

K12 INC  
Form 10-Q  
November 06, 2009

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2009.**

**OR**

- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from        to        .**

**Commission file number: 001-33883**

**K12 Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**2300 Corporate Park Drive**

**Herndon, VA**

*(Address of principal executive offices)*

**95-4774688**

*(IRS Employer Identification No.)*

**20171**

*(Zip Code)*

**(703) 483-7000**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.05 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on November 3, 2009.

Common Stock, \$0.0001 par value    29,528,724 shares

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**K12 Inc.**  
**Form 10-Q**  
**For the Quarterly Period Ended September 30, 2009**

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited).****K12 INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

	<b>September 30, 2009</b>	<b>June 30, 2009</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 38,298	\$ 49,461
Restricted cash and cash equivalents	2,500	2,500
Accounts receivable, net of allowance of \$1,618 and \$1,555 at September 30, 2009 and June 30, 2009, respectively	106,766	52,532
Inventories, net	20,052	32,052
Current portion of deferred tax asset	4,318	3,888
Prepaid expenses	4,369	7,810
Other current assets	7,834	3,454
<b>Total current assets</b>	<b>184,137</b>	<b>151,697</b>
Property and equipment, net	44,827	37,860
Capitalized curriculum development costs, net	33,979	31,649
Deferred tax asset, net of current portion	9,572	14,619
Goodwill	1,825	1,825
Deposits and other assets	2,169	2,526
<b>Total assets</b>	<b>\$ 276,509</b>	<b>\$ 240,176</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 10,463	\$ 10,366
Accrued liabilities	10,011	7,329
Accrued compensation and benefits	4,883	8,291
Deferred revenue	24,060	3,389
Current portion of capital lease obligations	12,650	10,240
Current portion of notes payable	959	1,034
<b>Total current liabilities</b>	<b>63,026</b>	<b>40,649</b>
Deferred rent, net of current portion	1,661	1,699
Capital lease obligations, net of current portion	12,983	9,222
Notes payable, net of current portion	1,600	1,906

<b>Total liabilities</b>	79,270	53,476
<b>Commitments and contingencies</b>		
<b>Equity:</b>		
K12 Inc. stockholders' equity		
Common stock, par value \$0.0001; 100,000,000 shares authorized; 29,466,399 and 29,290,486 shares issued and outstanding at September 30, 2009 and June 30, 2009, respectively	3	3
Additional paid-in capital	346,901	343,304
Retained earnings (deficit)	(153,938)	(161,021)
Total K12 Inc. stockholders' equity	192,966	182,286
Noncontrolling interest	4,273	4,414
<b>Total equity</b>	197,239	186,700
<b>Total liabilities and equity</b>	\$ 276,509	\$ 240,176

*See notes to unaudited condensed consolidated financial statements.*

**K12 INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except share and per share data)

	<b>Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues</b>	\$ 106,325	\$ 88,625
<b>Cost and expenses</b>		
Instructional costs and services	58,093	54,421
Selling, administrative, and other operating expenses	33,327	22,835
Product development expenses	2,238	2,195
<b>Total costs and expenses</b>	93,658	79,451
<b>Income from operations</b>	12,667	9,174
<b>Interest (expense) income, net</b>	(357)	107
<b>Income before income tax expense and noncontrolling interest</b>	12,310	9,281
<b>Income tax expense</b>	(5,368)	(3,786)
<b>Net income</b>	6,942	5,495
<b>Add net loss noncontrolling interest</b>	141	419
<b>Net income K12 Inc.</b>	\$ 7,083	\$ 5,914
<b>Net income attributable to common stockholders per share:</b>		
Basic	\$ 0.24	\$ 0.21
Diluted	\$ 0.24	\$ 0.20
<b>Weighted average shares used in computing per share amounts (see note 3):</b>		
Basic	29,378,074	28,487,440
Diluted	29,948,550	29,499,102

*See notes to unaudited condensed consolidated financial statements.*

**K12 INC.****UNAUDITED CONDENSED STATEMENTS OF EQUITY**  
(in thousands, except share data)

	<b>K12 Inc. Stockholders</b>					
	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Noncontrolling</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Deficit</b>	<b>Interest</b>	
			<b>Capital</b>			
<b>Three months ended</b>						
<b>September 30, 2009</b>						
Balance, June 30, 2009	29,290,486	\$ 3	\$ 343,304	\$ (161,021)	\$ 4,414	\$ 186,700
Exercise of stock options	175,913		1,383			1,383
Stock based compensation expense			1,882			1,882
Excess tax benefit from stock-based compensation			332			332
Net income				7,083	(141)	6,942
Balance, September 30, 2009	29,466,399	\$ 3	\$ 346,901	\$ (153,938)	\$ 4,273	\$ 197,239

*See notes to unaudited condensed consolidated financial statements.*

**K12 INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 6,942	\$ 5,495
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation and amortization expense	6,233	4,446
Stock based compensation expense	1,882	529
Excess tax benefit from stock-based compensation	(332)	(2,194)
Deferred income taxes	4,949	3,674
Provision for doubtful accounts	63	70
Provision for inventory obsolescence	255	40
Reduction of student computer shrinkage and obsolescence	(260)	(6)
Changes in assets and liabilities:		
Accounts receivable	(54,297)	(58,409)
Inventories	11,745	6,632
Prepaid expenses	3,441	828
Other current assets	(4,379)	(4,021)
Deposits and other assets	340	28
Accounts payable	96	(367)
Accrued liabilities	2,682	3,271
Accrued compensation and benefits	(3,409)	(4,396)
Deferred revenue	20,671	21,825
Deferred rent	(37)	5
<b>Net cash used in operating activities</b>	<b>(3,415)</b>	<b>(22,550)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(2,853)	(2,397)
Capitalized curriculum development costs	(3,391)	(3,618)