



Creative Disruption

Virtual Schools, Real Businesses

David K. Randall 08.11.08, 12:00 AM ET

K12's Ron Packard is winning the fight against the school establishment

Ron J. Packard, the chief executive of K12, an online education company in Herndon, Va., is adamant that he runs a public school. "We are more public than any other public school in the country," he says. "You don't have to buy a million-dollar house in the suburbs to come to my schools. We take every child who comes, regardless of income, race or ability."

Teachers aren't thrilled about this competitor. The Chicago Teachers Union sued the Illinois State Board of Education in October 2006 in Circuit Court of Cook County, challenging the state's decision to send public education dollars to the not-for-profit Chicago Virtual Charter School. The union alleges that the school does not provide sufficient direct instruction by certified teachers and amounts to homeschooling at taxpayers' expense. K12 was paid \$1.5 million last year to provide the curriculum, technology and management services for the charter school, and is on the hook to the school for any claims or challenges to its validity. The case is pending and the company won't estimate its potential loss if the Teachers Union were to win the case. But a similar suit in Wisconsin spurred that state's legislature to enact a law in April that allowed the Wisconsin Virtual Academy, another K12 partner, to continue to enroll students.

In an echo of the charter school movement of a decade ago, the fight boils down to money. When students abandon the blackboard for the flat screen, their schools lose up to 70% of the taxpayer money that attaches to them, Packard says. Rural districts, which depend more heavily than urban ones on state aid, are more fearful of losing those dollars, says Julie Young, president and chief executive of the Florida Virtual School.

School district administrators say it's not money they're fighting over, it's educational quality. "The drawbacks aren't around the programs being online per se but are around the lack of policy and oversight, which in a few cases brought into question the quality of a few online programs," says John Watson, a consultant in Denver who has done research and policy reports for clients including the University of California and the Colorado Board of Education. An audit by the State of Pennsylvania also found that several online charter schools received payments from school districts that were 30% higher on average than

the costs to educate those kids.

The fighting will only get louder with the \$300 million market for online school-age education growing 30% a year, according to the North American Council for Online Learning. Twenty-six states now have statewide virtual schools. Total enrollment nationwide is estimated to be 1 million students. The Florida Virtual School, established by the legislature in 1997, is the largest online public school program, with enrollment of 54,000 this year.

K12, with revenue of \$140 million last year, operations in 21 states and the District of Columbia and an enrollment of 40,000, is the leader in the elementary-to-high-school online education market. It went public in December and enjoys a \$650 million market value. Its sales have doubled since 2004 and analysts are bullish, predicting a \$5 million net this year on revenue of \$217 million.

Packard, 45, a former banker and McKinsey & Co. consultant, founded K12 in April 2000 and got it off the ground with \$40 million in venture capital from such sources as Andrew Tisch of the Loews billionaire family, Larry Ellison of Oracle and Knowledge Universe, a for-profit education conglomerate chaired by Michael Milken. Knowledge Universe's \$10 million investment in K12 is now worth \$125 million.

Despite hostility from the education establishment, says Packard, his company has been "flooded" with résumés from teachers. K12 has 1,100 teachers teaching through its virtual schools, about 200 of whom are employed by K12.

"A lot of education groups are resistant to change," says Packard. "We view ourselves as a service for the public school system and not competition for public schools." That's a tactful way of describing what could be an ugly battle.