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 December 31, 2018

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** (I.R.S. 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 January 18, 2019, the Registrant had 40,236,922 shares of common stock, $0.0001 par value per share outstanding.

K12 Inc.
Form 10-Q
For the Quarterly Period Ended December 31, 2018
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PART I — FINANCIAL INFORMATION

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

K12 INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2018	June 30, 2018
		(audited)
	(In thousands except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 203,275	$ 231,113
Accounts receivable, net of allowance of $12,402 and $12,384 at December 31, 2018 and June 30, 2018, respectively	239,702	176,319
Inventories, net	17,068	31,134
Prepaid expenses	19,120	10,278
Other current assets	14,447	10,388
Total current assets	493,612	459,232
Property and equipment, net	32,481	28,868
Capitalized software, net	52,997	55,488
Capitalized curriculum development costs, net	52,085	53,558
Intangible assets, net	16,466	17,951
Goodwill	90,197	90,197
Deposits and other assets	45,865	36,669
Total assets	$ 783,703	$ 741,963
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of capital lease obligations	$ 26,191	$ 13,353
Accounts payable	20,460	29,362
Accrued liabilities	14,619	14,345
Accrued compensation and benefits	28,120	36,050
Deferred revenue	51,476	23,114
Total current liabilities	140,866	116,224
Capital lease obligations, net of current portion	8,560	12,665
Deferred rent, net of current portion	2,766	3,270
Deferred tax liability	18,114	12,577
Other long-term liabilities	9,441	10,038
Total liabilities	179,747	154,774
Commitments and contingencies	—	—
Stockholders' equity		
Common stock, par value $0.0001; 100,000,000 shares authorized; 45,550,316 and 44,902,567 shares issued; and 40,215,573 and 39,567,824 shares outstanding at December 31, 2018 and June 30, 2018, respectively	4	4
Additional paid-in capital	705,825	703,351
Accumulated other comprehensive loss	(59)	(252)
Retained earnings (accumulated deficit)	668	(13,432)
Treasury stock of 5,334,743 shares at cost at December 31, 2018 and June 30, 2018	(102,482)	(102,482)
Total stockholders' equity	603,956	587,189
Total liabilities and stockholders' equity	$ 783,703	$ 741,963

See accompanying notes to unaudited condensed consolidated financial statements.

K12 INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands except share and per share data)			
Revenues	$ 254,872	$ 217,211	$ 506,186	$ 445,996
Cost and expenses				
Instructional costs and services	160,329	139,163	319,314	286,530
Selling, administrative, and other operating expenses	60,183	61,958	162,761	158,240
Product development expenses	1,070	2,376	4,573	5,274
Total costs and expenses	221,582	203,497	486,648	450,044
Income (loss) from operations	33,290	13,714	19,538	(4,048)
Interest income (expense) and other, net	(504)	39	(92)	274
Income (loss) before income taxes and noncontrolling interest	32,786	13,753	19,446	(3,774)
Income tax benefit (expense)	(9,074)	(564)	(4,016)	8,804
Net income	23,712	13,189	15,430	5,030
Add net loss attributable to noncontrolling interest	—	70	—	173
Net income attributable to common stockholders	$ 23,712	$ 13,259	$ 15,430	$ 5,203
Net income attributable to common stockholders per share:				
Basic	$ 0.61	$ 0.34	$ 0.40	$ 0.13
Diluted	$ 0.59	$ 0.33	$ 0.38	$ 0.13
Weighted average shares used in computing per share amounts:				
Basic	38,816,669	39,347,244	38,625,359	39,227,708
Diluted	40,325,260	40,685,667	40,178,555	40,773,017

See accompanying notes to unaudited condensed consolidated financial statements.

K12 INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands)			
Net income	$ 23,712	$ 13,189	$ 15,430	$ 5,030
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	121	(39)	193	(194)
Total other comprehensive income, net of tax	23,833	13,150	15,623	4,836
Comprehensive loss attributable to noncontrolling interest	—	70	—	173
Comprehensive income attributable to common stockholders	$ 23,833	$ 13,220	$ 15,623	$ 5,009

See accompanying notes to unaudited condensed consolidated financial statements.

K12 INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands except share data)	K12 Inc. Stockholders' Equity							
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance, June 30, 2018	44,902,567	$ 4	$ 703,351	$ (252)	$ (13,432)	(5,334,743)	$ (102,482)	$ 587,189
Adjustment related to new revenue recognition guidance	—	—	—	—	(1,330)	—	—	(1,330)
Net income	—	—	—	—	15,430	—	—	15,430
Foreign currency translation adjustment	—	—	—	193	—	—	—	193
Stock-based compensation expense	—	—	8,344	—	—	—	—	8,344
Exercise of stock options	51,737	—	1,035	—	—	—	—	1,035
Vesting of performance share units, net of tax withholding	258,263	—	—	—	—	—	—	—
Issuance of restricted stock awards	748,809	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(176,296)	—	—	—	—	—	—	—
Repurchase of restricted stock for tax withholding	(234,764)	—	(6,905)	—	—	—	—	(6,905)
Balance, December 31, 2018	45,550,316	$ 4	$ 705,825	$ (59)	$ 668	(5,334,743)	$ (102,482)	$ 603,956

See accompanying notes to unaudited condensed consolidated financial statements.

K12 INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31, 2018	Six Months Ended December 31, 2017
	(In thousands)	
Cash flows from operating activities		
Net income	$ 15,430	$ 5,030
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	36,221	39,186
Stock-based compensation expense	8,164	10,296
Deferred income taxes	6,334	(51)
Provision for doubtful accounts	740	468
Other	3,971	3,485
Changes in assets and liabilities:		
Accounts receivable	(64,116)	(52,202)
Inventories, prepaid expenses, deposits and other assets	3,935	(7,759)
Accounts payable	(3,428)	(9,106)
Accrued liabilities	769	(9,259)
Accrued compensation and benefits	(7,930)	(9,711)
Deferred revenue, rent and other liabilities	24,795	28,705
Net cash provided by (used in) operating activities	24,885	(918)
Cash flows from investing activities		
Purchase of property and equipment	(1,914)	(5,917)
Capitalized software development costs	(15,263)	(13,378)
Capitalized curriculum development costs	(10,099)	(4,474)
Acquisitions and investments	(11,652)	(2,170)
Net cash used in investing activities	(38,928)	(25,939)
Cash flows from financing activities		
Repayments on capital lease obligations	(6,938)	(6,987)
Payments of contingent consideration	(987)	(1,819)
Proceeds from exercise of stock options	1,035	58
Repurchase of restricted stock for income tax withholding	(6,905)	(5,757)
Net cash used in financing activities	(13,795)	(14,505)
Net change in cash, cash equivalents and restricted cash	(27,838)	(41,362)
Cash, cash equivalents and restricted cash, beginning of period	233,113	230,864
Cash, cash equivalents and restricted cash, end of period	$ 205,275	$ 189,502
Reconciliation of cash, cash equivalents and restricted cash to balance sheet as of December 31st:		
Cash and cash equivalents	$ 203,275	$ 189,502
Deposits and other assets (restricted cash)	2,000	—
Total cash, cash equivalents and restricted cash	$ 205,275	$ 189,502

See accompanying 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 ("K12" or the "Company"), is a technology-based education company. The Company offers proprietary and third party curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. The Company's 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 products and services are provided through three lines of business:

- Managed Public School Programs (programs which offer an integrated package of systems, services, products, and professional expertise that K12 manages in order to support an online or blended public school, including administrative support, information technology, academic support services, online curriculum, learning system platforms, and instructional services);
- Institutional (Non-managed Public School Programs – programs which provide instruction, curriculum, supplemental courses, marketing, enrollment and other educational services where K12 does not provide primary administrative support services, and Institutional Software and Services – educational software and services provided to school districts, public schools and other educational institutions); 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 a partner with 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 courses and supplemental solutions. In addition to curriculum, systems and programs, the Company provides teacher training, teaching services, and other academic and technology support services.

2. Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2018, the condensed consolidated statements of operations and comprehensive income for the three and six months ended December 31, 2018 and 2017, the condensed consolidated statements of cash flows for the six months ended December 31, 2018 and 2017, and the condensed consolidated statement of stockholders' equity for the six months ended December 31, 2018 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 and six months ended December 31, 2018 are not necessarily indicative of the results to be expected for the year ending June 30, 2019, for any other interim period or for any other future fiscal year. The condensed consolidated balance sheet as of June 30, 2018 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 8, 2018, which contains the Company's audited financial statements for the fiscal year ended June 30, 2018.

The Company operates in one operating and reportable business segment as a technology-based education company providing proprietary and third party 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 on consolidated results.

3. Summary of Significant Accounting Policies

Recent Accounting Pronouncements

Accounting Standards Adopted

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, *Statement of Cash Flows (Topic 230) ("ASU 2016-15")* to establish the classification of certain cash receipts and disbursements into the appropriate operating, investing, or financing categories; where there was diversity in practice previously. The Company has evaluated the standard and determined that the classification of contingent consideration payments should be moved from operating activities to financing activities. The Company retrospectively adopted this standard during the first quarter of fiscal year 2019. The adoption required the restatement of $1.8 million from cash flows from operations to cash flows from financing activities in fiscal year 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers ("ASU 2014-09")*, also known as Accounting Standards Codification Topic 606 *("ASC 606")*, which supersedes most existing revenue recognition guidance under ASC Topic 605 *("ASC 605")*. The core purpose of ASC 606 is to recognize revenues when contracted 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. ASC 606 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 were required under previous GAAP.

The Company performed a detailed review of each of its revenue streams by comparing historical accounting policies and practices to the new standard. The majority of the Company's business is based on contracts where annual revenue was recognized within each fiscal year, mirroring the school year.

The Company adopted this standard during the first quarter of fiscal year 2019 using the modified retrospective approach. Under this method, the Company applied ASC 606 to those contracts whose terms extend beyond July 1, 2018. The comparative information for prior periods has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of ASC 606 resulted in an adjustment to decrease retained earnings by $1.3 million.

The key impact of ASC 606 was to streamline the recognition of all revenues from the Company's lines of businesses over the service period, including:

- Revenues that had been previously recognized over a 10-month school year;
- Revenues from materials, supplies and professional services that had been previously recognized upon delivery; and
- Revenues in which the Company is the primary obligor, and were recognized when expenses were incurred.

In addition, the adoption of ASC 606 impacted how the Company accounts for its sales commissions. See "Costs to Obtain a Contract with a Customer" section below.

K12 INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

The impact of adoption on the Company's condensed consolidated statement of operations for the three and six months ended December 31, 2018 was as follows:

	Three Months Ended December 31, 2018			Six Months Ended December 31, 2018		
	As Reported Under ASC 606	Adjustment due to ASC 606	Amounts under ASC 605	As Reported Under ASC 606	Adjustment due to ASC 606	Amounts under ASC 605
	(In thousands)					
Revenues	$254,872	$ (5,866)	$249,006	$506,186	$ (2,737)	$503,449
Selling, administrative, and other operating expenses	60,183	(65)	60,118	162,761	(125)	162,636
Income from operations	33,290	(5,801)	27,489	19,538	(2,612)	16,926
Net income	23,712	(5,801)	17,911	15,430	(2,612)	12,818
Net income attributable to common stockholders	$ 23,712	$ (5,801)	$ 17,911	$ 15,430	$ (2,612)	$ 12,818

The impact of adoption on the Company's condensed consolidated balance sheets as of December 31, 2018 was as follows:

	December 31, 2018		
	As Reported Under ASC 606	Adjustment due to ASC 606	Amounts under ASC 605
	(In thousands)		
Other current assets	$ 14,447	$ (256)	$ 14,191
Deposits and other assets	45,865	(706)	45,159
Total assets	783,703	(962)	782,741
Deferred revenue	51,476	272	51,748
Total liabilities	179,747	272	180,019
Retained earnings (accumulated deficit)	668	(2,612)	(1,944)
Total stockholders' equity	603,956	(2,612)	601,344

The following table presents the Company's revenues disaggregated based on its three lines of business for the three and six months ended December 31, 2018:

	Three Months Ended December 31, 2018	Six Months Ended December 31, 2018
	(In thousands)	
Managed Public School Programs	$ 222,793	$ 443,336
Institutional		
Non-managed Public School Programs	13,217	24,622
Institutional Software & Services	9,891	20,985
Total Institutional	23,108	45,607
Private Pay Schools and Other	8,971	17,243
Total Revenues	$ 254,872	$ 506,186

For more discussion surrounding the Company's revenue recognition accounting policies, please refer to the "Revenue Recognition" section below.

K12 INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842) ("ASU 2016-02" or "Topic 842")*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations.

In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases ("ASU 2018-10")* and ASU 2018-11, *Leases (Topic 842), Targeted Improvements ("ASU 2018-11")* to provide additional guidance for the adoption of Topic 842. ASU 2018-10 clarifies certain provisions and corrects unintended applications of the guidance such as the application of implicit rate; lessee reassessment of lease classification; lease term or bargain purchase option; variable lease payments; and certain transition guidance. ASU 2018-11 provides an alternative transition method and practical expedient for separating contract components for the adoption of Topic 842. ASU 2018-11, ASU 2018-10, and ASU 2016-02 (collectively, "the new lease standards") are effective for the Company's fiscal year beginning July 1, 2019, including interim periods therein.

The modified retrospective transition approach under ASU 2016-02 requires lessees to include capital and operating leases that exist at, or are entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. ASU 2018-11 allows lessees to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company is currently evaluating the new lease standards, as well as the effect on its condensed consolidated financial statements. The Company anticipates recognizing assets and liabilities arising from any leases that meet the requirements under the new lease standards on the adoption date and including qualitative and quantitative disclosures in the notes to the condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) ("ASU 2018-15").* ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). It requires an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. ASU 2018-15 is effective for the Company's fiscal year beginning July 1, 2020. The Company is currently evaluating the impact of this ASU on its condensed consolidated financial statements.

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 schools, traditional public schools, school districts, and private schools. Under most contracts the Company provides an integrated package of systems, services, products, and professional expertise that we manage to support online or blended public schools. Customers for these programs can obtain the administrative support, information technology, academic support services, online curriculum, learning systems platforms and instructional services under the terms of a negotiated service agreement. 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 revenue.

The Company generates revenues under turnkey management contracts with virtual and blended public schools and typically include the following components:

- 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 support a virtual public or blended school. In certain managed school contracts, revenues are determined directly by per enrollment funding.

Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services using the following steps:

- identify the contract, or contracts, with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognize revenue when, or as, the Company satisfies a performance obligation.

School Funding and Revenue Recognition

To determine the pro rata amount of revenue 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 for the three and six months ended December 31, 2018 and 2017.

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 estimates funding for each school, it takes into account 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.

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 revenues 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.

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. For the three months ended December 31, 2018 and 2017, the Company's revenues included a reduction

K12 INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

for these school operating losses of $16.7 million and $13.7 million, respectively, and $34.0 million and $31.5 million for the six months ended December 31, 2018 and 2017, respectively.

Where the Company has determined that it is the principal for substantially all expenses under certain contracts, the Company estimates the associated per student revenues for the fiscal year which will be received by the school from its state funding school district and recognizes revenue ratably over the service period. As a result of being the primary obligor, amounts recorded as revenues for the three months ended December 31, 2018 and 2017 were $85.8 million and $76.1 million, respectively, and for the six months ended December 31, 2018 and 2017 were $174.1 million and $139.6 million, respectively. For contracts where the Company is not the primary obligor, the Company records revenues based on its net fees earned under the contractual agreement.

The products and services delivered to the Company's Institutional customers include curriculum and technology for full-time virtual and blended programs, as well as instruction, curriculum and associated materials, supplemental courses, marketing, enrollment and other educational services. Each of these contracts are considered to be one performance obligation under ASC 606.

The Company provides certain online curriculum and services to schools and school districts under subscription agreements. Revenues from the licensing of curriculum under subscription arrangements are recognized on a ratable basis over the subscription period. Revenues 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.

During the three months ended December 31, 2018 and six months ended December 31, 2018 and 2017, the Company had one contract that represented 11% of revenues. For the three months ended December 31, 2017, the Company had no contracts greater than 10% of revenues.

Contract Balances

The timing of revenue recognition, invoicing, and cash collection results in accounts receivable and deferred revenue (a contract liability) in the condensed consolidated balance sheets. Payment from customers is often received in advance of services being provided, resulting in deferred revenue. Accounts receivable is recorded when there is an executed customer contract and the right to the consideration becomes unconditional. Contract assets such as unbilled receivables are included in accounts receivable.

The opening and closing balances of the Company's accounts receivable, contract assets and deferred revenue are as follows:

	December 31, 2018	July 1, 2018
	(In thousands)	
Accounts receivable	$ 239,702	$ 176,319
Contract assets (included in accounts receivable)	31,871	12,143
Deferred revenue	51,476	25,580

The difference between the opening and closing balance of the contract assets relates to the timing of the Company's billing in relation to month end and contractual agreements. The difference between the opening and closing balance of the deferred revenue relates to the timing difference between the customer's payment and the Company's performance under the contract. Typically, each of these balances are at their highest during the first quarter of the fiscal year and lowest at the end of the fiscal year. The amount of revenue recognized in the three months ended December 31, 2018 that was included in the opening October 1, 2018 deferred revenue balance was $26.3 million. The

K12 INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

amount of revenue recognized in the six months ended December 31, 2018 that was included in the opening July 1, 2018 deferred revenue balance was $17.9 million.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company's performance obligations are satisfied over time, as the Company delivers and the customer receives the services, over the service period of the contract. The Company's payment terms are generally net 30 or net 45, but can vary depending on when the school receives its funding from the state.

The Company has elected, as a practical expedient, to not report the value of unsatisfied performance obligations for contracts with customers that have an expected duration of one year or less. The amount of unsatisfied performance obligations for contracts with customers which extend beyond one year as of December 31, 2018 was $2.0 million.

Significant Judgments

The Company determined that the majority of its contracts with customers contain one performance obligation. The Company markets the products and services as an integrated package building off its curriculum offerings. It does not market distinct products or services to be sold independently from the curriculum offering.

The Company has determined that the time elapsed method as described under ASC 606 is the most appropriate measure of progress towards the satisfaction of the performance obligation. Therefore, the Company will recognize revenue on a straight-line basis. The Company delivers the integrated products and services package largely over the course of the Company's fiscal year. This package includes enrollment, marketing, teacher training, etc. in addition to the core curriculum and instruction. All of these activities are necessary and contribute to the overall education of its students, which occurs evenly throughout the year.

As discussed above, the Company estimates the total funds each school will receive in a particular school year and the amount of full-year school revenues and operating expenses to determine the amount of revenue the Company will receive. To the extent the estimates change during the year, the cumulative impact of the change is recognized over the remaining service period.

Costs to Obtain a Contract with a Customer

The Company pays commissions on certain sales contracts to its employees and third parties. Commissions that are directly tied to a particular sale are capitalized if they relate to either new business or a renewal whose contract has a duration of greater than one year. The Company has elected, as a practical expedient, to not capitalize commissions paid on contracts that have a duration of one year or less. Commissions that are not directly tied to a particular sale are expensed as incurred.

Commissions related to new business are amortized over a four year life which represents the average life of customers in the institutional and private pay businesses, while commissions related to renewals greater than one year are amortized over the contract life. The current portion of the deferred commission is recorded within other current assets and the long-term portion of the deferred commission is recorded within deposits and other assets on the condensed consolidated balance sheets. The amortization of the deferred commission is recorded as selling, administrative and other operating expenses.

Consolidation

The condensed consolidated financial statements include the accounts of the Company, the 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.

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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 net realizable value. The provision for excess and obsolete inventory is established based upon the evaluation of the quantity on hand relative to demand. The excess and obsolete inventory reserve was $3.8 million and $3.5 million at December 31, 2018 and June 30, 2018, 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 and amortization 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 (“ASC 840”)*, 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.

Property and equipment are depreciated over the following useful lives:

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

The Company makes an estimate of unreturned student computers based on an analysis of recent trends of returns. The Company recorded accelerated depreciation of $0.6 million and $0.5 million for the three months ended December 31, 2018 and 2017, respectively, and $1.1 million and $0.9 million for the six months ended December 31, 2018 and 2017, respectively, related to unreturned student computers. Depreciation expense for property and equipment, including accelerated depreciation, for the three months ended December 31, 2018 and 2017 was $4.7 million and $4.5 million, respectively, and $10.3 million and $8.9 million for the six months ended December 31, 2018 and 2017, respectively.

The Company fully expenses computer peripheral equipment (e.g. keyboards, mouses) upon shipment as recovery has been determined to be uneconomical. These expenses totaled $0.6 million and $0.4 million for the three months ended December 31, 2018 and 2017, respectively, and $3.3 million and $2.5 million for the six months ended December 31, 2018 and 2017, respectively, and are recorded as instructional costs and services.

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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 (“ASC 350”)*. 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 additions totaled $15.3 million and $13.4 million for the six months ended December 31, 2018 and 2017, respectively. Amortization expense for the three months ended December 31, 2018 and 2017 was $7.7 million and $8.4 million, respectively, and $15.4 million and $18.7 million for the six months ended December 31, 2018 and 2017, respectively.

During the three months ended September 30, 2017, the Company recorded an out of period adjustment related to the capitalization of software and curriculum development. The adjustment increased capitalized software development costs and capitalized curriculum development costs by $2.3 million and $0.6 million, respectively, and decreased net loss by $1.4 million for the period. The Company assessed the materiality of these errors on its prior quarterly and annual financial statements, assessing materiality both quantitatively and qualitatively, in accordance with the SEC’s Staff Accounting Bulletin (“SAB”) No. 99 and SAB No. 108 and concluded that the errors were not material to any of its previously issued financial statements.

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. 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 are amortized is generally five years.

Total capitalized curriculum development additions were $10.1 million and $4.5 million for the six months ended December 31, 2018 and 2017, respectively. These amounts are recorded on the accompanying condensed consolidated balance sheets net of amortization charges. Amortization is recorded in instructional costs and services on the accompanying condensed consolidated statements of operations. Amortization expense for the three months ended December 31, 2018 and 2017 was $4.5 million and $4.9 million, respectively, and $9.0 million and $10.1 million for the six months ended December 31, 2018 and 2017, respectively. As mentioned above, capitalized curriculum development additions for the six months ended December 31, 2017 included an out of period adjustment of $0.6 million.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes (“ASC 740”)*. 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 minority shareholders 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. 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 the 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 distributors, developed technology 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 December 31, 2018 and 2017 was $0.8 million and $0.8 million, respectively, and for the six months ended December 31, 2018 and 2017 was $1.5 million and $1.5 million, respectively. Future amortization of intangible assets is expected to be $1.5 million, $2.9 million, $2.4 million, $2.2 million, and $2.0 million in the fiscal years ending June 30, 2019 through June 30, 2023, respectively and $5.2 million thereafter. At December 31, 2018 and June 30, 2018, the goodwill balance was $90.2 million.

The Company reviews its 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. There were no such events during the three and six months ended December 31, 2018 and 2017.

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 based on one reporting unit. ASC 350 also allows preparers 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". The Company performs its annual assessment on May 31st. During the year ended June 30, 2018, the Company performed "Step 0" of the impairment test and determined that there were no facts and circumstances that indicated that the fair value of the reporting unit may be less than its carrying amount, and as a result, the Company determined that no impairment was required. During the three and six months ended December 31, 2018 and 2017, there were no events or changes in circumstances that would indicate that the carrying amount of the goodwill was impaired.

The following table represents the balance of the Company's intangible assets as of December 31, 2018 and June 30, 2018:

($ in millions)	December 31, 2018 Gross Carrying Amount	December 31, 2018 Accumulated Amortization	December 31, 2018 Net Carrying Value	June 30, 2018 Gross Carrying Amount	June 30, 2018 Accumulated Amortization	June 30, 2018 Net Carrying Value
Trade names	$ 17.6	$ (9.0)	$ 8.6	$ 17.6	$ (8.5)	$ 9.1
Customer and distributor relationships	20.5	(14.0)	6.5	20.5	(13.4)	7.1
Developed technology	3.2	(2.5)	0.7	3.2	(2.2)	1.0
Other	1.4	(0.7)	0.7	1.4	(0.6)	0.8
Total	$ 42.7	$ (26.2)	$ 16.5	$ 42.7	$ (24.7)	$ 18.0

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 ("ASC 360")*, 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

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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 during the three and six months ended December 31, 2018 and 2017.

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures (“ASC 820”),* defines fair value as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction 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 instrument’s 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 lease exit liability is discussed in more detail in Note 10, “Restructuring.” The convertible note is discussed in more detail in Note 11, “Investments.”

The following table summarizes certain fair value information at December 31, 2018 for assets or liabilities measured at fair value on a nonrecurring 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)		
Lease exit liability	$ 2,523	$ —	$ —	$ 2,523

The following table summarizes certain fair value information at June 30, 2018 for assets and liabilities measured at fair value on a nonrecurring 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)		
Lease exit liability	$ 2,758	$ —	$ —	$ 2,758

The following table summarizes certain fair value information at December 31, 2018 for assets or liabilities measured at fair value on a recurring basis:

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		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)		
Contingent consideration associated with acquisitions	$ 40	$ —	$ —	$ 40
Convertible note	5,006	—	—	5,006

The following table summarizes certain fair value information at June 30, 2018 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)		
Contingent consideration associated with acquisitions	$ 1,345	$ —	$ —	$ 1,345

The following tables summarize the activity during the three and six months ended December 31, 2018 and 2017 for assets and liabilities measured at fair value on a recurring basis:

	Three Months Ended December 31, 2018			
Description	Fair Value September 30, 2018	Purchases, Issuances, and Settlements	Unrealized Gains/(Losses)	Fair Value December 31, 2018
	(In thousands)			
Contingent consideration associated with acquisitions	$ 1,147	$ (1,107)	$ —	$ 40
Convertible note	5,006	—	—	5,006

	Three Months Ended December 31, 2017			
Description	Fair Value September 30, 2017	Purchases, Issuances, and Settlements	Unrealized Gains/(Losses)	Fair Value December 31, 2017
	(In thousands)			
Contingent consideration associated with acquisitions	$ 838	$ 500	$ 2	$ 1,340

	Six Months Ended December 31, 2018			
Description	Fair Value June 30, 2018	Purchases, Issuances, and Settlements	Unrealized Gains (Losses)	Fair Value December 31, 2018
	(In thousands)			
Contingent consideration associated with acquisitions	$ 1,345	$ (1,307)	$ 2	$ 40
Convertible note	—	5,006	—	5,006

	Six Months Ended December 31, 2017			
Description	Fair Value June 30, 2017	Purchases, Issuances, and Settlements	Unrealized Gains (Losses)	Fair Value December 31, 2017
	(In thousands)			
Contingent consideration associated with acquisitions	2,806	(1,319)	(147)	1,340

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Net Income (Loss) Per Common Share

The Company calculates net income (loss) per share in accordance with ASC 260, *Earnings Per Share ("ASC 260").* 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") reflects 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 as income tax expense 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 includes restricted stock awards outstanding. Securities that may participate in undistributed net income with common stock are considered participating securities.

The following schedule presents the calculation of basic and diluted net income per share:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands except share and per share data)			
Basic net income per share computation:				
Net income attributable to common stockholders	$ 23,712	$ 13,259	$ 15,430	$ 5,203
Weighted average common shares — basic	38,816,669	39,347,244	38,625,359	39,227,708
Basic net income per share	$ 0.61	$ 0.34	$ 0.40	$ 0.13
Diluted net income per share computation:				
Net income attributable to common stockholders	$ 23,712	$ 13,259	$ 15,430	$ 5,203
Share computation:				
Weighted average common shares — basic	38,816,669	39,347,244	38,625,359	39,227,708
Effect of dilutive stock options and restricted stock awards	1,508,591	1,338,423	1,553,196	1,545,309
Weighted average common shares — diluted	40,325,260	40,685,667	40,178,555	40,773,017
Diluted net income per share	$ 0.59	$ 0.33	$ 0.38	$ 0.13

During the three months ended December 31, 2018 and 2017, 146,479 and 1,433,694 shares issuable in connection with stock options and restricted stock were excluded from the diluted income per share calculation because the effect would have been antidilutive. During the six months ended December 31, 2018 and 2017, 639,382 and 1,145,471 shares were excluded, respectively. As of December 31, 2018, the Company had 45,550,316 shares issued and 40,215,573 shares outstanding.

Reclassification

Certain previous year amounts have been reclassified to conform with current year presentations, as related to the statement of cash flows.

4. Income Taxes

The provision for income taxes is based on earnings 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 December 31, 2018 and 2017, the Company's effective income tax rate was 27.7% and 4.1%, respectively, and for the six months ended December 31, 2018 and 2017, the rate was 20.7% and 233.3%, respectively.

On December 22, 2017, the Tax Cuts and Job Act (the "Tax Act") was enacted into law, which among other provisions, reduced the U.S. statutory federal income tax rate from 35% to 21%. The Company has included the amount for the impact of the re-measurement of the Company's net U.S. deferred tax liabilities and the transition tax on the Company's accumulated unremitted foreign earnings in the Company's financial statements for the year ended June 30, 2018.

The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to allow the registrant to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company has included in its taxable income the provisional impact related to the one-time transition tax and the revaluation of deferred tax balances and included these estimates in its consolidated financial statements for the year ended June 30, 2018. During the three months ended December 31, 2018, the Company completed the analysis of the various provisions of the Tax Act and recognized immaterial adjustments to the provisional amounts. The Company included these adjustments within income tax expense from continuing operations.

5. Long-term Obligations

Capital Leases

The Company incurs capital lease obligations for student computers under agreements with PNC Equipment Finance, LLC ("PNC") and Banc of America Leasing & Capital, LLC ("BALC"). As of December 31, 2018 and June 30, 2018, the outstanding balance of capital leases (as discussed in more detail below) was $34.8 million and $26.0 million, respectively, with lease interest rates ranging from 1.97% to 4.05%. The gross carrying value of leased student computers as of December 31, 2018 and June 30, 2018 was $50.7 million and $42.2 million, respectively. The accumulated depreciation of leased student computers as of December 31, 2018 and June 30, 2018 was $28.6 million and $26.0 million, respectively.

Individual leases under the agreement with PNC include 36-month payment terms, at varying rates, 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 Company's $16.0 million agreement with BALC was executed in December 2018 at a fluctuating rate of LIBOR plus 1.25%. Individual leases with BALC include 12-month payment terms, a fixed rate of 4.05%, and a $1 purchase option at the end of each lease term. The Company has pledged the assets financed to secure the outstanding leases.

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The following is a summary as of December 31, 2018 of the present value of the net minimum lease payments on capital leases under the Company's commitments:

As of June 30,	Capital Leases (in thousands)
2019 (remaining six months)	$ 14,244
2020	16,385
2021	4,819
2022	340
Total minimum payments	35,788
Less amount representing interest (imputed weighted average capital lease interest rate of 3.60%)	(1,037)
Net minimum payments	34,751
Less current portion	(26,191)
Present value of minimum payments, less current portion	$ 8,560

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%, the Federal Funds Rates plus 0.75%, or LIBOR 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 December 31, 2018 and June 30, 2018, the Company was in compliance with these covenants. During the six months ended December 31, 2018, there was no borrowing activity on this line of credit, and the Company had no borrowings outstanding on the line of credit as of December 31, 2018.

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

On December 15, 2016 (the "Effective Date"), the Company's stockholders approved the 2016 Incentive Award Plan (the "Plan"). The Plan is designed to attract, retain and motivate employees who make important contributions to the Company by providing such individuals with equity ownership opportunities. Awards granted under the Plan may include stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock-based awards. Under the Plan, the following types of shares go back into the pool of shares available for issuance:

- unissued shares related to forfeited or cancelled restricted stock and stock options from Plan awards and Prior Plan awards (that were outstanding as of the Effective Date); and

- shares tendered to satisfy the tax withholding obligation related to the vesting of restricted stock (but not stock options).

Unlike the Company's 2007 Equity Incentive Award Plan (the "Prior Plan"), the Plan has no evergreen provision to increase the shares available for issuance; any new shares would require stockholder approval. The Prior Plan expired in October 2017; however, with the approval of the Plan, the Company will no longer award equity from the Prior Plan. As of December 31, 2018, the remaining aggregate number of shares of the Company's common stock authorized for future issuance under the Plan was 4,343,664. As of December 31, 2018, there were 2,821,885 shares of the Company's common stock that remain outstanding or nonvested under the Plan and Prior Plan.

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Stock Options

Stock option activity including stand-alone agreements during the six months ended December 31, 2018 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, June 30, 2018	1,199,307	$ 19.97		
Granted	—	—		
Exercised	(51,737)	20.00		
Forfeited or canceled	(9,000)	28.87		
Outstanding, December 31, 2018	1,138,570	$ 19.90	3.11	$ 6,596,968
Exercisable, December 31, 2018	1,084,986	$ 20.20	3.04	$ 6,013,661

The total intrinsic value of options exercised during the six months ended December 31, 2018 and 2017 was $0.1 million and zero, respectively.

As of December 31, 2018, there was $0.3 million of total unrecognized compensation expense related to nonvested stock options granted. The cost is expected to be recognized over a weighted average period of 0.6 years. During the three months ended December 31, 2018 and 2017, the Company recognized $0.1 million and $0.4 million, respectively, of stock-based compensation expense related to stock options. During the six months ended December 31, 2018 and 2017, the expense was $0.3 million and $0.8 million, respectively.

Restricted Stock Awards

Restricted stock award activity during the six months ended December 31, 2018 was as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested, June 30, 2018	1,676,907	$ 15.12
Granted	748,809	17.29
Vested	(644,175)	14.47
Canceled	(176,296)	17.67
Nonvested, December 31, 2018	1,605,245	$ 16.11

Performance Based Restricted Stock Awards (included above)

During the six months ended December 31, 2018, 37,378 new performance based restricted stock awards were granted and 278,384 remain nonvested at December 31, 2018. During the six months ended December 31, 2018, 305,454 performance based restricted stock awards vested. Vesting of the performance based restricted stock awards is contingent on the achievement of certain financial performance goals and service vesting conditions.

During fiscal year 2018, the Company granted performance based restricted stock awards which were subject to the achievement of a target free cash flow metric in fiscal year 2018 and adjusted upwards or downwards based on the Company's relative total shareholder return for fiscal year 2018 ranked against other companies in the Russell 2000 Index. On August 1, 2018, the free cash flow metric was certified by the Compensation Committee of the Board of Directors as Outperform and the total shareholder return metric was certified as below Threshold resulting in the performance based restricted stock awards granted at 100% of target, or 46,845 shares earned by Company executives.

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Equity Incentive Market Based Restricted Stock Awards (included above)

During fiscal year 2017, the Company granted equity incentive market based restricted stock awards which were subject to the attainment of an average stock price of $14.35 for 30 consecutive days after the date of the Company's earnings release for the fourth quarter and fiscal year ended June 30, 2017. During the six months ended December 31, 2018, 11,600 of these equity incentive market based restricted stock awards vested. As of December 31, 2018, 13,600 equity incentive market based restricted stock awards remain nonvested.

Service Based Restricted Stock Awards (included above)

During the six months ended December 31, 2018, 711,431 new service based restricted stock awards were granted and 1,313,261 remain nonvested at December 31, 2018. During the six months ended December 31, 2018, 327,121 service based restricted stock awards vested.

Summary of All Restricted Stock Awards

As of December 31, 2018, there was $18.5 million of total unrecognized compensation expense related to nonvested restricted stock awards. The cost is expected to be recognized over a weighted average period of 1.8 years. The fair value of restricted stock awards granted for the six months ended December 31, 2018 and 2017 was $12.9 million and $16.7 million, respectively. The total fair value of shares vested for the six months ended December 31, 2018 and 2017 was $11.1 million and $12.9 million, respectively. During the three months ended December 31, 2018 and 2017, the Company recognized $3.0 million and $3.9 million, respectively, of stock-based compensation expense related to restricted stock awards. During the six months ended December 31, 2018 and 2017, the expense was $6.9 million and $7.8 million, respectively.

Performance Share Units ("PSU")

Certain PSUs vest upon achievement of performance criteria associated with a Board-approved Long Term Incentive Plan ("LTIP") and continuation of employee 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 of the LTIP. 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 is classified as an equity award in accordance with ASC 718.

In addition to the LTIP performance conditions, there is a service vesting condition which stipulates that thirty percent of the earned award ("Tranche #1") will vest quarterly beginning November 15, 2017 and seventy percent of the earned award ("Tranche #2") 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 PSUs, subject to graduated 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.

For the year ended June 30, 2017, the Company determined the achievement of the performance condition was probable on Tranche #1. Achievement was believed to be probable at the highest level which equals 150% of the target award. Therefore, the Company recorded $3.8 million of expense for the period of grant date (September 2015) through June 2017. On August 2, 2017, the Compensation Committee of the Company's Board of Directors certified that as of August 1, 2017, 97% of the MPS schools were not in academic jeopardy, as determined by the independent members of the Academic Committee of the Board of Directors on that date, and that the Academic Metric for Tranche #1 of the LTIP was achieved at the Outperform level. This resulted in 446,221 PSUs (including 138,241 additional PSUs due to the Outperform level) earned by the participants, consisting of 90,000 PSUs for Mr. Davis and 70,021 PSUs for Mr. Udell.

For the year ended June 30, 2018, the Company determined the achievement of one of the two performance conditions were probable on Tranche #2 at Target. Tranche #2 is comprised of two performance measures, an academic

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measure (similar to Tranche #1) and a lifetime value measure. Therefore, the Company recorded $3.9 million of expense for the period of grant date (September 2015) through June 2018. On August 1, 2018, the Compensation Committee of the Company's Board of Directors certified that as of August 1, 2018, the Company achieved less than 1% below Target for the academic measure. This resulted in 349,996 PSUs (including a reduction of 15,345 PSUs due to the below Target performance) earned by the participants, consisting of 76,640 PSUs for Mr. Davis and 59,626 PSUs for Mr. Udell. The Compensation Committee also certified that achievement of the performance conditions associated with the lifetime value measure of Tranche #2 were not met and therefore no expense was recorded.

During fiscal year 2019, the Company adopted a new long-term shareholder performance plan ("2019 SPP") that provides for incentive award opportunities to its key senior executives. The awards were granted in the form of PSUs and will be earned based on the Company's market capitalization growth over a completed three-year performance period. The 2019 SPP was designed to provide the executives with a percentage of shareholder value growth. No amounts will be earned if total stock price growth over the three-year period is below 25% (7.6% annualized). An amount of 6% of total value growth will be earned based on achieving total stock price growth of 33% (10% annualized) and a maximum of 7.5% of total value growth will be earned if total stock price growth equals or exceeds 95% (25% annualized).

The weighted average grant date fair value of the 2019 SPP PSUs was $11.2 million, or $143.17 per share, based on the lowest level of performance of 78,070 shares. The final amount of PSUs will be determined (and vesting will occur) based on the 30-day average price of the Company's stock subsequent to seven days after the release of fiscal year 2021 results. The fair value was determined using a Monte Carlo simulation model and will be amortized on a straight-line basis over the vesting period.

As of December 31, 2018, there was $10.1 million of total unrecognized compensation expense related to nonvested PSUs. The cost is expected to be recognized over a weighted average period of 2.7 years. During the three months ended December 31, 2018 and 2017, the Company recognized $1.1 million and $3.0 million, respectively, of stock-based compensation expense related to PSUs. During the six months ended December 31, 2018 and 2017, the expense was $1.1 million and $3.5 million, respectively.

Performance share unit activity during the six months ended December 31, 2018 was as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested, June 30, 2018	708,979	$ 13.15
Granted	78,070	143.17
Vested	(427,954)	13.24
Canceled	(281,025)	13.02
Nonvested, December 31, 2018	78,070	$ 143.17

8. Related Party Transactions

During fiscal years 2019 and 2018, the Company contributed to The Foundation for Blended and Online Learning ("Foundation"). The Foundation is a related party as an executive officer of the Company serves on the Board of the Foundation. For the three months ended December 31, 2018 and 2017, contributions made by the Company to the Foundation were $0.2 million and $0.3 million, respectively, and $0.8 million and $0.3 million for the six months ended December 31, 2018 and 2017, respectively.

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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.

On July 20 and September 15, 2016, two securities class action lawsuits—captioned *Babulal Tarapara v. K12 Inc., et al.*, Case No. 3:16-cv-04069, and *Gil Tuinenburg v. K12 Inc., et al.*, Case No. 3:16-cv-05305, respectively—were filed against the Company, two of its officers and one of its former officers in the United States District Court for the Northern District of California. On October 6, 2016, the Court consolidated the cases and recaptioned the matter as *In Re K12 Inc. Securities Litigation*, Master File No. 4:16-cv-04069-PJH. On August 30, 2017, the Court dismissed the plaintiffs' claims alleging false or misleading statements and omissions related to Scantron results and the quality and effectiveness of K12's academic services and offerings. On September 5, 2018, and as a result of a Court ordered mediation, the parties reached an agreement in principle to settle the remaining claim concerning disclosure of a notice of non-automatic renewal of a managed school contract. Although we believe that the remaining claim in this matter lacked merit, we agreed to settle the case to avoid continued distraction and management time, and our insurance carriers agreed to pay $3.5 million into a settlement fund for the purported class and attorneys' fees and costs. This proposed settlement is subject to final documentation and court approval.

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 agreement with the Company's Chairman and Chief Executive Officer with an amended extended term to September 30, 2019, all other agreements provide for employment on an "at-will" basis. If the employee resigns for "good reason" or is terminated 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

As of December 31, 2018, the Company provided guarantees of approximately $1.8 million related to lease commitments on the buildings for certain of the Company's schools.

In addition, 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. Restructuring

In the third quarter of fiscal year 2017, the Company exited three facilities that were no longer being utilized, which were subject to operating leases.

The present value of the remaining lease payments was calculated using a credit adjusted risk-free rate and estimated sublease rentals for each lease. In aggregate, during fiscal year 2017, the Company recorded an impairment of $5.4 million for the three leases. The current portion of the liability of $1.7 million was included in accrued liabilities and the long-term portion of $3.7 million was included in other long-term liabilities on the condensed consolidated balance sheet as of March 31, 2017. In addition to the lease impairment, the Company accelerated the useful life of each lease's property and equipment to the cease-use date and recorded accelerated depreciation of $1.4 million. The Company also wrote off the deferred rent and the liability for tenant improvements associated with each lease which resulted in income of $1.9 million. The $4.9 million net impact of these actions was recorded in selling, administrative, and other operating expenses in the condensed consolidated statements of operations.

The following table summarizes the activity during the six months ended December 31, 2018:

Description	Initial Value	Balance at June 30, 2018	Payments, net of sublease income	Accretion Expense	Adjustments	Balance at December 31, 2018
			(In thousands)			
Lease #1	$ 1,652	$ 1,092	$ (213)	$ 16	$ —	$ 895
Lease #2	1,311	475	(258)	4	—	221
Lease #3	2,443	1,191	200	16	—	1,407
Total	$ 5,406	$ 2,758	$ (271)	$ 36	$ —	$ 2,523

11. Investments

Investment in STEM Premier Inc.

In August 2018, the Company invested $6.7 million for a 39.5% minority interest in STEM Premier, Inc. ("STEM"). This investment was recorded at cost and will be adjusted, as necessary, for impairment. In the event STEM issues equity at a materially different price than what the Company paid, the Company would also assess changing the carrying value. STEM also issued a convertible note to the Company for $5.0 million that will be accounted for as an available-for-sale debt security and adjusted to fair value quarterly. The note bears interest at the mid-term Applicable Federal Rate plus 25 bps per annum with a maturity of 48 months. The note is convertible at the Company's option into 3.67 million Series D Preferred Shares that would give the Company an effective ownership of 56% if exercised. The Company's investment in STEM is included in other assets on the condensed consolidated balance sheet.

12. Supplemental Disclosure of Cash Flow Information

	Six Months Ended December 31, 2018	Six Months Ended December 31, 2017
	(In thousands)	
Cash paid for interest	$ 573	$ 350
Cash paid for taxes	$ 902	$ 10,610
Supplemental disclosure of non-cash financing activities:		
Property and equipment financed by capital lease obligations, including student peripherals	$ 15,670	$ 12,429
Supplemental disclosure of non-cash investing activities:		
Stock-based compensation expense capitalized on software development	$ 67	$ 995
Stock-based compensation expense capitalized on curriculum development	$ 113	$ 825
Business combinations:		
Current assets	$ —	$ 209
Intangible assets	—	695
Goodwill	—	2,983
Assumed liabilities	—	(734)
Deferred revenue	—	(361)

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, 2018, 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 elsewhere 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 six months ended December 31, 2018.
- *Critical Accounting Policies and Estimates* — a discussion of critical accounting policies requiring 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 and quantitative and qualitative disclosures about market risk.

Executive Summary

We are a technology-based education company and offer proprietary and third party curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. Our 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 products and services are provided through three lines of business: Managed Public School Programs; Institutional; and Private Pay Schools and Other.

Managed Public School Programs accounted for approximately 88% of our revenues in the six months ended December 31, 2018. The Managed Public School Programs offer an integrated package of systems, services, products, and professional expertise that we manage to support online or blended public schools, including: administrative support (e.g., budget proposals, financial reporting, student data reporting, and staff recruitment), information technology, academic support services, curriculum, learning systems, and instructional services. We provide our Managed Public School Programs to virtual and blended public charter schools and school districts. These contracts are negotiated with and approved by the governing authorities of the customer. The duration of the Managed Public School Program service agreements are typically 2-5 years, and most provide for automatic renewals absent a customer notification within a negotiated time frame. During any fiscal year, the Company may enter into new Managed Public School agreements, receive non-automatic renewal notices and negotiate replacement agreements, terminate the contract or receive notice of termination, or transition a school between a Managed Public School Program and a Non-managed Public School Program. The governing boards may also establish school policies and other terms and conditions over the course of a contract, such as enrollment parameters. The authorizers who issue the charters to our Managed Public School customers can renew, revoke, or modify those charters as well. We provided our Managed Public School Programs to 75 schools in 30 states and the District of Columbia.

Our Institutional business consists of both Non-managed Public School Programs and Institutional Software and Services. Unlike Managed Public School Programs, the Institutional business does not offer primary administrative support services, which remain the responsibility of the school district or the school customer. Rather, the Institutional business offers options whereby the school can contract for instruction, curriculum, supplemental courses, marketing, enrollment and other educational services. The Institutional Software and Services offerings provide school districts, individual public schools, charter schools and private schools with educational solutions. In addition to curriculum, systems and programs, the services we offer to Institutional customers can also assist them in launching their own online and blended learning programs tailored to their own requirements and may include instructional support, reporting tools and content libraries. For the 2017-18 school year, we served school districts or individual schools in all 50 states and the District of Columbia, including those states where the regulatory environment restricts or prohibits statewide online programs.

Our Private Pay Schools and Other include three accredited, tuition-based private schools that meet a range of student needs from individual course credit recovery to college preparatory programs. These schools are: (1) K12 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 a college preparatory program and is designed for middle and high school students who are seeking a challenging academic experience.

For the six months ended December 31, 2018, revenues increased to $506.2 million from $446.0 million in the prior year, an increase of 13.5%. Over the same period, operating income increased to $19.5 million, from a loss of $4.0 million in the prior year. Net income to common stockholders was $15.4 million, as compared to $5.2 million in the prior year.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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. Other than revenue recognition (discussed below), there have been no significant updates to our critical accounting policies disclosed in our Annual Report.

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 schools, traditional public schools, school districts, and private schools. Under most contracts the Company provides an integrated package of systems, services, products, and professional expertise that we manage to support online or blended public schools. Customers for these programs can obtain the administrative support, information technology, academic support services, online curriculum, learning systems platforms and instructional services under the terms of a negotiated service agreement. 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 revenue.

The Company generates revenues under turnkey management contracts with virtual and blended public schools and typically include the following components:

- 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 support a virtual public or blended school. In certain managed school contracts, revenues are determined directly by per enrollment funding.

Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services using the following steps:

- identify the contract, or contracts, with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognize revenue when, or as, the Company satisfies a performance obligation.

School Funding and Revenue Recognition

To determine the pro rata amount of revenue 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 for the three and six months ended December 31, 2018 and 2017.

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 estimates funding for each school, it takes into account 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.

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 revenues 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.

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.

Where the Company has determined that it is the principal for substantially all expenses under certain contracts, the Company estimates the associated per student revenues for the fiscal year which will be received by the school from its state funding school district and recognizes revenue ratably over the service period. For contracts where the Company is not the primary obligor, the Company records revenues based on its net fees earned under the contractual agreement.

The products and services delivered to the Company’s Institutional customers include curriculum and technology for full-time virtual and blended programs, as well as instruction, curriculum and associated materials, supplemental courses, marketing, enrollment and other educational services. Each of these contracts are considered to be one performance obligation under ASC 606.

The Company provides certain online curriculum and services to schools and school districts under subscription agreements. Revenues from the licensing of curriculum under subscription arrangements are recognized on a ratable basis over the subscription period. Revenues 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.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company’s performance obligations are satisfied over time, as the Company delivers and the customer receives the services, over the service period of the contract. The Company’s payment terms are generally net 30 or net 45, but can vary depending on when the school receives its funding from the state.

Significant Judgments

The Company determined that the majority of its contracts with customers contain one performance obligation. The Company markets the products and services as an integrated package building off its curriculum offerings. It does not market distinct products or services to be sold independently from the curriculum offering.

The Company has determined that the time elapsed method as described under ASC 606 is the most appropriate measure of progress towards the satisfaction of the performance obligation. Therefore, the Company will recognize revenue on a straight-line basis. The Company delivers the integrated products and services package largely over the course of the Company’s fiscal year. This package includes enrollment, marketing, teacher training, etc. in addition to the core curriculum and instruction. All of these activities are necessary and contribute to the overall education of its students, which occurs evenly throughout the year.

As discussed above, the Company estimates the total funds each school will receive in a particular school year and the amount of full-year school revenues and operating expenses to determine the amount of revenue the Company will receive. To the extent the estimates change during the year, the cumulative impact of the change is recognized over the remaining service period.

Results of Operations

We have three lines of business: Managed Public School Programs; Institutional; and Private Pay Schools and Other.

Managed Public School Programs	Institutional	Private Pay Schools and Other
• Virtual public schools	• Non-managed Public School Programs	• Managed private schools —K12 International Academy
• Blended public schools	• Institutional software and services	—George Washington University Online High School
		—The Keystone School

Enrollment Data

The following table sets forth total enrollment data for students in our Managed Public School Programs and Non-managed Public School Programs. Our turnkey Managed Public School Programs offer an integrated package of systems, services, products, and professional expertise that we manage in order to support an online or blended public school. Customers for these programs can obtain the administrative support, information technology, academic support services, online curriculum, learning system platforms and instructional services under the terms of a negotiated service agreement. Unlike Managed Public School Programs, Non-managed Public School Programs do not offer primary administrative support services, which remain the responsibility of the school district or the school customer. Rather, Non-Managed Public School Programs offer options whereby the school can contract for instruction, curriculum, supplemental courses, marketing, enrollment and other educational services. Enrollments in Managed Public School Programs on average generate more revenues than enrollments served through our Institutional business where we provide limited or no management services. We do not award or permit incentive compensation to be paid to our public school program enrollment staff or contractors based on the number of students enrolled. If the mix of enrollments changes, our revenues will be impacted to the extent the average revenues per enrollments are significantly different.

	Three Months Ended December 31,		2018 / 2017		Six Months Ended December 31,		2018 / 2017	
	2018	2017	Change	Change %	2018	2017	Change	Change %
	(In thousands, except percentages)							
Managed Public School Programs (1)(2)	116.4	108.5	7.9	7.3%	117.0	109.1	7.9	7.2%
Non-managed Public School Programs (1)	23.7	23.9	(0.2)	(0.8%)	23.7	23.9	(0.2)	(0.8%)

(1) If a school changes from a Managed to a Non-managed Public School Program, the corresponding enrollment classification would change in the period in which the contract arrangement changed. Enrollments reported for the first quarter are equal to the official count date number, which is the first Wednesday of October in a year, or October 3, 2018 for the first quarter of fiscal year 2019 and October 4, 2017 for the first quarter of fiscal year 2018.

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

Revenues by Business Lines

Revenues are captured by business line based on the underlying customer contractual agreements. Periodically, a customer may change business line classification. For example, a district that purchases a single course (Institutional business customer) may decide to convert to a full-time virtual school program (Managed Public School customer). Changes in business line classification occur at the time the contractual agreement is modified. The mix of our revenue between our Managed Public School Programs and our Institutional business could change as one or more of our managed schools transitions to a self-managed model such that we would provide only selected services to the school. This transition could occur due to a change in focus sought by the independent school board, or by state legislative or regulatory developments, and thus reducing revenue we generate from the school. The following represents our revenues for each of the periods indicated:

	Three Months Ended December 31,		Change 2018 / 2017		Six Months Ended December 31,		Change 2018 / 2017	
	2018	2017	$	%	2018	2017	$	%
	(In thousands, except percentages)							
Managed Public School Programs	$222,793	$ 183,392	$39,401	21.5%	$443,336	$371,898	$ 71,438	19.2%
Institutional								
Non-managed Public School Programs	13,217	13,991	(774)	(5.5%)	24,622	31,150	(6,528)	(21.0%)
Institutional Software & Services	9,891	11,437	(1,546)	(13.5%)	20,985	24,895	(3,910)	(15.7%)
Total Institutional	23,108	25,428	(2,320)	(9.1%)	45,607	56,045	(10,438)	(18.6%)
Private Pay Schools and Other	8,971	8,391	580	6.9%	17,243	18,053	(810)	(4.5%)
Total Revenues	$254,872	$ 217,211	$37,661	17.3%	$506,186	$445,996	$ 60,190	13.5%

Financial Information

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2018		2017		2018		2017	
	(Dollars in thousands)							
Revenues	$ 254,872	100.0 %	$ 217,211	100.0 %	$ 506,186	100.0 %	$ 445,996	100.0 %
Cost and expenses								
Instructional costs and services	160,329	62.9	139,163	64.1	319,314	63.1	286,530	64.2
Selling, administrative, and other operating expenses	60,183	23.6	61,958	28.5	162,761	32.2	158,240	35.5
Product development expenses	1,070	0.4	2,376	1.1	4,573	0.9	5,274	1.2
Total costs and expenses	221,582	86.9	203,497	93.7	486,648	96.1	450,044	100.9
Income (loss) from operations	33,290	13.1	13,714	6.3	19,538	3.9	(4,048)	(0.9)
Interest income (expense) and other, net	(504)	(0.2)	39	0.0	(92)	(0.0)	274	0.1
Income (loss) before income taxes and noncontrolling interest	32,786	12.9	13,753	6.3	19,446	3.8	(3,774)	(0.8)
Income tax benefit (expense)	(9,074)	(3.6)	(564)	(0.3)	(4,016)	(0.8)	8,804	2.0
Net income	23,712	9.3	13,189	6.1	15,430	3.0	5,030	1.1
Add net loss attributable to noncontrolling interest	—	—	70	0.0	—	—	173	0.0
Net income attributable to common stockholders	$ 23,712	9.3 %	$ 13,259	6.1 %	$ 15,430	3.0 %	$ 5,203	1.2 %

Comparison of the Three Months Ended December 31, 2018 and 2017

Revenues. Our revenues for the three months ended December 31, 2018 were $254.9 million, representing an increase of $37.7 million, or 17.4%, from $217.2 million for the same period in the prior year. Managed Public School Program revenues increased $39.4 million, or 21.5%, year over year. The increase in Managed Public School Program revenues was primarily due to the 7.3% increase in enrollments and increases in the per-pupil achieved funding, school mix (distribution of enrollments by school), and other factors.

Total Institutional revenues decreased $2.3 million, or 9.1%, primarily due to a 0.8% decrease in enrollments in our Non-managed Public School Programs, and a decline in software sales. Private Pay Schools and Other revenues increased $0.6 million, or 6.9%, over the prior year period.

Instructional costs and services expenses. Instructional costs and services expenses for the three months ended December 31, 2018 were $160.3 million, representing an increase of $21.1 million, or 15.2%, from $139.2 million for the same period in the prior year. This increase in expense was primarily due to the incremental personnel and related benefit costs due to supporting higher enrollments. Instructional costs and services expenses were 62.9% of revenues during the three months ended December 31, 2018, a decrease from 64.1% for the three months ended December 31, 2017.

Selling, administrative, and other operating expenses. Selling, administrative, and other operating expenses for the three months ended December 31, 2018 were $60.2 million, representing a decrease of $1.8 million, or 2.9% from $62.0 million for the same period in the prior year. The decrease was primarily due to a decrease in marketing costs and stock-based compensation expense. Selling, administrative, and other operating expenses were 23.6% of revenues during the three months ended December 31, 2018, a decrease from 28.5% for the three months ended December 31, 2017.

Product development expenses. Product development expenses for the three months ended December 31, 2018 were $1.1 million, representing a decrease of $1.3 million, or 54.2% from $2.4 million for the same period in the prior year. The decrease was primarily due to a decrease in professional services expenses. Product development expenses were 0.4% of revenues during the three months ended December 31, 2018, a decrease from 1.1% for the three months ended December 31, 2017.

Income tax benefit (expense). We had an income tax expense of $9.1 million for the three months ended December 31, 2018, or 27.7% of income before income taxes, as compared to $0.6 million, or 4.1% of income before income taxes for the same period in the prior year. The increase in the effective tax rate for the three months ended December 31, 2018 was primarily due to the impact of the Tax Cuts and Job Act (the "Tax Act") in the prior year.

Net income. Net income was $23.7 million for the three months ended December 31, 2018, compared to $13.2 million for the same period in the prior year, representing an increase of $10.5 million.

Comparison of the Six Months Ended December 31, 2018 and 2017

Revenues. Our revenues for the six months ended December 31, 2018 were $506.2 million, representing an increase of $60.2 million, or 13.5%, from $446.0 million for the same period in the prior year. Managed Public School Program revenues increased $71.4 million, or 19.2%, year over year. The increase in Managed Public School Program revenues was primarily due to the 7.2% increase in enrollments and increases in the per-pupil achieved funding, school mix (distribution of enrollments by school), and other factors.

Total Institutional revenues decreased $10.4 million, or 18.6%, primarily due to a 0.8% decrease in enrollments in our Non-managed Public School Programs, and a decline in software sales. Private Pay Schools and Other revenues decreased $0.8 million, or 4.5%, over the prior year period.

Instructional costs and services expenses. Instructional costs and services expenses for the six months ended December 31, 2018 were $319.3 million, representing an increase of $32.8 million, or 11.4%, from $286.5 million for the same period in the prior year. This increase in expense was primarily due to the incremental personnel and related benefit costs due to supporting higher enrollments. Instructional costs and services expenses were 63.1% of revenues during the six months ended December 31, 2018, a decrease from 64.2% for the six months ended December 31, 2017.

Selling, administrative, and other operating expenses. Selling, administrative, and other operating expenses for the six months ended December 31, 2018 were $162.8 million, representing an increase of $4.6 million, or 2.9% from $158.2 million for the same period in the prior year. This increase was due to an increase in outside professional services and marketing. Selling, administrative, and other operating expenses were 32.2% of revenues during the six months ended December 31, 2018, a decrease from 35.5% for the six months ended December 31, 2017.

Product development expenses. Product development expenses for the six months ended December 31, 2018 were $4.6 million, representing a decrease of $0.7 million, or 13.2% from $5.3 million for the same period in the prior year. Product development expenses were 0.9% of revenues during six months ended December 31, 2018, a decrease from 1.2% for the six months ended December 31, 2017.

Income tax benefit (expense). We had an income tax expense of $4.0 million for the six months ended December 31, 2018, or 20.7% of income before income taxes, as compared to a benefit of $8.8 million, or 233.3% of loss before income taxes for the same period in the prior year. The decrease in the effective tax rate for the six months ended December 31, 2018 was primarily due to the impact of the Tax Act in the prior year.

Net income. Net income was $15.4 million for the six months ended December 31, 2018, compared to $5.0 million for the same period in the prior year, representing an increase in net income of $10.4 million.

Liquidity and Capital Resources

As of December 31, 2018, we had net working capital, or current assets minus current liabilities, of $352.7 million. Our working capital includes cash and cash equivalents of $203.3 million and accounts receivable of $239.7 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 December 31, 2018.

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%, the Federal Funds Rates plus 0.75%, or LIBOR 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 December 31, 2018, 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 agreements with PNC Equipment Finance, LLC (“PNC”) and Banc of America Leasing & Capital, LLC (“BALC”). As of December 31, 2018 and June 30, 2018, the outstanding balance of capital leases was $34.8 million and $26.0 million, respectively, with lease interest rates ranging from 1.97% to 4.05%.

Individual leases with PNC include 36-month payment terms, at varying rates, with a $1 purchase option at the end of each lease term. We have pledged the assets financed to secure the outstanding leases.

Our $16.0 million agreement with BALC was executed in December 2018 at a fluctuating rate of LIBOR plus 1.25%. Individual leases with BALC include 12-month payment terms, a fixed rate of 4.05%, and a $1 purchase option at the end of each lease term. We pledged the assets financed to secure the outstanding leases.

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.

Operating Activities

Net cash provided by operating activities for the six months ended December 31, 2018 was $24.9 million compared to net cash used in operating activities of $0.9 million for the six months ended December 31, 2017. The increase of $25.8 million in cash provided by operations between periods was primarily due to an increase in working capital of $13.4 million and an increase in net income of $10.4 million. The changes in working capital were primarily due to decreases in inventory, prepaid expenses, deposits and other assets, as well as increases in accrued liabilities, accrued compensation and benefits and accounts receivable.

Investing Activities

Net cash used in investing activities for the six months ended December 31, 2018 was $38.9 million compared to $25.9 million for the six months ended December 31, 2017, an increase of $13.0 million. The increase is primarily due to the investment in STEM Premier, Inc. in August 2018.

During the six months ended December 31, 2017, we recorded an adjustment related to the capitalization of software and curriculum development. See Note 3 – “Summary of Significant Accounting Policies,” to our condensed consolidated financial statements for further detail.

Financing Activities

Net cash used in financing activities for the six months ended December 31, 2018 was $13.8 million compared to $14.5 million during the six months ended December 31, 2017. Our primary uses of cash in financing activities during the six months ended December 31, 2018 were in connection with the repurchase of restricted stock for income tax withholding of $6.9 million and in connection with payments of capital lease obligations incurred for the acquisition of student computers totaling $6.9 million.

Off Balance Sheet Arrangements, Contractual Obligations and Commitments

As of December 31, 2018, we provided guarantees of approximately $1.8 million related to lease commitments on the buildings for certain of the Company’s schools.

In addition, we contractually guarantee that certain schools under our management will not have annual operating deficits and our management fees from these schools may be reduced accordingly to cover any school operating deficits.

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

As of December 31, 2018 and June 30, 2018, we had cash and cash equivalents totaling $203.3 million and $231.1 million, respectively. Our excess cash has been invested primarily in U.S. Treasury money market funds although we may also invest in money market accounts, government securities, corporate debt securities and similar investments. Future interest and investment income is subject to the impact of interest rate changes and we may be subject to changes, in the fair value of our investment portfolio as a result of changes in interest rates. At December 31, 2018, a 1% gross increase in interest rates earned on cash would result in a $2.0 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 as of December 31, 2018, 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. 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 operations 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 December 31, 2018.

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 July 20 and September 15, 2016, two securities class action lawsuits—captioned *Babulal Tarapara v. K12 Inc., et al.*, Case No. 3:16-cv-04069, and *Gil Tuinenburg v. K12 Inc., et al.*, Case No. 3:16-cv-05305, respectively—were filed against the Company, two of its officers and one of its former officers in the United States District Court for the Northern District of California. On October 6, 2016, the Court consolidated the cases and recaptioned the matter as *In Re K12 Inc. Securities Litigation*, Master File No. 4:16-cv-04069-PJH. On August 30, 2017, the Court dismissed the plaintiffs' claims alleging false or misleading statements and omissions related to Scantron results and the quality and effectiveness of K12's academic services and offerings. On September 5, 2018, and as a result of a Court ordered mediation, the parties reached an agreement in principle to settle the remaining claim concerning disclosure of a notice of non-automatic renewal of a managed school contract. Although we believe that the remaining claim in this matter lacked merit, we agreed to settle the case to avoid continued distraction and management time, and our insurance carriers agreed to pay $3.5 million into a settlement fund for the purported class and attorneys' fees and costs. This proposed settlement is subject to final documentation and court approval.

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, 2018 as filed with the SEC on August 8, 2018.

Item 2. *Issuer Purchases of Equity Securities.*

None.

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
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 December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Operations (unaudited), (iii) Condensed Consolidated Statements 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).

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: January 23, 2019

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: January 23, 2019

/s/ NATHANIEL A. DAVIS
Nathaniel A. Davis
Chairman and 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: January 23, 2019

/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 December 31, 2018 (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: January 23, 2019

/s/ NATHANIEL A. DAVIS
Nathaniel A. Davis
Chairman and 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 December 31, 2018 (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: January 23, 2019

/s/ JAMES J. RHYU
James J. Rhyu
Chief Financial Officer