



K12 Inc. Reports Third Quarter 2009 Results

May 8, 2009

K12's Quarterly Revenue up 38% on Strong Enrollment Growth

HERNDON, Va.--(BUSINESS WIRE)--May. 8, 2009-- K12 Inc. (NYSE:LRN), a leading provider of proprietary, technology-based curriculum and education services created for online delivery to students in kindergarten through 12th grade, today announced its results for the third quarter of fiscal year 2009.

Revenues for the third quarter of fiscal year 2009 (FY 2009) grew to \$77.2 million, an increase of 37.8 percent over the third quarter in the prior year, primarily due to strong enrollment growth. EBITDA increased 65.7 percent to \$13.4 million for the third quarter of FY 2009 over the same quarter in the prior year. Net income for the quarter was \$3.5 million as compared to net income of \$2.5 million in the same period in the prior year. Operating income improved to \$7.4 million, an increase of 69.3 percent as compared to the third quarter of fiscal year 2008 (FY 2008). Ron Packard, Chief Executive Officer of K12 Inc. stated, "We are pleased to be able to deliver these results, particularly in this environment, and we continue to see strong demand from state governments and students for our high-quality offering."

For the three months ended March 31, 2009 (Third Quarter of Fiscal Year 2009)

- Revenues for the third quarter were \$77.2 million, an increase of \$21.1 million or 37.8 percent, as compared to revenues of \$56.0 million for the third quarter of FY 2008. Average enrollments for the third quarter were 56,022, an increase of 33.2 percent over the third quarter of FY 2008.
- Operating income for the third quarter was \$7.4 million, an increase of \$3.0 million or 69.3 percent, as compared to operating income of \$4.4 million for the third quarter of FY 2008. Operating margins increased to 9.6 percent of revenue, representing a gross increase of 1.8 percentage points, as compared to 7.8 percent for the third quarter of FY 2008.
- Income tax expense for the third quarter was \$3.5 million, representing an effective tax rate of 49.5%, as compared to an income tax expense of \$2.2 million for the third quarter of FY 2008, representing an effective tax rate of 47.5%.
- Net income for the third quarter was \$3.5 million as compared to net income of \$2.5 million for the third quarter of FY 2008.
- Diluted net income per share for the third quarter of FY 2009 was \$0.12 as compared to diluted net income per share for the third quarter of FY 2008 of \$0.09.
- EBITDA for the third quarter was \$13.4 million, an increase of \$5.3 million or 65.7 percent, as compared to EBITDA of \$8.1 million for the third quarter of FY 2008. EBITDA as a percentage of revenue improved to 17.3 percent, representing a gross increase of 2.9 percentage points, as compared to 14.4 percent for the third quarter of FY 2008.

For the nine months ended March 31, 2009 (First nine months of Fiscal Year 2009)

- Revenues for the first nine months of FY 2009 were \$243.4 million, an increase of \$73.6 million or 43.4 percent, as compared to revenues of \$169.8 million for the first nine months of FY 2008. Average enrollments for the first nine months of FY 2009 were 55,647, an increase of 35.4 percent over the same period FY 2008.
- Operating income for the first nine months of FY 2009 was \$22.6 million, an increase of \$8.9 million or 64.6 percent, as compared to operating income of \$13.7 million for the first nine months of FY 2008. Operating margins increased to 9.3 percent of revenue, representing a gross increase of 1.2 percentage points, as compared to 8.1 percent for the first nine months of FY 2008.
- Income tax expense for the first nine months of FY 2009 was \$9.6 million, representing an effective tax rate of 43.7%. Income tax benefit for the first nine months of FY 2008 was \$3.3 million, due to a \$9.7 million reversal of the valuation allowance on net deferred tax assets. Had that reversal not occurred, the Company would have recorded an income tax expense of \$6.4 million, representing an effective tax rate of 47.6% for the first nine months of FY 2008.
- Net income for the first nine months of FY 2009 was \$13.0 million as compared to net income of \$16.7 million for the first nine months of FY 2008. Net income for the first nine months of FY 2008, excluding the \$9.7 million tax benefit, would have been \$7.0 million.
- Diluted net income per share for the first nine months of FY 2009 was \$0.44. On a pro forma basis, excluding the income tax benefit of \$9.7 million, diluted net income per share for the first nine months of FY 2008 would have been \$0.28.
- EBITDA for the first nine months of FY 2009 was \$37.5 million, an increase of \$14.9 million or 66.1 percent, as compared to EBITDA of \$22.6 million for the first nine months of FY 2008. EBITDA as a percentage of revenue improved to 15.4 percent, representing a gross increase of 2.1 percentage points, as compared to 13.3 percent for the first nine months of FY 2008.

Cash and Capital Expenditures

- As of March 31, 2009, the Company had cash and cash equivalents of \$56.4 million and net operating loss carryforwards of \$63.9 million.
- Capital expenditures for the nine months ended March 31, 2009 were \$21.3 million, primarily due to \$10.7 million for investments in capitalized curriculum and \$10.6 million in property and equipment. In addition, the Company financed equipment purchases of \$16.0 million through capital leases of which \$6.4 million of payments were made for the nine months ended March 31, 2009. These financed purchases include of \$15.1 million of computers and software for use by students.

FY 2009 Outlook

The Company is reconfirming the guidance issued on February 9, 2009 and is forecasting for full fiscal year 2009 revenues of approximately \$310 million to \$320 million, operating income of approximately \$19 million to \$22 million and EBITDA of approximately \$40 million to \$42 million.

In addition, the Company is forecasting for fiscal year 2009:

- Net income of approximately \$10.6 million to \$12.3 million
- Depreciation and amortization of approximately \$20 million to \$21 million
- Non-cash stock compensation expense of approximately \$2.7 million to \$3.0 million
- Interest expense, net of interest income of approximately \$0.9 million to \$1.0 million
- Estimated tax rate of approximately 44% to 45%
- Fully diluted shares outstanding of approximately 30 million to 31 million
- Capital expenditures of approximately \$43 million to \$45 million, including purchases of student computers

Forward Statements

This press release contains forward-looking statements within the meaning of federal securities regulations. These forward-looking statements are identified by their use of terms and phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “will,” “continue” and other similar terms and phrases, including references to assumptions and forecasts of future results. Forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially from those anticipated at the time the forward-looking statements are made. These risks include, but are not limited to: the reduction of per pupil funding amounts at the schools we serve; reputation harm resulting from poor performance or misconduct of other virtual school operators; challenges from virtual public school opponents; failure of the schools we serve to comply with regulations resulting in a loss of funding; discrepancies in interpretation of legislation by regulatory agencies that may lead to payment or funding disputes; termination of our contracts with schools due to a loss of authorizing charter; failure to renew existing contracts with schools; increased competition; and other risks and uncertainties associated with our business described in the Company’s filings with the Securities and Exchange Commission. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that the expectations will be attained or that any deviation will not be material. All information in this release is as of May 8, 2009, and the Company undertakes no obligation to update any forward-looking statement to conform the statement to actual results or changes in the Company’s expectations.

Conference Call

The Company will discuss the third quarter 2009 financial results and its outlook for fiscal year 2009 during a conference call scheduled for May 8, 2009 at 8:30 a.m. eastern time (ET).

The conference call will be webcast and available on the K¹² web site at www.K12.com through the investor relations link. Please access the web site at least 15 minutes prior to the start of the call to register and download and install any necessary software.

To participate in the live call, investors should dial 888-396-2298 (domestic) or 617-847-8708 (international) at 8:20 a.m. (ET). The participant passcode is 58225971.

A replay of the call will be available starting on May 8, 2009, through May 15, 2009, at 888-286-8010 (domestic) or 617-801-6888 (international) passcode 76476903. It will also be archived at www.k12.com in the investor relations section for 60 days.

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	March 31,	June 30,
	2009	2008

ASSETS

Current assets		
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
Total current assets	172,150	134,976
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
Total assets	\$ 254,222	\$ 197,324
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
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
Total current liabilities	54,831	38,755
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
Total liabilities	70,185	47,036
Commitments and contingencies		
Minority interest	4,461	—
Stockholders' equity		
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)
Total stockholders' equity	179,578	150,288
Total liabilities and stockholders' equity	\$ 254,222	\$ 197,324

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Revenues	\$ 77,164	\$ 56,016	\$ 243,407	\$ 169,760
Cost and expenses				
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
Total costs and expenses	69,750	51,636	220,805	156,030
Income from operations	7,414	4,380	22,602	13,730
Interest (expense) income, net	(361)	309	(518)	(383)
Income before income tax (expense) benefit and minority interest	7,053	4,689	22,084	13,347
Income tax (expense) benefit	(3,490)	(2,229)	(9,642)	3,323
Income before minority interest	3,563	2,460	12,442	16,670
Minority interest, net of tax	(16)	—	539	—
Net income	3,547	2,460	12,981	16,670
Dividends on preferred stock	—	—	—	(3,066)
Preferred stock accretion	—	—	—	(12,193)
Net income attributable to common stockholders	\$ 3,547	\$ 2,460	\$ 12,981	\$ 1,411
Net income attributable to common stockholders per share:				
Basic	\$ 0.12	\$ 0.09	\$ 0.45	\$ 0.12
Diluted	\$ 0.12	\$ 0.09	\$ 0.44	\$ 0.11
Weighted average shares used in computing per share amounts:				
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

Non-GAAP Financial Measures

EBITDA

EBITDA consists of net income minus interest income, minus income tax benefit, minus minority interest benefit, plus interest expense, plus income tax expense, plus minority interest expense and plus depreciation and amortization. Interest income consists primarily of interest earned on short-term investments or cash deposits. Interest expense consists primarily of interest expense for capital leases, long-term and short-term borrowings. We use EBITDA as a measure of operating performance. However, EBITDA is not a recognized measurement under U.S. generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax payments.

We believe EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company's operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired. Our management uses EBITDA as a measurement of operating performance, because it assists us in comparing our performance on a consistent basis, as it removes depreciation, amortization, interest and taxes. We also use EBITDA in presentations to the members of our board of directors to enable our board to have the same measurement basis of operating performance as is used by management to compare our current operating results with corresponding prior periods and with the results of other companies in our industry.

The following table provides a reconciliation of net income to EBITDA:

(in thousands)

Three Months Ended Nine Months Ended

	March 31,		March 31,	
	2009	2008	2009	2008
Net income	\$ 3,547	\$ 2,460	\$ 12,981	\$ 16,670
Interest expense (income), net	361	(309)	518	383
Income tax expense (benefit), net	3,490	2,229	9,642	(3,323)
Minority interest, net of tax	16	-	(539)	-
Depreciation and amortization	5,941	3,679	14,914	8,859
EBITDA	\$ 13,355	\$ 8,059	\$ 37,516	\$ 22,589

The following table provides a reconciliation of net income to EBITDA for the Full Year 2009 Outlook:

(in millions)

	Outlook	
	Full Year 2009	
	Low	High
Net income	\$ 10.6	\$ 12.3
Interest expense, net	1.0	0.9
Income tax expense, net	8.0	9.4
Minority interest	(0.6)	(0.6)
Depreciation and amortization	21.0	20.0
EBITDA	\$ 40.0	\$ 42.0

Pro Forma Net Income per Share

On December 18, 2007, the Company completed an initial public offering in which it sold 4,450,000 shares of common stock. Concurrently with the completion of the offering was the automatic conversion of outstanding preferred shares into 19,879,675 common shares. Also concurrent with the IPO, the Company paid dividends of \$6.4 million on its Series C preferred stock. The Company has provided pro forma net income per basic and diluted share for the three and nine months ended March 31, 2008 in this release, in addition to providing financial results in accordance with GAAP. The pro forma net income per basic and diluted share reflects the following for all periods presented: (i) weighted average effect of the IPO shares, (ii) elimination of preferred stock dividends, (iii) elimination of preferred stock accretion, (iv) conversion of the preferred shares to common shares as of the beginning of the period, and (v) elimination of the income tax benefit from the reversal of the deferred tax asset valuation allowance. The Company believes pro forma income per basic and diluted share provides useful information to investors by reflecting income per share on a more representative basis with future operations.

The following table provides a reconciliation of pro forma net income per share to the Company's actual results under GAAP for the three and nine months ended March 31, 2008 as follows:

(in thousands, except share and per share data)

	Three Months ended March 31, 2008			Nine Months ended March 31, 2008		
	As Reported	Adjustments	Pro forma	As Reported	Adjustments	Pro forma
Income before income tax expense	\$ 4,689	\$ —	\$ 4,689	\$ 13,347	\$ —	\$ 13,347
Income tax (expense) benefit, net	(2,229)	—	(2,229)	3,323	(9,695)	(6,372)
Net income	2,460	—	2,460	16,670	(9,695)	6,975
Less preferred stock dividends	—	—	—	3,066	3,066	—
Less preferred stock accretion	—	—	—	12,193	12,193	—
Net income available to common stockholders	\$ 2,460	\$ —	\$ 2,460	\$ 1,411	\$ 5,564	\$ 6,975
Net income per common share:						
Basic	\$ 0.09		\$ 0.09	\$ 0.12		\$ 0.29
Diluted	\$ 0.09		\$ 0.09	\$ 0.11		\$ 0.28
Weighted average common shares outstanding:						
Basic	27,449,893		27,449,893	11,700,017	12,361,543	24,061,560
Diluted	28,780,389		28,780,389	12,706,126	12,361,543	25,067,669

K12 Inc. (NYSE:LRN) is a leading provider of proprietary, technology-based curriculum and online education programs to students in grades K-12. K12 provides its curriculum and academic services to online schools, traditional classrooms, blended school programs, and directly to families. Over 50,000 students in 21 states are enrolled in online public schools using the K12 program. K12 Inc. also operates the K12 International Academy, a diploma-granting online private school serving students worldwide and accredited through the Southern Association of Colleges and Schools (SACS) and the Commission on International and Trans-Regional Accreditation (CITA).

K12's mission is to provide any child the curriculum and tools to maximize success in life, regardless of geographic, financial, or demographic circumstances. More information can be found at www.K12.com.

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Source: K12 Inc.

K12 Inc.

Investor Contact:

Keith Haas
SVP, Finance and Investor Relations
703-483-7077
khaas@k12.com

or

Press Contact:

Jeff Kwitowski
VP, Public Relations
703-483-7281
jkwitowski@k12.com