the companies that he acquired, and his habit of buying existing firms for from five to ten times as much as it would have cost to create a new one. For instance, Milken wanted to put \$100 million into the purchase of existing language-training companies. Costello estimated that \$10-20 million could create a new model.<sup>54</sup>

Baker also raises questions as to what knowledge will be available and permitted in the Knowledge Universe. He was told, for example, that KU would never permit its students to conduct a critical assessment of Milken’s junk-bond years. He notes that *Business Encyclopedia*, published by Knowledge Exchange, a KU backed publishing



house, “approvingly cites Milken’s role in the junk-bond business without mentioning the economic and social devastation associated with it.”<sup>55, 56</sup>

Baker continues: “Educators worry that if curriculum and the tools of teaching are controlled by conglomerates like Milken’s many of the virtues of public schooling might be lost,” that we might see “the debasement of education as just another corporate product...”<sup>57</sup> While public school advocates may succeed in halting the privatization of public schools, he concludes, the question of who controls what is taught remains in play, and increasingly that control is surrendered to “the new proprietors of knowledge—corporate executives and investors.”<sup>58</sup>

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