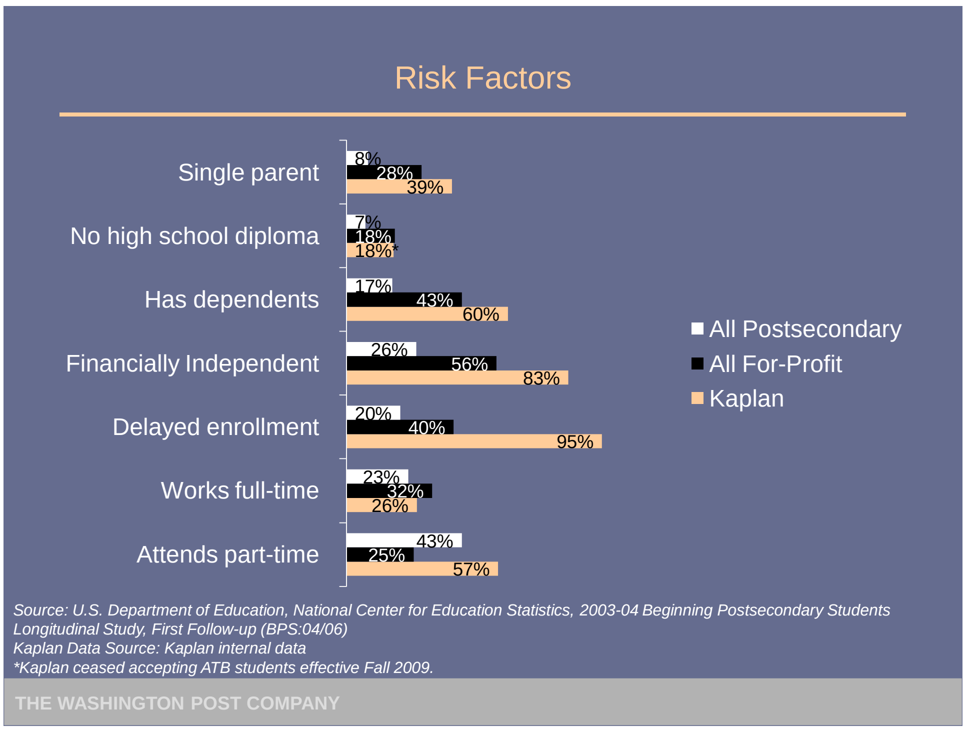
January 14, 2011

To our shareholders:

Here's an op-ed article on for-profit education from today's Wall Street Journal.

No piece of op-ed length can include lots of data: here are some points Kaplan's remarkable team has assembled over the last few months.

First, the Department of Education lists seven "risk factors" that make students less likely to succeed in graduating from college. Here are the seven factors and their prevalence in all of U.S. higher education, in for-profit education, and at Kaplan.



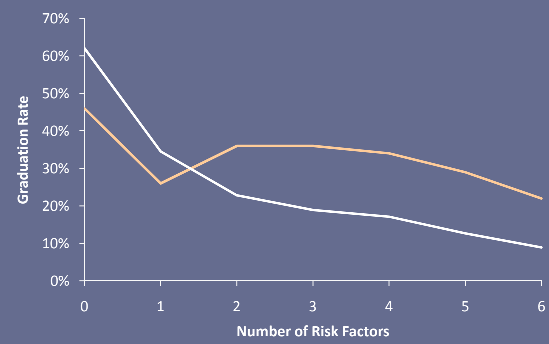
Clearly, our students have a lot going against them: the average student in all of U.S. higher education has one and a half risk factors. The average Kaplan student has four.

But many of them succeed:

Students with two or more risk factors have only a 17% graduation rate in undergraduate degree programs at all U.S. institutions of higher education. At Kaplan, the rate is 32%.

Comparative Graduation Rates by Risk Factors

Undergraduate Degree Students



2+ Risk Factor Graduation Rate	
National	Kaplan
17%	32%

National Data Source: National Center for Education Statistics, 2003-04 Beginning Postsecondary Students Longitudinal Study
Graduation rates include students pursuing Associate's and Bachelor's degrees
Kaplan Data Source: Kaplan internal data for comparable students, 2003-04

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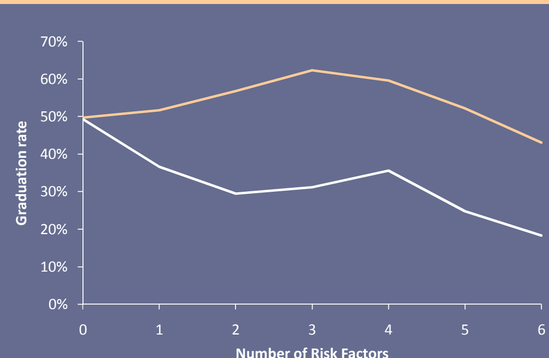
In courses lasting two years or less (associate's degree or certificate courses), our graduation rate, again, is much higher than that of public U.S. higher education for students with two or more risk factors.

Comparative Graduation Rates by Risk Factors

2-Year or Shorter Programs



2+ Risk Factor Graduation Rate	
Public	Kaplan
30%	58%

National Data Source: National Center for Education Statistics, 2003-04 Beginning Postsecondary Students Longitudinal Study
Graduation rates include students pursuing Associate's degrees and Certificates
Kaplan Data Source: Kaplan internal data for comparable students, 2003-04

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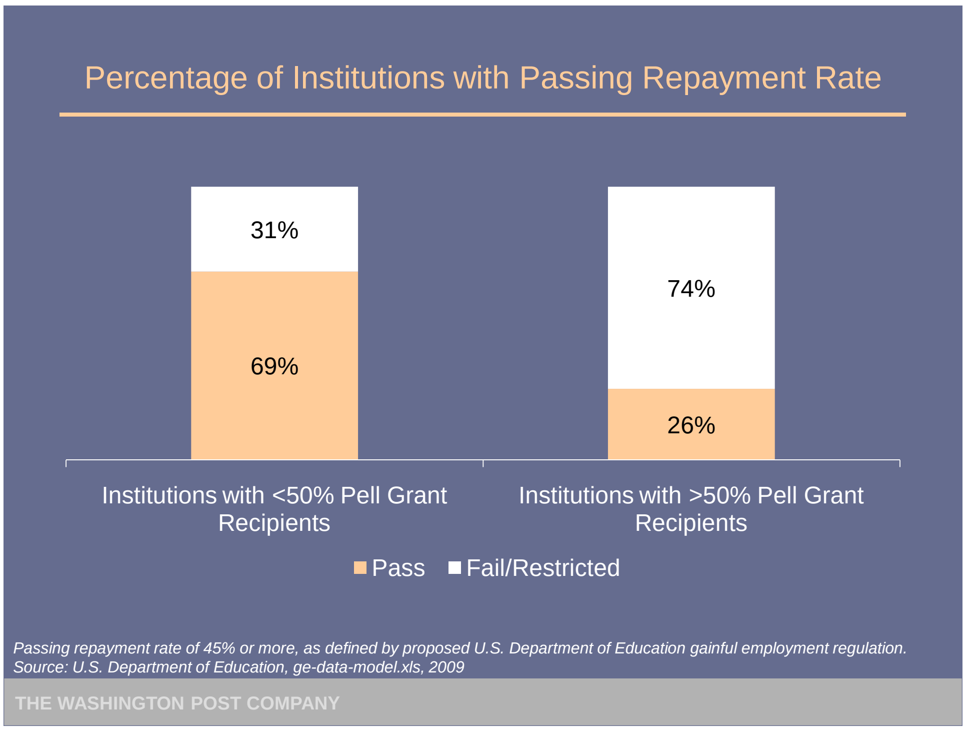
Finally, as this chart suggests, the U.S. Department of Education's proposed regulation, quite decently aiming at cracking down on "bad actors" in for-profit higher education, has instead scored a direct hit on schools that serve poor students. The regulation is complicated, but it likely shuts programs at for-profit schools if their "repayment rates" fall under 35% and severely punishes those below 45%. As the chart shows, most traditional colleges serving very poor students would fail the same tests (federal Pell grants go only to students from the lowest-income families).



This subject is complicated, but important—to our students, to Kaplan, and to the country. Decent people have different points of view. I would welcome your comments at grahamd@washpost.com and will try to reply where I can.

Don Graham

Avoiding Disaster for Low-Income Students

For-profits cost the taxpayers considerably less per student than any other form of higher education.

By DONALD E. GRAHAM

A disaster is shaping up for lower-income students who want a higher education. President Obama wants the U.S. to lead the world again in the percentage of adults with a college degree. (We currently rank 12th.) But his Department of Education has proposed new regulations that will make it more difficult for nontraditional and lower-income students to earn a college degree.

Most growth in student capacity over the past decade has come not from our public institutions but from for-profit, private institutions. These colleges—like Kaplan University, which my company owns, and the University of Phoenix—are taking on many of the lower-income, higher-risk students who can't find spaces in public institutions, or who need more support and schedule flexibility than the public system provides. If we want more graduates, we will need to rely in part on these colleges.

The federal government grants or lends the money that enables most American students, especially low-income ones, to go to college. So it is entirely appropriate that our colleges and universities—for-profit and not-for-profit—be regulated.

Such regulation should be designed to encourage excellence while expanding access. Unfortunately, the Department of Education's proposed regulations will do neither. While they start with good intentions—cracking down on "bad actors" in for-profit education and minimizing excessive student debt—their result will be less access for our nation's most needy students.

The proposed regulations would link programs' access to federal student aid to the loan-repayment rates of graduates and their debt-to-income ratio. In other words, they don't assess the quality of the education, and they limit the financial diversity of the students. These regulations, and recent scrutiny of for-profit colleges, stem from the following misconceptions:

• *Government payments subsidize for-profit colleges*. In fact, since state taxpayers foot the lion's share of the bills at state universities, for-profits cost the taxpayers considerably less per student than any other form of higher education. They also pay taxes.

The DOE's proposed regulations may start with good intentions, but the result will be less access for our nation's most needy students.

• *The students are lured by aggressive recruiters*. How is this for an answer to charges of aggressive recruiting: Since late last year, Kaplan students can take four to five weeks of for-credit courses and walk away with no tuition due and no debt incurred if they don't like any aspect of the program. We call it the Kaplan Commitment. You'd be pretty foolish to recruit students who are not a good fit if you must incur the expense of teaching them and they can drop out without paying.

• *For-profit students carry more debt and default risk*. That's because of the population we serve. It's true that poor students need to borrow more and are more likely to default on their loans. That is true whether they attend traditional or for-profit colleges. If the proposed regulations were to apply to traditional colleges, many that serve predominantly poor students would have to shut.

Nevertheless, students from low-income families know one thing: College is their best chance for advancement. Private-sector schools educate 12% of all higher-education students, but 25% of African-American students, 24% of Hispanic students and 28% of students whose parents did not complete high school. These students tend to be older, poorer and more likely to have kids and jobs.

• *Students don't graduate from your programs*. But they do. At Kaplan, for example, higher-risk students graduate at almost twice the rate—32% versus 17%—at which demographically comparable students graduate from all U.S. four-year institutions of higher education.

• *Your tuitions are too high*. There is a price-fixer in private education—it's called the U.S. government. Long-existing regulations all but eliminate price competition. We are willing to cut prices on some programs and keep them low for years in return for relief from regulations that mandate our tuitions.

• *The sector has grown too fast*. Critics point to the explosive growth of the sector as evidence of excessive recruiting. In fact (as I know, to my sorrow, from the newspaper industry), when something of value is offered online, it is often taken up quickly. For-profit universities offered online education long before any but a handful of traditional universities did.

Our regulators and critics are decent-minded people who in the largest sense want the same things we do: opportunity for students in a well-regulated education sector. Quality institutions don't chafe at well-crafted regulation; we welcome it.

But when a regulatory train starts running down the wrong track, it is very hard to stop it. Across-the-board comparisons that don't take into account the student populations being served are incomplete and lead to harmful conclusions.

With countries around the world turning their focus to education to build long-term competitive advantage, now is not the time to pull back on college access here. To avoid the disaster that is shaping up for lower-income students who want a higher education, it's time to take a second look at our government's current plans. To meet the president's goal, we're going to need all higher-education sectors pulling their load.

Mr. Graham is chairman of the board and chief executive officer of the Washington Post Company, which owns Kaplan Inc.