

K12 INC  
Form 10-Q  
November 07, 2013  
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-4774688**  
(IRS Employer  
Identification No.)

**2300 Corporate Park Drive**  
**Herndon, VA**  
(Address of principal executive offices)

**20171**  
(Zip Code)

**(703) 483-7000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer   
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 31, 2013 the Registrant had 41,140,663 shares of common stock, \$0.0001 par value per share outstanding.

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**K12 Inc.**

**Form 10-Q**

**For the Quarterly Period Ended September 30, 2013**

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited).****K12 INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | September 30,<br>2013                              | June 30,<br>2013  |
|--|--|-------------------|
|  | (In thousands, except share<br>and per share data) |                   |
| <b>ASSETS</b>  |  |                   |
| <b>Current assets</b>  |  |                   |
| Cash and cash equivalents  | \$ 163,474   | \$ 181,480        |
| Accounts receivable, net of allowance of \$2,645 and \$2,560 at September 30, 2013 and June 30, 2013, respectively   | 271,808  | 186,459           |
| Inventories, net   | 28,013   | 44,395            |
| Current portion of deferred tax asset  | 21,478   | 11,368            |
| Prepaid expenses   | 11,206   | 10,331            |
| Other current assets   | 32,385   | 23,916            |
| <b>Total current assets</b>  | <b>528,364</b>                                     | <b>457,949</b>    |
| Property and equipment, net  | 62,892   | 56,142            |
| Capitalized software, net  | 44,782   | 43,504            |
| Capitalized curriculum development costs, net  | 63,989   | 64,599            |
| Intangible assets, net   | 31,332   | 32,139            |
| Goodwill   | 61,523   | 61,413            |
| Deposits and other assets  | 5,415  | 3,150             |
| <b>Total assets</b>  | <b>\$ 798,297</b>                                  | <b>\$ 718,896</b> |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY</b>  |  |                   |
| <b>Current liabilities</b>   |  |                   |
| Current portion of capital lease obligations   | \$ 21,664  | \$ 19,395         |
| Current portion of note payable  |  | 390               |
| Accounts payable   | 50,617   | 21,838            |
| Accrued liabilities  | 15,702   | 17,027            |
| Accrued compensation and benefits  | 12,063   | 21,970            |
| Deferred revenue   | 74,549   | 28,567            |
| <b>Total current liabilities</b>   | <b>174,595</b>                                     | <b>109,187</b>    |
| Capital lease obligations, net of current portion  | 18,981   | 16,107            |
| Deferred rent, net of current portion  | 8,920  | 8,833             |
| Deferred tax liability   | 39,575   | 33,299            |
| Other long-term liabilities  | 2,598  | 2,512             |
| <b>Total liabilities</b>   | <b>244,669</b>                                     | <b>169,938</b>    |
| <b>Commitments and contingencies</b>   |  |                   |
| <b>Redeemable noncontrolling interest</b>  | <b>15,200</b>                                      | <b>15,200</b>     |
| <b>Equity:</b>   |  |                   |
| <b>K12 Inc. stockholders equity</b>  |  |                   |
| Common stock, par value \$0.0001; 100,000,000 shares authorized; 41,143,988 and 37,440,662 shares issued and outstanding at September 30, 2013 and June 30, 2013, respectively | 4  | 4                 |
| Additional paid-in capital   | 621,254  | 548,390           |

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|  |            |    |          |
|--|------------|----|----------|
| Series A Special Stock, par value \$0.0001; 2,750,000 authorized; zero and 2,750,000 shares issued and outstanding at September 30, 2013 and June 30, 2013, respectively |            |    | 63,112   |
| Accumulated other comprehensive loss   | (189)      |    | (294)    |
| Accumulated deficit  | (86,090)   |    | (81,050) |
| <b>Total K12 Inc. stockholders equity</b>  | 534,979    |    | 530,162  |
| Noncontrolling interest  | 3,449      |    | 3,596    |
| <b>Total equity</b>  | 538,428    |    | 533,758  |
| <b>Total liabilities, redeemable noncontrolling interest and equity</b>  | \$ 798,297 | \$ | 718,896  |

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

Table of Contents**K12 INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | <b>Three Months Ended September 30,</b>                |                 |
|--|--|-----------------|
|  | <b>2013</b>  | <b>2012</b>     |
|  | <b>(In thousands, except share and per share data)</b> |                 |
| <b>Revenues</b>  | \$ 228,366   | \$ 221,096      |
| <b>Cost and expenses</b>   |  |                 |
| Instructional costs and services   | 132,902  | 118,648         |
| Selling, administrative, and other operating expenses  | 98,244   | 89,619          |
| Product development expenses   | 5,684  | 4,168           |
| <b>Total costs and expenses</b>  | <b>236,830</b>   | <b>212,435</b>  |
| <b>Income (loss) from operations</b>   | <b>(8,464)</b>   | <b>8,661</b>    |
| <b>Interest expense, net</b>   | <b>(84)</b>  | <b>(228)</b>    |
| <b>Income (loss) before income tax expense and noncontrolling interest</b>   | <b>(8,548)</b>   | <b>8,433</b>    |
| <b>Income tax (expense) benefit</b>  | <b>3,450</b>   | <b>(3,889)</b>  |
| <b>Net income (loss)</b>   | <b>(5,098)</b>   | <b>4,544</b>    |
| <b>Adjust net (income) loss attributable to noncontrolling interest</b>  | <b>58</b>  | <b>(187)</b>    |
| <b>Net income (loss) attributable to common stockholders, including Series A stockholders</b>  | <b>\$ (5,040)</b>                                      | <b>\$ 4,357</b> |
| <b>Net income (loss) attributable to common stockholders per share, excluding Series A stockholders through the conversion date September 3, 2013:</b> |  |                 |
| Basic and Diluted  | \$ (0.13)  | \$ 0.11         |
| <b>Weighted average shares used in computing per share amounts:</b>  |  |                 |
| Basic and Diluted  | 37,868,928   | 36,029,252      |

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

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|  | <b>Three Months Ended September 30,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                             | <b>2012</b> |
|  | <b>(In thousands)</b>                   |             |
| Net income (loss)  | \$ (5,098)                              | \$ 4,544    |
| Other comprehensive income (loss), net of tax  |   |             |
| Foreign currency translation adjustment  | 105                                     | (314)       |
| Total other comprehensive income (loss), net of tax  | (4,993)                                 | 4,230       |
| Comprehensive (income) loss attributable to noncontrolling interest                              | 58                                      | (187)       |
| Comprehensive income (loss) attributable to common stockholders, including Series A stockholders | \$ (4,935)                              | \$ 4,043    |

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

Table of Contents**K12 INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)**

| (In thousands, except share and per share data)                                | Common Stock |        | Common Stock - Series A |           | K12 Inc Stockholders<br>Additional Paid-in Capital |  | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Noncontrolling Interest | Total      |
|--|--------------|--------|-------------------------|-----------|--|--|---|---------------------|-------------------------|------------|
|  | Shares       | Amount | Shares                  | Amount    | Capital  |  |   |                     |                         |            |
| Balance, June 30, 2013   | 37,440,662   | \$ 4   | 2,750,000               | \$ 63,112 | \$ 548,390   |  | \$ (294)                                      | \$ (81,050)         | \$ 3,596                | \$ 533,758 |
| Net loss (1)   |              |        |                         |           |  |  |   | (5,040)             | (147)                   | (5,187)    |
| Foreign currency translation adjustment  |              |        |                         |           |  |  | 105   |                     |                         | 105        |
| Conversion of Series A Special Stock to common stock                           | 2,750,000    |        | (2,750,000)             | (63,112)  | 63,112   |  |   |                     |                         |            |
| Stock-based compensation expense   |              |        |                         |           | 3,680  |  |   |                     |                         | 3,680      |
| Exercise of stock options  | 380,644      |        |                         |           | 7,106  |  |   |                     |                         | 7,106      |
| Excess tax benefit from stock-based compensation                               |              |        |                         |           | 385  |  |   |                     |                         | 385        |
| Issuance of restricted stock awards  | 624,723      |        |                         |           |  |  |   |                     |                         |            |
| Forfeiture of restricted stock awards  | (5,790)      |        |                         |           |  |  |   |                     |                         |            |
| Accretion of redeemable noncontrolling interests to estimated redemption value |              |        |                         |           | 89   |  |   |                     |                         | 89         |
| Retirement of restricted stock for tax withholding                             | (46,241)     |        |                         |           | (1,508)  |  |   |                     |                         | (1,508)    |
| Balance, September 30, 2013  | 41,143,998   | \$ 4   |                         | \$        | \$ 621,254   |  | \$ (189)                                      | \$ (86,090)         | \$ 3,449                | \$ 538,428 |

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

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



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## K12 INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Three Months Ended September 30, |                   |
|---|----------------------------------|-------------------|
|   | 2013                             | 2012              |
|   | (In thousands)                   |                   |
| <b>Cash flows from operating activities</b>   |                                  |                   |
| Net income (loss)   | \$ (5,098)                       | \$ 4,544          |
| <b>Adjustments to reconcile net income (loss) to net cash used in operating activities:</b> |                                  |                   |
| Depreciation and amortization expense   | 16,950                           | 15,661            |
| Stock-based compensation expense  | 3,680                            | 2,872             |
| Excess tax benefit from stock-based compensation  | (385)                            | (1,086)           |
| Deferred income taxes   | (3,450)                          | 3,488             |
| Provision for doubtful accounts   | 302                              | 397               |
| Provision for inventory obsolescence  | 8                                | 42                |
| Provision (benefit) for student computer shrinkage and obsolescence                         | (260)                            | 373               |
| <b>Changes in assets and liabilities:</b>   |                                  |                   |
| Accounts receivable   | (85,659)                         | (98,297)          |
| Inventories   | 16,374                           | 9,699             |
| Prepaid expenses  | (861)                            | (3,431)           |
| Other current assets  | (8,524)                          | (5,842)           |
| Deposits and other assets   | (220)                            | 299               |
| Accounts payable  | 28,773                           | 9,419             |
| Accrued liabilities   | (1,353)                          | 2,368             |
| Accrued compensation and benefits   | (9,907)                          | (5,134)           |
| Deferred revenue  | 45,542                           | 44,308            |
| Release of restricted cash  |                                  | 1,501             |
| Deferred rent   | 175                              | 1,605             |
| <b>Net cash used in operating activities</b>  | <b>(3,913)</b>                   | <b>(17,214)</b>   |
| <b>Cash flows from investing activities</b>   |                                  |                   |
| Purchase of property and equipment  | (4,274)                          | (3,863)           |
| Capitalized software development costs  | (5,006)                          | (6,289)           |
| Capitalized curriculum development costs  | (3,322)                          | (5,092)           |
| Mortgage note to managed school partner   | (2,100)                          |                   |
| <b>Net cash used in investing activities</b>  | <b>(14,702)</b>                  | <b>(15,244)</b>   |
| <b>Cash flows from financing activities</b>   |                                  |                   |
| Repayments on capital lease obligations   | (5,556)                          | (4,622)           |
| Repayments on note payable  | (390)                            | (380)             |
| Proceeds from exercise of stock options   | 7,106                            | 56                |
| Excess tax benefit from stock-based compensation  | 385                              | 1,086             |
| Repurchase of restricted stock for income tax withholding                                   | (1,508)                          | (645)             |
| <b>Net cash provided by (used in) financing activities</b>                                  | <b>37</b>                        | <b>(4,505)</b>    |
| <b>Effect of foreign exchange rate changes on cash and cash equivalents</b>                 | <b>572</b>                       | <b>249</b>        |
| <b>Net change in cash and cash equivalents</b>  | <b>(18,006)</b>                  | <b>(36,714)</b>   |
| <b>Cash and cash equivalents, beginning of period</b>                                       | <b>181,480</b>                   | <b>144,652</b>    |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 163,474</b>                | <b>\$ 107,938</b> |

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



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**K12 INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of the Business**

K12 Inc. and its subsidiaries ( K12 or the Company ) is a technology-based education company. The Company offers proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, ( K-12 ). The Company's mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since the Company's inception, the Company has invested more than \$350 million to develop and, to a lesser extent, acquire curriculum and online learning platforms that promote mastery of core concepts and skills for students of all abilities. This learning system combines the Company's curriculum and offerings with an individualized learning approach well-suited for virtual and blended public schools, school district online programs, public charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. In contracting with a virtual and blended public school, the Company typically provides students with access to the K12 online curriculum, offline learning kits and the use of a personal computer in certain cases, in addition to providing management services. The Company manages virtual public schools in 33 states and the District of Columbia.

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

**2. Basis of Presentation**

The accompanying condensed consolidated balance sheet as of September 30, 2013, the condensed consolidated statements of operations and comprehensive income (loss) for the three months ended September 30, 2013 and 2012, the condensed consolidated statements of cash flows for the three months ended September 30, 2013 and 2012, and the condensed consolidated statement of equity (deficit) for the three months ended September 30, 2013 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position and results of operations for the periods presented. The results for the three months ended September 30, 2013 are not necessarily indicative of the results to be expected for the year ending June 30, 2014 or for any other interim period or for any other future fiscal year. The condensed consolidated balance sheet as of June 30, 2013 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

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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 29, 2013, which contains the Company's audited financial statements for the fiscal year ended June 30, 2013.

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

**3. Summary of Significant Accounting Policies**

***Revenue Recognition***

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

Where the Company provides turn-key management service, it has determined that it is the primary obligor for substantially all expenses under these contracts, the Company records the associated per student revenue received by the school from its state funding school district up to the expenses incurred in accordance with ASC 605, *Revenue Recognition*. For contracts where the Company is not the primary obligor, the Company records revenue based on its net fees earned under the contractual agreement. As a result of being the primary obligor, amounts recorded as revenues and school operating expenses for the three months ended September 30, 2013 and 2012 were \$52.2 million and \$47.6 million, respectively. For contracts where the Company is not the primary obligor, the Company records revenue based on its net fees earned under the contractual agreement.

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

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

Under the contracts where the Company provides turn-key management services to schools, the Company has generally agreed to absorb any cumulative operating losses of the schools over the respective contract period. 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

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charges to the schools. A school 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. Since the end of the school year coincides with the end of the Company's fiscal year, annual revenues are

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generally based on actual school revenues and actual costs incurred in the calculation of school operating losses.

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

Other revenues are generated from individual customers who prepay and have access for 12 to 24 months to Company-provided online curriculum. The Company recognizes these revenues pro rata over the maximum term of the customer contract. Revenues from associated offline learning kits are recognized upon shipment.

During the three months ended September 30, 2013, the Company had a contract with one school that represented approximately 12% of revenues. During the three months ended September 30, 2012, the Company had contracts with two schools that represented approximately 14% and 10% of revenues. The percentage of revenues for these two schools is not indicative of the percentage of revenues for the full year. Approximately 10% and 7% of accounts receivable was attributable to a contract with one school as of September 30, 2013 and June 30, 2013, respectively.

***Consolidation***

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

***Inventories***

Inventories consist primarily of textbooks and curriculum materials, a majority of which are supplied to virtual public schools and blended public schools and utilized directly by students. Inventories represent items that are purchased and held for sale and are recorded at the lower of cost (first-in, first-out method) or market value. Excess and obsolete inventory reserves are established based upon the evaluation of the quantity on hand relative to demand. The excess and obsolete inventory reserve was \$4.8 million and \$4.9 million at September 30, 2013 and June 30, 2013, respectively

***Other Current Assets***

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

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is calculated using the straight-line method over the estimated useful life of the asset (or the lesser of the term of the lease and the estimated useful life of the asset under capital lease). Amortization of assets capitalized under capital lease arrangements is included in depreciation expense. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful life of the asset. The Company determines the lease term in accordance with ASC 840, *Leases*, as the fixed non-cancelable term of the lease plus all periods for which failure to renew the lease imposes a penalty on the lessee in an amount such that renewal appears, at the inception of the lease, to be reasonably assured. Depreciation expense for the three months ended September 30, 2013 and 2012 was \$8.5 million and \$7.7 million, respectively.



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Property and equipment are depreciated over the following useful lives:

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

***Capitalized Software***

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

Capitalized software development additions totaled \$5.0 million and \$6.3 million for the three months ended September 30, 2013 and 2012, respectively. Amortization expense for the three months ended September 30, 2013 and 2012 was \$3.7 million and \$3.3 million, respectively.

***Capitalized Curriculum Development Costs***

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

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

Total capitalized curriculum development additions were \$3.3 million and \$5.1 million for the three months ended September 30, 2013 and 2012, respectively. These amounts are recorded on the accompanying condensed consolidated balance sheets net of amortization charges. Amortization is recorded in product development expenses on the accompanying condensed consolidated statements of operations. Amortization expense for the three months ended September 30, 2013 and 2012 was \$3.9 million and \$3.5 million, respectively.

*Income Taxes*

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

*Series A Special Stock*

The Company issued 2,750,000 shares of Series A Special stock in connection with an acquisition. The holders of the Series A Special stock had the right to convert those shares into common stock on a one-for-one basis and the right to vote on all matters presented to K12 stockholders, other than for the election and removal of directors, for which holders of the Series A Special stock had no voting rights. These shares were converted into common stock on September 3, 2013 and no Series A Special stock remains outstanding as of September 30, 2013.

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***Noncontrolling Interest***

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

***Redeemable Noncontrolling Interests***

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. The redeemable noncontrolling interests are adjusted to their fair value at each balance sheet date. The resulting increases or decreases in the estimated redemption amount are affected by corresponding charges against retained earnings, or in the absence of retained earnings, additional paid-in-capital.

***Goodwill and Intangible Assets***

The Company records as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. Finite-lived intangible assets acquired in business combinations subject to amortization are recorded at their fair value. Finite-lived intangible assets include trade names, customer and distributor relationships and developed technology. Such intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense for the three months ended September 30, 2013 and 2012 was \$0.8 million and \$1.1 million, respectively. Future amortization of intangible assets is \$2.3 million, \$3.1 million, \$3.0 million, \$2.4 million and \$2.4 million in the fiscal years ending June 30, 2014 through June 30, 2018, respectively, and \$18.1 million thereafter. As of September 30, 2013 and June 30, 2013, goodwill balances were \$61.5 million and \$61.4 million, respectively.

The Company reviews its recorded finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between fair value and the carrying value of the asset.

ASC 350 prescribes a 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. Goodwill and intangible assets deemed to have an indefinite life are tested for impairment on an annual basis, or earlier when events or changes in circumstances suggest the carrying amount may not be fully recoverable. The Company has elected to perform its annual assessment on May 31 of each year.

The following table represents goodwill movements during the fiscal quarter ended September 30, 2013:

| <b>Rollforward of Goodwill</b>                   | <b>Amount</b>            |        |
|--|--------------------------|--------|
|  | <b>(\$ in thousands)</b> |        |
| Balance as of June 30, 2013                      | \$                       | 61,413 |
| Adjustments due to foreign exchange translations |                          | 110    |
| Balance as of September 30, 2013                 | \$                       | 61,523 |

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The following table represents the balance of intangible assets as of September 30, 2013 and June 30, 2013:

**Intangible Assets:**

| (\$ in millions)                       | September 30, 2013    |                          |                    | June 30, 2013         |                          |                    |
|--|-----------------------|--------------------------|--------------------|-----------------------|--------------------------|--------------------|
|  | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Trade names                            | \$ 24.0               | \$ (5.3)                 | \$ 18.7            | \$ 24.0               | \$ (5.1)                 | \$ 18.9            |
| Customer and distributor relationships | 18.9                  | (6.8)                    | 12.1               | 18.9                  | (6.5)                    | 12.4               |
| Developed technology                   | 1.5                   | (1.3)                    | 0.2                | 1.5                   | (1.0)                    | 0.5                |
| Other                                  | 0.5                   | (0.2)                    | 0.3                | 0.5                   | (0.2)                    | 0.3                |
|  | \$ 44.9               | \$ (13.6)                | \$ 31.3            | \$ 44.9               | \$ (12.8)                | \$ 32.1            |

**Impairment of Long-Lived Assets**

Long-lived assets include property, equipment, capitalized curriculum and software developed or obtained for internal use. In accordance with ASC 360, the Company reviews its recorded long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between fair value and the carrying value of the asset. There was no such impairment charge for the three months ended September 30, 2013 and 2012.

**Fair Value Measurements**

ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

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

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

by observable market data.

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

The carrying values reflected in the accompanying condensed consolidated balance sheets for cash and cash equivalents, receivables, inventory and short and long term debt approximate their fair values.

The redeemable noncontrolling interest is a result of the Company's joint venture with Middlebury College to form Middlebury Interactive Languages (MIL). Under the agreement, Middlebury College has an irrevocable election to sell all (but not less than all) of its membership interest to the Company (put right). The fair value of the redeemable noncontrolling interest reflects management's best estimate of the redemption value of the put right.

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The following table summarizes certain fair value information at September 30, 2013 and June 30, 2013 for assets and liabilities measured at fair value on a recurring basis:

| Description  | Fair Value | Fair Value Measurements Using:  |  |  |
|--|------------|---|--|--|
|  |            | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Input<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (In thousands)   |            |   |  |  |
| Redeemable Noncontrolling Interest in Middlebury Joint Venture | \$ 15,200  | \$  | \$   | \$ 15,200  |
| Total  | \$ 15,200  | \$  | \$   | \$ 15,200  |

The fair value of the redeemable noncontrolling interest in Middlebury Joint Venture was measured in accordance with ASC 480, *Distinguishing Liabilities from Equity*, and was based upon a valuation from a third-party valuation firm as of June 30, 2013. As of September 30, 2013, the Company performed an internal analysis and determined there was no underlying change in the estimated fair market value. This analysis incorporated a number of assumptions and estimates including the financial results of the joint venture to date.

**Net Income Per Common Share**

The Company calculates net income per share in accordance with ASC 260, *Earnings Per Share*. Under ASC 260, basic net income 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 earnings per share (EPS) reflect the potential dilution that could occur assuming conversion or exercise of all dilutive unexercised stock options. The dilutive effect of stock options and restricted stock awards was determined using the treasury stock method. Under the treasury stock method, the proceeds received from the exercise of stock options and restricted stock awards, the amount of compensation cost for future service not yet recognized by the Company and the amount of tax benefits that would be recorded in additional paid-in capital when the stock options become deductible for income tax purposes are all assumed to be used to repurchase shares of the Company's common stock. Stock options and restricted stock awards are not included in the computation of diluted earnings per share when they are antidilutive. Common stock outstanding reflected in the Company's consolidated balance sheets include restricted stock awards outstanding. Securities that may participate in undistributed earnings with common stock are considered participating securities. The Series A Special stock was considered participating until all shares were converted into common stock on September 3, 2013. Participating securities are included in the computation of both basic and diluted EPS (as a reduction of the numerator) using the two-class method. Under the two-class method, all undistributed earnings in a period are allocated to common stock and participating securities to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. EPS is presented using the two-class method in the period ended September 30, 2012 only, since the Series A Special stock was outstanding.

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

|  | <b>Three Months Ended September 30,</b>                |             |
|--|--|-------------|
|  | <b>2013</b>  | <b>2012</b> |
|  | <b>(In thousands except shares and per share data)</b> |             |
| <b>Basic and dilutive earnings (loss) per share computation:</b> |  |             |
| Net income (loss) K12  | \$ (5,040)   | \$ 4,357    |
| Amount allocated to participating Series A stockholders          |  | (309)       |
| Income (loss) available to common stockholders basic and diluted | \$ (5,040)   | \$ 4,048    |
| Weighted average common shares basic and diluted                 | 37,868,928   | 36,029,252  |
| Basic and diluted net income (loss) per share                    | \$ (0.13)  | \$ 0.11     |

The basic and diluted weighted average common shares were the same for the three months ended September 30, 2013, as the inclusion of dilutive securities and Series A special stock prior to the conversion date would have been anti-dilutive. At September 30, 2013, we had 41,143,988 shares issued and outstanding, which included the 2,750,000 common shares associated with the Series A special stock conversion.

The basic and diluted weighted average common shares were the same for the three months ended September 30, 2012, as dilutive securities were out of the money based on a lower average stock price during the period.

**Recent Accounting Pronouncements**

Accounting Standards Updates issued but not yet effective are not expected to have a material effect on the Company's future financial statements.

**4. Income Taxes**

The benefit (expense) for income taxes is based on income (loss) reported in the condensed consolidated financial statements. A deferred income tax asset or liability is determined by applying currently enacted tax laws and rates to the expected reversal of the cumulative temporary differences between the carrying value of assets and liabilities for financial statement and income tax purposes. Deferred income tax expense or benefit is measured by the change in the deferred income tax asset or liability during the period. For the three months ended September 30, 2013 and 2012, the Company's effective income tax rate was a 40.4% benefit and 46.1% expense, respectively. The effective income tax rate differs from the statutory federal income tax rate primarily due to the effects of foreign operations, state income taxes, and other nondeductible costs.

**5. Long-term Obligations**



*Capital Leases*

The Company incurs capital lease obligations for student computers under a lease line of credit with PNC Equipment Finance, LLC with annual lease availability limits. The current annual availability of \$35 million expires in June 2014. As of September 30, 2013 and June 30, 2013, the aggregate outstanding balance under the lease line of credit, including balances from prior years, was \$40.6 million and \$35.5 million, respectively, with lease interest rates ranging from 2.56% to 3.15%. Individual leases under the lease line of credit include 36-month payment terms with a \$1 purchase option at the end of each lease term. The interest rates on the new borrowings are based upon an initial rate of 2.40% modified by changes in the three year interest rate swaps rate as published in the Federal Reserve Statistical Release H.15, Selected Interest Rates, between May 29, 2013 and the Lease Commencement Date (as defined in the lease line of credit). The Company has pledged the assets financed to secure the outstanding leases. The lease line of credit is subject to cross default compliance provisions in the Company's line of credit agreement. The net carrying value of leased student computers as of September 30, 2013 and June 30, 2013 was \$36.4 million and \$31.2 million, respectively.

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The following is a summary as of September 30, 2013 of the present value of the net minimum payments due on outstanding capital leases under the Company's commitments:

| September 30,   | Capital<br>Leases<br>(\$ in thousands) |
|---|--|
| 2014  | \$ 22,519                              |
| 2015  | 14,121                                 |
| 2016  | 5,276                                  |
| Thereafter  |  |
| Total minimum payments  | 41,916                                 |
| Less amount representing interest (imputed weighted average capital lease interest rate of 2.83%) | (1,271)                                |
| Net minimum payments  | 40,645                                 |
| Less current portion  | (21,664)                               |
| Present value of minimum payments, less current portion   | \$ 18,981                              |

**Note Payable**

The Company purchased computer software licenses and maintenance services through an unsecured note payable arrangement with a vendor at 3.4% interest rate and a payment term of three years. There are no covenants associated with this note payable arrangement. The balance of the note payable at September 30, 2013 and June 30, 2013 was zero and \$0.4 million, respectively.

**6. Line of Credit**

The Company has a \$35.0 million unsecured line of credit that expires December 31, 2013 with PNC Bank, N.A. ( PNC ), for general corporate operating purposes, (the Credit Agreement ). The Credit Agreement provides the ability, if required, to fund operations until cash is received from the schools. In December 2012, the Credit Agreement was amended to release liens that had previously secured the facility. Interest is charged, at our option, either at: (i) the higher of (a) the rate of interest announced by PNC from time to time as its prime rate, (b) the federal funds open rate plus 0.5% and (c) the Daily London Interbank Offered Rate ( LIBOR ) plus 1.0%; or (ii) the applicable LIBOR divided by a number equal to 1.00, minus the maximum aggregate reserve requirement which is imposed on member banks of the Federal Reserve System against Eurocurrency liabilities plus 1.75%. The Credit Agreement includes a \$5.0 million letter of credit facility, under which \$0.3 million was outstanding as of September 30, 2013. Issuance of letters of credit reduces the availability of permitted borrowings under the Credit Agreement.

The Credit Agreement contains a number of financial and other covenants that, among other things, restrict the Company's and its subsidiaries' abilities to incur additional indebtedness, grant liens or other security interests, make certain investments, become liable for contingent liabilities, make specified restricted payments, including dividends, dispose of assets or stock, including the stock of its subsidiaries, or make capital expenditures above specified limits and engage in other matters customarily restricted in senior credit facilities. The Company must not exceed a maximum debt leverage ratio or fall below a minimum fixed charge coverage ratio. These covenants are subject to certain qualifications and

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exceptions. As of September 30, 2013 and June 30, 2013, the Company was in compliance with these covenants and there were no borrowings outstanding on the line of credit during the periods ended September 30, 2013 and June 30, 2013. The Company may extend its existing agreement or enter into a different line of credit arrangement before the December 31, 2013 expiration date, although there can be no assurance that it will be able to do so on reasonable terms, if at all.

Table of Contents**7. Equity Transactions***Stock Options*

Stock option activity during the three months ended September 30, 2013 was as follows:

|   | Shares    | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|-----------|---------------------------------|---|---------------------------|
| Outstanding, June 30, 2013                      | 2,893,188 | \$ 20.17                        | 4.98  | \$ 50,038                 |
| Granted   | 142,220   | 33.43                           |   |                           |
| Exercised                                       | (380,644) | 18.67                           |   |                           |
| Forfeited or canceled                           | (4,901)   | 22.18                           |   |                           |
| Outstanding, September 30, 2013                 | 2,649,863 | \$ 21.09                        | 5.12  | \$ 49,766                 |
| Stock options exercisable at September 30, 2013 | 1,584,186 | \$ 19.05                        | 3.18  | \$ 17,137                 |

The aggregate intrinsic value of options exercised during the three months ended September 30, 2013 was \$5.3 million. The weighted-average grant date fair value of options granted during the three months ended September 30, 2013 was \$15.26.

As of September 30, 2013, there was \$10.4 million of total unrecognized compensation expense related to unvested stock options granted. The cost is expected to be recognized over a weighted average period of 2.6 years. During the three months ended September 30, 2013 and 2012, the Company recognized \$1.1 million of stock-based compensation expense related to stock options.

*Restricted Stock Awards*

Restricted stock award activity during the three months ended September 30, 2013 was as follows:

|                            | Shares    | Weighted-Average Fair Value |
|----------------------------|-----------|-----------------------------|
| Outstanding, June 30, 2013 | 928,137   | \$ 22.97                    |
| Granted                    | 624,723   | 32.64                       |
| Vested                     | (124,273) | 24.26                       |

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|                                 |           |          |
|---------------------------------|-----------|----------|
| Forfeited or canceled           | (5,790)   | 27.78    |
| Outstanding, September 30, 2013 | 1,422,797 | \$ 27.25 |

As of September 30, 2013, there was \$29.4 million of total unrecognized compensation expense related to unvested restricted stock awards granted. The cost is expected to be recognized over a weighted average period of 2.6 years. The total fair value of shares vested during the three months ended September 30, 2013 was \$3.0 million. During the three months ended September 30, 2013 and 2012, the Company recognized \$2.6 million and \$1.8 million, respectively, of stock-based compensation expense related to restricted stock awards.

**8. Related Party Transactions**

For the periods ended September 30, 2013 and 2012, the Company purchased services and assets in the amount of \$0.03 million and \$0.1 million, respectively, from Knowledge Universe Technologies ( KUT ) pursuant to a Transition Services Agreement related to the Company's acquisition of KCDL, as well as other administrative services. KUT is an affiliate of Learning Group, LLC, which was a related party until September 4, 2013.

During the three months ended September 30, 2013, in accordance with the original terms of the joint venture agreement, the Company loaned \$1.0 million to its 60% owned joint venture, MIL. At September 30, 2013 and June 30, 2013, the loan totaled \$4.0 million and \$3.0 million, respectively, and was repayable under terms and conditions specified in the loan agreement. The loan balance and related interest are eliminated since MIL is consolidated in the Company's financial statements; however, repayment of the loan is dependent on the continued liquidity of MIL.

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**9. Commitments and Contingencies**

***Litigation***

In the ordinary conduct of business, the Company is subject to lawsuits, arbitrations and administrative proceedings from time to time. The Company expenses legal costs as incurred.

***IpLearn***

On October 26, 2011, IpLearn, LLC ( IpLearn ) filed a complaint for patent infringement against the Company in the United States District Court for the District of Delaware, *IpLearn, LLC v. K12 Inc.*, Case No. 1:11-1026-LPS, which it subsequently amended on November 18, 2011. IpLearn is a privately-held technology development and licensing company for web and computer-based learning technologies. In its complaint, IpLearn alleges that the Company has infringed three of its patents for various computer-aided learning methods and systems and it is primarily seeking an injunction enjoining K12 from any continued infringement as well as an award of unspecified monetary damages. On July 2, 2012, the court granted the Company's motion to dismiss IpLearn's allegations of indirect patent infringement and allowed IpLearn's allegations of direct patent infringement to proceed. On January 15, 2013, the court approved a stay of IpLearn's claims alleging infringement of one of the three patents in the case involving technology licensed to K12 by a third party. The discovery process is currently in progress and the claims construction hearings were held on September 30, 2013. At September 30, 2013 and June 30, 2013, the Company had not recorded a liability as a loss was neither probable nor estimable.

***Staal Derivative Action***

On November 5, 2013, the United States District Court for the District of Delaware granted its final approval of the settlement terms and dismissed with prejudice a stockholder derivative action pending against the Company, *Jared Staal v. Andrew H. Tisch, et. al.*, Case No. I:12-cv-00365-SLR. The settlement primarily involved the adoption of enhanced corporate governance safeguards, including a formal legal compliance and ethics program. No comments or objections to the preliminary settlement were submitted to the Court by the deadline. Fees and expenses to be paid to plaintiff's counsel under the terms of the settlement were determined by the Court, awarded as part of the final settlement and covered by insurance.

**10. Investments**

***Investment in Web International Education Group, Ltd.***

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In January 2011, the Company invested \$10.0 million to obtain a 20% minority interest in Web International Group, Ltd. ( Web ), a provider of English language learning centers in cities throughout China. From January 2011 through May 2013, the Company recorded its investment in Web as an available for sale debt security because of the ability to put the investment to other Web shareholders in return for the original \$10.0 million investment plus interest. The Company's option to purchase no less than 51% of Web expired on March 31, 2013 and on May 6, 2013, the Company exercised its right to put its investment back to Web for return of its original \$10 million investment plus interest of 8%, which Web is contractually required to pay by May 6, 2014. The Company reclassified this \$10.0 million investment plus accrued interest of \$2.2 million to a receivable, which is included in other current assets. During the three months ended September 30, 2013 and 2012, the Company recorded interest income of \$0.2 million and zero, respectively, associated with Web.

Table of Contents***Investment in School Mortgage***

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

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

**11. Supplemental Disclosure of Cash Flow Information**

|   | 2013 | Three Months Ended<br>September 30,<br>(In thousands) | 2012      |
|---|------|---|-----------|
| Cash paid for interest                                    | \$   | 272   | \$ 243    |
| Cash paid for taxes, net of refunds                       | \$   | 2,747   | \$ 189    |
| Supplemental disclosure of non-cash investing activities: |      |   |           |
| Business Combinations:                                    |      |   |           |
| Property and equipment                                    | \$   |   | \$ (139)  |
| Goodwill  | \$   |   | \$ (191)  |
| Supplemental disclosure of non-cash financing activities: |      |   |           |
| New capital lease obligations                             | \$   | 10,699  | \$ 14,304 |

**12. Subsequent Event**

On November 4, 2013, the Board of Directors authorized the repurchase of up to \$75 million of the Company's outstanding common stock over a two year period.

Any purchases under this buyback would be dependent upon business and market conditions and other factors. The stock purchases may be made from time to time and may be made through a variety of methods including open market purchases and in accordance with the SEC's Rule 10b5-1.





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**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, 2013, which we refer to as our Annual Report. We undertake no obligation to publicly update or revise any forward-looking statements, including any changes that might result from any facts, events or circumstances after the date hereof that may bear upon forward-looking statements. Furthermore, we cannot guarantee future results, events, levels of activity, performance or achievements.

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

- *Executive Summary* a general description of our business and key highlights of the three months ended September 30, 2013.
- *Critical Accounting Policies and Estimates* a discussion of critical accounting policies requiring critical judgments and estimates.
- *Results of Operations* an analysis of our results of operations in our condensed consolidated financial statements.
- *Liquidity and Capital Resources* an analysis of cash flows, sources and uses of cash, commitments and contingencies, seasonality in the results of our operations and quantitative and qualitative disclosures about market risk.

**Executive Summary**

We are a technology based education company. We offer proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. Our mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio economic background. Since our

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inception, we have invested to develop and, to a lesser extent, acquire curriculum and online learning platforms that promote mastery of core concepts and skills for students of all abilities. K12 provides a continuum of technology based educational products and solutions to districts, public schools, private schools, public charter schools and families as we strive to transform the educational experience into one that delivers individualized education on a highly scalable basis.

Virtual and blended public schools generally under turn-key management contracts (Managed Public Schools) accounted for approximately 86% of our revenue in the three months ended September 30, 2013. We currently manage public schools in 33 states and the District of Columbia.

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We serve an increasing number of schools and school districts enabling them to offer our course catalog to students either full-time or on an individual course basis. We have a growing sales team to focus on this sector and have increased the size and expertise of our sales team, added a reseller network and expanded our course portfolio. The services we provide to these schools and school districts are designed to assist them in launching their own online learning programs which vary according to the needs of the individual school and school district and may include teacher training programs, administrator support and our PEAK12 management system. With our services, schools and districts can offer programs that allow students to participate full-time, as their primary school, or part-time, supplementing their education with core courses, electives, credit recovery options, remediation and supplemental content options. We continued to provide these services to school districts or individual schools in all 50 states and the District of Columbia.

We operate three online private schools where parents can enroll students on a tuition basis for a full-time online education or individual courses to supplement their children's traditional instruction. These include our 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, The Keystone School, a private school that offers online and correspondence courses, and the George Washington University Online High School, a program that offers college preparatory curriculum and is designed for high school students who are seeking a challenging academic experience. In addition, we own and operate the International School of Berne, or IS Berne, a traditional private school located in Berne, Switzerland and a recognized IB school serving students in grades Pre-K through 12.

For the three months ended September 30, 2013, we increased revenues to \$228.4 million from \$221.1 million in the same period in the prior year, a growth rate of 3.3%. Over the same period, we had an operating loss of \$8.5 million versus operating income of \$8.7 million in the prior year period, and a net loss to common stockholders of \$5.0 million, as compared to net income to common stockholders in the prior year period of \$4.4 million. The operating loss was impacted by timing of revenue and seasonality of selling, general and administrative costs, which include enrollment center and promotional expenses, while the net loss to common stockholders was due primarily to the net operating loss, offset by an income tax benefit.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires us to make estimates and assumptions about future events that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our consolidated financial statements. Critical accounting policies are disclosed in our Annual Report. There have been no significant updates to our critical accounting policies disclosed in our Annual Report.

**Results of Operations**

As described in the Annual Report, we have three lines of business: Managed Public Schools (turn-key management services provided to public schools), Institutional Sales (educational products and services provided to school districts, public schools and other educational institutions that we do not manage), and International and Private Pay Schools (private schools for which we charge student tuition and makes direct consumer sales).

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### **Managed Public Schools**

- Full-time virtual public schools
- Blended schools
- Flex schools
- Passport schools
- Discovery schools
- Other blended schools

### **Institutional Sales**

- K12 curriculum
- Aventa curriculum
- A+ curriculum
- Middlebury joint venture
- Pre-kindergarten
- Post-secondary

### **International and Private Pay Schools**

- Managed private schools
- The Keystone School
- George Washington University Online High School
- K12 International Academy
- International School of Berne
- Independent course sales (Consumer)

Table of Contents**Enrollment Data**

The following table sets forth average enrollment data for students in Managed Public Schools and total enrollment data for students in the International and Private Pay Schools for the periods indicated. These figures exclude enrollments from classroom pilot programs and consumer programs.

|  | Three Months Ended September 30, |         | Growth |             |
|--|----------------------------------|---------|--------|-------------|
|  | 2013                             | 2012    | Change | 2013 / 2012 |
|  |                                  |         |        | Change %    |
| <b>Managed Public Schools</b>                |                                  |         |        |             |
| Average Student Enrollments *                | 128,550                          | 121,665 | 6,885  | 5.7%        |
| <b>International and Private Pay Schools</b> |                                  |         |        |             |
| Total Student Enrollments                    | 13,284                           | 12,996  | 288    | 2.2%        |
| Total Semester Course Enrollments            | 37,627                           | 36,032  | 1,595  | 4.4%        |

\* The Managed Public Schools average enrollments include enrollments for which we receive no public funding. Average student enrollments are equal to the official count date number, which is the first Wednesday of October in a year.

**Revenue by Business Lines**

Revenue is captured by business line based on the underlying customer contractual agreements. Periodically, a customer may change business line classification. For example, a district who purchases courses (Institutional Business customer) may decide to implement a full-time virtual or blended school program (Managed Public School customer). Changes in business line classification occur at the time the contractual agreement is modified. The following represents our revenue for our three lines of business for the three months ended September 30, 2013 and 2012.

|  | Three Months Ended |            |    | Change      |        |
|--|--------------------|------------|----|-------------|--------|
|  | September 30,      |            |    | 2013 / 2012 |        |
| (\$ in thousands)                            | 2013               | 2012       |    | \$          | %      |
| <b>Managed Public Schools</b>                | \$ 196,944         | \$ 187,761 | \$ | 9,183       | 4.9%   |
| <b>Institutional Sales</b>                   | 19,709             | 21,972     |    | (2,263)     | (10.3) |
| <b>International and Private Pay Schools</b> | 11,713             | 11,363     |    | 350         | 3.1    |
| <b>Total</b>                                 | \$ 228,366         | \$ 221,096 | \$ | 7,270       | 3.3%   |

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

|   | Three Months ended September 30, |                   |            |        |
|---|----------------------------------|-------------------|------------|--------|
|   | 2013                             | (\$ in thousands) |            | 2012   |
| <b>Revenues</b>   | \$ 228,366                       | 100.0%            | \$ 221,096 | 100.0% |
| <b>Cost and expenses</b>  |                                  |                   |            |        |
| Instructional costs and services  | 132,902                          | 58.2              | 118,648    | 53.7   |
| Selling, administrative, and other operating expenses   | 98,244                           | 43.0              | 89,619     | 40.5   |
| Product development expenses  | 5,684                            | 2.5               | 4,168      | 1.9    |
| <b>Total costs and expenses</b>   | 236,830                          | 103.7             | 212,435    | 96.1   |
| <b>Income (loss) from operations</b>  | (8,464)                          | (3.7)             | 8,661      | 3.9    |
| <b>Interest expense, net</b>  | (84)                             |                   | (228)      | (0.1)  |
| <b>Income (loss) before income taxes and noncontrolling interest</b>                          | (8,548)                          | (3.7)             | 8,433      | 3.8    |
| <b>Income tax (expense) benefit</b>   | 3,450                            | 1.5               | (3,889)    | (1.7)  |
| <b>Net income (loss)</b>  | (5,098)                          | (2.2)             | 4,544      | 2.1    |
| <b>Adjust net (income) loss attributable to noncontrolling interest</b>                       | 58                               |                   | (187)      | (0.1)  |
| <b>Net income (loss) attributable to common stockholders, including Series A stockholders</b> | \$ (5,040)                       | (2.2)%            | \$ 4,357   | 2.0%   |

**Comparison of the Three Months Ended September 30, 2013 and September 30, 2012**

*Revenues.* Our revenues for the three months ended September 30, 2013 were \$228.4 million, representing an increase of \$7.3 million, or 3.3%, as compared to revenues of \$221.1 million for the same period in the prior year. Managed Public Schools revenue increased 4.9% year over year, as a result of organic growth in existing states. The growth in Managed Public Schools revenue was driven by a 5.7% increase in average student enrollments. Revenue growth was slower than enrollment growth primarily due to timing of revenue recognition in accordance with amended contractual terms; however, overall state funding rates have remained consistent with the prior year. The enrollment growth rate was less than expected due to operational issues in our enrollment center. International and Private Pay Schools revenue increased \$0.4 million, or 3.1%, from the prior year consistent with our 2.2% increase in total student enrollments in these schools. Institutional Sales revenue decreased \$2.3 million, or 10.3%, from the prior year. The lower revenue was primarily attributable to contracts shifting from up front revenue recognition to recognizing the revenue over the course of the year. In addition rates for certain of our products were lower than the prior period.

*Instructional costs and services expenses.* Instructional costs and services expenses for the three months ended September 30, 2013 were \$132.9 million, representing an increase of \$14.3 million, or 12.1%, from \$118.6 million for the three months ended September 30, 2012. Instructional costs and services expenses were 58.2% of revenue during the three months ended September 30, 2013, an increase from 53.7% for the three months ended September 30, 2012. The increase in expense was primarily associated with the deferral of revenue from the first quarter to later in the year along with the timing of costs ramping up faster given slower than anticipated enrollment growth.

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*Selling, administrative, and other operating expenses.* Selling, administrative, and other operating expenses for the three months ended September 30, 2013 were \$98.2 million, representing an increase of \$8.6 million, or 9.6%, as compared to \$89.6 million for the three months ended September 30, 2012. This increase was primarily attributable to increases in headcount, related benefits and stock compensation costs and an increase in marketing and advertising expenses. As a percentage of revenues, selling, administrative, and other operating expenses increased to 43.0% from 40.5% for the three months ended September 30, 2013. The increase in selling, administrative and other operating expenses as a percentage of revenue is primarily attributable to increased headcount and marketing costs as well as the deferral of revenue from the first quarter to later in the year as described above. We are evaluating cost savings initiatives to align our costs to actual enrollments and full year anticipated revenue.



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*Product development expenses.* Product development expenses for the three months ended September 30, 2013 were \$5.7 million, representing an increase of \$1.5 million, or 35.7%, as compared to \$4.2 million for the three months ended September 30, 2012. As a percentage of revenues, product development expenses increased to 2.5% for the three months ended September 30, 2013, as compared to 1.9% for the same period in the prior year period. The increase was primarily a result of fewer capitalized costs due to the stage and timing of development projects, offset in part by a decrease in third-party professional fees supporting product development activities.

*Interest expense, net.* Net interest expense for the three months ended September 30, 2013 was \$0.1 million, as compared to \$0.2 million in the same period in the prior year. Net interest expense is primarily associated with interest on our student computer capital leases, offset by approximately \$0.2 million in interest income during the period ended September 30, 2013 associated with the exercise of our put option for our investment in Web International Education Group, Ltd.

*Income tax (expense) benefit.* We had an income tax benefit of \$3.5 million for the three months ended September 30, 2013, or 40.4% of income (loss) before taxes, as compared to income tax expense of (\$3.9) million, or 46.1% of income our income (loss) before taxes for the three months ended September 30, 2012. Our effective tax rate decreased between periods primarily related to the effects of foreign operations, state taxes and other nondeductible costs.

*Net income (loss).* Net loss was \$5.1 million for the three months ended September 30, 2013, compared to net income of \$4.5 million for the three months ended September 30, 2012, a decrease of \$9.6 million. The change in net income (loss) is a result of the factors discussed above.

*Noncontrolling interest.* Net loss attributable to noncontrolling interest for the three months ended September 30, 2013 was \$0.1 million as compared to net income attributable to noncontrolling interest of \$(0.2) million for the same period in the prior year. Noncontrolling interest reflects the after-tax income (losses) attributable to minority interest owners in our two joint venture investments.

**Liquidity and Capital Resources**

As of September 30, 2013, we had net working capital, or current assets minus current liabilities, of \$353.8 million. Our working capital includes cash and cash equivalents of \$163.5 million, including \$8.0 million associated with our two joint ventures, and accounts receivable of \$271.8 million. Our working capital provides a significant source of liquidity for our normal operating needs. Our accounts receivable balance fluctuates throughout the fiscal year based on the timing of customer billings and collections and tends to be highest in our first fiscal quarter as we begin billing for students. In addition, our cash and accounts receivable were significantly in excess of our accounts payable and short-term accrued liabilities at September 30, 2013.

We have a \$35.0 million unsecured line of credit that expires December 31, 2013 with PNC Bank, N.A., or PNC, for general corporate operating purposes, which we refer to as the Credit Agreement. The Credit Agreement provides the ability, if required, to fund operations until cash is received from the schools. In December 2012, the Credit Agreement was amended to release liens that had previously secured the facility. Interest is charged, at our option, either at: (i) the higher of (a) the rate of interest announced by PNC from time to time as its prime rate, (b) the federal funds open rate plus 0.5% and (c) the Daily London Interbank Offered Rate or LIBOR, plus 1.0%; or (ii) the applicable LIBOR divided by a number equal to 1.00, minus the maximum aggregate reserve requirement which is imposed on member banks of the Federal Reserve System against Eurocurrency liabilities, plus 1.75%. The Credit Agreement includes a \$5.0 million letter of credit facility, under which

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\$0.3 million was used as of September 30, 2013. Issuance of letters of credit reduces the availability of permitted borrowings under the Credit Agreement.

The Credit Agreement contains a number of financial and other covenants that, among other things, restrict our and our subsidiaries' abilities to incur additional indebtedness, grant liens or other security interests, make certain investments, become liable for contingent liabilities, make specified restricted payments, including dividends, dispose of assets or stock, including the stock of our subsidiaries, or make capital expenditures above specified limits and engage in other matters customarily restricted in senior credit facilities. We must not exceed a maximum debt leverage ratio or fall below a minimum fixed charge coverage ratio. These covenants are subject to certain qualifications and exceptions. As of September 30, 2013, we were in compliance with these covenants and we had no borrowings outstanding on the line of

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credit. We are currently evaluating our line of credit requirements and we may extend our existing agreement or enter into a different line of credit arrangement before the December 31, 2013 expiration date, although there can be no assurance that we will be able to do so on reasonable terms, if at all.

We incur capital lease obligations for student computers under a lease line of credit with PNC Equipment Finance, LLC with annual lease availability limits. We have \$35.0 million of availability for new leasing during fiscal year 2014. This availability expires in June 2014 and interest rates on the new borrowings are based upon an initial rate of 2.40% modified by changes in the three year interest rate swaps rate as published in the Federal Reserve Statistical Release H.15, Selected Interest Rates, between May 29, 2013 and the Lease Commencement Date, as defined in the lease line of credit.

As of September 30, 2013, the aggregate outstanding balance under the lease lines of credit was \$40.6 million. Borrowings bore interest at rates ranging from 2.56% to 3.15% and included a 36-month payment term with a \$1 purchase option at the end of the term. We have pledged the assets financed to secure the outstanding leases. Our lease line of credit is subject to cross default compliance provisions in our line of credit agreement. We may extend our lease line of credit for additional periods, or consider alternative arrangements for financing student computers.

On November 4, 2013, the Board of Directors authorized the repurchase of up to \$75 million of our outstanding common stock over a two year period. Any purchases under this buyback would be dependent upon business and market conditions and other factors. The stock purchases may be made from time to time and may be made through a variety of methods including open market purchases and in accordance with the SEC's Rule 10b5-1.

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 used in operating activities for the three months ended September 30, 2013 was \$3.9 million compared to \$17.2 million for the three months ended September 30, 2012. The \$13.3 million change in cash used in operations between periods was primarily attributable to lower cash payments for accounts payable, higher cash collections in accounts receivable, offset in part by the net loss increase and the change in deferred taxes.

***Investing Activities***

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Net cash used in investing activities for the three months ended September 30, 2013 was \$14.7 million compared to \$15.2 million for the three months ended September 30, 2012, a decrease of \$0.5 million. This decrease was due primarily to a \$2.6 million decrease in capital expenditures for property and equipment, capitalized software and curriculum, offset in part by the investment in a mortgage note to a managed school partner for \$2.1 million.

### *Financing Activities*

Net cash provided by financing activities for the three months ended September 30, 2013 was \$0.04 million compared to net cash used in financing activities of \$4.5 million during the three months ended September 30, 2012. Our primary use of cash in financing activities was for the payment of capital lease obligations incurred for the acquisition of student computers. Our cash payments for capital leases increased approximately \$1.0 million between periods resulting from increased purchases of student computers financed under capital leases. The three months ended September 30, 2013 included approximately \$7.0 million more in proceeds from the exercise of stock options than in the prior year period. The timing of cash from the exercise of options impacts our net cash provided by financing activities.

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**Off Balance Sheet Arrangements, Contractual Obligations and Commitments**

We have provided guarantees of approximately \$10.1 million related to long-term lease commitments on the buildings for certain of our flex schools. We contractually guarantee that certain schools under our management will not have cumulative operating losses over the contract period and our management fees from these schools may be reduced accordingly. Other than these lease and operating deficit guarantees, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

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

*Interest Rate Risk*

At September 30, 2013 and June 30, 2013, we had cash and cash equivalents totaling \$163.5 million and \$181.5 million, respectively. Our excess cash has been invested primarily in U.S. Treasury money market funds although we may also invest in money market accounts, government securities, corporate debt securities and similar investments. Future interest and investment income is subject to the impact of interest rate changes and we may be subject to changes in the fair value of our investment portfolio as a result of changes in interest rates. At September 30, 2013, a 1% gross increase in interest rates earned on cash would result in a \$1.6 million annualized increase in interest income.

Our short-term debt obligations under our revolving credit facility are subject to interest rate exposure; however, as we had no outstanding balance on this facility during the three months ended September 30, 2013, 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 and therefore fluctuations in exchange rates will not have a material impact on our financial statements. If we enter into any material transactions in a foreign currency or establish or acquire any subsidiaries that measure and record their financial condition and results of operation in a foreign currency, we will be exposed to currency transaction risk and/or currency translation risk. Exchange rates between U.S. dollars and many foreign currencies have fluctuated significantly over the last few years and may continue to do so in the future. Accordingly, we may decide in the future to undertake hedging strategies to minimize the effect of currency fluctuations on our financial condition and results of operations.

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

*Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures (as defined in Rule 13a-15(f) of the Exchange Act) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Executive Chairman, 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 Executive Chairman, 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 Executive Chairman, Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2013.

*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.

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**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.

***IpLearn***

On October 26, 2011, IpLearn, LLC ( IpLearn ) filed a complaint for patent infringement against K12 Inc. in the United States District Court for the District of Delaware, *IpLearn, LLC v. K12 Inc.*, Case No. 1:11-1026-LPS, which it subsequently amended on November 18, 2011. IpLearn is a privately-held technology development and licensing company for web and computer-based learning technologies. In its complaint, IpLearn alleges that we have infringed three of its patents for various computer-aided learning methods and systems and it is primarily seeking an injunction enjoining K12 from any continued infringement as well as an award of unspecified monetary damages. On July 2, 2012, the court granted our motion to dismiss IpLearn's allegations of indirect patent infringement and allowed IpLearn's allegations of direct patent infringement to proceed. On January 15, 2013, the court approved a stay of IpLearn's claims alleging infringement of one of the three patents in the case involving technology licensed to K12 by a third party. The discovery process is currently in progress and claims construction hearings were held on September 30, 2013.

***Staal Derivative Action***

On November 5, 2013, the United States District Court for the District of Delaware granted its final approval of the settlement terms and dismissed with prejudice a stockholder derivative action pending against the Company, *Jared Staal v. Andrew H. Tisch, et. al.*, Case No. I:12-cv-00365-SLR. The settlement primarily involved the adoption of enhanced corporate governance safeguards, including a formal legal compliance and ethics program. No comments or objections to the preliminary settlement were submitted to the Court by the deadline. Fees and expenses to be paid to plaintiff's counsel under the terms of the settlement were determined by the Court, awarded as part of the final settlement and covered by insurance.

**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, 2013 as filed with the SEC on August 29, 2013.

**Item 2.           *Unregistered Sales of Equity Securities and Use of Proceeds.***

None.

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

None.

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

None.

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

None.



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**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 Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.   |
| 31.3   | 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 Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.   |
| 32.3   | Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.   |
| 101    | The following financial statements and footnotes from the K12 Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Operations (unaudited), (iii) Condensed Consolidated Statement of Equity (Deficit) (unaudited), (iv) Condensed Consolidated Statement of Comprehensive Income (Loss), (v) Condensed Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Condensed Consolidated Financial Statements (unaudited). |

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**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

Date: November 7, 2013