

Plunge of For-Profit College Stock Makes Sperling Rail at Obama

By Daniel Golden - Dec 29, 2010

As a humanities professor at San Jose State University from 1961 to 1973, [John Sperling](#) pioneered remedial reading classes for Mexican Americans and courses in social problems for police officers.

Defying the education establishment, he expanded such programs into the for-profit University of Phoenix, now largely online and the biggest U.S. university, with almost 500,000 students. Sperling and his proteges transformed a backwater of mom-and-pop trade schools into a \$30 billion industry attracting [Washington Post Co.](#) and [Goldman Sachs Group Inc.](#) as investors. For-profit colleges enroll 12 percent of U.S. undergraduates and consume 24 percent of U.S. Pell grants for low-income students.

Now those colleges, after flourishing under loosened regulations during George W. Bush's presidency, are under attack from President Barack Obama's administration, which wants to tighten the rules. Stock prices for the parent companies of for-profit colleges have plunged.

The colleges use deceptive practices to lure homeless people, veterans and individuals who aren't prepared for college into unsuitable courses in order to obtain tuition funded by grants and also by federal loans that students have trouble repaying, according to advocates for the homeless, veterans' groups and current and former students. Almost 90 percent of Phoenix's students use federal grants or loans to pay tuition.

Defending Apollo

The 89-year-old Sperling, whose fortune peaked at \$1.9 billion in 2005, and who had until recently been tending to non-educational interests ranging from cloning to longevity, has plunged back into the fight to defend his creation. As the value of his Apollo common stock plummeted by about \$300 million this year, he traveled at least twice to Washington, drawing on his history of donations to Democrats to see [Senate Majority Leader Harry Reid](#) and other legislative leaders.

In one meeting with Congressional staff members, Sperling, leaning on a cane, railed against the

Obama administration, saying it was manipulated by investors betting against higher- education stocks, according to an aide who attended. This person requested anonymity because the meeting was private.

Anticipating that Apollo's growth would decelerate, investors stepped up [short sales of Apollo stock](#) early in 2008, to a level that was almost reached again in 2009 as the Obama administration embarked on tighter regulation, Trace Urdan, a Signal Hill analyst, said in an e-mail.

Apollo [peaked at \\$97.93](#) in Nasdaq Stock Market composite trading in June 2004 as the company reaped more federal financial aid from the Bush administration's easing of restrictions on the industry's growth.

Share Decline

The shares traded as high as \$89.22 in January 2009, days before Obama's inauguration. Apollo has since [declined 57 percent](#), compared with a 48 percent rise in the Standard & Poor's 500 index, because of Obama administration proposals to limit recruiting and access to federal financial aid --linchpins of the company's strategy in the past decade.

In September, Sperling sent every member of Congress a [74- page PowerPoint presentation](#) making the case that, while four- year public and private nonprofit colleges cost taxpayers \$9,709 and \$6,379 a student respectively, for-profit colleges pay taxes and save the government money.

He personally made almost \$100,000 in campaign donations for the 2010 elections, while Apollo Group's political-action committee gave \$92,100 to federal candidates, including \$15,000 to [George Miller](#), the outgoing chair of the House education committee, and \$14,000 to John Boehner, the incoming House speaker. Starting with the 2002 campaign, Apollo Group's PAC has given Boehner \$36,600, more than any other member of Congress.

'Legacy at Stake'

"This is his legacy at stake," Suzanne Helburn, an economist who is a longtime friend of Sperling, said in a telephone interview. "The thought of it being dismantled by some arbitrary government policy infuriates him."

Sperling's defense of his industry is based largely on the argument that for-profit colleges expand poor people's opportunities to get degrees and jobs.

The administration's "onerous" initiatives "would make it impossible for the sector to offer many

programs” that prepare students to be teachers, nurses and police officers, and “would have a devastating impact on institutions that enroll low-income students,” Sperling wrote members of Congress on Sept. 1. “It would seem wiser to restore the status quo ante.”

Sperling himself says this lobbying has galvanized opposition to the proposed regulations and set the stage for a battle in the next Congress between the Obama administration and ascendant Republicans.

“Our hard work is paying off,” Sperling said in an e-mail relayed through Helburn.

‘Political Influence’

“John Sperling carries more political influence than I think a lot of people realize,” said [Raul Grijalva](#), an Arizona Democrat and member of the House education committee. “When he comes to Congress, people listen. His word carries a lot of weight, and it’s been that way for a long time.”

Sperling sought to sway Grijalva in a meeting on Capitol Hill around the beginning of September.

“His pitch to me was that, by overregulating for-profit colleges, we are constricting the access of people of color to higher education,” Grijalva, who has received campaign donations from Sperling, said in a telephone interview.

“My response is, to have someone saddled with a debt they can’t pay back, and they don’t finish school, and put their financial lives in jeopardy, that’s a double-edged sword. The community colleges are there, that’s accessible and inexpensive.”

Union Organizer

An unlikely mogul, Sperling is a mix of pragmatist and populist, entrepreneur and social reformer, whose corporate interests don’t mesh neatly with his political views. He’s a former union organizer who runs a nonunion university, and a self-described ex-socialist whose company became a Wall Street darling. While he coauthored a book calling for an end to corporate welfare, his for-profit university depends on federal aid for 88 percent of its revenue.

A Democrat who has given almost \$300,000 since 1994 to the party’s senatorial and congressional campaign committees, he owns a publishing house that attacks Republican politicians, and he supports the repeal of laws that criminalize marijuana. His restless brain generates a stream of unorthodox ideas, some of which fizzled, such as cultivating crops in salt water.

Sperling, who turns 90 next month, works out daily and keeps tabs on Apollo from his home office, former University of Phoenix president Jorge Klor de Alva said in a telephone interview. Sperling takes 30 pills a day, following a regimen set by a now-defunct longevity clinic that he established. After stepping down as chief executive officer in 2001 and chairman in 2004, Sperling returned as Apollo's acting executive chairman in 2006 and now is executive chairman. He and his son control 100 percent of the voting stock.

'Customer First'

Sperling was an early champion of online classes, shortened courses, electronic textbooks and marketing to adults -- innovations that traditional universities now are embracing.

"Sperling was probably the first university president to develop a model that was predicated on customer first," Richard Chait, a professor of higher education at Harvard University in Cambridge, Massachusetts, said in an interview.

Armed with his blueprint, former Apollo and Phoenix executives converted religious schools into for-profit colleges such as [Bridgepoint Education Inc.](#)'s Clinton, Iowa-based Ashford University and [Grand Canyon Education Inc.](#)'s Phoenix-based Grand Canyon University. Under Sally Stroup, a former Phoenix lobbyist who headed federal higher-education policy, the Bush administration eased controls over for-profit colleges, spurring the past decade's expansion.

Choosing Growth

"At critical junctures, John chose growth over academic integrity, which ultimately diminished a powerful educational model," Robert W. Tucker, a former Phoenix senior vice president and coauthor with Sperling of "For-Profit Higher Education: Developing a World-Class Adult Workforce" (Transaction Publishers, 1999), said in a telephone interview.

Sperling's industry has grown through misleading sales pitches from recruiters who are paid on the basis of how many people they sign up, according to Senate education committee reports and testimony and an Aug. 4 Government Accountability Office report.

For-profit colleges in 2008 graduated just 22 percent of their first-time, fulltime students seeking bachelor's degrees, compared with 55 percent at public institutions and 65 percent at nonprofit private universities, according to the Washington-based National Center for Education Statistics. Only 36 percent of their students repay the loans, compared with at least 54 percent at traditional colleges, according to an analysis of government data by the Institute for College Access & Success, a nonprofit group in Oakland, California.

Stock Transactions

Alarmed by such disparities, the Education Department wants to cut off aid to for-profit colleges if their graduates don't earn enough to pay off student loans.

Sperling and his son, Apollo Vice Chairman Peter Sperling, have collected almost \$840 million in stock sales since 2003. The company disclosed in October that the Securities and Exchange Commission is looking at the company's insider-trading policies.

Apollo fell 21 cents, or less than a percent, to \$38.38 in trading yesterday. An [index](#) of 13 publicly traded for-profit education stocks declined 26 percent this year through yesterday.

For his part, Sperling, who declined to be interviewed and answered questions through Helburn, says [Phoenix](#) is investing hundreds of millions of dollars to improve graduation rates among low-income students.

'New Legacy'

If Phoenix succeeds, it "will have a new legacy of solving a problem no one else has solved, significantly increasing the education level of the U.S. workforce, making it possible for a significantly larger percent of people to achieve post-secondary degrees," Sperling said in an e-mail from Helburn.

Sperling divides his time between a Phoenix mansion with Andy Warhol paintings lining its entryway, and an Italianate home in San Francisco overlooking the Golden Gate Bridge. He keeps a 10-year-old Jaguar automobile at each place, Klor de Alva said in a telephone interview.

Twice divorced, Sperling has had an on-and-off relationship for 45 years with Joan Hawthorne, a memoirist who uses the pen name [Candida Lawrence](#). He enjoys plays and operas, and reciting Emily Dickinson's poetry. He dresses in khaki pants, a fisherman's hat, and "the kind of shirts you don't have to iron," Klor de Alva said.

Birthday Revelry

Sperling was celebrating a personal milestone when he set the for-profit college industry on its track to accelerate growth. At his 80th birthday party, in 2001, a comic opera was performed to praise his accomplishments, and 125 guests were given mock money with his face on it. Amid the revelry, he proclaimed a new goal: increasing Phoenix's enrollment fivefold to 500,000.

“It was intended as an inspirational message” rather than a formal plan, Sara Jones, an Apollo spokeswoman, who has since left the company, said in a 2009 e-mail.

Sperling faced an obstacle: The university’s market was too small to fulfill his vision. Nor could it satisfy what he called “the unrelenting pressure to grow” from Wall Street after Apollo went public in 1994.

Since Sperling founded the university in 1976, it had catered to middle managers whose employers paid for them to finish their degrees. Students had to be at least 23 years old and have two years of work experience as well as prior college credits. After his 2001 party, Phoenix discarded these requirements.

‘New Sectors’

“It couldn’t grow any faster in the sector it was in,” said Tucker, CEO of [InterEd Inc.](#), a higher-education consulting company in McCall, Idaho. “The only solution was to identify new sectors.”

Sperling did just that. Reflecting his commitment to expand college access for disadvantaged students, he conceived of a two-year program for high-school graduates from low-income and non-English-speaking families, who would take classes at inner-city campuses along with an online component, he said in an e-mail from Helburn.

Enrollment was projected to grow to about 15,000 in 10 years, said [Lawrence M. Gudis](#), a former Apollo Group senior vice president who helped design the program, known as Axia College.

“John talked very passionately about having classes in malls in very, very poor neighborhoods in Los Angeles and Phoenix, where students wouldn’t normally have access to higher education,” and about recruiting faculty fluent in Spanish, Vietnamese and Cambodian, Gudis said in a telephone interview.

Online Unit

Plans changed when Apollo shares, after peaking in June 2004, slumped in the next two months. Apollo at the time was repurchasing Phoenix’s online unit, which had a separate tracking stock, and investors worried that the company was masking weakness in its ground-campus business, Signal Hill’s Urdan said. [Todd Nelson](#), Apollo CEO from 2001 to 2006, then converted Axia into an online program in hope of boosting enrollment and revenue, said Gudis, now a consultant to for-profit colleges.

Axia's student body soared to more than 200,000, increasing Phoenix's enrollment to [470,800 students](#), more than the total at all for-profit colleges in 2000. While Phoenix has campuses in 39 states, the District of Columbia, and Puerto Rico, most of its students attend online.

Dropout Rate

Axia also boosted Phoenix's dropout rate. The newcomers had "clearly different educational needs" that weren't suited to Phoenix courses, which were designed to draw on students' academic and work experience, Tucker said.

In 1998, 65 percent of Phoenix's 53,200 students attained degrees, Klor de Alva said. By contrast, two-thirds of the associate's degree students and half of the bachelor's degree candidates who entered Phoenix from July 2008 to June 2009 withdrew by August 2010, according to a Senate education committee report. The median length of enrollment at Phoenix is about four months.

"I certainly would never recommend them to a young student over a community college," David Breneman, a professor at the [University of Virginia](#) in Charlottesville and former dean of its school of education, who has studied the University of Phoenix, said in an e-mail. "For older adults with jobs, I think they provide a valuable option. For younger students without prior college experience or a job, I think they provide little value added."

Nelson declined to comment. Axia's conversion to an online program was driven by student demand, said Mark Brenner, an Apollo spokesman.

Biggest Funder

Because most of its students were low-income and qualified for federal grants and loans, Axia fostered Phoenix's dependence on its biggest source of funds, the Education Department. Phoenix derived 88 percent of its revenue from federal student aid in the year ended Aug. 31, up from 48 percent in fiscal 2001.

Reliance on federal funds is "a bad business model," Iowa Senator [Tom Harkin](#), the chairman of the Senate education committee, said in a telephone interview. "You get the maximum return by recruiting the lowest-income students, and getting rid of them as soon as possible."

Fanning Out

"I've been accused of being against private enterprise," Harkin said. "This is not private enterprise. Ninety percent of their money is coming from the taxpayer."

Phoenix executives trained under Sperling fanned out across the country, implementing Axia-like online programs for taxpayer-funded low-income students.

Founded in 2004 by a former Phoenix vice president named [Andrew S. Clark](#), [Bridgepoint Education Inc.](#) had 77,179 students on Sept. 30, up from 1,063 at the end of 2005. Almost all took classes exclusively online. Bridgepoint, based in San Diego, had \$521 million in revenue in the first nine months of this year, up 62 percent from the comparable period a year earlier, according to the company's filings. Its flagship Ashford University derived 86 percent of revenue from federal aid in 2009.

Former Apollo Group president [Brian Mueller](#) is CEO of Phoenix-based [Grand Canyon Education Inc.](#), which had 42,300 students on Sept. 30, of whom 91 percent were enrolled online. Grand Canyon had 8,422 students at the end of 2005.

Goldman Stake

Todd Nelson, the former CEO for Apollo, now holds the same title at Pittsburgh-based [Education Management Corp.](#), the No. 2 higher-education company by enrollment, with 158,300 students in October. New York-based Goldman Sachs, Wall Street's most profitable bank, owns a 39 percent stake in the company.

The sector also attracted Washington Post Co. Once known primarily for preparing high-school students for the SAT college-entrance examination, the company's Kaplan unit derived 63 percent of its revenue in the quarter ended Oct. 3 from its higher-education division. Kaplan has 112,000 students, of whom about 70,000 attend online.

[Jack Welch](#), former chairman and CEO of Fairfield, Connecticut-based General Electric Co., is an investor in [Chancellor University](#) in Cleveland, which named its online master's degree program in business administration after him.

Sperling and his industry got a boost from the election in 2000 of George W. Bush, who in 2002 named the former Apollo lobbyist [Stroup](#) to oversee higher education.

Recruitment Curb

Congress had passed a law in 1992 that cracked down on trade schools in such fields as hairdressing and truck driving, which garnered federal aid by siphoning off students from welfare and unemployment lines.

The law banned colleges from paying recruiters on the basis of how many students were enrolled and capped the percentage of revenue that the institutions could receive from the government.

To deter fraud by correspondence schools, for-profit colleges that provided more than 50 percent of their courses or enrolled more than 50 percent of their students for distance education -- meaning that professors and their students are in different locations -- were prohibited from receiving federal aid.

The Bush administration diluted these restrictions, starting with the incentive-compensation ban. In 2002, officials put into place 12 exemptions, or “safe harbors,” allowing for-profit colleges to pay recruiters on the basis of enrollment as long as it wasn’t the sole criterion. The government also reduced the penalty for colleges’ violations of the incentive-compensation law to fines, from suspension or loss of eligibility for student aid, according to an Oct. 20, 2002, memo issued by [William Hansen](#), then deputy secretary of education.

Lobbying for Apollo

Hansen, who left the administration in 2003, then lobbied for Apollo from 2006 to 2009, according to the Center for Responsive Politics, a Washington research group. Now president of Eagan, Minnesota-based [Scantron Corp.](#), a collector of student-performance data, Hansen declined to comment, as did Stroup, senior vice president at Scantron.

Apollo’s use of Hansen as a lobbyist was unrelated to his lowering of penalties for recruitment violations, said Brenner, the company spokesman.

Led by [John Boehner](#), then chairman of the House education committee, Congressional Republicans scrapped the 50 percent limit for online courses in 2006.

“We are dealing with antiquated regulations that may have been well-intentioned when put in place but today are simply a burden,” Boehner said at a 2004 hearing on the issue.

Underdog Sympathizer

Sperling’s childhood ingrained sympathy for the underdog. He grew up in rural Missouri, the sickly child of a drifter who beat him often. His father’s death, when Sperling was 15, “was the happiest day of my life,” he wrote in [“Rebel With a Cause”](#) (John Wiley & Sons, 2000), his autobiography. “It still is.”

After graduating from high school, Sperling joined the merchant marine, where he read widely in

his spare time. He earned a bachelor's degree from [Reed College](#) in Portland, Oregon, followed by graduate study at the University of California at Berkeley. There he met Virginia Sperling, his second wife.

"We were beatniks and we loved it," Virginia Sperling, 84, said in a telephone interview. "We lived in a co-op. We were all sort of outcasts."

Sperling earned a doctorate in economic history from Cambridge University in Cambridge, England. He now funds scholarships for Reed graduates to study at Cambridge, according to Reed's website. Reed and Cambridge will receive donations through Sperling's will, Helburn said. "He has great affection for his alma maters," she said.

'So Driven'

Raising a family held little appeal for her ex-husband, said Virginia Sperling, a dancer and art dealer, who is Peter Sperling's mother.

"He was so driven," she said. "He always felt that a family would be a distraction. His theory is, you can't be a genius and have a family."

Nor did the academic career on which he embarked after Cambridge fulfill him.

"When we were at a party, he would often grab me by the arm and say, 'My boy, there's not a group on the face of the earth more boring than the professoriat,'" said Tucker, the former Phoenix executive.

Sperling led a faculty strike at [San Jose State University](#) in San Jose, California, in 1968, and the action's failure cost him the presidency of a union at California public universities. The following year, he and his students celebrated Earth Day with a protest against air pollution. They bought a new Ford Maverick automobile and buried it in a grave they dug on campus.

'Actively Engaged'

"John was unlike any other professor," said John Murphy, who was a San Jose State student and later worked as a Phoenix executive from 1977 to 1997. "He was actively engaged in bringing the university to the community. He didn't mind getting his hands dirty."

Training that Sperling ran for police officers and teachers about juvenile delinquency proved so popular that he turned it into the Institute for Professional Development, which offered adult

education under a contract with the [University of San Francisco](#).

Sperling made the institute a for-profit corporation because, after his ouster from the union presidency, he was “quite wary of creating another nonprofit organization some board could yank away from me,” he wrote.

Arizona Bound

The [Western Association of Schools & Colleges](#), the accrediting body for California, complained that San Francisco’s faculty hadn’t been consulted about the program. Faced with the threat of losing accreditation, the university cut ties with the institute in 1977. Sperling decamped to Arizona, with different accreditors, and established his own university.

There, Sperling barely staved off legislation giving control of private higher education to the state’s public universities.

Phoenix’s quest for acceptance was “was one nasty, brutal, bare-knuckled fight,” said Murphy, 64, a screenwriter and producer who is writing a history of the University of Phoenix during his time there. “Everything we did drove traditional education into absolute apoplexy. We didn’t know on Friday if we’d be open for business on Monday.”

At the urging of Phoenix’s vice president for product development, Sperling started an online campus in 1989 and stuck with it through unprofitable years.

“He persisted when virtually all of the institution was opposed to the idea,” Tucker said.

Ballot Measures

Once his gamble on for-profit higher education paid off, Sperling bet much of his newfound wealth on other interests. He invested more than \$10 million on 20 state-ballot questions from 1996 to 2008, seeking to treat rather than incarcerate marijuana offenders and legalize the substance for medical purposes, said Ethan Nadelmann, executive director of the [Drug Policy Alliance](#) in New York, who worked with Sperling on the proposals. Fifteen of the measures passed.

Sperling had less luck achieving a “second green revolution” that he envisioned for deserts in poor countries. In 2001, after a disagreement with the government of Eritrea, he pulled out of a joint venture to raise shrimp in Red Sea water and use the runoff to grow a crop tolerant of salt water, [Eric Rey](#), a consultant on the project, said in a telephone interview. Sperling now is majority owner of [Arcadia Biosciences Inc.](#), a Davis, California-based developer of technologies to reduce

greenhouse-gas emissions, said Rey, the company's CEO.

Anti-Aging Clinic

Sperling also shuttered an anti-aging clinic that he had opened in Phoenix and hoped would beget a for-profit growth industry. The Kronos center, which sought to slow degeneration associated with old age, charged patients thousands of dollars for comprehensive assessments that insurance rarely covered.

The Apollo founder owns Polipoint Press, a Sausalito, California-based publisher that put out books this year advocating a public option for health-insurance buyers and likening the Republican right to the Taliban. The press also published "The Great Divide: Retro vs. Metro America," a 2004 manifesto -- coauthored by Sperling -- advising the Democrats to reduce defense spending and end corporate welfare.

"I'm one of the few surviving liberal economists, and he's more liberal than I am," Carl Hunt, one of Sperling's coauthors, said in a telephone interview.

Reluctant to lose his beloved dog, Missy, Sperling funded pet-cloning research by Texas A&M University in College Station, Texas, and now-defunct Genetic Savings & Clone Inc. While GS&C's successor, [BioArts International](#) in Mill Valley, California, succeeded in cloning the late Missy in 2007, it stopped replicating dogs in 2009 because of black-market competition from South Korea and unpredictable results, such as a clone born greenish-yellow instead of the expected white, according to the company's website.

'Not as Lovable'

The duplicate Missy lacks its predecessor's personality, Sperling's ex-wife said.

"The dog he paid millions to clone, he takes her to the park at the Presidio, she seems like a disappointment," Virginia Sperling said. "She's not as lovable as the original."

As pressure from Washington on for-profit colleges mounts, Sperling has cut back other enterprises to fight for his main business.

"A disproportionate amount of his time in the last 9-12 months has really been back on Apollo," said Josh Rosen, president and chief financial officer of [Southwest Solar Technologies Inc.](#), a Phoenix-based startup in which Sperling, its chairman and sole funder, invested \$40 million. "As the political environment has gotten more challenging, that has taken up more of his bandwidth."

He's "not the least retired," Joan Hawthorne wrote under her Candida Lawrence pseudonym in "Vanishing" (Unbridled Books, 2009). "He'll run his company until he drops."

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