K12 INC
Form 424B3
June 05, 2012

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-178387

K12 INC.

PROSPECTUS SUPPLEMENT NO. 2 DATED JUNE 5, 2012

TO PROSPECTUS CONTAINED IN FORM S-1 REGISTRATION STATEMENT (FILE NO. 333-178387)

AS SUPPLEMENTED BY PROSPECTUS SUPPLEMENT NO. 1 DATED MARCH 30, 2012

This prospectus supplement supplements, and should be read in conjunction with, the prospectus contained in our Form S-1 Registration Statement (File No. 333-178387) as supplemented by our Prospectus Supplement No. 1 dated March 30, 2012 (the prospectus), relating to the potential sale of up to 4,000,000 shares of our common stock by the selling stockholders named in the prospectus. Capitalized terms used in this prospectus supplement have the same meaning as set forth in the prospectus. The purpose of this supplement is to supplement the disclosure contained in the prospectus with the following information:

Management s Discussion and Analysis of Financial Condition and Results of Operations provided in Part I, Item 2 of our Quarterly Report on Form 10-Q for the three and nine months ended March 31, 2012, filed with the Securities and Exchange Commission (the SEC) on May 9, 2012;

Legal Proceedings provided in Part II, Item 1 of our Quarterly Report on Form 10-Q for the three and nine months ended March 31, 2012, filed with the SEC on May 9, 2012;

Our unaudited consolidated financial statements as of and for the three and nine months ended March 31, 2012, as provided in Part I, Item 1 of our Quarterly Report on Form 10-Q, filed with the SEC on May 9, 2012; and

Information regarding the appointment of our new President and Chief Operating Officer as disclosed on Form 8-K filed with the SEC on April 23, 2012.

K12 INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements in this Management s Discussion and Analysis (MD&A), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements generally are identified by the words believe, project, expect, anticipate, estimate, intend, strategy, plan, may, should, will, would, will be, will continue, will likely result, and similar expressions. Historical results may not indicate future performance. Our forward-looking statements reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by these statements. Factors that may cause differences between actual results and those contemplated by forward-looking statements include, but are not limited to, those discussed in Risk Factors in Part I, Item 1A, of our Annual Report on Form 10-K (Annual Report). We undertake no obligation to publicly update or revise any forward-looking statements, including any changes that might result from any facts, events, or circumstances after the date hereof that may bear upon forward-looking statements. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

This MD&A is intended to assist in understanding and assessing the trends and significant changes in our results of operations and financial condition. As used in this MD&A, the words, we, our and us refer to K12 Inc. and its consolidated subsidiaries. This MD&A should be read in conjunction with our condensed consolidated financial statements and related notes included in this report, as well as the consolidated financial statements and MD&A of our Annual Report. The following overview provides a summary of the sections included in our MD&A:

Executive Summary a general description of our business and key highlights of the three and nine month periods ended March 31, 2012.

Critical Accounting Policies and Estimates a discussion of critical accounting policies requiring critical judgments and estimates.

Results of Operations an analysis of our results of operations in our condensed consolidated financial statements.

Liquidity and Capital Resources an analysis of cash flows, sources and uses of cash, commitments and contingencies, seasonality in the results of our operations, and quantitative and qualitative disclosures about market risk.

Executive Summary

We are a technology-based education company. We offer proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. Our mission is to maximize a child s potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since our inception, we have invested approximately $275 million to develop and, to a lesser extent, acquire curriculum and online learning platforms that promote mastery of core concepts and skills for students of all abilities. This learning system combines our curriculum and offerings with an individualized learning approach well-suited for virtual public schools, hybrid schools, school district online programs, public charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. We offer foreign language courses and camps with Middlebury Interactive Languages (MIL), our joint venture with Middlebury College. We also operate three online private schools: K12 International Academy, Keystone School and the George Washington

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University Online High School, as well as a brick and mortar private school, IS Berne. The Company currently has a 20% ownership interest in The Web International Education Group, Ltd. (Web) which provides English instruction to young adults in China. We also currently serve the post-secondary market through Capital Education LLC, a provider of online services to post-secondary institutions.

As with a traditional public school, a virtual public school or hybrid school must comply with state education regulations. The fundamental difference between traditional public schools and virtual public schools is that students attend virtual and hybrid public schools primarily over the Internet instead of traveling to a physical classroom. In their online learning environment, students receive assignments, complete lessons and obtain instruction from certified teachers with whom they interact online, telephonically, in virtual classroom environments and sometimes face-to-face. The majority of states have embraced virtual public schools or hybrid schools as a means to provide families with a publicly-funded alternative to a traditional classroom-based education. For parents who believe their child is not thriving and for whom relocating or attending a private school is not an option, virtual and hybrid public schools can provide a compelling choice. A hybrid school is a virtual public school that combines the benefits of face-to-face time for students and teachers in a traditional classroom setting along with the flexibility and individualized learning advantages of online instruction. From an education policy standpoint, virtual and hybrid public schools often represent a savings to taxpayers when compared with traditional public schools because they are generally funded at a lower per pupil level than the per pupil state average as reported by the U.S. Department of Education. Finally, because parents are generally not required to pay tuition to attend a public school, virtual and hybrid public schools make our learning system an attractive alternative within the public school system.

Our proprietary curriculum, online learning platform and varying levels of academic and management services, which can range from individual courses to complete turnkey online schools, are offered to our virtual public school, school district and private school partners. Virtual and hybrid public schools under turnkey management contracts (Managed Schools) account for approximately 84% of our revenue during the current fiscal year. For the 2011-12 school year, we manage schools in 29 states and the District of Columbia. In July 2010, through our acquisition of KC Distance Learning, Inc. (KCDL), we added iQ Academies and now manage these programs in five states where we also manage other virtual public schools. These Managed Schools generally are able to enroll students on a statewide basis. From time-to-time, service agreements with certain Managed Schools may not be renewed by us or the customer, although students are usually able to migrate to other Managed Schools serving the particular state.

We currently serve over 2,000 school districts or individual schools in all 50 states. The services we provide to these districts are designed to assist them in launching their own virtual school or hybrid programs and vary according to the needs of the individual school districts and may include teacher training programs, administrator support and our student account management system. With our services, districts can offer programs that allow students to participate full-time, as their primary school, or part-time, supplementing their education with core courses, electives or credit recovery options. We are serving a growing number of schools and school districts enabling them to offer our course catalogue to students either full-time or on an individual course basis. We have established a dedicated sales team to focus on this sector and, through our acquisition of KCDL, specifically Aventa, in July 2010 and The American Education Corporation (AEC) in December 2010, we increased the size and expertise of our sales team, added a reseller network, and expanded our course portfolio.

We manage four private schools where parents can enroll students on a tuition basis for either a full-time online education or individual courses to supplement their children s traditional instruction. In 2008, we launched the K12 International Academy, a private school that we operate using our curriculum. This school is accredited and enables us to offer students worldwide the same full-time education programs that we provide to the virtual and hybrid public schools we manage, including the option to enroll in individual courses. This school is organized as a private international school and enrolled students can interact with their classmates from more than 85 countries. Through our acquisition of KCDL, we added The Keystone School, a private school that has been serving students for over 37 years and offers online and correspondence courses. In January 2011, we launched the George Washington University Online High School (GWUOHS), a program that offers our college preparatory curriculum and is designed for high school students who are seeking a challenging academic experience and aspire to attend top colleges and universities. In April 2011, we acquired the operations and substantially all the assets of the International School of Berne (IS Berne), a traditional private school located in Berne, Switzerland serving students in grades Pre-K through 12.

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We provide educational services to post-secondary institutions through our subsidiary, Capital Education. Programs are designed for colleges and universities seeking to build or expand their online presence. Our services include course development and distribution through a proprietary learning management platform, hosting and technical support, student advisory services and program administration.

We made a strategic investment for a 20% minority ownership interest in Web, a provider of English language training in China. This investment gives us the option by June 30, 2012 to: (i) purchase no less than 51% of Web before July 1, 2012, (ii) purchase all remaining equity interest between January 1, 2013 and December 31, 2015, (iii) put the shares back to Web for the $10 million investment plus interest, or (iv) maintain the 20% minority interest. Web serves learners of all ages including university students, government workers, and employees of international companies. Web currently has an extensive network of learning centers throughout China. Web education centers are outfitted with learning labs that use modern computer terminals and internet connections. Students can access our curriculum and other electronic learning resources from the Web centers. We are currently evaluating whether we will exercise our option to purchase additional interest in Web.

Across our educational programs, families come from a broad range of social, economic and academic backgrounds. They share the desire for individualized instruction so as to maximize their child s potential. Examples include, but are not limited to, families with: (i) students seeking to learn faster or slower than they could in a one size fits all traditional classroom; (ii) safety, social and health concerns about their local school; (iii) students with disabilities who are underserved in traditional classrooms; (iv) students with geographic or travel constraints; and (v) student-athletes and performers who are not able to attend regularly scheduled classes. Our individualized learning approach allows students to optimize their academic performance and, therefore, their chances of achieving their goals.

For the three months ended March 31, 2012, our total average enrollment was 147,728 students as compared to 101,030 students for the same period in the prior year, a growth rate of 46.2%. Our enrollments include students in Managed Schools, students in programs offered by school districts (Institutional Business) and students in our Private Schools. Students served through our Institutional Business and Private School offerings may enroll in a single course. For better comparability, these students are converted to full-time equivalents (FTEs) on a four course basis. We currently exclude selected programs from our reported enrollment. For example, we do not include students in our consumer channel as we do not monitor the progress of these students in the same way as we do in other programs. We typically sell our A+ curriculum as a site license. As these schools are not limited in the number of students who may access our curriculum, we do not include these students in our enrollment totals. We also exclude students from Capital Education and our classroom pilots. As our business continues to evolve and diversify, we will be evaluating other metrics that may be more useful to investors.

For the three months ended March 31, 2012, we increased revenues to $178.2 million from $130.3 million in the same period in the prior year, a growth rate of 36.8%. The growth of revenue in the quarter reflects our organic revenue growth in our core Managed Schools business, increases in revenue from our Institutional Business and Private Schools, plus revenue from our acquisition of the International School of Berne on April 1, 2011, and the Kaplan/Insight asset acquisition on July 1, 2011, neither of which were included in our prior period results. Our operating income increased to $11.6 million from $10.8 million in the same period in the prior year, a growth rate of 7.4%. Net income to stockholders increased to $6.7 million from net income to stockholders of $5.3 million, an increase of 26.4%. The increase in net income was primarily attributable to the increase in operating income and lower income tax expense compared to the same period in the prior year.

In the last two years, we completed several strategic transactions to accelerate our growth, expand our course catalogue and service offerings and extend our distribution capabilities. With these initiatives and our recent acquisitions, we believe we have improved our growth potential and the long-term ability to scale our business and operations. See Note 10 Business combination in the accompanying unaudited condensed consolidated financial statements for additional information on our acquisitions and investments.

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Acquisition of The American Education Corporation

In December 2010, we acquired the stock of The American Education Corporation (AEC) for a total cash purchase price of $35.2 million, including certain amounts held in escrow (which the Company received back) of $6.8 million and cash of $3.8 million, resulting in a net purchase price of approximately $24.6 million. AEC is a leading provider of research-based core curriculum instructional software for kindergarten through adult learners. The acquisition increased our portfolio of innovative, high quality instruction and curriculum used by school districts all over the country.

Investment in Web International Education Group, Ltd.

In January 2011, we invested $10 million in cash in Web International Education Group Ltd. (Web). This investment gives us a 20% minority interest in Web, with the option by June 30, 2012 to: (i) purchase no less than 51% of the shares of Web, (ii) purchase all remaining equity interest between January 1, 2013 and December 31, 2015, (iii) put the shares back to Web for the $10 million investment plus interest, or (iv) maintain the 20% minority interest. Web is a provider of English language training for learners of all ages throughout China with an extensive network of learning centers in cities throughout the country. We are currently evaluating whether we will exercise our option to purchase additional interest in Web.

Acquisition of International School of Berne

In April, 2011, we finalized our acquisition of the operations of the International School of Berne (IS Berne) for 2 million Swiss Francs ($2.2 million). IS Berne is a traditional private school located in Berne, Switzerland serving students in grades Pre-K through 12. IS Berne is an International Baccalaureate school in its 50th year of operation. We acquired substantially all of IS Berne s assets, excluding real estate, and our purchase provided us with the right to operate the school.

Investment by Technology Crossover Ventures in K12 Inc.

In April 2011, we completed a private placement sale of 4 million shares of restricted Common Stock at a price of $31.46 per share to investment funds affiliated with Technology Crossover Ventures (TCV). The proceeds of $125.8 million were unrestricted and may be used for acquisitions, strategic investments and general corporate purposes. Under the terms of the transaction, our Board of Directors (Board) appointed a director nominated by TCV to the Board to hold office until the next annual meeting of stockholders and on December 22, 2011, the TCV nominee was elected by the stockholders at the Company s annual meeting. Additionally, we granted TCV the right to participate on a pro-rata basis in any subsequent private offerings of Common Stock by the Company, subject to certain exclusions such as issuances in connection with acquisitions or employee equity plans. As provided by the terms of the transaction, we filed a resale registration statement with respect to these shares with the Securities and Exchange Commission on December 8, 2011 and the shelf-registration became effective on December 28, 2011.

Acquisition of Assets from Kaplan Virtual Education

In July 2011, we completed the purchase of certain assets and Insight School management contracts (Kaplan/Insight Assets) of Kaplan Virtual Education, a subsidiary of Kaplan, Inc. The Kaplan/Insight Assets included contracts to serve online public schools in eight states serving students in grades 6-12. The acquisition allows us to serve more students with multiple curriculum platforms, leverage the Insight School brand in certain schools to create a differentiated product offering for at-risk students and leverage our existing virtual academy operations. The Kaplan/Insight Assets have been integrated with our online charter school operations.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the

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determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our consolidated financial statements. Critical accounting policies are disclosed in our fiscal year 2011 audited consolidated financial statements, which are included in our Annual Report. Other than those described in the condensed consolidated financial statements, there have been no significant updates to our critical accounting policies disclosed in our Annual Report.

Financial Statement Overview

The Company has experienced a number of changes that affect the comparability of period to period financial results. These changes include: the acquisition of KCDL on July 23, 2010; the acquisition of American Education Corporation (AEC) on December 1, 2010; the acquisition of the International School of Berne on April 1, 2011; and the acquisition of Kaplan Virtual Education and Insight Schools (Kaplan/Insight Assets), on July 1, 2011. The operating activities from these acquisitions are included in our third quarter and year to date financial results. The prior year to date results include KCDL for approximately eight months and AEC for four months.

The third quarter and year to date results include operating activities associated with investments to support our growth and business expansion that were not incurred during the prior year periods. These investments include our internal business support systems, a second data center to support operations, and expansion of our products and services into new international, academic and institutional sales markets. Certain business support systems and a second data center were under development during prior periods and development costs were generally capitalized. The third quarter includes maintenance and license costs, depreciation and other operating costs associated with operating these assets. The operating costs associated with maintaining these systems will continue in future periods.

Our student enrollment has experienced a shift in the mix of students in our programs with an increased level of high school students as compared to prior periods. The shift occurred from organic growth in our Virtual Academies, expansion of our private schools, and our acquisition of Kaplan/Insight Assets, which only included students in grades 6-12. Our continued expansion into the institutional sales business and private school markets also shifts the mix of our revenue and associated costs of providing services, including additional sales personnel, third party distributor costs and third party royalty costs for our institutional sales business. We may continue to experience changes in our enrollment, revenue and cost mix as we continue expansion into markets different than our traditional Virtual Academy business. Our other nascent businesses have not yet reached scale and are creating negative pressure on margins.

We incurred transition and integration costs during the current year to date period associated with the acquisition of the Kaplan/Insight Assets and temporary teach out costs associated with private school students acquired in the acquisition. During the three months ended March 31, 2012, we have incurred additional legal costs defending various litigation against the Company. We believe that all the above factors, particularly the large infrastructure investments, mergers and the lower current year capitalization rate for various development projects, reduce the comparability of our operating results for the periods ended March 31, 2012 with the comparable 2011 periods.

Funding Overview

State education budgets remain under pressure due to the current economic environment, and public school funding levels, including for the online public schools that we manage, have been reduced in many states over the past few years and even mid-year adjustments have occurred. We routinely monitor state legislative activity and regulatory proceedings that might impact the funding received by the schools we serve and to the extent possible, factor potential outcomes into our business planning decisions. We have taken reserves during the current year in light of certain funding proposals and for individual school deficit allowances in several states. In addition, because of current economic pressures on state funding, some states are delaying their payments to public schools. We have experienced delays in receiving payments from our Managed Schools that are dependent on state funding before remitting payment to us. As a result of these deferred payments, we have experienced higher accounts receivable throughout the third quarter and year, which has negatively impacted our cash position and cash provided from operations. We currently expect to receive payment from certain states that have deferred payment in the early part of our 2013 fiscal year.

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Results of Operations

Enrollment

Our reported total average enrollments include students in Managed Schools, students taking K12 curriculum or Aventa online programs offered by school districts (Institutional Business), and students in Private Schools. Students served through our Institutional Business and Private School offerings may enroll in a single course. For better comparability, these students are converted to full-time equivalents (FTEs) on a four course basis. We currently exclude selected programs from our reported enrollment. For example, we do not include students in our consumer channel as we do not monitor the progress of these students in the same way as we do in other programs. We typically sell our A+ curriculum (acquired with AEC) as a site license. As these schools are not limited in the number of students who may access our curriculum, we do not include these students in our enrollment totals. We also exclude students from post-secondary institutions served by Capital Education and our classroom pilots. As our business continues to evolve and diversify, we will be evaluating other metrics that may be more useful to investors.

Total average enrollments for the three months ended March 31, 2012 increased to 147,728 or 46.2% as compared to 101,030 for the same period in the prior year. High school students comprised 44.8% of public school enrollment as compared to 26.1% in the same period in the prior year. Enrollments in Managed Schools for the three months ended March 31, 2012 increased 46.4% to 105,912 from 72,344 for the same period in the prior year. Managed Schools include virtual and hybrid public schools.

Enrollments in Institutional Business for the three months ended March 31, 2012 increased 49.4% to 31,367 from 21,002 for the same period in the prior year. Our Institutional Business provides curriculum and services to schools and school districts. For better comparability, enrollments reported are converted to full-time equivalents (FTEs) on a four course basis.

Enrollments in Private Schools for the three months ended March 31, 2012 increased 36.0% to 10,449 from 7,684 for the same period in the prior year. Private schools include the K12 International Academy, Keystone, GWUOHS, and IS Berne. These private schools offer educational services on a full and part-time basis. For better comparability, enrollments reported are converted to full-time equivalents (FTEs) on a four course basis.

The following table sets forth average enrollment data by distribution channel for each of the periods indicated:

	Three Months Ending March 31,		Growth 2012 / 2011		Nine Months Ending March 31,		Growth 2012 / 2011	
	2012	2011	Change	Change %	2012	2011	Change	Change %
K12 Average Enrollment								
Managed Public Schools	105,912	72,344	33,568	46.4%	105,109	72,332	32,777	45.3%
Institutional Business	31,367	21,002	10,365	49.4%	29,981	19,674	10,307	52.4%
Private Schools	10,449	7,684	2,765	36.0%	10,125	7,650	2,475	32.4%
Total Average Enrollment	147,728	101,030	46,698	46.2%	145,215	99,656	45,559	45.7%

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The following table sets forth statements of operations data for each of the periods indicated:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Revenues	$ 178,175	$ 130,293	$ 538,005	$ 394,167
Cost and expenses				
Instructional costs and services	105,955	77,727	314,410	229,004
Selling, administrative, and other operating expenses	53,619	36,763	175,836	122,438
Product development expenses	7,012	4,972	20,810	12,318
Total costs and expenses	166,586	119,462	511,056	363,760
Income from operations	11,589	10.831	26,949	30,407
Interest expense, net	(265)	(307)	(722)	(970)
Income before income taxes and noncontrolling interest	11,324	10,524	26,227	29,437
Income tax expense	(4,638)	(5,260)	(11,311)	(14,310)
Net income	$ 6,686	$ 5,264	$ 14,916	$ 15,127
Add net loss attributable to noncontrolling interest	291	335	827	509
Net Income K12 Inc.	$ 6,977	$ 5,599	$ 15,743	$ 15,636

The following table sets forth statements of operations data as a percentage of revenues for each of the periods indicated:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	**2010**	**2011**	**2010**
Revenues	100.0%	100.0%	100.0%	100.0%
Cost and expenses				
Instructional costs and services	59.5	59.7	58.4	58.1
Selling, administrative, and other operating expenses	30.1	28.2	32.7	31.1
Product development expenses	3.9	3.8	3.9	3.1
Total costs and expenses	93.5	91.7	95.0	92.3
Income from operations	6.5	8.3	5.0	7.7
Interest expense, net	(0.2)	(0.2)	(0.1)	(0.2)
Income before income taxes and noncontrolling interest	6.3	8.1	4.9	7.5
Income tax expense	(2.6)	(4.0)	(2.1)	(3.6)
Net income	3.7%	4.1%	2.8%	3.9%

Add net loss attributable to noncontrolling interest	0.2	0.2	0.1	0.1
Net income K12 Inc.	3.9%	4.3%	2.9%	4.0%

We have included below a discussion of our operating results and significant items which explain the material changes in our operating results during the three and nine months ended March 31, 2012 as compared to the same periods in the prior year.

Comparison of the Three Months Ended March 31, 2012 and Three Months Ended March 31, 2011

Revenues. Our revenues for the three months ended March 31, 2012 were $178.2 million, representing an increase of $47.9 million, or 36.8%, as compared to revenues of $130.3 million for the same period in the prior year. This increase was primarily attributable to 46.2% increase in enrollments in all K12 programs from organic growth and acquisitions. Our acquisitions contributed approximately $9.3 million revenue growth during the three ending March 31, 2012 compared to the prior year period. Managed Schools revenues increased by $37.7 million to $151.8 million during the third quarter as compared to the prior year. Institutional Business revenues increased by $4.5 million to $14.4 million during the third quarter as compared to the prior year. Private Schools and other revenues increased by $5.7 million to $12.0 million during the third quarter as compared to the prior year.

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Instructional costs and services expenses. Instructional costs and services expenses for the three months ended March 31, 2012 were $106.0 million, representing an increase of $28.3 million, or 36.4%, as compared to instructional costs and services expenses of $77.7 million for the same period in the prior year. Instructional costs and services expenses decreased slightly as a percentage of revenue during the periods. The increase includes expenses to operate and manage schools including the Insight Schools acquired from KVE and newly launched schools. In addition, costs to supply curriculum, books, educational materials and computers to students increased $6.8 million associated with our increased enrollments.

Selling, administrative, and other operating expenses. Selling, administrative, and other operating expenses for the three months ended March 31, 2012 were $53.6 million, representing an increase of $16.8 million, or 45.7%, as compared to selling, administrative and other operating expenses of $36.8 million for the same period in the prior year. The primary drivers of this increase were: personnel costs, including salaries, benefits and incentive compensation; marketing; professional fees including student support center costs, the implementation costs of internal business support systems, legal costs associated with ongoing litigation and license and maintenance costs associated with internal infrastructure; and depreciation and amortization expenses. As a percentage of revenues, selling, administrative, and other operating expenses increased to 30.1% for the three months ended March 31, 2012 as compared to 28.2% for the same period in the prior year, primarily associated with the items identified above.

Product development expenses. Product development expenses include costs related to new products and information technology systems. For the three months ended March 31, 2012, product development expenses were $7.0 million, representing an increase of $2.0 million, or 40.0% as compared to $5.0 million for the same period in the prior year. The increase is primarily due to the increase in internal software development projects and other non-capitalizable work, which decreased the Company s capitalization rate. This increase was offset by decreased amortization costs for the period. Due to timing and nature of the projects, the capitalization rate during the period was lower than historical levels, resulting in higher current period expense. As a percentage of revenues, product development expenses increased slightly to 3.9% for the three months ended March 31, 2012 as compared to 3.8% for the same period in the prior year primarily due to the items identified above.

Interest expense, net. Net interest expense for the three months ended March 31, 2012 was $0.3 million as compared to net interest expense of $0.3 million for the same period in the prior year.

Income taxes. Income tax expense for the three months ended March 31, 2012 was $4.6 million, or 41.0% of income before income taxes, as compared to an income tax expense of $5.3 million, or 50.0% of income before taxes, for the same period in the prior year. The decrease in the tax rate is primarily due to a decrease in non-deductible transaction costs and other non-deductible expenses in the current period.

Noncontrolling interest. Noncontrolling interest for the three months ended March 31, 2012 was $0.3 million as compared to $0.3 million for the same period in the prior year. Noncontrolling interest reflects the after-tax losses attributable to stockholders in our joint venture in the Middle East and Middlebury Interactive Languages.

Comparison of the Nine Months Ended March 31, 2012 and Nine Months Ended March 31, 2011

Revenues. Our revenues for the nine months ended March 31, 2012 were $538.0 million, representing an increase of $143.8 million, or 36.5%, as compared to revenues of $394.2 million for the same period in the prior year. This increase was primarily due to organic revenue growth in our core schools business and enrollment growth. Managed Schools revenues increased by $105.5 million to $451.5 million during the nine months as compared to the prior year. Institutional Business revenues increased by $20.8 million to $49.7 million during the nine months as compared to the prior year. Private Schools and other revenues increased by $17.5 million to $36.8 million during the nine months as compared to the prior year.

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Instructional costs and services expenses. Instructional costs and services expenses for the nine months ended March 31, 2012 were $314.4 million, representing an increase of $85.4 million, or 37.3%, as compared to instructional costs and services expenses of $229.0 million for the same period in the prior year. This increase was primarily attributable to an increase in expenses to operate and manage schools including the Insight Schools acquired from KVE and newly launched schools. In addition, costs to supply curriculum, books, educational materials and computers to students increased $14.7 million due to our enrollment growth. As a percentage of revenues, instructional costs and services expenses remained relatively consistent at 58.4% compared with 58.1% for the nine month periods ended March 31, 2012 and 2011, respectively.

Selling, administrative, and other operating expenses. Selling, administrative, and other operating expenses for the nine months ended March 31, 2012 were $175.8 million, representing an increase of $53.4 million, or 43.6%, as compared to selling, administrative and other operating expenses of $122.4 million for the same period in the prior year. This increase was primarily attributable to increases in: personnel costs, including salaries, benefits and incentive compensation; marketing and student enrollment counseling; third party commissions related to the Company s institutional sales; accounting and internal and external audit fees related to the Company s public filing and tax returns; investment in the institutional sales organization and distribution network; professional fees which included costs associated with the internal business support systems, transaction costs, and legal costs associated with ongoing litigation, and license and maintenance costs associated with internal infrastructure; and depreciation and amortization expense. As a percentage of revenues, selling, administrative, and other operating expenses increased to 32.7% for the nine months ended March 31, 2012 as compared to 31.1% for the same period in the prior year.

Product development expenses. Product development expenses for the nine months ended March 31, 2012, were $20.8 million, representing an increase of $8.5 million, or 69.1%, as compared to $12.3 million for the same period in the prior year. Product development expenses include costs related to new products and information technology systems. The increase is primarily due to the increase of preliminary design work related to internal software development projects. Due to timing and nature of the projects, the capitalization rate during the period was lower than historical levels. As a percentage of revenues, product development expenses increased to 3.9% for the nine months ended March 31, 2012 as compared to 3.1% for the same period in the prior year primarily due to the items identified above.

Interest expense, net. Net interest expense for the nine months ended March 31, 2012 was $0.7 million as compared to net interest expense of $1.0 million for the same period in the prior year. The decrease in net interest expense is primarily due to lower average interest rates on capital lease obligations.

Income taxes. Income tax expense for the nine months ended March 31, 2012 was $11.3 million, or 43.1% of income before income taxes, as compared to an income tax expense of $14.3 million, or 48.6% of income before taxes for the same period in the prior year. The decrease in the tax rate is primarily due to a decrease in non-deductible transaction costs and other non-deductible expenses in the nine month period.

Noncontrolling interest. Noncontrolling interest for the nine months ended March 31, 2012 was $0.8 million as compared to noncontrolling interest of $0.5 million for the same period in the prior year. Noncontrolling interest reflects the after-tax losses attributable to stockholders in our joint venture in the Middle East and Middlebury Interactive Languages.

Liquidity and Capital Resources

As of March 31, 2012 and June 30, 2011, we had cash and cash equivalents of $123.7 million and $193.1 million, respectively, excluding restricted cash. The decrease of $69.4 million was primarily due to an increase in accounts receivable from our Managed Schools. Because of current economic pressures on certain states funding, some states have delayed their payments to public schools, and as a public school, we have experienced delays in receiving payments from some of our Managed Schools that are dependent on state funding before remitting payment to us. As a result, we have experienced higher accounts receivable throughout the current fiscal year than during prior fiscal years, which, in conjunction with an increase in capital expenditures, contributed to a reduction in

K12 INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

our cash position. The buildup of accounts receivable has also contributed to a reduction in our cash provided from operations during the current fiscal year. In addition, we used cash to acquire the Kaplan/Insight Assets and invest in capital expenditures and product development. We also provided working capital to operate the acquired Kaplan/Insight schools and launches of new schools. We financed our capital expenditures during the nine months ended March 31, 2012 primarily with cash and capital lease financing. As of March 31, 2012 and June 30, 2011, our cash balance included $6.7 million and $6.6 million, respectively, associated with our consolidated joint ventures.

In addition to our cash and line of credit availability, we had accounts receivable of $205.3 million and $96.2 million as of March 31, 2012 and June 30, 2011, respectively. Our accounts receivable provide an additional source of liquidity as cash payments are collected from customers in the normal course of business. Our accounts receivable balance fluctuates throughout the year based on the timing of customer billings and collections. Accounts receivable typically are at the highest levels in the first quarter as we begin billing for students and at the lowest levels during the fourth quarter as we receive final payments from the states. Our accounts payable and accrued expenses also impact our liquidity as cash payments are made to vendors in the normal course of business. Our accounts payable balance fluctuates throughout the year based on the timing of expenses incurred and tend to be highest in the first quarter as we prepare for the school year and students.

We have a $35 million line of credit with PNC Bank that expires December 2012. As of March 31, 2012 no borrowings were outstanding on the line of credit and approximately $0.3 million was reserved for a letter of credit. We intend to renew our line of credit prior to its expiration in December 2012.

We have amended our equipment lease line of credit with PNC Equipment Finance, LLC to increase the amount available for new purchases of student computers to $27.0 million through August 2012. The interest rate on the borrowings is set at the time of borrowing based upon interest rates in the Federal Reserve Statistical Release H.15. We intend to renew our equipment lease line of credit for future student computer financing prior to its expiration in August 2012 or to pursue other methods of financing student computers in future periods.

For the nine months ended March 31, 2012, we entered into capital leases totaling $25.6 million to finance the purchase of student computers and other equipment at an interest rate of approximately 2.76% bringing the total lease balance outstanding at March 31, 2012 to $34.1 million. These leases include a 36-month payment term with a bargain purchase option at the end of the term. Accordingly, we include this equipment in property and equipment and the related liability in capital lease obligations. In addition, we have pledged the assets financed with the equipment lease line to secure the amounts outstanding.

Our cash requirements consist primarily of day-to-day operating expenses, capital expenditures and contractual obligations with respect to facility leases, capital equipment leases and other operating leases. We lease all of our office facilities. We expect to make future payments on existing leases from cash generated from operations. We believe that the combination of funds currently available and funds to be generated from operations will be adequate to finance our ongoing operations for the foreseeable future. In addition, we continue to explore acquisitions, strategic investments, and joint ventures related to our business that we may acquire using cash, stock, debt, contribution of assets or a combination thereof. Should we exercise our option to make an additional investment in Web, we anticipate making the investment using our available cash or common stock or our available line-of-credit.

Redemption Right of Middlebury College

In the formation of our joint venture with Middlebury College (Middlebury), at any time after the fifth (5th) anniversary of the agreement, Middlebury may give written notice of its irrevocable election to sell all (but not less than all) of its Membership Interest to us (put right). Given the put right is redeemable outside of our control, it is recorded outside of permanent equity at its estimated redemption value. The purchase price for Middlebury s Membership Interest shall be its fair market value and we may, in our sole discretion, pay the purchase price in cash or shares of our common stock. We will record the redemption value of the redeemable noncontrolling interest on each balance sheet date in accordance with EITF Topic D-98 and any changes to the redemption value should be recognized as adjustments to retained earnings, or in the absence of retained earnings, by adjustment to additional

K12 INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

paid-in capital. As of March 31, 2012, the redeemable noncontrolling interest was $17.2 million. The agreement also includes a provision whereby, if certain milestones are not met related to expanding the business by June 2014, Middlebury will have the option to repurchase certain contributed assets at their fair market value.

Operating Activities

Net cash (used in)/provided by operating activities for the nine months ended March 31, 2012 and 2011 was $(13.5) million and $27.0 million, respectively. Cash from operations reflects the timing of cash collections from services provided and payment of operating costs to fund the continued growth and expansion of our business. The decrease in cash from operations was the result of increases in accounts receivable, prepaid expenses and other current assets, and decreases in accounts payable; offset by deferred revenue, depreciation expense, deferred taxes, accrued expenses and inventory. We have experienced delays in receiving payments of our accounts receivables from certain Managed Schools that are dependent on state funding before remitting payment to us. As a result, we have experienced higher accounts receivable throughout the current fiscal year than during the prior fiscal year, which has negatively impacted our cash flows from operations.

Accounts receivable balances tend to be at the highest levels in the first quarter as we begin billing for students. Deferred revenues are primarily a result of invoicing upfront fees, not cash payments. Deferred revenues increased primarily due to growth in enrollments and institutional sales. Deferred revenue balances tend to be highest in the first quarter, when the majority of students enroll, and are generally amortized over the course of the fiscal year.

The increase in accrued expenses is primarily due to the timing of payments to vendors and service providers for strategic marketing, student recruiting expenses, professional services, and equipment purchases. The decrease in inventories is primarily due to materials shipped to students, partially offset by purchases. Depreciation expense increased as a result of the Company s continued investment in infrastructure to support current and future growth, including capital expenditures.

Investing Activities

Net cash used in investing activities for the nine months ended March 31, 2012 and 2011 was $45.5 million and $68.6 million, respectively.

Net cash used in investing activities for the nine months ended March 31, 2012 was primarily due to purchases of property and equipment, including capitalized software, of $22.5 million, the purchase of Kaplan/Insight Assets of $12.6 million, and investment in capitalized curriculum development of $10.3 million, primarily related to the production of high school courses and middle school math courses.

Net cash used in investing activities for the nine months ended March 31, 2011 was primarily due to acquisition activities including the acquisition of AEC for $24.5 million (net of $3.8 million acquired cash and refunded escrow amounts), a $10 million investment of a 20% interest in Web International, and approximately $2.0 million for our acquisition of the International School of Berne, which formally closed on April 1, 2011. In association with the AEC acquisition, we deposited $6.8 million into a performance escrow with payment dependent on AEC achieving specified financial targets, and we were repaid the full $6.8 million during the period. In addition, investing activities included purchases of property and equipment, including capitalized software of $20.3 million, including $5.7 million for license and implementation of an enterprise software application, $2.2 million for expansion of our corporate offices, and $1.5 million for equipment in the build out of our second data center; investment in capitalized curriculum development of $11.7 million, primarily related to the production of high school courses, middle school math courses, and language courses.

In addition to the investing activities above, for the nine months ended March 31, 2012 and 2011, we financed through capital leases, purchases of student computers and other equipment in the amount of $25.6 million and $15.6 million, respectively.

K12 INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Financing Activities

Net cash used in financing activities for the nine months ended March 31, 2012 and 2011 was $10.6 million and $0.3 million, respectively.

For the nine months ended March 31, 2012, net cash used in financing activities was primarily due to payments on capital leases and notes payable of $13.4 million and the repurchase of restricted stock for income tax withholding of $1.3 million, partially offset by proceeds from the exercise of stock options of $3.1 million and the related tax benefit of $1.2 million.

For the nine months ended March 31, 2011, net cash used in financing activities was primarily due to repayments of capital lease and notes payable obligations of $12.4 million and withholding tax payments on vesting of restricted stock awards of $1.6 million, offset by proceeds from the exercise of stock options of $8.3 million, and the excess tax benefit from stock-based compensation of $5.4 million. During the period, we borrowed $15 million under our line of credit for the acquisition of AEC and subsequently repaid the amount with cash provided by operations. As of March 31, 2011, there were no borrowings outstanding on our $35 million line of credit.

Off Balance Sheet Arrangements, Contractual Obligations and Commitments

During the nine months ended March 31, 2012, we provided a guarantee of approximately $6.7 million related to a 10-year lease commitment on the building for a newly managed hybrid school. There were no other changes to our guarantee and obligations from those disclosed in our fiscal year 2011 audited consolidated financial statements.

Our contractual obligations consist primarily of leases for office space, capital leases for equipment and other operating leases. The total amount due under contractual obligations increased during the nine months ended March 31, 2012 primarily due to approximately $25.6 million for capital leases related to student computers, net of payments.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

At March 31, 2012 and June 30, 2011, we had cash and cash equivalents totaling $123.7 million and $193.1 million, respectively. Our excess cash has been invested primarily in U.S. Treasury money market funds although we may also invest in money market accounts, government securities, corporate debt securities and similar investments. Future interest and investment income is subject to the impact of interest rate changes and we may be subject to changes in the fair value of our investment portfolio as a result of changes in interest rates. At March 31, 2012, a 1% gross increase in interest rates earned on cash would result in $1.2 million annualized increase in interest income.

Our short-term debt obligations under our revolving credit facility are subject to interest rate exposure; however, as we had no outstanding balance on this facility during the nine months ended March 31, 2012, fluctuations in interest rates had no impact on our interest expense.

Foreign Currency Exchange Risk

We currently operate in several foreign countries, but we do not transact a material amount of business in a foreign currency. Therefore, fluctuations in exchange rates will not have a material impact on our financial statements. However, we are pursuing additional opportunities in international markets and expect our international presence to grow. If we enter into any material transactions in a foreign currency or establish or acquire any subsidiaries that measure and record their financial condition and results of operation in a foreign currency, we will be exposed to currency transaction risk and/or currency translation risk. Exchange rates between U.S. dollars and many foreign currencies have fluctuated significantly over the last few years and may continue to do so in the future. Accordingly, we may decide in the future to undertake hedging strategies to minimize the effect of currency fluctuations on our financial condition and results of operations.

K12 INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

As described in Item 9A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, a material weakness in our internal control over financial reporting was identified. The material weakness related to project management of a new enterprise-wide financial system (ERP) and affected the timeliness of our year-end close. Management assessed the processes surrounding the project management of the ERP implementation and determined that the ERP system implementation plan was insufficiently comprehensive which caused delays and ultimately prevented the year-end close from being completed in a timely manner. Rule 12b-2 and Rule 1-02 of Regulation S-X define a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant s annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the material weakness, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2011, our disclosure controls and procedures were not effective at a reasonable assurance level.

We carried out an evaluation, required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this review, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2012 as the material weakness identified as of June 30, 2011 still exists.

Changes in Internal Control over Financial Reporting

As a result of management s evaluation of our internal control over financial reporting, management identified a material weakness in our internal control. Specifically, management concluded that a material weakness relating to project management of a new enterprise-wide financial system (ERP) and the resulting effects on the timeliness of our year-end and quarterly close process existed in our internal control over financial reporting.

Management has assessed the processes surrounding the project management of the ERP implementation and determined that the ERP system implementation plan was insufficiently comprehensive which caused delays and ultimately prevented the year-end close from being completed in a timely manner. To address implementation challenges, external resources and Company information technology and accounting staff have been engaged in intensive quality control and checking of the new ERP system, including the interfaces with the multiple accounting systems inherited with our recent acquisitions to perform the year end close and ensure accurate financial reporting. The Company has completed its initial implementation and anticipates future enhancements and updates to the new ERP system. The Company will thoroughly review and improve its system implementation plans and related processes that impact future internal business support systems, enhancements and updates.

This control deficiency could have resulted in a material misstatement to the interim consolidated financial statements that would not be prevented or detected as of the initial filing date deadline. Accordingly, management determined that this control deficiency constituted a material weakness as of March 31, 2012.

K12 INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

During the nine months ended March 31, 2012, in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act, the effort to remediate the material weakness in our internal control over financial reporting has had a positive effect on our internal control over financial reporting. Management anticipates that these measures and other ongoing enhancements will continue to have a positive impact on our internal control over financial reporting in future periods. Notwithstanding such efforts, the material weakness related to project management of a new enterprise-wide financial system (ERP) and the resulting effects on the timeliness of our year-end close existed in our internal control over financial reporting described above will not be remediated until the new controls operate for a sufficient period of time and are tested to enable management to conclude that the controls are effective. Management will consider the design and operating effectiveness of these controls and intends to make additional changes that management determines to be appropriate.

K12 INC.

LEGAL PROCEEDINGS

In the ordinary conduct of our business, we are subject to lawsuits, arbitrations and administrative proceedings from time to time.

IpLearn

On October 26, 2011, IpLearn, LLC (IpLearn) filed a complaint for patent infringement against the Company in the United States District Court for the District of Delaware, IpLearn, LLC v. K12 Inc., Case No. 1:11-1026-LPS, which it subsequently amended on November 18, 2011. IpLearn is a privately-held technology development and licensing company for web and computer-based learning technologies. In its complaint, IpLearn alleges that the Company has infringed three of its patents for various computer-aided learning methods and systems. On January 10, 2012, the Company filed its motion to dismiss IpLearn s amended complaint. IpLearn responded on January 27, 2012, and the Company replied on February 6, 2012.

Hoppaugh Complaint

On January 30, 2012, a securities class-action lawsuit captioned Hoppaugh v. K12 Inc., was filed against the Company and two of its officers in the United States District Court for the Eastern District of Virginia, Hoppaugh v. K12, Inc., Case No. 1:12-cv-103-CMH-IDD (the Hoppaugh Complaint). The plaintiff purports to represent a class of persons who purchased or otherwise acquired K12 common stock between September 9, 2009 and December 16, 2011, inclusive, and alleges violations by the defendants of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. The Hoppaugh Complaint alleges, among other things, that the defendants made false or misleading statements of material fact, or failed to disclose material facts, about (i) the Company s financial results during the class period, (ii) the academic performance of the virtual schools served by the Company, and (iii) certain school administrative practices and sales strategies related to enrollments. The plaintiff seeks unspecified monetary damages and other relief. On May 18, 2012, the Arkansas Teacher Retirement System was appointed lead plaintiff to represent the purported class. The Company intends to defend vigorously against the claims asserted in the Hoppaugh Complaint. In addition to the above-described stockholder class action, on March 21, 2012, a federal stockholder derivative action, Jared Staal v. Tisch, et. al., Case No. 1:12-cv-00365-SLR, putatively initiated on behalf of the Company, was filed in the United States District Court for the District of Delaware. By stipulation, all matters in this derivative action have been stayed until motions to dismiss in the Hoppaugh Complaint are decided.

K12 INC.

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K12 INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2012	June 30, 2011
	(In thousands, except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 123,653	$ 193,099
Restricted cash and cash equivalents	1,501	1,501
Accounts receivable, net of allowance of $2,891 and $1,777 at March 31, 2012 and June 30, 2011, respectively	205,307	96,235
Inventories, net	27,525	30,554
Current portion of deferred tax asset	4,969	7,175
Prepaid expenses	14,428	10,424
Other current assets	12,973	9,111
Total current assets	390,356	348,099
Property and equipment, net	61,385	46,625
Capitalized software development costs, net	29,496	24,386
Capitalized curriculum development costs, net	56,962	55,619
Intangible assets, net	37,912	38,291
Goodwill	62,404	55,627
Investment in Web International	10,000	10,000
Deposits and other assets	3,219	3,448