UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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 ☒ 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 ☒ 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 ☐	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 ☒

As of October 21, 2015 the Registrant had 38,939,704 shares of common stock, $0.0001 par value per share outstanding.

K12 Inc.
Form 10-Q
For the Quarterly Period Ended September 30, 2015
Index

PART I — FINANCIAL INFORMATION

Item 1. *Financial Statements (Unaudited).*

K12 INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2015	June 30, 2015
	(In thousands, except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 150,864	$ 195,852
Accounts receivable, net of allowance of $9,552 and $9,657 at September 30, 2015 and June 30, 2015, respectively	260,755	188,246
Inventories, net	16,714	29,571
Deferred tax asset	3,005	8,989
Prepaid expenses	29,458	11,428
Other current assets	27,538	24,877
Total current assets	488,334	458,963
Property and equipment, net	31,654	34,407
Capitalized software, net	65,741	62,683
Capitalized curriculum development costs, net	58,151	58,696
Intangible assets, net	20,580	21,195
Goodwill	66,160	66,160
Deposits and other assets	6,791	6,495
Total assets	$ 737,411	$ 708,599
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current liabilities		
Current portion of capital lease obligations	$ 15,474	$ 16,635
Accounts payable	42,308	29,819
Accrued liabilities	10,724	12,486
Accrued compensation and benefits	16,828	26,790
Deferred revenue	64,317	24,927
Total current liabilities	149,651	110,657
Capital lease obligations, net of current portion	11,830	13,022
Deferred rent, net of current portion	7,439	7,692
Deferred tax liability	26,741	22,456
Other long-term liabilities	8,109	8,233
Total liabilities	203,770	162,060
Commitments and contingencies	—	—
Redeemable noncontrolling interest	9,601	9,601
Stockholders' equity		
Common stock, par value $0.0001; 100,000,000 shares authorized; 42,451,114 and 41,837,894 shares issued and 38,948,516 and 38,335,296 shares outstanding at September 30, 2015 and June 30, 2015, respectively	4	4
Additional paid-in capital	663,202	663,461
Accumulated other comprehensive loss	(911)	(1,065)
Accumulated deficit	(63,255)	(50,462)
Treasury stock of 3,502,598 shares at cost at September 30, 2015 and June 30, 2015	(75,000)	(75,000)
Total stockholders' equity	524,040	536,938
Total liabilities, redeemable noncontrolling interest and equity	$ 737,411	$ 708,599

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

K12 INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
	(In thousands, except share and per share data)	
Revenues	$ 221,230	$ 236,712
Cost and expenses		
Instructional costs and services	139,003	146,842
Selling, administrative, and other operating expenses	99,270	99,546
Product development expenses	3,413	3,482
Total costs and expenses	241,686	249,870
Loss from operations	(20,456)	(13,158)
Interest (expense) income, net	(305)	31
Loss before income tax benefit and noncontrolling interest	(20,761)	(13,127)
Income tax benefit	8,097	6,538
Net loss	(12,664)	(6,589)
Adjust net income attributable to noncontrolling interest	(129)	(187)
Net loss attributable to common stockholders	$ (12,793)	$ (6,776)
Net loss attributable to common stockholders per share		
Basic and Diluted	$ (0.34)	$ (0.18)
Weighted average shares used in computing per share amounts:		
Basic and Diluted	37,433,493	37,695,681

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

Table of Contents

K12 INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended September 30,	
	2015	2014
	(In thousands)	
Net loss	$ (12,664)	$ (6,589)
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	154	(546)
Total other comprehensive loss, net of tax	(12,510)	(7,135)
Comprehensive income attributable to noncontrolling interest	(129)	(187)
Comprehensive loss attributable to common stockholders	$ (12,639)	$ (7,322)

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

K12 INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(In thousands, except share and per share data)	K12 Inc Stockholders: Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Other Accumulated Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total
Balance, June 30, 2015	41,837,894	$ 4	$ 663,461	$ (1,065)	$ (50,462)	(3,502,598)	$ (75,000)	$ 536,938
Net loss (1)	—	—	—	—	(12,793)	—	—	(12,793)
Foreign currency translation adjustment	—	—	—	154	—	—	—	154
Stock-based compensation expense	—	—	4,587	—	—	—	—	4,587
Exercise of stock options	1,000	—	14	—	—	—	—	14
Excess tax from stock-based compensation	—	—	(3,061)	—	—	—	—	(3,061)
Issuance of restricted stock awards	785,069	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(44,317)	—	—	—	—	—	—	—
Accretion of redeemable noncontrolling interests to estimated redemption value	—	—	129	—	—	—	—	129
Retirement of restricted stock for tax withholding	(128,532)	—	(1,928)	—	—	—	—	(1,928)
Balance, September 30, 2015	42,451,114	$ 4	$ 663,202	$ (911)	$ (63,255)	(3,502,598)	$ (75,000)	$ 524,040

(1) Net loss excludes $0.1 million due to the redeemable noncontrolling interests related to Middlebury Interactive Languages and LearnBop, which are reported outside of permanent equity in the accompanying unaudited condensed consolidated balance sheets.

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

Table of Contents

K12 INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
	(In thousands)	
Cash flows from operating activities		
Net loss	$ (12,664)	$ (6,589)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	16,565	16,880
Stock-based compensation expense	4,587	4,173
Excess tax benefit from stock-based compensation	(6)	(7)
Deferred income taxes	7,189	7,258
Provision for doubtful accounts	2,335	283
Provision for excess and obsolete inventory	213	177
Provision for student computer shrinkage and obsolescence	(284)	11
Expensed computer peripherals	1,352	—
Changes in assets and liabilities:		
Accounts receivable	(74,841)	(90,552)
Inventories	12,644	15,686
Prepaid expenses	(18,030)	(15,553)
Other current assets	(2,661)	(6,105)
Deposits and other assets	(142)	(228)
Accounts payable	12,488	10,630
Accrued liabilities	(1,741)	(10,027)
Accrued compensation and benefits	(9,961)	(4,930)
Deferred revenue	39,390	48,835
Deferred rent and other liabilities	(374)	2,648
Net cash used in operating activities	(23,941)	(27,410)
Cash flows from investing activities		
Purchase of property and equipment	(977)	(6,333)
Capitalized software development costs	(9,515)	(8,886)
Capitalized curriculum development costs	(3,699)	(3,375)
Investment in LearnBop, Inc.	—	(6,512)
Net cash used in investing activities	(14,191)	(25,106)
Cash flows from financing activities		
Repayments on capital lease obligations	(4,941)	(5,899)
Purchase of treasury stock	—	(26,452)
Proceeds from exercise of stock options	14	161
Excess tax benefit from stock-based compensation	6	7
Repurchase of restricted stock for income tax withholding	(1,928)	(1,112)
Net cash used in financing activities	(6,849)	(33,295)
Effect of foreign exchange rate changes on cash and cash equivalents	(7)	(1,102)
Net change in cash and cash equivalents	(44,988)	(86,913)
Cash and cash equivalents, beginning of period	195,852	196,109
Cash and cash equivalents, end of period	$ 150,864	$ 109,196

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

K12 INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business

K12 Inc., together with 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 ("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. The Company's learning systems combine curriculum, instruction and related support services to create an individualized learning approach well-suited for virtual and blended public schools, school districts, charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. These unique set of products and services are provided primarily to three lines of business: Managed Public School Programs (curriculum and services sold to managed public schools in 33 states and the District of Columbia), Institutional (curriculum, technology and services provided to school districts, public schools and other educational institutions that the Company does not manage), and Private Pay Schools and Other (private schools for which the Company charges student tuition and makes direct consumer sales).

The Company works closely as partners with a growing number of public schools, school districts, charter schools and private schools enabling them to offer their students an array of solutions, including full-time virtual programs, semester course and supplemental solutions. In addition to curriculum, systems and programs, the Company provides teacher training, teaching services and other support services.

2. Basis of Presentation

The accompanying condensed consolidated balance sheet as of September 30, 2015, the condensed consolidated statements of operations and comprehensive loss for the three months ended September 30, 2015 and 2014, the condensed consolidated statements of cash flows for the three months ended September 30, 2015 and 2014, and the condensed consolidated statement of equity for the three months ended September 30, 2015 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 and results of operations for the periods presented. The results for the three months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending June 30, 2016 or for any other interim period or for any other future fiscal year. The condensed consolidated balance sheet as of June 30, 2015 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 (the "Exchange Act"). Accordingly, the Company does 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 the Company's condensed 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 report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on August 4, 2015, which contains the Company's audited financial statements for the fiscal year ended June 30, 2015.

The Company operates in one operating and reportable business segment as a technology-based education company providing proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade. The Chief Operating Decision Maker evaluates profitability based only on consolidated results.

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 and blended public schools, traditional schools, school districts, virtual charter schools, and private schools. In addition to providing the curriculum, books and materials, under most contracts, the Company provides management services and technology to virtual and blended public schools, including monitoring academic achievement, teacher hiring and training, compensation of school personnel, financial management, enrollment processing and development 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 of materials for schools that occur in the fourth fiscal quarter and for the upcoming school year are recorded in deferred revenues.

Where the Company has determined that it 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 Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. As a result of being the primary obligor, amounts recorded as revenues and school operating expenses for the three months ended September 30, 2015 and 2014 were $62.3 million and $68.7 million, respectively. For contracts where the Company is not the primary obligor, the Company records revenue based on its net fees earned under the contractual agreement.

The Company generates revenues under turnkey management contracts with virtual and blended public schools which include multiple elements. These elements include:

- providing each of a school's students with access to the Company's online school and lessons;
- offline learning kits, which include books and materials to supplement the online lessons, where required;
- the use of a personal computer and associated reclamation services, where required;
- internet access and technology support services;
- instruction by a state-certified teacher, where required; and
- management and technology services necessary to operate a virtual public or blended school. In certain managed school contracts, revenue is determined directly by per enrollment funding.

The Company has determined that the elements of its contracts are valuable to schools in combination, but do not have standalone value. As a result, the elements within the Company's multiple-element contracts do not qualify as separate units of accounting. Accordingly, the Company accounts for revenues under multiple element arrangements as a single unit of accounting and recognizes the entire arrangement based upon the approximate rate at which it incurs the costs associated with each element. Revenue from certain managed schools is recognized ratably over the period services are performed.

To determine the pro rata amount of revenues to recognize in a fiscal quarter, the Company estimates the total funds each school will receive in a particular school year. Total funds for a school are primarily a function of the number of students enrolled in the school and established per enrollment funding levels which are generally published on an annual basis by the state or school district. The Company reviews its estimates of funding periodically, and revises as necessary, amortizing any adjustments to earned revenues over the remaining portion of the fiscal year. Actual school funding may vary from these estimates and the impact of these differences could impact the Company's 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 funding and actual costs incurred (including costs for the Company's services to the schools plus other costs the schools may incur) in the calculation of school operating losses. The Company's schools reported results are subject to annual school district financial audits, which incorporate enrollment counts, funding and other routine financial audit considerations. The results of these audits are incorporated into the Company's monthly funding estimates and for the reported three months ended September 30, 2015 and 2014.

Under the contracts where the Company provides turnkey management services to schools, 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 or blended public school as reflected on its respective financial statements, including Company charges to the schools. To the extent a school does not receive funding for each student enrolled in the school, the school would still incur costs associated with serving the unfunded enrollment. If losses due to unfunded enrollments result in a net operating loss for the year that loss is reflected as a reduction in the revenue and net receivables that the Company collects from the school. A school net operating loss in one year does not necessarily mean the Company anticipates losing money on the entire contract with the school. However, a school operating loss may reduce the Company’s ability to collect its management fees in full and recognized revenues are reduced accordingly to reflect the expected cash collections from such schools. 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.

For turnkey revenue service contracts, a school operating loss may reduce the Company’s ability to collect its management fees in full though as noted it does not necessarily mean that the Company incurs a loss during the period with respect to its services to that school. The Company recognizes revenue, net of its estimated portion of school operating losses, to reflect the expected cash collections from such schools. Revenue is recognized based on the Company’s performance of services under the contract, which it believes is proportionate to its incurrence of costs. The Company incurs costs directly related to the delivery of services. Most of these costs are recognized throughout the year; however, certain costs related to upfront delivery of printed materials, workbooks, laboratory materials and other items are provided at the beginning of the school year and are recognized as expense when shipped.

Each state or school district has variations in the school funding formulas and methodologies that it uses to estimate funding for revenue recognition at its respective schools. As the Company builds the funding estimates for each school, it is mindful of the state definition for count dates on which reported enrollment numbers will be used for per pupil funding. The parameters the Company considers in estimating funding for revenue recognition purposes include school district count definitions, withdrawal rates, average daily attendance, special needs enrollment, student demographics, academic progress and historical completion, student location, funding caps and other state specified categorical program funding. The estimates the Company makes each period on a school-by-school basis takes into account the latest information available to it and considers material relevant information at the time of the estimate.

Management periodically reviews its estimates of full-year school revenues and 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 funding and actual costs incurred (including costs for the Company’s services to the schools plus other costs the schools may incur) in the calculation of school operating losses. For the three months ended September 30, 2015 and 2014, the Company’s revenue included a reduction for these school operating losses of $14.2 million and $17.6 million, respectively.

The Company provides certain online curriculum and services to schools and school districts under subscription and perpetual license agreements. Revenue under these agreements is recognized in accordance with the ASC 605 when all of the following conditions are met: there is persuasive evidence of an arrangement; delivery has occurred or services have been rendered; the amount of fees to be paid by the customer is fixed and determinable; and the collectability of the fee is probable. Revenue from the licensing of curriculum under subscription arrangements is recognized on a ratable basis over the subscription period. Revenue from the licensing of curriculum under non-cancelable perpetual arrangements is recognized when all revenue recognition criteria have been met. Revenue from professional consulting, training and support services are deferred and recognized ratably over the service period.

Other revenues are generated from individual customers who prepay and have access for one to two years to company-provided online curriculum. The Company recognizes these revenues pro rata over the maximum term of the customer contract. Revenues from associated offline learning kits are recognized upon shipment.

During the three months ended September 30, 2015 and 2014, the Company had a contract with one school (different school in both years) that represented approximately 10% and 12% of revenue, respectively. Approximately 5% and 9% of accounts receivable was attributable to one contract (different school at both dates) as of September 30, 2015 and June 30, 2015.

In fiscal year 2015, the Agora Cyber Charter School ("Agora") renegotiated its service agreement and entered into a three-year contract with the Company to purchase the Company's curriculum and certain technology services and the school board assumed daily operational responsibilities, including its charter renewal process and marketing and enrollment activities. The net impact of this contract change on revenues for the first three months of September 30, 2015 as compared to the prior year resulted in approximately a $23.5 million decrease.

Reclassifications

The Company has reclassified certain prior year income tax accounts to conform to the current year presentation. There was no effect on related income tax assets or liabilities, or the income statement from such reclassification. The reclassification had no effect on net cash flows.

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 textbooks and curriculum materials, a majority of which are supplied to virtual public schools and blended 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 $2.4 million and $2.2 million at September 30, 2015 and June 30, 2015, respectively.

Other Current Assets

Other current assets consist primarily of textbooks, curriculum materials and other supplies which are expected to be returned upon the completion of the school year. Materials not returned are expensed as part of instructional costs and services.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is calculated using the straight-line method over the estimated useful life of the asset (or the lesser of the term of the lease and the estimated useful life of the asset under capital lease). Amortization of assets capitalized under capital lease arrangements is included in depreciation expense. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful life of the asset. The Company determines the lease term in accordance with ASC 840, *Leases*, as the fixed non-cancelable term of the lease plus all periods for which failure to renew the lease imposes a penalty on the lessee in an amount such that renewal appears, at the inception of the lease, to be reasonably assured. Depreciation expense for the three months ended September 30, 2015 and 2014 was $5.3 million and $7.4 million, respectively. Additionally, beginning in fiscal 2016 the Company no longer recovers peripheral equipment as it was determined to be uneconomical. Accordingly, the Company fully expenses peripherals upon shipment and the impact was immaterial.

Property and equipment are depreciated over the following useful lives:

	Useful Life
Student computers	3 years
Computer hardware	3 years
Computer software	3-5 years
Web site development costs	3 years
Office equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	3-12 years

The Company updates its estimate of unreturned computers based on an analysis of recent trends of returns and utilization rates. During the three months ended September 30, 2015 and 2014, the Company recorded $0.7 million and $1.3 million in expense, respectively, related to the estimate.

Capitalized Software Costs

The Company develops software for internal use. Software development costs incurred during the application development stage are capitalized in accordance with ASC 350, *Intangibles — Goodwill and Other*. The Company amortizes these costs over the estimated useful life of the software, which is generally three years. Capitalized software development costs are stated at cost less accumulated amortization.

Capitalized software development additions totaled $9.5 million and $8.9 million for the three months ended September 30, 2015 and 2014, respectively. Amortization expense for the three months ended September 30, 2015 and 2014 was $6.5 million and $4.8 million, respectively.

Capitalized Curriculum Development Costs

The Company internally develops curriculum, which is primarily provided as online content and accessed via the Internet. The Company also creates textbooks and other materials that are complementary to online content.

The Company capitalizes curriculum development costs incurred during the application development stage in accordance with ASC 350. The Company capitalizes curriculum development costs during the design and deployment phases of the project. Many of the Company's new courses leverage off of proven delivery platforms and are primarily content, which has no technological hurdles. As a result, a significant portion of the Company's courseware development costs qualify for capitalization due to the concentration of its development efforts on the content of the courseware. Capitalization ends when a course is available for general release to its customers, at which time amortization of the capitalized costs begins. The period of time over which these development costs will be amortized is generally five years.

Total capitalized curriculum development additions were $3.7 million and $3.4 million for the three months ended September 30, 2015 and 2014, respectively. These amounts are recorded on the accompanying condensed consolidated balance sheets net of amortization charges. Amortization is recorded in product development expenses on the accompanying condensed consolidated statements of operations. Amortization expense for the three months ended September 30, 2015 and 2014 was $4.2 million and $4.0 million, respectively.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. Under ASC 740, deferred tax assets and liabilities are computed based on the difference between the financial reporting and income tax bases of assets and liabilities using the enacted marginal tax rate. ASC 740 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized.

Redeemable Noncontrolling Interests

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. Noncontrolling interests in subsidiaries that are redeemable outside of the Company's control for cash or other assets are classified outside of permanent equity at redeemable value, which approximates fair value. However, if the redemption amount is other than fair value (e.g. fixed or variable), the redeemable noncontrolling interest is accounted for at the fixed or variable redeemable value. The redeemable noncontrolling interests are adjusted to their redeemable 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 Intangible Assets

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. Finite-lived intangible assets include trade names, acquired customers and non-compete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense for the three months ended September 30, 2015 and 2014 was $0.6 million and $0.6 million, respectively. Future amortization of intangible assets is $2.0 million, $1.9 million, $1.9 million, $1.9 million and $1.9 million in the fiscal years ending June 30, 2016 through June 30, 2020, respectively, and $10.7 million thereafter. At both September 30, 2015 and June 30, 2015, the goodwill balance was $66.2 million.

The Company reviews its recorded finite-lived intangible 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.

ASC 350 prescribes a two-step process for impairment testing of goodwill and intangible assets with indefinite lives, which is performed annually, as well as when an event triggering impairment may have occurred. ASC 350 also allows the Company to qualitatively assess goodwill impairment through a screening process which would permit companies to forgo Step 1 of their annual goodwill impairment process. This qualitative screening process will hereinafter be referred to as “Step 0”. Goodwill and intangible assets deemed to have an indefinite life are tested for impairment on an annual basis, or earlier when events or changes in circumstances suggest the carrying amount may not be fully recoverable. The Company has elected to perform its annual assessment on May 31st. The Step 0 analysis focused on a number of events and circumstances that may be considered when making this qualitative assessment.

On July 31, 2014, the Company acquired a 51% majority interest in LearnBop Inc. (“LearnBop”), for $6.5 million in cash (see Note 11). The purchase price allocation for the acquisition was finalized in fiscal year 2015.

The following table represents the balance of intangible assets as of September 30, 2015 and June 30, 2015:

Intangible Assets:

	September 30, 2015			June 30, 2015		
($ in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade names	$ 17.5	$ (6.0)	$ 11.5	$ 17.5	$ (5.7)	$ 11.8
Customer and distributor relationships	18.2	(9.4)	8.8	18.2	(9.1)	9.1
Developed technology	1.2	(1.2)	—	1.2	(1.2)	—
Other	0.5	(0.2)	0.3	0.5	(0.2)	0.3
	$ 37.4	$ (16.8)	$ 20.6	$ 37.4	$ (16.2)	$ 21.2

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, *Property, Plant and Equipment*, management reviews the Company’s recorded long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company determines the extent to which an asset may be impaired based upon its expectation of the asset's future usability as well as on a reasonable assurance that the future cash flows associated with the asset will be in excess of its carrying amount. 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 such impairment charge for the three months ended September 30, 2015 and 2014.

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, 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 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 the accompanying condensed consolidated balance sheets for cash and cash equivalents, receivables and short and long term debt approximate their fair values.

The redeemable noncontrolling interest includes the Company's joint venture with Middlebury College to form Middlebury Interactive Languages ("MIL"). Under the agreement, Middlebury College has an irrevocable election to sell 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. As discussed below, Middlebury College exercised its put right on May 4, 2015.

The following table summarizes certain fair value information at September 30, 2015 and June 30, 2015 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	$ 6,801	$ —	$ —	$ 6,801
Total	$ 6,801	$ —	$ —	$ 6,801

The following table summarizes the activity during the three months ended September 30, 2015 for assets and liabilities measured at fair value on a recurring basis:

Description	Fair Value June 30, 2015	Purchases, Issuances, and Settlements	Unrealized Gains/(Losses)	Fair Value September 30, 2015
	Three Months Ended September 30, 2015			
	(In thousands)			
Redeemable Noncontrolling Interest in Middlebury Joint Venture	$ 6,801	$ —	$ —	$ 6,801
Total	$ 6,801	$ —	$ —	$ 6,801

The fair value of the redeemable noncontrolling interest in the Middlebury Joint Venture was accounted for in accordance with ASC 480-10-S99, *Accounting for Redeemable Equity Instruments*. The redeemable noncontrolling interests are redeemable outside of the Company's control and are recorded outside of permanent equity. The fair value of the Middlebury Joint Venture was based upon a valuation from a third-party valuation firm as of June 30, 2015. In determining the fair value, the valuation incorporated a number of assumptions and estimates including an income-based valuation approach. As of June 30, 2015 the fair value of the redeemable noncontrolling interest in the Middlebury Joint Venture was estimated at $6.8 million. As of September 30, 2015, the Company performed an internal analysis and determined there was no underlying change in the estimated fair value of the redeemable noncontrolling interest in the Middlebury Joint Venture.

On May 4, 2015, Middlebury College, under the joint venture agreement, exercised its right to require the Company to purchase all of its ownership interest in the joint venture at a mutually agreed upon fair market value or for a value to be determined by an independent valuation. At September 30, 2015, the Company was still in discussions with Middlebury to settle the terms under the put option. There has been no change in the fair value of the noncontrolling interest since June 30, 2015. The Company has the right to pay the redemption cost in cash, stock or a combination thereof, at the Company's option, which form of consideration has not yet been determined.

Net Income (Loss) Per Common Share

The Company calculates net income (loss) per share in accordance with ASC 260, *Earnings Per Share*. Under ASC 260, basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. The weighted average number of shares of common stock outstanding includes vested restricted stock awards. Diluted net income (loss) per share ("EPS") reflect the potential dilution that could occur assuming conversion or exercise of all dilutive unexercised stock options. The dilutive effect of stock options and restricted stock awards was determined using the treasury stock method. Under the treasury stock method, the proceeds received from the exercise of stock options and restricted stock awards, the amount of compensation cost for future service not yet recognized by the Company and the amount of tax benefits that would be recorded in additional paid-in capital when the stock options become deductible for income tax purposes are all assumed to be used to repurchase shares of the Company's common stock. Stock options and restricted stock awards are not included in the computation of diluted net income (loss) per share when they are antidilutive. Common stock outstanding reflected in the Company's condensed consolidated balance sheets include restricted stock awards outstanding. Securities that may participate in undistributed net income with common stock are considered participating securities.

	Three Months Ended September 30, 2015	2014
	(In thousands except shares and per share data)	
Basic and dilutive loss per share computation:		
Net loss attributable to common stockholders	$ (12,793)	$ (6,776)
Weighted average common shares — basic and diluted	37,433,493	37,695,681
Basic and diluted net loss per share	$ (0.34)	$ (0.18)

The basic and diluted weighted average common shares were the same for the three months ended September 30, 2015 and 2014 as the inclusion of dilutive securities would have been anti-dilutive. For the three months ended September 30, 2015 and 2014, these anti-dilutive shares totaled 237,937 and 329,979, respectively. At September 30, 2015, the Company had 42,451,114 shares issued and 38,948,516 shares outstanding.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes most existing revenue recognition guidance under US GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). On July 9, 2015, the FASB voted to defer the effective date of the new revenue recognition standard by one year. Based on the Board's decision, public organizations would apply the new revenue standard to annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which the Company will adopt the standard.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40)* ("ASU 2014-15"). ASU 2014-15 addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. ASU 2014-15 will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect to adopt this guidance early and does not believe that the adoption of this guidance will have a material impact on the Company's financial statements and disclosures.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-05, "*Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* ("ASU 2015-05"). ASU 2015-05 provides guidance regarding whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the entity should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract. ASU 2015-05 does not change the accounting for service contracts. ASU 2015-05 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the impact of this guidance.

4. Income Taxes

Income tax expense is based on income reported in the condensed consolidated financial statements. A deferred income tax asset or liability is determined by applying currently enacted tax laws and rates to the expected reversal of the cumulative temporary differences between the carrying value of assets and liabilities for financial statement and income tax purposes. Deferred income tax expense or benefit is measured by the change in the deferred income tax asset or liability during the period. For the three months ended September 30, 2015 and 2014, the Company's effective income tax rate was a 39.0% and 49.8%, respectively. The effective income tax rate differs from the statutory federal income tax rate primarily due to the effects of foreign operations, state taxes, non-controlling interests, and current year permanent differences between book and tax treatment.

5. Long-term Obligations

Capital Leases

The Company incurs capital lease obligations for student computers under a lease line of credit with PNC Equipment Finance, LLC with annual borrowing limits. The Company had annual borrowing availability under the lease line of credit of $35.0 million as of September 30, 2015 and June 30, 2015, respectively. As of September 30, 2015 and June 30, 2015, the outstanding balance under the lease line of credit was $27.3 million and $29.7 million, respectively, with lease interest rates ranging from 1.95% to 3.08%. Individual leases under the lease line of credit include 36-month payment terms with a $1 purchase option at the end of each lease term. The Company has pledged the assets financed to secure the outstanding leases. The gross carrying value of leased student computers as of September 30, 2015 and June 30, 2015 was $43.4 million and $43.6 million, respectively. The net carrying value of leased student computers as of September 30, 2015 and June 30, 2015 was $13.4 million and $12.9 million, respectively.

The Company incurs capital lease obligations for student computers under a lease line of credit with PNC Equipment Finance, LLC with annual lease availability limits. The Company had $35.0 million of availability for new leasing during the first quarter of fiscal year 2016. Interest rates in July 2015 on the new borrowings were based upon an initial rate of 2.34% modified by changes in the three year interest rate swaps rate as published in the Federal Reserve Statistical Release H.15, "Selected Interest Rates," between June 25, 2014 and the Lease Commencement Date, as defined in the lease line of credit. This availability originally expired in July 2015, but was extended to July 2016. Interest rates on the new borrowings beginning in August 2015 under the extended agreement are based upon an initial rate of 1.88% modified by changes in the three year interest rate swaps rate as published in the Federal Reserve Statistical Release H.15, "Selected Interest Rates," between April 29, 2015 and the Lease Commencement Date, as defined in the lease line of credit.

The following is a summary as of September 30, 2015 of the present value of the net minimum payments due on outstanding capital leases under the Company's commitments:

June 30,	Capital Leases ($ in thousands)
2016	$ 12,490
2017	10,623
2018	4,881
Total minimum payments	27,994
Less amount representing interest (imputed weighted average capital lease interest rate of 2.48%)	(690)
Net minimum payments	27,304
Less current portion	(15,474)
Present value of minimum payments, less current portion	$ 11,830

Table of Contents

6. Line of Credit

On January 31, 2014, the Company executed a $100.0 million unsecured line of credit to be used for general corporate operating purposes with Bank of America, N.A. ("BOA"). The line has a five-year term, bears interest at the higher of the Bank's prime rate plus 0.25%, or the Federal Funds Rates plus 0.75%, or the LIBOR rate plus 1.25%; and incorporates customary financial and other covenants, including but not limited to a maximum debt leverage and a minimum fixed charge coverage ratio. As of September 30, 2015 and June 30, 2015, the Company was in compliance with these covenants. During the three months ended September 30, 2015, there was no borrowing activity on this line of credit, and the Company had no borrowings outstanding on the line of credit as of September 30, 2015.

The BOA credit agreement contains a number of financial and other covenants that, among other things; restrict the Company and its subsidiaries' ability to incur additional indebtedness, grant liens or other security interests, make certain investments, make specified restricted payments including dividends, dispose of assets or stock including the stock of its subsidiaries, make capital expenditures above specified limits and engage in other matters customarily restricted in senior credit facilities.

7. Equity Transactions

Our 2007 Equity Incentive Award Plan (the Plan) was designed to attract, retain and motivate key employees. Awards granted under the Plan may be settled in shares of the Company's common stock or cash, in the case of performance share units ("PSUs"). At the beginning of each year, the Plan provides that the number of shares available for issuance automatically increases subject to the Board of Directors approval. During the three months ended September 30, 2015, the Company's Board of Directors authorized 1,533,412 additional shares for issuance pursuant to the 2007 Plan's evergreen provision. Through September 30, 2015, the remaining aggregate number of shares of the Company's common stock authorized for future issuance under the Plan was 3,384,244. Through September 30, 2015, there were 5,417,367 shares of the Company's common stock that were issued and remain outstanding as a result of equity awards granted under the Plan.

Stock Options

Stock option activity during the three months ended September 30, 2015 was as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, June 30, 2015	2,914,593	$ 20.33	4.05	$ 88
Granted	243,112	13.43		
Exercised	(1,000)	13.66		
Forfeited or canceled	(409,702)	14.95		
Outstanding, September 30, 2015	2,747,003	$ 20.50	4.49	$ 61
Stock options exercisable at September 30, 2015	1,698,175	$ 22.41	2.94	$ —

The aggregate intrinsic value of options exercised during the three months ended September 30, 2015 and 2014 was zero and $0.3 million, respectively. The weighted-average grant date fair value of options granted during the three months ended September 30, 2015 and 2014 was $6.18 and $8.27, respectively.

As of September 30, 2015, there was $6.3 million of total unrecognized compensation expense related to unvested stock options granted. The cost is expected to be recognized over a weighted average period of 2.9 years. During the three months ended September 30, 2015 and 2014, the Company recognized $1.0 million and $1.1 million, respectively, of stock-based compensation expense related to stock options.

Restricted Stock Awards

Restricted stock award activity during the three months ended September 30, 2015 was as follows:

	Shares	Weighted-Average Fair Value
Nonvested, June 30, 2015	1,245,504	$ 22.30
Granted	785,069	13.97
Vested	(314,892)	25.90
Forfeited or canceled	(44,317)	26.58
Nonvested, September 30, 2015	1,671,364	$ 17.48

During the quarter ended September 30, 2015, 111,690 new performance based restricted stock awards were granted and 236,362 were nonvested at September 30, 2015. During the quarter ended September 30, 2015, 131,104 performance-based awards vested. Vesting of the performance-based restricted stock awards is contingent on the achievement of certain financial performance goals and service vesting conditions. The remaining 673,379 awards granted during the quarter ended September 30, 2015 were only service based awards. The remaining 1,435,002 nonvested awards as of September 30, 2015 were only service based awards.

As of September 30, 2015, there was $19.7 million of total unrecognized compensation expense related to unvested restricted stock awards granted. The cost is expected to be recognized over a weighted average period of 2.2 years. The total fair value of shares vested during the three months ended September 30, 2015 and 2014 was $4.2 million and $4.1 million, respectively. During the three months ended September 30, 2015 and 2014, the Company recognized $3.6 million and $3.1 million, respectively, of stock-based compensation expense related to restricted stock awards.

Performance Share Units

During September 2015, the Company granted a total of 999,000 PSUs to certain senior executives, having a weighted average fair value of $13.45 per share. The PSUs were granted pursuant to the terms of the Plan and vest upon achievement of certain performance criteria and continuation of service over a two to three-year period. The level of performance will determine the number of PSUs earned as measured against threshold, target and stretch achievement levels. Each PSU represents the right to receive one share of the Company’s common stock, or at the option of the Company, an equivalent amount of cash, and are classified as an equity award in accordance with Accounting Standards Codification 718 — Stock Compensation. If performance criteria exceed targets, then additional PSU’s up to 499,500 could be earned by the participants.

In addition to the performance conditions, there is a service vesting condition which stipulates that 30 percent of the earned award will vest quarterly beginning November 15, 2017 and 70 percent of the earned award will vest on August 15, 2018, in both cases dependent upon continuing service by the grantee as an employee of the Company, unless the grantee is eligible for earlier vesting upon a change in control and qualifying termination, as defined by the PSU agreement. For equity performance awards, including the PSU’s, subject to graded vesting schedules for which vesting is based on achievement of a performance metric in addition to grantee service, stock-based compensation expense is recognized on an accelerated basis by treating each vesting tranche as if it was a separate grant.

As of September 30, 2015, there was $11.8 million of total unrecognized compensation expense related to unvested performance share units granted.

8. Related Party Transactions

At September 30, 2015 and June 30, 2015, the Company had loaned a total of $4.0 million to its 60% owned joint venture Middlebury Interactive Languages LLC (“MIL”) in accordance with the terms of the original joint venture agreement. The loan was repayable under terms and conditions specified in the loan agreement. The loan balance and related interest are eliminated since MIL is consolidated in the Company's financial statements; however, repayment of the loan is dependent on the continued liquidity of MIL.

On September 11, 2013, the Company issued a mortgage note ("Mortgage") lending $2.1 million to a managed school partner. The note bears interest at a fixed rate of 5.25% per year and has a term of five years. Monthly principal and interest payments began in October 2013 with a final balloon payment of $1.8 million at the term of the loan. The Mortgage is primarily secured by the underlying property. The borrower has defaulted on the loan payment and we are in the foreclosure process. Also see Note 10.

9. Commitments and Contingencies

Litigation

In the ordinary conduct of the Company's business, the Company is subject to lawsuits, arbitrations and administrative proceedings from time to time. The Company believes that the outcome of any existing or known threatened proceedings, even if determined adversely, should not have a material adverse effect on the Company's business, financial condition, liquidity or results of operations. The Company expenses legal costs as incurred.

On September 24, 2015, the Company, in connection with an industry-wide investigation styled "In the Matter of the Investigation of: For-Profit Virtual Schools," received a civil investigative subpoena for specified documents and responses to interrogatories from the Attorney General of the State of California, Bureau of Children's Justice. The Company is cooperating with the investigation and responding to the subpoena. At this early stage, the Company is not aware of any material adverse effect this industry-wide investigation would have on the results of its operations and financial condition.

Consulting Agreement

On August 3, 2015, Mr. Timothy L. Murray, then President and Chief Operating Officer of K12 Inc. (the "Company"), notified the Company of his intent to resign, which became effective on September 15, 2015. The Company and Mr. Murray have entered into a Consulting Agreement, effective September 16, 2015, whereby Mr. Murray will provide transition and other consulting services for a term of up to six months and payment of $43,985 per month for services rendered.

Employment Agreements

The Company has entered into employment agreements with certain executive officers that provide for severance payments and, in some cases other benefits, upon certain terminations of employment. Except for the agreements with the Company's CEO that has a three year term, all other agreements provide for employment on an "at-will" basis. If the employee is terminated for "good reason" or without cause, the employee is entitled to salary continuation, and in some cases benefit continuation, for varying periods depending on the agreement.

Off-Balance Sheet Arrangements

The Company provided guarantees of approximately $8.7 million related to lease commitments on the buildings for certain of the Company's Flex schools. The Company contractually guarantees that certain schools under the Company's management will not have annual operating deficits and the Company's management fees from these schools may be reduced accordingly to cover any school operating deficits. Other than these lease and operating deficit guarantees, the Company did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

10. Investments

Investment in Web International Education Group, Ltd.

In January 2011, the Company invested $10.0 million to obtain a 20% minority interest in Web International Group, Ltd. ("Web"), a provider of English language learning centers in cities throughout China. From January 2011 through May 2013, the Company recorded its investment in Web as an available for sale debt security because of the ability to put the investment to other Web shareholders in return for the original $10.0 million investment plus interest. The Company's option to purchase no less than 51% of Web expired on March 31, 2013 and on May 6, 2013, the Company exercised its right to put its investment back to Web for return of its original $10.0 million investment plus interest of 8%, which Web was contractually required to pay by May 31, 2014, as amended. The Company reclassified this $10.0 million investment, recording it in other current assets.

The receivable is due and the Company accrued interest up through December 31, 2014. However, given the difficulties in expatriating money from China, and the resulting administrative hurdles related to collecting this receivable, starting January 1, 2015, the Company discontinued the accrual of interest. Furthermore, during the fourth quarter of 2015, and upon further negotiation with Web, the Company wrote off the full amount of accrued interest totaling $3.2 million. At September 30, 2015, the Web investment was included in other current assets. The Company and Web continue to mutually work toward a mechanism for collection of the principal.

During the three months ended September 30, 2015 and 2014, the Company recorded interest income of zero and $0.3 million, respectively, associated with Web.

Investment in School Mortgage

On September 11, 2013, the Company issued a mortgage note ("Mortgage") lending $2.1 million to the Maurice J. Moyer Academic Institute ("Moyer"). The note bears interest at a fixed rate of 5.25% per year and has a term of five years. Monthly principal and interest payments were scheduled to be made beginning October 2013 with a final balloon payment of $1.8 million at the term of the loan. The Mortgage is primarily secured by the underlying property.

The Mortgage and ancillary documents include customary affirmative and financial covenants for secured transactions of this type. The Company has recorded this as a held to maturity investment and the current amounts are included in other current assets while the non-current amounts are included in deposits and other assets on the consolidated balance sheets.

During the three months ended September 30, 2015, Moyer defaulted on the loan agreement for non-payment of principal and interest, the school's closure, and other contractual defaults. The Company continues to exercise its rights under the existing arrangement, including pursuing foreclosure and receivership.

During June 2015, the Company engaged a 3rd party valuation firm to conduct an appraisal of the property to assess market value at June 30, 2015. The appraisal concluded a market value in excess of the note carrying value. As of September 30, 2015, there are no indications that these factors have changed.

11. Redeemable Noncontrolling Interest

Investment in LearnBop Inc.

On July 31, 2014, the Company acquired a majority interest in LearnBop Inc. ("LearnBop"), for $6.5 million in cash in return for a 51% interest in LearnBop. The purpose of the acquisition was to complement the Company's K-12 math curriculum as LearnBop has developed an adaptive math curriculum learning software. As part of this transaction, the non-controlling shareholders have a non-transferable put option, which is exercisable between July 31, 2018 and December 31, 2018 for the remaining minority interest. The price of the put option will be determined based on the trailing twelve month revenue and contribution margin as defined in the Stockholders' Agreement between the Company and LearnBop. Additionally, the Company has a non-transferable call option for the remaining minority interest at a price of $3.0 million, which becomes exercisable January 1, 2019 or thereafter. Acquisition costs incurred by the Company related to this transaction included in selling, administrative and other operating expenses were $0.1 million.

The purchase price of $6.5 million was allocated to the underlying assets and liabilities based on their estimated fair value at the date of acquisition. The Company recorded goodwill of $8.1 million, which will be non-deductible for tax purposes. Recognition of goodwill is largely attributed to the value paid for LearnBop's capabilities in providing adaptive learning software for math curriculum to K-12 students. The Company has not disclosed current period or pro-forma revenue and earnings attributable to LearnBop as they are immaterial.

The Company finalized its allocation of the purchase price of LearnBop as of June 30, 2015. The purchase price was allocated as follows:

		Amount
As of July 31, 2014		
Current assets	$	0.1
Capitalized Software		0.9
Goodwill		8.1
Current liabilities		(0.1)
Redeemable noncontrolling interest		(2.5)
Fair value of total consideration transferred	$	6.5

Given the provision of the put rights, the redeemable noncontrolling interests are redeemable outside of the Company's control and are recorded outside of permanent equity at their redemption value in accordance with ASC 480-10-S99, *Accounting for Redeemable Equity Instruments.* The Company will adjust the redeemable noncontrolling interests to redemption value on each balance sheet date with changes in redemption value recognized as an adjustment to retained earnings, or in the absence of retained earnings, by adjustment to additional paid-in-capital.

The noncontrolling interest is redeemable at other than fair value as the redemption value is determined based on a specified formula. The noncontrolling interest becomes redeemable after the passage of time, and therefore the Company records the carrying amount of the noncontrolling interest at the greater of 1) the initial carrying amount, increased or decreased for the noncontrolling interest's share of net income or loss, or 2) the redemption value.

According to ASC 480-10-S99, *Accounting for Redeemable Equity Instruments*, to the extent that the noncontrolling interest holder has the contractual right to receive an amount upon share redemption that is other than fair value of such shares, only the portion of the periodic adjustment to the instrument's carrying amount that reflects redemption in excess of fair value is treated like a dividend for earnings per share computation purposes. No adjustment to the earnings per share computation was necessary as estimated fair value of the noncontrolling interest is greater than the redemption value.

Middlebury College Joint Venture

In May 2010, the Company entered into an agreement to establish a joint venture with Middlebury College ("Middlebury") to form Middlebury Interactive Languages LLC ("MIL"). The venture creates and distributes innovative, online language courses under the trademark Middlebury and other marks. At any time after the fifth (5th) anniversary of forming the joint venture, Middlebury may give written notice of its irrevocable election to sell all of its membership interest to the Company (put right). The purchase price for Middlebury's membership interest shall be its fair market value. Additionally, Middlebury has an option to repurchase the camp programs at fair market value along with other contractual rights as certain milestones associated with its Language Academy summer camp programs have not been met.

Given the provision of the put rights, the redeemable noncontrolling interests are redeemable outside of the Company's control and are recorded outside of permanent equity at their redemption value fair value in accordance with ASC 480-10-S99, *Accounting for Redeemable Equity Instruments.* The Company will adjust the redeemable noncontrolling interests to redemption value on each balance sheet date with changes in redemption values recognized as an adjustment to retained earnings, or in the absence of retained earnings, by adjustment to additional paid-in-capital.

On May 4, 2015, Middlebury College, under the joint venture agreement, exercised its right to require the Company to purchase all of its ownership interest in the joint venture at a mutually agreed upon fair market value or for a value to be determined by an independent valuation. At September 30, 2015, the Company was still in discussions with Middlebury to settle the terms under the put option. There has been no change in the fair value of the noncontrolling interest since June 30, 2015. The Company has the right to pay the redemption cost in cash, stock or a combination thereof, at the Company's option, which form of consideration has not yet been determined.

12. Supplemental Disclosure of Cash Flow Information

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
	(In thousands)	
Cash paid for interest	$ 220	$ 220
Cash paid for taxes	$ 556	$ 7,530
Supplemental disclosure of non-cash financing activities:		
New capital lease obligations	$ 2,588	$ 4,267
Supplemental disclosure of non-cash investing activities:		
Business Combinations:		
— Current assets	$ —	$ 27
— Property and equipment	$ —	$ 350
— Intangible assets	$ —	$ 27
— Goodwill	$ —	$ 8,982
— Assumed liabilities	$ —	$ (50)
— Deferred revenue	$ —	$ (23)

13. Common Stock Repurchases

On November 4, 2013, the Board of Directors authorized the repurchase of up to $75 million of the Company’s outstanding common stock over a two year period. The stock purchases under the buyback were dependent upon business and market conditions and other factors. The stock purchases were made from time to time and may be made through a variety of methods including open market purchases and in accordance with the SEC’s Rule 10b5-1. There were no shares purchased during the three months ended September 30, 2015. There were 1,307,402 shares of common stock at an average price of $20.21 per share purchased during the three months ended September 30, 2014. As of September 30, 2015 total shares purchased under the plan were 3,502,598, at an average cost of $21.41 per share, and there were no shares remaining to be repurchased under the plan.

Item 2. *Management’s Discussion and Analysis of Financial Condition and Results of Operations.*

Certain statements in Management’s Discussion and Analysis or 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, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or 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 for the fiscal year ended June 30, 2015, which we refer to as our 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 months ended September 30, 2015.
- *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 to develop and acquire curriculum and online learning platforms that promote mastery of core concepts and skills for students of all abilities. K12 provides a continuum of technology-based educational products and solutions to virtual and blended public schools, school districts, charter schools, private schools and families as we strive to transform the educational experience into one that delivers individualized education on a highly scalable basis. These unique set of products and services are provided primarily to three lines of business: Managed Public School Programs (curriculum and services sold to managed public schools), Institutional (curriculum, technology and services provided to school districts, public schools and other educational institutions that we do not manage), and Private Pay Schools, and Other (private schools for which we charge student tuition and make direct consumer sales).

Managed Public School Programs accounted for approximately 80% of our revenue in the three months ended September 30, 2015. With a Managed Public School Program, K12 assumes substantially all of the administrative oversight, technology and academic support services, in addition to the provisioning of curriculum, learning systems and instructional services. These arrangements are negotiated with and approved by the school boards, which are mostly virtual and blended public charter schools. We have Managed Public School Programs in 33 states and the District of Columbia.

With our Institutional business, we do not assume primary management responsibilities for the schools. Rather, the Institutional business sells online curriculum programs and technology (full time and part time), courses, teacher instruction, and various support tools and platforms (see description of PEAK below) to schools and school districts. Our Institutional business consists of both Non-managed Programs and Institutional Software and Services. Non-managed Programs include schools where K12 provides the curriculum and technology for full-time virtual and blended programs, and the school can also contract for instruction or other educational services. Non-managed Programs do not offer primary administrative oversight. The Institutional Software and Services offerings provide an array of online educational products and services to meet the specific needs of the school or school district and its students. In addition to curriculum, systems and programs, the services we provide to these customers are designed to assist them in launching their own online learning programs tailored to their own requirements and may include teacher training programs, administrator support and our PEAK management system. PEAK (Personalize, Engage and Achieve) is a platform designed to centrally manage multiple online solutions across a school or district through one application. With our array of services, schools and districts can offer programs that allow students to participate part-time, supplementing their education with core courses, electives, credit recovery options, remediation and supplemental content options.

Our International and Private Pay Schools include three accredited online private schools that we operate in which parents can enroll students on a tuition basis for a full-time online education or individual courses to supplement their children's traditional instruction. These schools are: (1) K(12) International Academy, an online private school that enables us to offer students worldwide the same full-time education programs and curriculum that we provide to the virtual and blended public schools, (2) The Keystone School, a private school that offers online and correspondence courses, and (3) the George Washington University Online High School, a school that offers college preparatory curriculum and is designed for high school students who are seeking a challenging academic experience.

We believe that the acceptance of online education in grades K-12 continues to grow, and anticipate that increased overall demand for virtual options in education will translate into increased demand for our Institutional business (sold under the brand names FuelEducation or FuelEd) over time. Our Managed Public School Programs business, which serves primarily virtual and blended charter schools, is more mature and the independent governing boards of the virtual charter schools that contract with us are taking different approaches to virtual education depending upon their own charter school goals. This in turn may alter the nature of the agreements we have with those boards and the level of management services that are contracted. We continue to work with all independent governing authorities to offer the curriculum, technology and services to meet the needs of fully-managed virtual and blended schools as well as the self-managed virtual and blended schools, offering additional services to the self-managed schools as needed.

Overall, for all three lines of business, for the three months ended September 30, 2015, revenues decreased to $221.2 million from $236.7 million in the same period in the prior year, a decline of 6.5%. Over the same period, operating loss increased to $20.5 million, from $13.2 million in the prior year period. Net loss to common stockholders increased to $12.8 million, as compared to $6.8 million in the prior year period.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires us to make estimates and assumptions about future events that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the 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 Annual Report. There have been no significant updates to our critical accounting policies disclosed in our Annual Report.

Results of Operations

We have three lines of business: Managed Public School Programs, Institutional (curriculum, technology, and services provided to school districts, public schools and other educational institutions that we do not manage), and Private Pay Schools and Other (private schools for which we charge student tuition and make direct consumer sales).

Managed Public School Programs	Institutional (includes non-managed schools)	International and Private Pay Schools
• Virtual public schools	• K(12) curriculum and technology	• Managed private schools
• Blended public schools	• FuelEd Online Courses	—K(12) International Academy
—Hybrid schools	• FuelEd Anywhere Learning System	—George Washington University Online HS
—Flex schools		—The Keystone School
—Passport schools	• Middlebury Interactive Languages	• Independent course sales (Consumer)
	• Pre-kindergarten	

Enrollment Data

The following table sets forth total enrollment data for students in our Managed Public School Programs and our Non-managed Programs.

	Three Months Ended September 30, 2015	2014	2015 / 2014 Change	Change %
Managed Public School Programs (1, 2)	104,429	118,609	(14,180)	-12.0%
Non-managed Public School Programs (1)	27,754	20,630	7,124	34.5%

(1) If a school changes from a Managed to a Non-managed Program, the corresponding enrollment classification would change in the period in which the contract arrangement changed. Enrollments are equal to the official count date number, which is the first Wednesday of October in a year, or October 7, 2015 for the first quarter of fiscal year 2016 and October 1, 2014 for the first quarter of fiscal year 2015.

(2) Managed Public School Programs include enrollments for which K12 receives no public funding or revenue.

Revenue by Business Lines

Revenue is captured by business line based on the underlying customer contractual agreements. The following represents our revenue for these lines of business for the three months ended September 30, 2015 and 2014.

($ in thousands)	Three Months Ended September 30, 2015	2014	Change 2015 / 2014 $	%
Managed Public School Programs	$ 177,455	$ 202,379	$ (24,924)	-12.3%
Institutional				
Non-managed Public School Programs	15,706	10,493	5,213	49.7%
Institutional Software & Services	13,288	12,634	654	5.2%
Total Institutional	28,994	23,127	5,867	25.4%
Private Pay Schools and Other	14,781	11,206	3,575	31.9%
Total	$ 221,230	$ 236,712	$ (15,482)	-6.5%

Beginning in fiscal 2016, the Company will present revenue from Non-managed Programs as part of the Institutional line of business, along with the Institutional Software and Services, which together constitute total Institutional revenue. In the prior year these revenues were presented as part of the Public School Programs line of business, which included both managed and non-managed public school programs. We believe this revised presentation clarifies and better aligns the disclosure of Non-Managed Program revenues with the Company's operational and sales structure.

	Three Months ended September 30,						
	2015			2014			
	($ in thousands)						
Revenues	$	221,230	100.0%	$	236,712	100.0%
Cost and expenses						
Instructional costs and services		139,003	62.8		146,842	62.0
Selling, administrative, and other operating expenses		99,270	44.9		99,546	42.1
Product development expenses		3,413	1.5		3,482	1.5
Total costs and expenses		241,686	109.2		249,870	105.6
Loss from operations		(20,456)	(9.3)		(13,158)	(5.6)
Interest (expense) income, net		(305)	(0.1)		31	—
Loss before income tax benefit and noncontrolling interest		(20,761)	(9.4)		(13,127)	(5.6)
Income tax benefit		8,097	3.7		6,538	2.8
Net loss		(12,664)	(5.7)		(6,589)	(2.8)
Adjust net income attributable to noncontrolling interest		(129)	(0.1)		(187)	(0.1)
Net loss attributable to common stockholders	$	(12,793)	(5.8)%	$	(6,776)	(2.9)%

Comparison of the Three Months Ended September 30, 2015 and September 30, 2014

Revenues. Our revenues for the three months ended September 30, 2015 were $221.2 million, representing a decrease of $15.5 million, or 6.5%, from $236.7 million for the same period in the prior year. Managed Public School Program revenue decreased $24.9 million, or 12.3%, year over year. The decline in Managed Public School Program revenue was primarily attributable to the 12.0% decline in enrollments, largely resulting from the loss of the management component of the Agora contract, offset in part by increases in the per pupil rate of achieved state funding in certain states. Additionally, other factors impacting the enrollment decline include regulatory and school board decisions to limit enrollments and marketing and other market conditions. We anticipate the full fiscal year net impact of the Agora program transition to result in an approximate decrease of $110 million of total revenue from the prior year.

Total Institutional increased $5.9 million, or 25.4%, due primarily to the transition of the Agora contract from a managed to a non-managed program. Private Pay Schools and Other revenue increased $3.6 million, or 31.9%, over the prior year due to business development activities.

Enrollments in Managed Public School Programs on average generate substantially more revenues than enrollments served through our Institutional business where we provide limited or no management services. As we continue to build our Institutional business and the Managed Public School Programs business continues to mature, enrollment mix is expected to shift and may impact growth in revenues relative to the growth in enrollments.

Instructional costs and services expenses. Instructional costs and services expenses for the three months ended September 30, 2015 were $139.0 million, representing a decrease of $7.8 million, or 5.3%, from $146.8 million for the three months ended September 30, 2014. This decrease in expense was primarily associated with the loss of the management component of the Agora contract. Instructional costs and services expenses were 62.8% of revenue during the three months ended September 30, 2015, a slight increase from 62.0% for the three months ended September 30, 2014.

Selling, administrative, and other operating expenses. Selling, administrative, and other operating expenses for the three months ended September 30, 2015 were $99.3 million, representing a decrease of $0.2 million, or 0.2% from $99.5 million for the three months ended September 30, 2014. Selling, administrative, and other operating expenses were 44.9% of revenue during the three months ended September 30, 2015, an increase from 42.1% for the three months ended September 30, 2014. This increase was primarily attributable to a write-off of receivables which was included in selling, administrative, and other operating expenses for the three months ended September 30, 2015.

Product development expenses. Product development expenses for the three months ended September 30, 2015 were $3.4 million, representing a decrease of $0.1 million, or 2.9% from $3.5 million for the three months ended September 30, 2014. As a percentage of revenues, product development expenses remained flat at 1.5% for the three months ended September 30, 2015 and 2014.

Interest expense, net. Net interest expense for the three months ended September 30, 2015 was $0.3 million as compared to net interest expense of zero in the same period in the prior year. Net interest expense was primarily associated with approximately zero and $0.3 million in interest income during the periods ended September 30, 2015 and 2014, respectively, from our investment in Web International Education Group, Ltd., offset by interest expense on our student computer capital leases. During the year ended September 30, 2015, we placed our Web investment on non-accrual status and ceased accruing interest income given the delay in efforts to expatriate the cash.

Income tax benefit. We had an income tax benefit of $8.1 million for the three months ended September 30, 2015, or 39.0% of loss before taxes, as compared to an income tax benefit of $6.5 million, or 49.8% of loss before taxes for the three months ended September 30, 2014. The decrease in the effective tax rate for the three months ended September 30, 2015 is related to tax elections made in the first quarter of 2015 on the sale of assets in June 2014.

Net loss. Net loss was $12.7 million for the three months ended September 30, 2015, compared to $6.6 million for the three months ended September 30, 2014, representing an increase of $6.1 million.

Noncontrolling interest. Net income attributable to noncontrolling interest for the three months ended September 30, 2015 was $0.1 million as compared to net income attributable to noncontrolling interest of $0.2 million for the same period in the prior year. Noncontrolling interest reflects the after-tax income attributable to minority interest owners in our investments, and fluctuate in proportion to the operating results of the investments.

Liquidity and Capital Resources

As of September 30, 2015, we had net working capital, or current assets minus current liabilities, of $338.6 million. Our working capital includes cash and cash equivalents of $150.9 million, including $2.4 million associated with our two joint ventures, and accounts receivable of $260.8 million. Our working capital provides a significant source of liquidity for our normal operating needs. Our accounts receivable balance fluctuates throughout the fiscal year based on the timing of customer billings and collections and tends to be highest in our first fiscal quarter as we begin billing for students. In addition, our cash and accounts receivable were significantly in excess of our accounts payable and short-term accrued liabilities at September 30, 2015.

On January 31, 2014, we executed a $100.0 million unsecured line of credit to be used for general corporate operating purposes with Bank of America, N.A. (“BOA”). The line has a five-year term, bears interest at the higher of the Bank’s prime rate plus 0.25%, or the Federal Funds Rates plus 0.75%, or the LIBOR rate plus 1.25%; and incorporates customary financial and other covenants, including but not limited to a maximum debt leverage and a minimum fixed charge coverage ratio. As of September 30, 2015, we were in compliance with these covenants and we had no borrowings outstanding on the line of credit.

We incur capital lease obligations for student computers under a lease line of credit with PNC Equipment Finance, LLC with annual lease availability limits. We had $35.0 million of availability for new leasing during fiscal year 2015. Interest rates in July 2015 on the new borrowings were based upon an initial rate of 2.34% modified by changes in the three year interest rate swaps rate as published in the Federal Reserve Statistical Release H.15, “Selected Interest Rates,” between June 25, 2014 and the Lease Commencement Date, as defined in the lease line of credit. This availability originally expired in July 2015, but was extended to July 2016. Interest rates on the new borrowings beginning in August 2015 under the extended agreement are based upon an initial rate of 1.88% modified by changes in the three year interest rate swaps rate as published in the Federal Reserve Statistical Release H.15, "Selected Interest Rates," between April 29, 2015 and the Lease Commencement Date, as defined in the lease line of credit.

As of September 30, 2015, the aggregate outstanding balance under the lease lines of credit was $27.3 million. Borrowings bore interest at rates ranging from 1.95% to 3.08% and included a 36-month payment term with a $1 purchase option at the end of the term. We have pledged the assets financed to secure the outstanding leases. We may extend our lease line of credit for additional periods, or consider alternative arrangements for financing student computers.

On November 4, 2013, the Board of Directors authorized the repurchase of up to $75 million of our outstanding common stock over a two year period. The purchases under this buyback were dependent upon business and market conditions and other factors. The stock purchases were made from time to time and were made through a variety of methods including open market purchases and in accordance with the SEC's Rule 10b5-1. The Company completed the purchases under the buyback plan in September 2014, and accordingly there were no purchases during the three months ended September 30, 2015.

Our cash requirements consist primarily of day-to-day operating expenses, capital expenditures and contractual obligations with respect to office facility leases, capital equipment leases and other operating leases. We expect to make future payments on existing leases from cash generated from operations. We believe that the combination of funds to be generated from operations, net working capital on hand and access to our line of credit will be adequate to finance our ongoing operations for the foreseeable future. In addition, to a lesser degree, 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.

On May 4, 2015, Middlebury College, under the joint venture agreement, exercised its right to require the Company to purchase all of its ownership interest in the joint venture at a mutually agreed upon fair market value or for a value to be determined by an independent valuation. At September 30, 2015, the Company was still in discussions with Middlebury to settle the terms under the put option. There has been no change in the fair value of the noncontrolling interest since June 30, 2015. The Company has the right to pay the redemption cost in cash, stock or a combination thereof, at the Company's option, which form of consideration has not yet been determined.

Operating Activities

Net cash used by operating activities for the three months ended September 30, 2015 was $23.9 million compared to $27.4 million for the three months ended September 30, 2014. The $3.5 million decrease in cash used by operations between periods was primarily attributable to net loss including non-cash adjustments which decreased approximately $2.9 million, offset by an overall decreased usage of cash flows from changes in working capital of $6.4 million. These changes in working capital were primarily attributable to improved collections of accounts receivable, offset by decreased deferred revenue balances, among other factors.

Investing Activities

Net cash used in investing activities for the three months ended September 30, 2015 was $14.2 million compared to $25.1 million for the three months ended September 30, 2014, a decrease of $10.9 million. This decrease was due primarily to the $6.5 million investment in LearnBop during fiscal 2015, as well as a $5.4 million decrease from the prior year related to capital expenditures for certain computer related hardware.

Financing Activities

Net cash used in financing activities for the three months ended September 30, 2015 was $6.8 million compared to $33.3 million during the three months ended September 30, 2014. Our primary use of cash in financing activities during the three months ended September 30, 2015 was in connection with payments of capital lease obligations incurred for the acquisition of student computers. During the three months ended September 30, 2014, the Company purchased treasury stock totaling approximately $26.5 million, which concluded the buy-back plan. The Company made no such purchases during the three months ended September 30, 2015.

Off Balance Sheet Arrangements, Contractual Obligations and Commitments

We have provided guarantees of approximately $8.7 million related to long-term lease commitments on buildings for certain of our flex schools. We contractually guarantee that certain schools under our management will not have cumulative operating losses over the contract period and our management fees from these schools may be reduced accordingly. Other than these lease and operating deficit guarantees, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk.***

Interest Rate Risk

At September 30, 2015 and June 30, 2015, we had cash and cash equivalents totaling $150.9 million and $195.9 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 September 30, 2015, a 1% gross increase in interest rates earned on cash would result in a $1.5 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 three months ended September 30, 2015, 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. At September 30, 2015, a 1% change in exchange rates between the U.S. dollar and British pound would result in an approximate impact of less than $0.1 million on our financial statements. 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.

Item 4. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(f) 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.

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 effective as of September 30, 2015.

Changes to Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Part II. Other Information

Item 1. ***Legal Proceedings.***

In the ordinary conduct of our business, we are subject to lawsuits, arbitrations and administrative proceedings from time to time. We vigorously defend these claims; however, no assurances can be given as to the outcome of any pending legal proceedings. We believe, based on currently available information, that the outcome of any existing or known threatened proceedings, even if determined adversely, should not have a material adverse effect on our business, financial condition, liquidity or results of operations.

On September 24, 2015, the Company, in connection with an industry-wide investigation styled “In the Matter of the Investigation of: For-Profit Virtual Schools,” received a civil investigative subpoena for specified documents and responses to interrogatories from the Attorney General of the State of California, Bureau of Children’s Justice. We are cooperating with the investigation and responding to the subpoena. At this early stage, we are not aware of any material adverse effect this industry-wide investigation would have on the results of our operations and financial condition.

Item 1A. ***Risk Factors.***

There have been no material changes to the risk factors disclosed in “Risk Factors” in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended June 30, 2015 as filed with the SEC on August 4, 2015.

Item 2. ***Issuer Purchases of Equity Securities.***

On November 4, 2013, the Board of Directors authorized the repurchase of up to $75 million of the Company’s outstanding common stock over a two year period. The stock purchases under the buyback were dependent upon business and market conditions and other factors. The stock purchases were made from time to time and may be made through a variety of methods including open market purchases and in accordance with the SEC’s Rule 10b5-1. There were no shares purchased during the three months ended September 30, 2015. There were 1,307,402 shares of common stock at an average price of $20.21 per share purchased during the three months ended September 30, 2014. As of September 30, 2015 total shares purchased under the plan were 3,502,598, at an average cost of $21.41 per share, and there were no shares remaining to be repurchased under the plan.

Item 3. ***Defaults Upon Senior Securities.***

None.

Item 4. ***Mine Safety Disclosures.***

None.

Item 5. ***Other Information.***

None.

Item 6. *Exhibits*

(a) Exhibits.

Number	Description
10.1	Independent Contractor Consulting Agreement with Timothy L. Murray, effective September 16, 2015.
10.2	First Amendment to Amended and Restated Employment Agreement of Nathaniel A. Davis, effective September 2, 2015.
10.3	Form of Performance Share Unit Agreement under the 2007 Equity Incentive Award Plan, as amended.
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
32.2	Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
101	The following financial statements and footnotes from the K12 Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Operations (unaudited), (iii) Condensed Consolidated Statement of Comprehensive Income, (iv) Condensed Consolidated Statement of Equity (unaudited), (v) Condensed Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Condensed Consolidated Financial Statements (unaudited).

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

K12 Inc.

	/s/ JAMES J. RHYU
Name:	James J. Rhyu
Title:	Chief Financial Officer, Principal Accounting Officer and Authorized Signatory

Date: October 27, 2015

Exhibit 10.1

INDEPENDENT CONTRACTOR CONSULTING AGREEMENT

This Independent Contractor Consulting Agreement (“Agreement”) effective as of the 16th day of September, 2015, is entered into between K12 Inc., a Delaware corporation, with its principal place of business at 2300 Corporate Park Drive, Suite 200, Herndon, Virginia 20171 (hereinafter “K12” or “Company”) and Timothy L. Murray (hereinafter “Consultant”).

WHEREAS, Consultant is being engaged by K12 as an independent contractor to provide transition and other consulting services for the limited duration specified herein; and

WHEREAS, Consultant’s contact at the Company will be its Chief Executive Officer, Nathaniel A. Davis, and K12’s contact will be Consultant.

NOW THEREFORE, for the consideration provided herein, the parties agree to the following:

1. Consulting Services: Consultant shall provide advisory and general consulting services in connection with the transition of his former duties at the Company, including but not limited to (i) strategic and advisory support for the Institutional Sales business and Product Development organization; (ii) oversight of the Middlebury Interactive Language business transition; and (iii) other consulting services related to Consultant’s former duties as requested by the Company (“Consulting Services”).

2. Compensation: Consultant shall be paid $43,985.00 per month for such Consulting Services, pro-rated for partial months of service, payable in arrears by the 15th day of each month following each month during the Term. Consultant shall also be entitled to reimbursement of actual expenses reasonably incurred in performing the Consulting Services, including reasonable temporary housing expenses, provided such expenses are approved by K12 in advance. Consultant shall present receipts in a form satisfactory to K12. The compensation provided for herein constitutes full consideration for the Consulting Services. All payments made hereunder will be made to Consultant, with the tax ID number provided and to the address provided in a Form W-9.

3. Term: This Agreement is for a period of up to six months and shall commence on September 16, 2015 and shall terminate on March 15, 2016 or pursuant to Section 9 of this Agreement.

4. Relationship of the Parties:

a. Independent Contractor Status: Consultant understands and agrees that he is acting as an independent contractor and is not an agent or employee of K12 by virtue of this Agreement. Consultant will perform the requested Consulting Services under the general direction of K12, but will determine, in his reasonable discretion, the manner and means by which the Consulting Services and any deliverables, are accomplished.

b. Employment Taxes and Benefits: As an independent contractor, Consultant has the responsibility to file all tax returns required by law and assumes sole liability for taxes due on income earned pursuant to this Agreement. Consultant acknowledges he is not entitled to any rights or benefits (including vacation, 401k and insurance) to which K12 employees may be entitled, and further agrees to indemnify and hold K12 harmless from any liabilities, claims or actions relating to employment taxes or benefits.

c. General Liability: Consultant understands and acknowledges upon signing this Agreement that K12 will not supply any workers' compensation benefit required by any jurisdictions to anyone with independent contractor status and K12 accepts no liability for Consultant's general health.

5. Copyright and Related Matters: All works prepared by Consultant under this Agreement will be "works made for hire" and K12 will be deemed the sole owner upon their creation, as contemplated by the U.S. Copyright Act of 1976, as amended. In the event that any such work is not a work made for hire, Consultant hereby irrevocably transfers and assigns to K12 any and all rights, title and interests including, but not limited to, the copyright and other proprietary rights, effective as of the creation thereof.

6. Confidentiality and Non-Disclosure: The parties hereby reaffirm their obligations under the Confidentiality, Proprietary Rights, and Non-Solicitation Agreement executed by Consultant at the time of his prior employment with the Company, which the parties agree will remain in full force and effect in accordance with its original terms.

7. Representations and Warranties: Consultant represents and warrants that: (a) the Consulting Services described herein will be performed in a professional and workmanlike manner in accordance with reasonable industry standards; (b) use by K12, its affiliates, subsidiaries, assignees and licensees of the consulting advice and materials provided by Consultant, if any, will not violate or infringe any patent, copyright, trademark, trade secret or other personal or proprietary rights of any party; (c) Consultant will not enjoin or interfere with the distribution, licensing or exploitation of K12's merchandise or other products

8. Indemnity: In relation to his service to the Company under this Agreement, the Consultant shall have the same rights to indemnification from the Company and its subsidiaries as are enjoyed by the current officers of the Company.

9. Termination: Either party may terminate this Agreement at any time for convenience by providing thirty (30) days written notice to the other party. Either party may terminate this Agreement for the material breach of the other party if such breach remains uncured for thirty (30) days after receipt of written notice (describing the event of breach) from the non-breaching party.

10. Return of Records: Upon expiration or termination of this Agreement, Consultant shall deliver all K12 records, notes and data that relate to the Consulting Services to K12 which are confidential or to which K12 has ownership rights pursuant to this Agreement.

11. Severability and Survival: If any provision herein shall be held to be invalid or unenforceable, the remaining provisions shall continue to be valid and enforceable. It is specifically understood that any definitions and the terms of sections 5, 6, 7, 8 and 10 survive the expiration or termination of this Agreement.

12. Waiver of Contractual Right: The failure of either party to enforce any provision of this Agreement shall not be construed as a waiver or limitation of that party's right to subsequently enforce and compel strict compliance with every provision of this Agreement.

13. Remedies: This Agreement shall be governed by the laws of the Commonwealth of Virginia applicable to contracts made and to be wholly performed therein. The parties irrevocably agree to the exclusive jurisdiction of the courts of Fairfax County, Virginia. If any legal action is brought by either party arising from, or related to, the subject matter of this Agreement, the prevailing party will be entitled to an award of its reasonable attorneys' fees and costs.

14. Notices: Any notice or other communication required or which may be given hereunder shall be in writing and sent via postage paid, first class mail to the party to whom notice is to be given at the addresses set forth above.

15. Entire Agreement; Amendments: This contract sets forth the entire Agreement between the parties with respect to the subject matter hereof, and it may only be changed by a writing signed by both parties. Any prior or contemporaneous agreements, promises, negotiations or representations not expressly set forth in this Agreement are of no force or effect.

Accepted and Agreed by K12 Inc.

Signature: /s/Nathaniel A. Davis

Title: Chief Executive Officer

Date: August 8, 2015

Accepted and Agreed by Consultant

Signature: /s/Timothy L. Murray

Date: August 8, 2015

Exhibit 10.2

FIRST AMENDMENT
TO
AMENDED AND RESTATED EMPLOYMENT AGREEMENT
BETWEEN
K12 INC. AND NATHANIEL A. DAVIS

This First Amendment ("First Amendment"), dated as of September 2, 2015, to the Amended and Restated Employment Agreement dated March 10, 2014 (the "Agreement") is made between K12 Inc., a Delaware corporation ("K12") and Nathaniel A. Davis ("Employee").

WHEREAS, K12 and the Employee, with the approval of the Board of Directors of K12, have agreed to extend the date on which a Renewal Offer is required under the Agreement;

NOW, THEREFORE, the Agreement is amended and affirmed as follows:

1. Section 4.6(a) of the Agreement is amended and restated as follows:

4.6 **Expiration of Contract Term.**

(a) For the purposes of the Agreement, Renewal Offer means a bona fide offer by K12 to enter into a new employment agreement with EMPLOYEE, on terms at least as favorable to EMPLOYEE as this Agreement, made to EMPLOYEE at least one (1) month before the expiration of this Agreement.

2. All capitalized terms defined in this First Amendment shall have the same defined meanings set forth in the Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the date and year first written above.

K12 Inc.

By: /s/Andrew H. Tisch
Andrew H. Tisch
Chairman, Compensation Committee

/s/Nathaniel A. Davis
Nathaniel A. Davis
Chairman and CEO

Exhibit 10.3

K12 INC. PERFORMANCE SHARE UNIT AGREEMENT

Pursuant to the Performance Share Unit Grant Notice (the "***Grant Notice***") which is governed by this Performance Share Unit Agreement (the "***Agreement***"), K12 Inc., a Delaware corporation (the "***Company***") has granted you (the "***Participant***") the number of Performance Share Units under the 2007 Equity Incentive Award Plan, as amended from time to time (the "***Plan***"), as set forth in the Grant Notice.

ARTICLE I.
GENERAL

1.1 Definitions. Capitalized terms not specifically defined in this Agreement have the meanings specified in the Grant Notice or, if not defined in the Grant Notice, in the Plan.

1.2 Incorporation of Terms of Plan. The PSUs are subject to the terms and conditions set forth in this Agreement and the Plan, which is incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

ARTICLE II.
AWARD OF PERFORMANCE SHARE UNIT

2.1 Award of Performance Share Unit. In consideration of Participant's agreement to remain in the service or employ of the Company or one of its Subsidiaries, and for other good and valuable consideration, the Company has granted the PSUs to Participant effective as of the grant date set forth in the Grant Notice (the "***Grant Date***"). Each PSU represents the right to receive one Share or, at the option of the Company, an amount of cash, in either case, as set forth in this Agreement. Participant will have no right to the distribution of any shares of Stock or payment of any cash until the time (if ever) the PSUs have vested.

2.2 Unsecured Promise. The PSUs will at all times prior to settlement represent an unsecured Company obligation payable only from the Company's general assets.

ARTICLE III.
VESTING; FORFEITURE AND SETTLEMENT

3.1 Vesting; Forfeiture.

(a) *Generally*. The PSUs are divided into Tranche 1 PSUs and Tranche 2 PSUs as set forth in the Grant Notice and will be earned according to the performance conditions set forth in Appendix A and Appendix B, as applicable. To the extent earned, the PSUs will vest in accordance with the schedule and terms set forth in Section 3.1(b) or 3.1(c), as applicable, subject to Section 3.1(d), except that any fraction of a PSU that would otherwise be vested will be accumulated and will vest only when a whole PSU has accumulated. If no future vesting of PSUs could apply under this Agreement, any fractional PSU will not vest and will be forfeited as of the date of determination. Any PSUs that are not earned in accordance with the performance conditions set forth in Appendix A or Appendix B, as applicable, will immediately and automatically be cancelled and forfeited without consideration as of the date of determination. In addition, in the event of Participant's Termination of Service for any reason, all unvested PSUs will immediately and automatically be cancelled and forfeited without consideration, except (i) as otherwise determined by the Administrator, (ii) as otherwise set forth in this Agreement, or (iii) as provided in a separate binding written agreement between Participant and the Company.

(b) *Tranche 1 PSUs*. The Tranche 1 PSUs will be earned at a level of up to 150% according to the performance conditions set forth in Appendix A for the period covering July 1, 2015 through August 1, 2017 (the "***Tranche 1 Performance Period***"). When practicable following the completion of the Tranche 1

Performance Period, the Administrator shall determine the extent to which the performance conditions set forth on Appendix A have been satisfied. To the extent earned, the Tranche 1 PSUs will vest in four equal quarterly installments on November 15, 2017, February 15, 2018, May 15, 2018 and August 15, 2018, subject in each case to the Participant not incurring a Termination of Service prior to the applicable vesting date.

(c) *Tranche 2 PSUs*. The Tranche 2 PSUs will be earned at a level of up to 150% according to the performance conditions set forth in Appendix B for the period covering July 1, 2015 through August 1, 2018 (the "***Tranche 2 Performance Period***" and together with the Tranche 1 Performance Period, the "***Performance Periods***"). When practicable following the completion of the Tranche 2 Performance Period, the Administrator shall determine the extent to which the performance conditions set forth on Appendix B have been satisfied (such date of determination, the "***Final Determination Date***"). To the extent earned, the Tranche 2 PSUs will vest on the later of August 15, 2018 or the Final Determination Date, subject in each case to the Participant not incurring a Termination of Service prior to the applicable vesting date.

(d) *Change in Control*. Notwithstanding any provision of this Agreement to the contrary, in the event a Change in Control occurs after the end of an applicable Performance Period and the Participant incurs a Qualifying Termination prior the vesting date of any PSUs related to such completed Performance Period, all earned PSUs that otherwise could have vested on the applicable vesting date had the Participant remained in service through such date will become immediately vested as of immediately prior to the date of the Participant's Termination of Service and will be settled promptly in accordance with Section 2.2. In addition, in the event a Change in Control occurs before the end of an applicable Performance Period, the PSUs related to such in-process Performance Period will be treated as follows:

(i) Pre-CiC Period. The number of PSUs that shall be deemed earned with respect to the period commencing on the first day of the applicable Performance Period and ending on the day prior to the Change in Control (the "***Pre-CiC Period***") will be determined as follows: (A) first the Administrator will determine (prior to the effective date of the Change in Control) the level of actual achievement in relation to the performance conditions set forth on Appendix A and/or Appendix B of this Agreement, as applicable (adjusted to the extent necessary to measure performance over only the Pre-CiC Period, as determined by the Administrator) and the Administrator will determine a base number of PSUs earned for the applicable Performance Period relative to such determination in accordance with the terms of this Agreement, and (B) second, the total number of PSUs deemed earned with respect to the Pre-CiC Period will be equal to the product of the base number of PSUs determined pursuant to the foregoing clause (A) multiplied by a fraction, the numerator of which is the number of calendar days in the Pre-CiC Period and the denominator of which is the total number of calendar days in the applicable Performance Period (i.e., 730 or 1,095, as applicable).

(ii) Post-CiC Period. The number of PSUs that shall be deemed earned with respect to the period commencing on the date of the Change in Control and ending on the last day of the Performance Period (the "***Post-CiC Period***") shall be determined assuming that the performance conditions are attained at the "target level" of 100% for the Post-CiC Period. Accordingly, the number of PSUs deemed earned with respect to the Post-CiC Period will be equal to the target number of PSUs attributable to the applicable Performance Period multiplied by a fraction, the numerator of which is the number of calendar days in the Post-CiC Period and the the denominator of which is the total number of calendar days in the applicable Performance Period (i.e., 730 or 1,095, as applicable).

(iii) Vesting of PSUs Deemed Earned. Following the date of the Change in Control, the PSUs that are deemed earned in accordance with the provisions of clauses (i) and (ii) above will continue to vest in accordance with the time schedules set forth in Section 2(b) or 2(c), as applicable, provided, however, that in the event the Participant incurs a Qualifying Termination prior the vesting date of any such PSUs, the deemed earned PSUs will become immediately vested as of immediately prior to the date of the Participant's Termination of Service and will be settled promptly in accordance with Section 2.2.

(e) *Definitions*. For purposes of this Agreement, the following terms shall have the following meanings:

(i) Cause. "***Cause***" shall have the meaning set forth in any then effective employment agreement between the Participant and the Company or any of its Subsidiaries and if there is no such agreement, "***Cause***" shall mean any of the following: (i) commission by the Participant of a material act of fraud, dishonesty, embezzlement or misappropriation involving the Company or any of its affiliates, (ii) the Participant's conviction of, or entry into a plea of guilty or no contest to, any felony or crime involving dishonesty or moral turpitude, (iii) the Participant's material breach of any written agreement between the Participant and the Company or any of its affiliates, (iv) the Participant's willful failure or habitual neglect to perform Participant's duties as an Employee, Director or Consultant, (v) the Participant engaging in any illegal conduct having an adverse impact on the Company or its reputation, or (vi) continuous underperformance of Participant's job responsibilities or conduct damaging to the Company that materially adversely affects the reputation of the Company or its affiliates and/or their relationship with their employees, customers or suppliers

(ii) Constructive Termination. "***Constructive Termination***" shall have the meaning given to such term (or to any similar term or concept such as "good reason" or "good cause") in any then effective employment agreement between the Participant and the Company or any of its Subsidiaries (but limited to circumstances that constitute a "material negative change" in the service relationship within the meaning of Treasury Regulation Section 1.409A-1(n)) and if there is no such agreement, "***Constructive Termination***" shall mean (i) a material diminution in the Participant's job description, employment responsibilities or authority, title or reporting relationship; (ii) a material reduction in Participant's base salary or bonus potential (it being understood that, without limiting the generality of the foregoing, a 10% or greater reduction will in all circumstances be considered material); (iii) a change in the location of a Participant's principal place of business outside a 40-mile radius, unless the Participant already resides outside of such 40-mile radius, or (iv) a material breach by the Company or its affiliates of any agreement with the participant, including any material failure to pay compensation amounts when due. The Participant shall not have the right to resign in a Constructive Termination unless the Participant shall have given the Company written notice of the fact or circumstance constituting Constructive Termination hereunder and the Company shall have failed to remedy such fact or circumstance within 30 days thereafter.

(iii) Qualifying Termination. "***Qualifying Termination***" means that the Participant shall have incurred a Termination of Service on or within 18 months after the date of a Change in Control (or in anticipation of a Change in Control) as a result of (i) the Participant's death, (ii) the Participant's Disability, (iii) a Constructive Termination, or (iv) a termination by the Company or its affiliates without Cause.

3.2 Settlement of PSUs.

(a) PSUs will be paid in Stock or cash at the Company's option as soon as administratively practicable after the vesting of the applicable PSU, but in no event later than the end of the calendar year in which the PSUs vest. Notwithstanding the foregoing, the Company may delay any payment under this Agreement that the Company reasonably determines would violate Applicable Law until the earliest date the Company reasonably determines the making of the payment will not cause such a violation (in accordance with Treasury Regulation Section 1.409A-2(b)(7)(ii)), provided the Company reasonably believes the delay will not result in the imposition of excise taxes under Section 409A.

(b) If a PSU is paid in cash, the amount of cash paid with respect to the PSU will equal the Fair Market Value of a Share on the day immediately preceding the payment date.

ARTICLE IV.
TAXATION AND TAX WITHHOLDING

4.1 Representation. Participant represents to the Company that Participant has reviewed with Participant's own tax advisors the tax consequences of this Award and the transactions contemplated by the Grant Notice and this Agreement. Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents.

4.2 Tax Withholding Notwithstanding any other provision of this Agreement:

(a) The Company shall have the right to (A) require payment by or on behalf of the Participant, of all sums required by federal, state or local tax law to be withheld with respect to the grant, vesting or payment of the Award and (B) determine the manner in which such payment shall be made, including, if approved by the Chief Executive Officer of the Company in his or her discretion (or if the Participant is the Chief Executive Officer by the Committee), the withholding of a portion of the vested Shares that have an aggregate market value not in excess of the minimum federal, state and local income, employment and any other applicable taxes required to be withheld.

(b) Participant acknowledges that Participant is ultimately liable and responsible for all taxes owed in connection with the PSUs, regardless of any action the Company or any parent or Subsidiary takes with respect to any tax withholding obligations that arise in connection with the PSUs. Neither the Company nor any parent or Subsidiary makes any representation or undertaking regarding the treatment of any tax withholding in connection with the awarding, vesting or payment of the PSUs or the subsequent sale of Stock. The Company and its parents and Subsidiaries do not commit and are under no obligation to structure the PSUs to reduce or eliminate Participant's tax liability.

ARTICLE V.
OTHER PROVISIONS

5.1 Adjustments. Participant acknowledges that the PSUs and the shares of Stock subject to the PSUs are subject to adjustment, modification and termination in certain events as provided in this Agreement and the Plan.

5.2 Amendment, Suspension and Termination. To the extent permitted by the Plan, this Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator or the Board*, provided,* that, except as may otherwise be provided by the Plan, no amendment, modification, suspension or termination of this Agreement shall adversely effect the PSU in any material way without the prior written consent of Participant.

5.3 Notices. Notices required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail by certified mail, with postage and fees prepaid, addressed to Participant at his address shown in the Company records, and to the Company at its principal executive office.

5.4 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

5.5 Conformity to Securities Laws. Participant acknowledges that the Plan, the Grant Notice and this Agreement are intended to conform to the extent necessary with all Applicable Laws and, to the extent Applicable Laws permit, will be deemed amended as necessary to conform to Applicable Laws.

5.6 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement will inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth in the Plan, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

5.7 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Plan, the Grant Notice, this Agreement and the PSUs will be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3) that are requirements for the application of such exemptive rule. To the extent Applicable Laws permit, this Agreement will be deemed amended as necessary to conform to such applicable exemptive rule.

5.8 Entire Agreement. The Plan, the Grant Notice and this Agreement (including any exhibit and appendix hereto) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

5.9 Agreement Severable. In the event that any provision of the Grant Notice or this Agreement is held illegal or invalid, the provision will be severable from, and the illegality or invalidity of the provision will not be construed to have any effect on, the remaining provisions of the Grant Notice or this Agreement.

5.10 Limitation on Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and may not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. Participant will have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the PSUs, and rights no greater than the right to receive cash or shares of Stock as a general unsecured creditor with respect to the PSUs, as and when settled pursuant to the terms of this Agreement.

5.11 Not a Contract of Employment. Nothing in the Plan, the Grant Notice or this Agreement confers upon Participant any right to continue in the employ or service of the Company or any parent or Subsidiary or interferes with or restricts in any way the rights of the Company and its parents and Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Participant at any time for any reason whatsoever, with or without Cause, except to the extent expressly provided otherwise in a written agreement between the Company or a parent or Subsidiary and Participant.

5.12 Counterparts. The Grant Notice may be executed in one or more counterparts, including by way of any electronic signature, subject to Applicable Law, each of which will be deemed an original and all of which together will constitute one instrument.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Nathaniel A. Davis, certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of K12 Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2015

/s/ NATHANIEL A. DAVIS
Nathaniel A. Davis
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, James J. Rhyu, certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of K12 Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2015

/s/ JAMES J. RHYU

James J. Rhyu
Chief Financial Officer

Exhibit 32.1

The following certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and in accordance with SEC Release No. 33-8238. This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Certification of Principal Executive Officer

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of K12 Inc., a Delaware corporation (the "Company"), hereby certifies, to his knowledge, that:

(1) the accompanying Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2015 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 27, 2015

/s/ NATHANIEL A. DAVIS
Nathaniel A. Davis
Chief Executive Officer

Exhibit 32.2

The following certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and in accordance with SEC Release No. 33-8238. This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Certification of Principal Financial Officer

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of K12 Inc., a Delaware corporation (the "Company"), hereby certifies, to his knowledge, that:

(1) the accompanying Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2015 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 27, 2015

/s/ JAMES J. RHYU

James J. Rhyu

Chief Financial Officer