The trials of Kaplan Higher Ed and the education of The Washington Post Co.

By Steven Mufson and Jia Lynn Yang, Saturday, April , 9:20 PM

Eleven years ago, one of Washington's most tradition-bound companies placed a bet that would transform its fortunes.

The wager, by The Washington Post Co. and its Kaplan division, took the form of a $165 million purchase of an Atlanta-based chain of for-profit vocational schools that catered to low-income students.

The bet was big — the price equal to the profits earned that year by The Post Co.'s print-media pillars: this newspaper and Newsweek magazine. So was the payoff.

The acquisition of the firm, called Quest Education, turbocharged the rise of Kaplan, a modest business that had until then mainly prepared students for standardized tests.

Today, Kaplan is a multinational, multibillion-dollar enterprise with 70 campuses and nearly 100,000 students, many of them online, many of them reliant on government aid. This newspaper, meanwhile, has struggled to remain profitable amid dramatic changes in the news industry. Newsweek was sold. The Post Co. now calls itself an education and media company — no longer the other way around.

But what proved a deftly timed business move brought other, less welcome scrutiny to a family-run company that had long prided itself in serving the public interest.

The Education Department is now imposing stringent new conditions on the federal student loans that have become the lifeblood of for-profit schools, including Kaplan. Heavy lobbying keeps pushing back the release date of one especially controversial proposal, but other regulations are already biting: Last week, many traditional colleges mailed acceptances to their picks from among record numbers of applicants; Kaplan's new enrollments, by contrast, have plunged by nearly half.

"We're trying to walk a fine line to make sure the good actors are supported and bad actors can't take advantage of people trying to better their lives," Education Secretary Arne Duncan told department

employees last week, according to a report in the Chronicle of Higher Education. “We are very, very close.”

As damaging as the new rules could be, Kaplan is also reeling from a storm of criticism of the industry’s practices and of The Post Co., an institution more accustomed to publishing news of others’ foibles.

The company was snared in a government sting that found Kaplan employees pushing students to take on loans without regard to whether they could afford them. It has been hammered by congressional critics, sideswiped by hedge fund investors and investigated by journalists. In the end, The Post Co. reluctantly conceded it would have to revamp Kaplan’s business model and turn away many prospective low-income students it once wooed.

The challenges have never jeopardized The Post Co.’s survival, but they cast a spotlight on management decisions and raise a question: How did The Post Co. end up here?

Post Co. executives blame outside forces, including a drop in political support for private-sector education companies and “financial and corporate agendas.” They also acknowledge missteps. Current and past officers say The Post Co. did not keep close-enough tabs on its fast-sprawling education unit, even as it focused heavily on customers who were poorer and thus at the riskier end of the business. But they say serving that disadvantaged population is important.

“I believe in what Kaplan Higher Education does. I think its work benefits its students and in a sense benefits the country by educating people who need the education,” Donald E. Graham, chief executive of The Post Co. and patriarch of the family that controls it, said at a UBS global media conference in December. “I will go anywhere and meet with anyone to make the case for our work.”

Graham has also noted some of the hazards of the Kaplan higher-education group’s fast growth. In the company’s 2006 annual report, he wrote that challenges Kaplan was facing even then “were the complex result of too-rapid acquisitions outgrowing our management structure.”

One past director of The Post Co.’s board said that members were better versed in media than education but that the lure of big profits was hard to resist.

Another, Dick Simmons, president of the company when it acquired Kaplan, said, “At a time when the largest part of The Washington Post Company, the . . . newspaper, was sinking, sinking, sinking, and here this relatively new player . . . was growing, growing, growing — how do you think anybody would react to that?”

The Post Co. reacted the way many companies do when things are going well: by doubling down, and then doubling down again, ramping up the number of students enrolled in Kaplan.

Along the way, The Post Co.’s reliance on federal student loan money grew. By the end of 2010, more than 90 percent of revenue at Kaplan’s biggest division and nearly a third of The Post Co.’s revenue overall came from the U.S. government.

Public money means public accountability, and critics said Kaplan fell short. Two-thirds of Kaplan’s students drop out before graduating. In Kaplan’s largest unit, nearly one-third default within three years of leaving the school. But Kaplan notes that only a small percentage of its graduates default.

Some have complained that they were not properly counseled about the risks.

“Because [the industry] uses public funding and there have been instances of bad operators taking advantage of students, these kind of stories come out regularly,” said Vince Pisano, who was chief financial

officer of Quest and later a Kaplan executive. “You have to be able to stomach it if you want to be in the industry.”

The $40 million phone call

The Post Co. branched into education almost by accident.

In 1984, Simmons got a tip — from the security chief at his last job — that Stanley Kaplan, the founder of a profitable New York test prep company, wanted to sell his firm.

Simmons had never heard of Kaplan, but he was looking to broaden The Post Co. beyond the newspaper and magazine for which it was best known. He expected Katharine Graham, then the chairman and chief executive, to be skeptical. So Simmons sought the blessing of Warren Buffett, The Post Co.’s top outside investor and a fan of companies that had strong positions in their markets. Buffett liked the idea.

In her memoir, Graham later wrote, “I confess that my lack of interest was reflected in my saying to Dick, ‘I don’t give a [expletive] about it, but if you think it will be profitable, let’s do it.’ ”

The Post Co. bought Kaplan for $40 million, a modest sum compared with other investments, such as in cable TV, that it made to diversify. Gradually, however, Kaplan lost ground to test-prep rivals. Three chief executives came and went, and its performance became so lackluster — it lost $4 million in 1994 — that Don Graham considered killing it, he later said.

Instead, he handed the company over to Jonathan N. Grayer, a charismatic Harvard Business School graduate who had been marketing director at Kaplan since 1991.

Grayer brought discipline and ambition to Kaplan. He assembled an inner circle that treated the business like a case study at Harvard. He overhauled Kaplan’s disjointed independent network — which licensed Kaplan’s name and programs to franchisees, including some of Stanley Kaplan’s relatives — and made the people at Kaplan sites employees. Grayer standardized processes and invested in technology. He also asked Kaplan executives to instruct classes and attend the company’s own teacher training programs.

“It wasn’t [just] about how to grow the company and make it more profitable,” said Robert Greenberg, a Harvard classmate of Grayer’s who was a Kaplan executive at the time. “It was about, how do we make our customers happier? If that works, everything else would follow.”

It worked. Kaplan’s finances improved and Grayer won the confidence of Post Co. executives and directors. Kaplan started looking for new ways to grow.

Test prep to online degrees

Around Christmas in 1997, a Kaplan executive based in Los Angeles, Jack Goetz, proposed an idea that would send The Post Co. in a new direction: Kaplan should offer law degrees online.

No such thing existed, Goetz recalls. But unlike other states, California allowed graduates of online or correspondence law schools to sit for the bar exam and become lawyers.

Intrigued, Grayer and his deputy, Andrew S. Rosen, gave Goetz a $100,000 budget, Goetz said.

“Don’t ask for more,” Goetz recalled being told. “And make it good.”

From a cramped office he shared with two other Kaplan employees, Goetz called tech firms to set up online

audio chats for students and teachers. He convinced law professors that their courses would translate to computer screens. In 1998, Concord Law School opened its virtual doors to 33 students. By 2000, the class had grown to about 600.

The move was revolutionary. Kaplan was no longer just prepping students trying to get into college; it was creating the schools.

The Concord success set the stage for Kaplan's $165 million Quest acquisition in 2000 — and The Post Co.'s quantum leap into federally supported higher education.

"At that point, the Kaplan company fundamentally changed," Greenberg said.

Kaplan began to offer certificates and two- and four-year degrees to people aspiring to entry-level jobs in health care and information technology.

The acquisition included Quest College, a regionally accredited school in Davenport, Iowa. That accreditation was crucial — a seal of approval that can take years to obtain. Students of the school, renamed Kaplan College, were immediately eligible for federal financial aid under Title IV of the Higher Education Act.

Not only could Kaplan offer accredited programs, but even low-income students could also get the money to pay for them. Under government programs, students can currently receive federal Pell grants of up to $5,550 a year and federally subsidized Stafford loans of up to $65,500 for an entire degree program. Moreover, Quest's schools were chosen for a Clinton administration pilot program in which students could use federal loans for online courses. That was "absolutely critical to Kaplan's Web-based initiatives in the future," The Post Co. said in its 2000 annual report.

The acquisition set the company on a path of rapid growth. Before year's end, Kaplan had acquired four more institutions, which "found a home . . . in Kaplan's decentralized atmosphere," Graham said in his letter to shareholders. And, he added, "there's room to grow."

The move fit with Graham's overarching corporate strategy, he says now.

"The challenge of a company is what you do with the money you make," he says.

The Post Co.'s investments in Kaplan proved astute and timely. In 2001, its newspaper revenue declined year over year for the first time in at least a decade as advertising began to migrate to new, online competitors.

A new administration

The Kaplan push into higher-education programs also coincided with a fortuitous political sea change in Washington.

In the 1990s, the government barred for-profit education companies from paying recruiters based on the number of students they enrolled. The idea was to discourage misleading promotion tactics. Fearing the schools could become diploma mills, the government also required schools to offer half their courses on physical campuses.

But Republican George W. Bush appointed a new team at the Education Department. One of its key players was Sally Stroup, assistant secretary for postsecondary education, who had been a lobbyist for the biggest for-profit education company, Apollo Group. Soon the agency eased regulations, allowing

companies to reward recruiters based in part on the number of students enrolled, or as one government report later called it, “asses in classes.” Like others, Kaplan made enrollment incentives one element of employees’ compensation. Stroup did not respond to request for comment.

Congress also made a change that helped spur enrollment. In 2006, Rep. John A. Boehner (R-Ohio) — then House majority leader and a major ally of for-profit education companies — pushed through legislation that lifted federal loan restrictions for online-only schools.

For Kaplan and other for-profit educators, the federal money soon came in torrents. By 2009, students at for-profit education companies received $26.5 billion through these loans, more than five times the amount they collected in 2000. At Kaplan, Title IV revenue soared from $101 million in 2001 to $1.46 billion in 2010, when the money accounted for 82 percent of the company’s higher-education revenue. Government education grants and loans to veterans who were enrolled provided still more.

The Post Co. realized there were risks attached to being dependent on federal dollars for revenue — and that it could lose access to that money if it exceeded federal regulatory limits.

“It was understood that if you fell out of grace [with the Education Department], your business might go away,” said Tom Might, who as chief executive of Cable One, a cable service provider that is owned by The Post Co., sat in at company-wide board meetings.

The federal money — combined with a flagging economy that drove people back to school — made huge growth possible. In early 2003, Kaplan bought a firm that trained accountants in Britain and Singapore. In a five-month period in 2004, it bought a Texas business school, an Indiana college and an Ohio technical institute.

“Kaplan was growing very, very fast and was very profitable and was something of a concern to the board members because they knew a lot about newspapers but didn’t know as much about higher education,” said one former director, who along with other current and former officials at The Post Co. spoke on the condition of anonymity to protect relationships.

It was also a challenge for Graham, who tended to delegate authority to trusted managers, former executives say. Graham, who inherited control of the company from his mother and grandfather, had risen through the newspaper side of the business. Kaplan was a different animal, bigger and dispersed. By 2006, it had three times as many full-time employees as the newspaper did; today it has seven times as many.

And Kaplan’s fast expansion undermined the order that Grayer had imposed on the test prep business in the 1990s. At one point, Kaplan Higher Education had 76 campuses offering medical-assistant classes, with 39 different curricula.

A ‘young and volatile’ executive

The task of managing these challenges fell to Grayer, who had cultivated among his top managers a sense that their company was serving a public mission, even as it — and they — flourished financially.

At board meetings, “he strove to show us what they were doing educationally . . . and acted as though he really felt they were doing God’s work,” said an executive from another Post division.

Even as Grayer earned public praise for Kaplan’s success, his support within the company ebbed, according to several past and current Post managers.

One reason was his style. Grayer was prone to outbursts, according to several former employees.

“He was young and volatile,” Pisano recalls.

Frictions with other Post divisions emerged.

“It was a real culture clash,” said a former Kaplan executive. The journalists at the company seemed to think, “ ‘What we do is important and what you do is merely test prep,’ ” he said. “And at least some of us were quietly thinking, ‘What we do is educate people who would never have a shot, thank you very much.’ ”

Money issues also bred resentment. Executives from other units noted that Kaplan had financed its growth with more than $1 billion in cash churned out by older Post businesses.

Though Kaplan might have been “doing God’s work,” the earthly rewards were ample. In 1997, Grayer and other Kaplan executives negotiated a pay package so large that it significantly reduced the bottom line in some years.

For instance, in 2002 the company recorded an expense of $34.5 million associated with the Kaplan compensation plan, an amount equal to the entire higher-education division’s profit that year. By 2010, Kaplan executives had cashed in $291 million of stock options.

“Companies across the United States, including Yahoo and AOL, were offering enormous amounts to talented young people,” Graham says. In contrast, while Graham receives millions in dividends from his Post stock holdings, he drives a Buick and has drawn an annual salary of $400,000 for the past 20 years.

“We never in our wildest dreams” thought Kaplan would get so big or that the executives there would reap such large rewards, Graham said. “Was that bad for Washington Post shareholders? No, I don’t think so.”

Ultimately, say past and present Post executives, board members and Graham family friends, Grayer’s ambition to have a bigger role at the parent company made his departure inevitable.

In July 2008, Grayer gave a video interview to the Financial Times in which he was asked to use the financial lingo “long” or “short” to indicate optimism or pessimism about a list of things, including English as a global language and the Beijing Olympics.

Asked about for-profit education, Grayer said “Long.”

Newspapers? A pause and a chuckle, then “Short.”

Young CEOs? There was a long pause. “Long.”

Four months later, Grayer and The Post Co. announced they were parting ways and that Rosen would take over. According to filings with the Securities and Exchange Commission, Grayer received his base salary, which was not disclosed, plus incentives and $46 million from the Kaplan stock option plan. There was also an agreement that if Grayer didn’t go to work for a competitor, The Post Co. would pay him an additional $10 million in 2009 and $20 million in November 2011.

2008: A bad year

Rosen, Grayer’s deputy and a lawyer by training, was the obvious choice to follow him. Focused like his predecessor but milder in temperament, Rosen had worked beside Grayer for 16 years.

But while Grayer had a charmed run as chief executive, Rosen took over just when the company began

facing challenges on a number of fronts — in the new Obama administration, in Congress and on Wall Street.

The key measures the government uses to judge for-profit education — default rates and dependence on student loan money — were flashing red.

At Kaplan's biggest division, the mostly online Kaplan University, the default rate tracked by the Education Department jumped between 2006 and 2008, from 9.5 percent to 17.2 percent. Put another way, more than one in six former Kaplan students had started missing payments within two years.

Kaplan executives say the rising rate tracked the growth in student enrollment and was a function of catering to lower-income people. Also, they say, the surge in new students produced more defaults because students are more likely to drop out early in their educations. Kaplan says that its students are older and that 40 percent are single parents, risk factors that make graduation less likely. The company says it gives these higher-risk students access to learning they would not have otherwise. Moreover, it says, that after adjusting for risk factors, Kaplan's students graduate at twice the national average of all higher-education institutions.

Barmak Nassirian, a spokesman for the American Association of Collegiate Registrars and Admissions Officers, says that having low-income students is no excuse.

"If there is a population that is more likely to default — low income — the last thing you want to do is saddle them with crushing lifelong debt," he says.

With the election of Democrat Barack Obama to the presidency, a new team landed at the Education Department, one that took a skeptical view of the for-profit sector.

Obama's deputy undersecretary for education, Robert Shireman, had been president of the Institute for College Access and Success, an education-industry watchdog group. He co-authored a paper in 2004 asserting that student-loan companies exploited loopholes to tap more federal funds.

The day Shireman was appointed in 2009, a stock index tracking education companies dropped 6.9 percent. (When he left his post last May, the index rose 7.4 percent.)

The new education secretary shared his concerns. "While career colleges play a vital role in training our workforce to be globally competitive, some of them are saddling students with debt they cannot afford in exchange for degrees and certificates they cannot use," Arne Duncan said last year.

Government officials proposed 14 rules they hope will protect students from misleading recruiting practices. One of the rules, for instance, would require schools to provide prospective students with graduation and placement rates. Thirteen rules have been finalized and go into effect July 1.

The remaining one — known as "gainful employment — would cut off federal aid to individual school programs in which graduates carry a high level of debt relative to their income. The impact on the for-profit industry and Kaplan would be sharp and could affect students seeking jobs with low expected starting salaries, such as chefs and medical assistants.

Such efforts resonated with another powerful, if fickle, constituency: Wall Street. For years, investors in for-profit schools had benefited from rising share prices on the back of free-flowing government money. Now, some big investors sensed a shift. Short sellers — who make money when firms get in trouble and lose value — seized on an opportunity.

Steve Eisman, a central character of "The Big Short," Michael Lewis's book about investors who

anticipated the collapse of the housing bubble, produced a report, “Subprime Goes to College,” in May that was widely e-mailed among Wall Street investors.

His argument was this: Firms in the education business, like mortgage origination companies, had urged lower-income people to take out loans they might have trouble handling. By the time these students defaulted, the education companies had already walked off with profits, leaving taxpayers to pick up the tab. And there was a social cost: Unlike homeowners who can walk away from mortgages if they declare personal bankruptcy, students must repay federal loans.

With hundreds of millions of dollars at stake, short sellers have employed their own researchers to dig into companies and have offered this material to journalists, legislators and the administration.

Investors were hoping the government would tighten the spigot, a move that would jolt the entire for-profit education sector while leading to a big payday for the shorts. Today, investors have sold short — in essence, bet against — shares equal to about one-tenth of The Post Co.’s outstanding stock, about 3.8 percent of Apollo’s and 31.3 percent of Corinthian’s, according to investment Web sites.

Eisman declined to comment.

In June, he testified before the Senate Committee on Health, Education, Labor and Pensions, whose chairman, Sen. Tom Harkin (D-Iowa), led the chorus of critics.

‘Tomorrow’s never promised’

The spotlight on the industry — and Kaplan — grew hot.

In August, the Government Accountability Office released a report about misleading sales tactics at for-profit colleges. Investigators armed with hidden cameras posed as applicants at 15 schools — including Kaplan campuses.

In a video shot in Pembroke Pines, Fla., a campus that opened in January 2010, one recruiter dismisses an applicant’s concern about repaying the loans, even though defaulting can destroy a person’s credit score.

“I owe $85,000 to the University of Florida. Will I pay it back?” the recruiter says. “Probably not. I look at life a little differently from most people. I look at life as, ‘Tomorrow’s never promised.’ ”

Kaplan and The Post Co. immediately distanced themselves.

“What happened at Pembroke Pines was just awful,” Rosen said. Graham has described the findings as “sickening.”

After the GAO released its report, Kaplan halted recruiting at the campus. It offered full tuition rebates and $18 an hour for time spent in the programs there if students felt duped. Of the 130 students there, 30 took the offer.

Kaplan also brought in outside accountants to audit internal practices, including training manuals, Rosen said. Within days of the report, Kaplan began conducting its own “mystery shopping” to monitor what employees say to prospective students. Rosen said it has led to “some personnel actions,” including firings, suspensions and re-training.

“I wish we had done it five years ago,” Rosen said.

As quickly as Kaplan's management tried to put out fires, others broke out.

In October, the Florida attorney general launched an investigation into Kaplan and four other for-profit colleges after the GAO report and complaints from consumers.

Veterans groups also criticized Kaplan and other for-profits for aggressively recruiting former service members, in part because loans from the Department of Veterans Affairs do not count toward the 90 percent ceiling on those that can be obtained from the Education Department. A Bloomberg News report unearthed one manual used in 2009 that urged recruiters to use "FUD" — fear, uncertainty and doubt — to convince prospects to sign up within 48 hours. Kaplan says the material has not been used since the summer of 2010.

Former employees weighed in, too. Four have filed whistleblower lawsuits, accusing the company of breaking the law to recruit more students. Kaplan says the charges are baseless.

Post Co. executives acknowledge that the confluence of events created a demoralizing crisis for Kaplan. Executives there insist the problems are not the norm but the rare exception.

"I don't believe we're running an unethical company," said Jeff Conlon, chief executive of Kaplan's higher-education unit. "I've been with Kaplan 18 years, and in that time I've been surrounded by co-workers, peers, staff and executives who firmly believe that doing things right for the students is the best way to long-term success."

This year promises more scrutiny. In February, Harkin's Senate committee released more industry marketing materials, including another Kaplan document that advised recruiters to play on students' fears. Kaplan says the document was dropped after a month, but Harkin and other critics say the marketing manuals suggest that unsavory practices were part of a broader strategy.

Graham noted that the committee subpoenaed "millions" of documents and uncovered few problems. He added, however: "Shame on us. We shouldn't have been recruiting students that way."

An overhaul

Graham attributes the problems to a few bad apples. Even so, the company's response was systemic.

Late last year, Kaplan unveiled Kaplan Commitment, the centerpiece of its response to its public-image and regulatory challenges. The program allows students to take classes for about a month and then withdraw without owing anything. This, Kaplan says, should satisfy critics who accuse it of misleading students. If in place last year, The Post Co. said, the program would have slashed revenue by $140 million, much of that directly out of profit.

The program is also designed to halt the rising loan default rates among former Kaplan students.

New rules on how the Education Department is measuring default rates are raising the bar as well. In 2012, the government will track students for three years rather than two. In February, the rate for Kaplan University came in at 30 percent, right at the proposed limit for eligibility — and higher than the for-profit and nonprofit industry averages.

The Education Department has also proposed suspending loan eligibility at schools where fewer than 35 percent of former students are paying down any of their loan principal. Kaplan's loan repayment rates — averaging 28 percent — are on par with or worse than much smaller institutions including the Academy of Somatic Healing Arts, Roger's Academy of Hair Design and Zane State College.

The reason, Kaplan executives repeat, is the makeup of their student population.

The average amount of default, they add, is also fairly low for those who drop out — about $4,500; for those who graduate, it's $7,700. In complying with tighter government regulations, Graham said, "we are slamming our doors in the face of people who need this."

Just as big a danger, however, is the company's near-total reliance on Title IV. In 2010, Kaplan University reported that 91.7 percent of its revenue came from Title IV loans, higher than the 90 percent ceiling. (The industry leader, Apollo, has almost identical figures.)

Kaplan avoided exceeding federal limits only because of "temporary relief" provided by 2008 legislation, according to an SEC filing. The figure would have been slightly higher, except The Post Co. itself lent $18 million to students. Initially it charged them a 15 percent interest rate, according to congressional investigators. The Post Co. said that in the summer of 2010 it cut the rate to 6.8 percent for new and existing loans.

A continuing education

The policy fight has taken on a personal dimension for Graham, who cares deeply about education. For 13 years he has led an organization to expand opportunities for District students. A self-portrait by a Duke Ellington High School graduate adorns his office. He can cite from memory statistics about graduation rates at the District's public schools.

Graham has taken part in a fierce lobbying campaign by the for-profit education industry. He has visited key members of Congress, written an op-ed article for the Wall Street Journal and hired for The Post Co. high-powered lobbying firms including Akin Gump and Elmendorf Ryan, at a cost of $810,000 in 2010. The Post has also published an editorial opposing the new federal rules, while disclosing the interests of its parent company.

One person sent by The Post Co. in the late 1980s to scout for higher education companies to buy — he recommended against making any acquisitions — said the idea was "to avoid these types of conflicts."

But Graham sees no conflict between his public rallying for Kaplan and the mission of the newspaper he inherited. He says he's defending Kaplan just as his company — and his mother, Katharine Graham — went to bat for the newspaper when it pursued the Watergate scandal or printed the Pentagon Papers, the top-secret history of the Vietnam War.

And the fate of The Post Co. has become inextricably linked with that of Kaplan, where revenue climbed to $2.9 billion in 2010, 61 percent of The Post Co.'s total. (Meanwhile, the original test prep business is losing money and closing centers.)

"The company is more dependent than ever on a single business," Graham wrote in last year's annual report, adding that the newspaper had never accounted for as large a share of overall company revenue as Kaplan does today. "This new order of things suggests that shareholders are looking at a different set of realities," Graham said.

Some of those realities have been painfully evident. Analysts looking at Kaplan and The Post Co. from the outside say the reasons lie within.

"The incentives at the ground level are extraordinarily high to enroll as many students as possible irrespective of the outcome," said Bradley Safalow, chief executive of PAA Research, a stock analysis firm. "The primary issue for The Washington Post appears to have been a lack of steadfast oversight. They have

to make drastic changes. The company's going to shrink for a few years here, at least."

Kaplan and The Post Co. aren't waiting to find out what the Education Department does next.

In December, the company's higher-education division laid off 770 workers, or 5 percent of its workforce. It is pivoting away from the company's traditional focus on serving poor students. New Kaplan students (or their families) will probably have more income and greater interest in earning a master's degree than a dental-hygienist certificate.

There will be fewer students, too. The Post Co.'s Kaplan education division reported a 47 percent plunge in new enrollments for the fourth quarter.

"The Kaplan story has been one of reinvention over time," Rosen said. "The return is five, eight, 10 years out. . . . We're not just a company trying to make next year's numbers."

Despite the slowdown, Kaplan remains the largest part of The Post Co.'s business. Its operating income in 2010 was up 70 percent, to $330.9 million, compared with 2009. But its profits will fall steeply and abruptly this year.

"If we were guilty of anything, it was excessive optimism," one senior Post executive said of Kaplan. "Did they sail too close to the wind? I think the wind was just blowing so incredibly strongly in their direction."

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