

K12 INC  
Form 10-Q  
May 08, 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 March 31, 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Edgar Filing: K12 INC - Form 10-Q

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 May 4, 2009.

Common Stock, \$0.0001 par value 28,930,832 shares

---

**K12 Inc.**  
**Form 10-Q**  
**For the Quarterly Period Ended March 31, 2009**

Index

	<b>Page Number</b>
<b><u>PART I.</u></b>	
<b><u>Financial Information</u></b>	
<u>Item 1.</u> Financial Statements (Unaudited)	2
<u>Item 2.</u> Management's Discussion and Analysis of Financial Condition and Results of Operations	13
<u>Item 3.</u> Quantitative and Qualitative Disclosures About Market Risk	22
<u>Item 4T.</u> Controls and Procedures	23
<b><u>PART II.</u></b>	
<b><u>Other Information</u></b>	
<u>Item 1.</u> Legal Proceedings	23
<u>Item 1A.</u> Risk Factors	23
<u>Item 2.</u> Unregistered Sales of Equity Securities and Use of Proceeds	24
<u>Item 3.</u> Defaults Upon Senior Securities	24
<u>Item 4.</u> Submission of Matters to a Vote of Security Holders	24
<u>Item 5.</u> Other Information	24
<u>Item 6.</u> Exhibits	24
<b><u>Signatures</u></b>	25
EXHIBIT 31.1	
EXHIBIT 31.2	
EXHIBIT 32	

**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>March 31, 2009</b>	<b>June 30, 2008</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 56,437	\$ 71,682
Restricted cash	1,000	
Accounts receivable, net of allowance of \$1,056 and \$1,458 at March 31, 2009 and June 30, 2008, respectively	75,792	30,630
Inventories, net	23,296	20,672
Current portion of deferred tax asset	11,068	8,344
Prepaid expenses and other current assets	4,557	3,648
<b>Total current assets</b>	<b>172,150</b>	<b>134,976</b>
Property and equipment, net	39,144	24,536
Capitalized curriculum development costs, net	29,445	21,366
Deferred tax asset, net of current portion	7,589	12,749
Goodwill	1,825	1,754
Other assets, net	4,069	1,943
<b>Total assets</b>	<b>\$ 254,222</b>	<b>\$ 197,324</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 14,443	\$ 14,388
Accrued liabilities	9,967	4,684
Accrued compensation and benefits	5,053	10,049
Deferred revenue	13,479	3,114
Current portion of capital lease obligations	10,746	6,107
Current portion of notes payable	1,143	413
<b>Total current liabilities</b>	<b>54,831</b>	<b>38,755</b>
Deferred rent, net of current portion	1,678	1,640
Capital lease obligations, net of current portion	11,461	6,445
Notes payable, net of current portion	2,213	196

<b>Total liabilities</b>	70,183	47,036
<b>Commitments and contingencies</b>		
<b>Minority interest</b>	4,461	
<b>Stockholders equity</b>		
Common stock, par value \$0.0001; 100,000,000 shares authorized; 28,925,129 and 27,944,826 shares issued and outstanding at March 31, 2009 and June 30, 2008, respectively	3	3
Additional paid-in capital	339,930	323,621
Accumulated deficit	(160,355)	(173,336)
<b>Total stockholders equity</b>	179,578	150,288
<b>Total liabilities and stockholders equity</b>	\$ 254,222	\$ 197,324

*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 March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenues</b>	\$ 77,164	\$ 56,016	\$ 243,407	\$ 169,760
<b>Cost and expenses</b>				
Instructional costs and services	47,868	32,062	152,601	98,820
Selling, administrative, and other operating expenses	19,467	17,032	61,189	49,681
Product development expenses	2,415	2,542	7,015	7,529
<b>Total costs and expenses</b>	<b>69,750</b>	<b>51,636</b>	<b>220,805</b>	<b>156,030</b>
<b>Income from operations</b>	<b>7,414</b>	<b>4,380</b>	<b>22,602</b>	<b>13,730</b>
<b>Interest (expense) income, net</b>	<b>(361)</b>	<b>309</b>	<b>(518)</b>	<b>(383)</b>
<b>Income before income tax (expense) benefit and minority interest</b>	<b>7,053</b>	<b>4,689</b>	<b>22,084</b>	<b>13,347</b>
<b>Income tax (expense) benefit</b>	<b>(3,490)</b>	<b>(2,229)</b>	<b>(9,642)</b>	<b>3,323</b>
<b>Income before minority interest</b>	<b>3,563</b>	<b>2,460</b>	<b>12,442</b>	<b>16,670</b>
<b>Minority interest, net of tax</b>	<b>(16)</b>		<b>539</b>	
<b>Net income</b>	<b>3,547</b>	<b>2,460</b>	<b>12,981</b>	<b>16,670</b>
<b>Dividends on preferred stock</b>				<b>(3,066)</b>
<b>Preferred stock accretion</b>				<b>(12,193)</b>
<b>Net income attributable to common stockholders</b>	<b>\$ 3,547</b>	<b>\$ 2,460</b>	<b>\$ 12,981</b>	<b>\$ 1,411</b>
<b>Net income attributable to common stockholders per share:</b>				
Basic	\$ 0.12	\$ 0.09	\$ 0.45	\$ 0.12
Diluted	\$ 0.12	\$ 0.09	\$ 0.44	\$ 0.11
<b>Weighted average shares used in computing per share amounts (see page 7):</b>				
Basic	28,863,137	27,449,893	28,664,900	11,700,017
Diluted	29,466,247	28,780,389	29,613,784	12,706,126

*See notes to unaudited condensed consolidated financial statements.*

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

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Deficit</b>	<b>Total</b>
			<b>Capital</b>		
<b>Nine months ended March 31, 2009</b>					
Balance, June 30, 2008	27,944,826	\$ 3	\$ 323,621	\$ (173,336)	\$ 150,288
Exercise of stock options	980,303		7,219		7,219
Stock compensation expense			2,000		2,000
Excess tax benefit from stock-based compensation			7,090		7,090
Net income				12,981	12,981
Balance, March 31, 2009	28,925,129	\$ 3	\$ 339,930	\$ (160,355)	\$ 179,578

*See notes to unaudited condensed consolidated financial statements.*



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

	<b>Nine Months Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 12,981	\$ 16,670
<b>Adjustments to reconcile net income to net cash (used in) provided by operating activities:</b>		
Depreciation and amortization expense	14,914	8,859
Stock based compensation expense	2,000	1,026
Excess tax benefit from stock-based compensation	(7,090)	
Deferred income taxes	9,526	(3,447)
Provision for (reduction of) doubtful accounts	(402)	129
Provision for inventory obsolescence	35	37
Provision for student computer shrinkage and obsolescence	195	188
Minority interest, net of tax	(539)	
Changes in assets and liabilities, net of assets and liabilities acquired:		
Accounts receivable	(44,760)	(29,508)
Inventories	(2,659)	4,955
Prepaid expenses and other current assets	(901)	(39)
Other assets	(2,591)	(38)
Accounts payable	54	(569)
Accrued liabilities	5,283	739
Accrued compensation and benefits	(4,996)	1,352
Deferred revenue	10,365	5,575
Deferred rent	30	11
<b>Net cash (used in) provided by operating activities</b>	<b>(8,555)</b>	<b>5,940</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(10,605)	(5,127)
Purchase of domain name	(16)	(250)
Cash invested in restricted cash	(1,000)	
Cash paid in the acquisition of Power-Glide		(119)
Capitalized curriculum development costs	(10,695)	(8,544)
<b>Net cash used in investing activities</b>	<b>(22,316)</b>	<b>(14,040)</b>
<b>Cash flows from financing activities</b>		
Cash received from issuance of common stock, net of underwriters commission		74,493
Cash received from issuance of common stock Regulation S transaction		15,000
Deferred initial public offering costs		(3,226)
Net borrowings from revolving credit facility		(1,500)

Edgar Filing: K12 INC - Form 10-Q

Repayments for capital lease obligations	(6,358)	(3,340)
Proceeds from notes payable	3,130	
Payments on notes payable	(383)	(134)
Proceeds from exercise of stock options	7,147	96
Proceeds from minority interest contribution	5,000	
Excess tax benefit from stock-based compensation	7,090	
Payment of cash dividend		(6,406)
Repayment of bank overdraft		(1,577)
<b>Net cash provided by financing activities</b>	<b>15,626</b>	<b>73,406</b>
<b>Net change in cash and cash equivalents</b>	<b>(15,245)</b>	<b>65,306</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>71,682</b>	<b>1,660</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 56,437</b>	