K12 INC
Form 10-Q
May 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

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)**	**95-4774688** **(IRS Employer** **Identification No.)**
2300 Corporate Park Drive **Herndon, VA** **(Address of principal executive offices)**	**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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

As of May 1, 2012 the Registrant had 36,445,790 shares of Common Stock, $0.0001 par value outstanding.

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For the Quarterly Period Ended March 31, 2012

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements (Unaudited).***

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
Total assets	$ 651,734	$ 582,095
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current liabilities		
Accounts payable	$ 17,276	$ 21,176
Accrued liabilities	16,252	14,126
Accrued compensation and benefits	16,127	13,086
Deferred revenue	46,558	21,907
Current portion of capital lease obligations	16,571	11,914
Current portion of notes payable	1,137	1,443
Total current liabilities	113,921	83,652
Deferred rent, net of current portion	5,499	4,698
Capital lease obligations, net of current portion	17,541	8,552
Notes payable, net of current portion	1,162	2,299
Deferred tax liability	15,283	9,604
Other long term liabilities	3,191	3,343

Total liabilities	156,597	112,148
Commitments and contingencies		
Redeemable noncontrolling interest	17,200	17,200
Equity:		
K12 Inc. stockholders equity		
Common stock, par value $0.0001; 100,000,000 shares authorized; 36,389,121 and 35,927,452 shares issued and outstanding at March 31, 2012 and June 30, 2011, respectively	4	4
Additional paid-in capital	521,503	512,181
Series A Special Stock, par value $0.0001; 2,750,000 issued and outstanding at March 31, 2012 and June 30, 2011	63,112	63,112
Accumulated other comprehensive income	157	28
Accumulated deficit	(110,961)	(126,704)
Total K12 Inc. stockholders equity	473,815	448,621
Noncontrolling interest	4,122	4,126
Total equity	477,937	452,747
Total liabilities, redeemable noncontrolling interest and equity	$ 651,734	$ 582,095

See accompanying summary of accounting policies and notes to unaudited condensed consolidated financial statements.

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K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
	(In thousands, except share and per share data)			
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 tax expense and noncontrolling interest	11,324	10,524	26,227	29,437
Income tax expense	(4,638)	(5,260)	(11,311)	(14,310)
Net income K12 Inc.	6,686	5,264	14,916	15,127
Add net loss attributable to noncontrolling interest	291	335	827	509
Net income attributable to common stockholders, including Series A stockholders	$ 6,977	$ 5,599	$ 15,743	$ 15,636
Net income attributable to common stockholders per share, excluding Series A stockholders:				
Basic	$ 0.18	$ 0.17	$ 0.41	$ 0.47
Diluted	$ 0.18	$ 0.16	$ 0.41	$ 0.46
Weighted average shares used in computing per share amounts:				
Basic	35,876,629	30,958,807	35,753,156	30,620,330
Diluted	35,913,576	31,758,313	36,023,023	31,327,544

See accompanying summary of accounting policies and notes to unaudited condensed consolidated financial statements.

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K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)

	K12 Inc Stockholders								
(In thousands, except share data)	Common Stock Shares	Common Stock Amount	Common Stock - Series A Shares	Common Stock - Series A Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Noncontrolling Interest	Total
Balance, June 30, 2011	35,927,452	$ 4	2,750,000	$ 63,112	$ 512,181	$ 28	$ (126,704)	$ 4,126	$ 452,747
Net income (loss) (1)							15,743	(4)	15,739
Foreign currency translation adjustments						129			129
Comprehensive Income									15,868
Stock based compensation expense					7,339				7,339
Exercise of stock options	205,732				3,123				3,123
Excess tax benefit from stock-based compensation					1,289				1,289
Issuance of restricted stock awards	348,940								
Forfeiture of restricted stock awards	(40,129)								
Accretion of redeemable noncontrolling interests to estimated redemption value					(825)				(825)
Retirement of restricted stock for tax withholding	(52,874)				(1,291)				(1,291)
Registration expenses for shares issued in private placement					(313)				(313)
Balance, March 31, 2012	36,389,121	$ 4	2,750,000	$ 63,112	$ 521,503	$ 157	$ (110,961)	$ 4,122	$ 477,937

(1) Net income (loss) attributable to noncontrolling interests excludes $(0.8) million due to the redeemable noncontrolling interest related to Middlebury Interactive Languages, which is reported outside of permanent equity in the unaudited condensed consolidated balance sheets.

See accompanying summary of accounting policies and notes to unaudited condensed consolidated financial statements.

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K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
	(In thousands)	
Cash flows from operating activities		
Net income	$ 14,916	$ 15,127
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation and amortization expense	42,312	30,463
Stock based compensation expense	7,339	7,453
Excess tax benefit from stock based compensation	(1,289)	(5,443)
Deferred income taxes	9,571	13,329
Provision for doubtful accounts	480	569
Provision for inventory obsolescence	464	729
Provision for student computer shrinkage and obsolescence	427	182
Changes in assets and liabilities:		
Accounts receivable	(109,128)	(52,728)
Inventories	2,565	7,235
Prepaid expenses	(4,004)	545
Other current assets	(3,635)	(1,994)
Deposits and other assets	229	(105)
Accounts payable	(3,901)	(4,150)
Accrued liabilities	2,124	1,516
Accrued compensation and benefits	3,040	(4,377)
Deferred revenue	24,310	14,478
Cash invested in restricted cash and cash equivalents		1,712
Deferred rent and other long term liabilities	650	2,483
Net cash (used in)/provided by operating activities	(13,530)	27,024
Cash flows from investing activities		
Purchase of property, equipment and software development costs	(22,478)	(20,295)
Capitalized curriculum development costs	(10,341)	(11,728)
Purchase of AEC, net of cash acquired of $3,841		(24,544)
Cash advanced for AEC performance escrow		(6,825)
Cash returned from AEC performance escrow		6,825
Cash paid for investment in Web		(10,000)
Cash paid for other investment		(2,040)
Purchase of Kaplan/Insight Assets	(12,641)	
Net cash used in investing activities	(45,460)	(68,607)
Cash flows from financing activities		
Repayments on capital lease obligations	(11,950)	(11,113)
Repayments on notes payable	(1,443)	(1,251)
Borrowings from line of credit		15,000
Repayments under line of credit		(15,000)
Proceeds from exercise of stock options	3,123	8,252
Excess tax benefit from stock based compensation	1,289	5,443
Repurchase of restricted stock for income tax withholding	(1,291)	(1,595)
Payment of stock registration expense	(313)	

Net cash (used in)/provided by financing activities	(10,585)	(264)
Effect of foreign exchange rate changes on cash and cash equivalents	129	176
Net change in cash and cash equivalents	(69,446)	(41,671)
Cash and cash equivalents, beginning of period	193,099	81,751
Cash and cash equivalents, end of period	$ 123,653	$ 40,080

See accompanying summary of accounting policies and notes to unaudited condensed consolidated financial statements.

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K12 Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Description of the Business

K[12] Inc., and its subsidiaries (*K*[12] or the Company), is a technology-based education company. The Company offers proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. The Company s 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 the Company s 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, charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. In contracting with a virtual or hybrid public school, the Company typically provides students with access to the *K*[12] online curriculum, offline learning kits, and use of a computer as required or needed, and we also provide management services to these schools. The Company offers foreign language courses and camps with Middlebury Interactive Languages, our joint venture with Middlebury College. We also operate three online private schools: K[12] International Academy, Keystone School and the George Washington University Online High School. In addition, we own a brick and mortar private school, the International School of Berne (IS Berne) located in Berne, Switzerland, and currently own a 20% interest in The Web International Education Group, Ltd., a company providing English instruction to young adults in China. Through Capital Education LLC, we provide online services to post-secondary institutions. During fiscal year 2012, the Company manages schools in 29 states and the District of Columbia. The Company sells access to its online curriculum and offline learning kits directly to individual consumers as well. We provide services through our institutional sales to customers in all 50 states.

2. Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2012, the condensed consolidated statements of operations for the three months and nine months ended March 31, 2012 and 2011, the condensed consolidated statements of cash flows for the nine months ended March 31, 2012 and 2011, and the condensed consolidated statement of equity (deficit) for the nine months ended March 31, 2012 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company s financial position as of March 31, 2012, the results of operations for the three and nine months ended March 31, 2012 and 2011, cash flows for the nine months ended March 31, 2012 and 2011 and the condensed consolidated statement of equity (deficit) for the nine months ended March 31, 2012. The results of the three and nine month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the year ending June 30, 2012 or for any other interim period or for any other future fiscal year. The consolidated balance sheet as of June 30, 2011 has been derived from the audited consolidated financial statements at that date.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended (Exchange Act). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these statements include all adjustments (consisting of normal recurring adjustments) considered necessary to present a fair statement of our consolidated results of operations, financial position and cash flows. Preparation of the Company s financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and footnotes. Actual results could differ from those estimates. This quarterly report on Form 10-Q should be read in conjunction with the financial statements and the notes thereto included in the Company s latest annual reports on Form 10K filed on October 7, 2011 and Form 10-K/A filed on December 8, 2011, which contains the Company s audited financial statements for the fiscal year ended June 30, 2011.

3. Summary of Significant Accounting Policies

Revenue Recognition

Revenues are principally earned from long-term contractual agreements to provide online curriculum, books, materials, computers and management services to virtual public schools, hybrid schools, traditional schools, school districts, public charter schools and private schools. In addition to providing the curriculum, books and materials under the virtual public school and hybrid school contracts from which most of the Company s revenue is derived, the Company usually is responsible for all aspects of the management of those schools, including monitoring academic achievement, teacher hiring and training, compensation of school personnel, financial management, enrollment processing and procurement of curriculum, equipment and required services. The schools receive funding on a per student basis from the state in which the public school or school district is located. Shipments for schools that occur in the fourth fiscal quarter that are for the upcoming school year are recorded in deferred revenues.

Where it has been determined that the Company is the primary obligor for substantially all expenses under these contracts, the Company records the associated per student revenue received by the school from its state funding school district up to the expenses incurred in accordance with ASC 605 *Revenue Recognition*. For contracts in which the Company is not the primary obligor, the Company records revenue based on its net fees earned per the contractual agreement.

The Company generates revenues under contracts with virtual and hybrid public schools which include multiple elements. These elements include providing, in accordance with the policy of the governing body of the managed school, each of a school s students with access to the Company s online school and the online component of lessons; offline learning kits which include books and materials designed to complement and supplement the online lessons; the use of a computer where required or needed and associated reclamation services; internet access and technology support services; the services of a state-certified teacher and; all management and technology services required to operate a virtual public school or hybrid school. In certain managed school contracts, our revenue is determined directly by per enrollment funding. As our services are performed, we generally earn and recognize revenues ratably over that period.

The Company has determined that the elements of our contracts are valuable to schools in combination, but do not have standalone value. As a result, the elements within our multiple-element contracts do not qualify for treatment as separate units of accounting. Accordingly, the Company accounts for revenues received under multiple element arrangements as a single unit of accounting. We recognize the entire arrangement based upon the approximate rate at which we incur the costs associated with each element.

Under contracts with schools where the Company provides turnkey management services, the Company has generally agreed to absorb any operating losses of the schools in a given school year. These school operating losses represent the excess of costs incurred over revenues earned by the virtual public schools or hybrid schools as reflected on their financial statements. The costs include Company charges to the schools. The fact that a school has an operating loss in one year does not necessarily mean the Company anticipates losing money on the entire contract nor does it mean that K12 will lose money in that year, however, a school operating loss may reduce the Company s ability to collect invoices in full. Accordingly, the Company s recognized revenues reflect this reduction. The Company amortizes the estimated school operating loss against revenues based upon the percentage of actual revenues in the period to total estimated revenues for the fiscal year. Management periodically reviews its estimates of full year school revenues and full year school operating expenses and amortizes the net impact of any changes to these estimates over the remainder of the fiscal year. Actual school operating losses may vary from these estimates or revisions, and the impact of these differences could have a material impact on results of operations. Since the end of the school year coincides with the end of the Company s fiscal year, annual revenues are generally based on actual school revenues and actual costs incurred in the calculation of school operating losses. However, there are some situations where revenue estimates from the prior year are adjusted during the next fiscal year related to school audits.

During the three months ended March 31, 2012 and 2011, no school accounted for more than 10% of revenues. Approximately 11% and 12% of accounts receivable was attributable to a contract with one school as of March 31, 2012 and June 30, 2011, respectively.

Consolidation

The condensed consolidated financial statements include the accounts of the Company, its wholly-owned and affiliated companies that the Company owns, directly or indirectly, and all controlled subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Inventories

Inventories consist primarily of schoolbooks and curriculum materials, a majority of which are supplied to virtual and hybrid public schools and utilized directly by students. Inventories represent items that are purchased and held for sale and are recorded at the lower of cost (first-in, first-out method) or market value. Excess and obsolete inventory reserves are established based upon the evaluation of the quantity on hand relative to demand. The excess and obsolete inventory reserve was $3.4 million and $2.9 million as of March 31, 2012 and June 30, 2011, respectively.

Series A Special Stock

The Company issued 2,750,000 shares of Series A Special stock in connection with an acquisition. The holders of the Series A Special stock have the right to convert those shares into common stock on a one-for-one basis and for the right to vote on all matters presented to K12 stockholders, other than for the election and removal of directors, for which holders of the Series A Special stock have no voting rights.

Noncontrolling Interest

Earnings or losses attributable to other stockholders of a consolidated affiliated company are classified separately as noncontrolling interest in the Company s condensed consolidated statements of operations. Net loss attributable to noncontrolling interest reflects only its share of the after-tax losses of an affiliated company. Income taxes attributable to noncontrolling interest are determined using the applicable statutory tax rates in the jurisdictions where such operations are conducted. These rates vary from country to country. The Company s condensed consolidated balance sheets reflect noncontrolling interest within the equity section of the condensed consolidated balance sheets rather than in the mezzanine section of the condensed consolidated balance sheets, except for redeemable noncontrolling interest. Noncontrolling interest is classified separately in the Company s condensed consolidated statement of equity (deficit).

Redeemable Noncontrolling Interests

Noncontrolling interests in subsidiaries that are redeemable for cash or other assets and outside of the Company s control are classified outside of permanent equity at fair value. The redeemable noncontrolling interests will be adjusted to their fair value at each balance sheet date. The resulting increases or decreases in the estimated redemption amount are affected by corresponding charges against retained earnings, or in the absence of retained earnings, additional paid-in-capital.

Goodwill and Intangibles

The Company records as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. Finite-lived intangible assets acquired in business combinations subject to amortization are recorded at their fair value in accordance with ASU Topic 350 *Intangibles Goodwill and Other Finite-lived intangible assets,* and include trade names and noncompete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives.

Under the amendments in ASU 2011-08, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality

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of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as described in paragraph 350-20-35-4 of Topic 350. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as described in paragraph 350-20-35-9.

During the first nine months of 2012, the Company s goodwill increased by approximately $6.7 million due to its acquisition of certain assets of Kaplan Virtual Education (KVE) and Insight Schools (Kaplan/Insight Assets) a subsidiary of Kaplan, Inc (see Note 10). The Company also recorded approximately $4.3 million in finite-lived intangibles related to the acquisition of certain Kaplan/Insight Assets. The Company did not experience a significant adverse change in its business climate and therefore does not believe a triggering event occurred that would require a detailed test of goodwill for impairment as of an interim date. Consequently, the first step of the goodwill impairment test was not performed during the interim periods. The Company intends to complete its annual goodwill impairment test as of May 31, 2012.

The following table represents goodwill additions during the nine months ended March 31, 2012:

($ in millions)	**Amount**
Rollforward of Goodwill	
Balance as of June 30, 2011	$ 55.6
Acquisition of certain assets	6.7
Other adjustments	0.1
Balance as of March 31, 2012	$ 62.4

The following table represents the balance of intangible assets as of March 31, 2012 and June 30, 2011:

Intangible Assets:

	March 31, 2012			**June 30, 2011**		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Value**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Value**
Trade names	$ 24.0	$ (2.6)	$ 21.4	$ 23.3	$ (1.6)	$ 21.7
Customer and distributor relationships	18.9	(3.4)	15.5	16.5	(1.3)	15.2
Developed technology	1.5	(0.8)	0.7	1.5	(0.4)	1.1
Other	0.5	(0.2)	0.3	0.5	(0.2)	0.3
	$ 44.9	$ (7.0)	$ 37.9	$ 41.8	$ (3.5)	$ 38.3

Impairment of Long-Lived Assets

Long-lived assets include property, equipment, capitalized curriculum and software developed or obtained for internal use. In accordance with ASC 360, the Company reviews its recorded long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between fair value and the carrying value of the asset. There was no impairment for the three and nine months ended March 31, 2012 and the year ended June 30, 2011.

Fair Value Measurements

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction

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between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instruments valuation.

The carrying values reflected in our consolidated balance sheets for cash and cash equivalents, accounts receivable, and short and long term debt approximate their fair values. The redeemable noncontrolling interest is a result of the Company s venture with Middlebury College to form Middlebury Interactive Languages. Under the agreement, Middlebury College has an irrevocable election to sell all (but not less than all) of its Membership Interest to the Company (put right). The fair value of the redeemable noncontrolling interest reflects management s best estimate of the redemption value of the put right. The Company has recorded its investment in Web International Education Group, Ltd. (Web) as an available for sale debt security in accordance with ASC 320 *Investments Debt and Equity Securities* because of our ability to put the investment to other Web stockholders in return for the original $10 million purchase price plus interest. The fair value reflects management s best estimate of the investment in Web.

The following table summarizes certain fair value information at June 30, 2011 for assets and liabilities measured at fair value on a recurring basis:

		Fair Value Measurements Using:		
Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Input (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In thousands)		
Redeemable Noncontrolling Interest in Middlebury Joint Venture	$ 17,200			$ 17,200
Investment in Web International Education Group	$ 10,000			$ 10,000