PROPOSAL OVERVIEW AND ENROLLMENT PROJECTIONS

Please provide information for the applicant group's **designated representative**. This individual will serve as the contact for all communications, interviews, and notices from the ICSB regarding the submitted application.

IMPORTANT NOTE: The full application, including this form, will be posted on the ICSB website. Applicants are advised that local community members, including members of the media, may contact the designated representative for questions about the proposed school(s).

Legal name of group applying for charter(s):	INDIANA URBAN EDUCATION SOLUTIONS, INC.
Names, roles, and current employment for all persons on applicant team:	Jerry Woodbridge, Ph.D., Board President Faculty, Indiana Wesleyan, Adult Teacher & Licensure Program
	Gary Sailes, Ph.D., Board Vice President Associate Professor, IU Bloomington Department of Kinesiology
	James Betley, Board Secretary and Treasurer Of Counsel, Tax, Ice Miller LLP
	Peter Stewart, Advisor K12 Senior Vice President, School Development
	Donna Dixon, Advisor K12 Senior Vice President, Blended Schools Operations
	Tamara Carpenter, Advisor K12 Vice President, School Development
	Darren Reed, Advisor K12 Vice President, Blended Schools
	Zach Wasilew, Advisor K12 Vice President, Blended Schools Operations and Planning
	Keith Stephenson, Advisor Regional Vice President, Blended Schools
	Leah Rodgers, Advisor K12 Senior Director Academics, Blended Schools
	Jenny Kendall, Advisor K12 Director, Special Programs
	Amy Biasbas, Advisor Manager, Regional Operations
Designated applicant representative:	Tamara Carpenter
Address:	2855 N. Franklin Road
	Indianapolis, IN 46219
Office and cell phone numbers:	317.903.2757

Email address: tcarpenter@k12.com

Provide the requested information for each school included in this proposal.

Proposed School Name	Opening Year	School Model (e.g., college prep, dropout recovery)	Geographic Community *	School District(s) in Proposed Location	Grade Levels at Full Enrollment
Indianapolis Passport Academy	2013	Dropout Recovery	Indianapolis	Indianapolis Public Schools	Gr. 9-12
Gary Passport Academy	2013	Dropout Recovery	Gary	Gary Community School Corporation	Gr. 9-12
Indianapolis Passport Academy II	2014	Dropout Recovery	Indianapolis	Indianapolis Public Schools	Gr. 9-12
Lake County Passport Academy (TBD)	2014	Dropout Recovery	Lake County--TBD	Lake County--TBD	Gr. 9-12

Proposed Grade Levels and Student Enrollment

Provide the following information for each charter school included in this proposal. Specify the planned year of opening for each, the grade levels served, and both the planned and maximum number of enrolled students by grade level for each year.

Proposed School Name:	Indianapolis Passport Academy	
Academic Year	Grade Levels	Student Enrollment (Planned/Maximum)
Year 1 (Fall 2013)	9-12	150/180
Year 2	9-12	200/240
Year 3	9-12	250/300
Year 4	9-12	250/300
Year 5	9-12	250/300
At Capacity	9-12	250/300

Proposed School Name:	Gary Passport Academy	
Academic Year	Grade Levels	Student Enrollment (Planned/Maximum)
Year 1 (Fall 2013)	9-12	150/180
Year 2	9-12	200/240
Year 3	9-12	250/300
Year 4	9-12	250/300
Year 5	9-12	250/300
At Capacity	9-12	250/300

Proposed School Name:	Indianapolis Passport Academy II	
Academic Year	Grade Levels	Student Enrollment (Planned/Maximum)
Year 1 (Fall 2014)	9-12	150/180
Year 2	9-12	200/240
Year 3	9-12	250/300
Year 4	9-12	250/300
Year 5	9-12	250/300
At Capacity	9-12	250/300

Proposed School Name:	Lake County Passport Academy	
Academic Year	Grade Levels	Student Enrollment (Planned/Maximum)
Year 1 (Fall 2014)	9-12	150/180
Year 2	9-12	200/240
Year 3	9-12	250/300
Year 4	9-12	250/300
Year 5	9-12	250/300
At Capacity	9-12	250/300

Do any of the proposed schools expect to contract or partner with an Education Service Provider (ESP) or other organization for school management/operation?* Yes ☒ No☐

If yes, identify the ESP or other partner organization: K12 Classroom LLC

Will an application for the same charter school(s) be submitted to another authorizer <u>in the near future</u>?

Yes☐ No ☒

If yes, identify the authorizer(s): NOT APPLICABLE

Planned submission date(s): NOT APPLICABLE

Please list the number of previous submissions for request to authorize this(ese) charter school(s) over the past five years, as required under IC § 20-24-3-4. NONE Include the following information:

Authorizer(s): NOT APPLICABLE

Submission date(s): NOT APPLICABLE

CHARTER SCHOOL APPLICATION

Presented by

Indiana Urban Education Solutions

Submitted to

Indiana Charter School Board
https://icsb-charter-app.myreviewroom.com

April 9, 2012

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PROPOSAL NARRATIVE

EXECUTIVE SUMMARY

Michael Williams is 20 years old. He's dressed sharply – dress pants, a shirt and a tie. He sits down for his interview. He talks about how he dropped out of school – not because he wasn't smart but because he did not fit into the rigid structure of the traditional public high school. He describes the rough time he had while he was not in school and unable to get a job. Then he shares how YCCS Virtual High School's Passport program changed his life.

When you walk into a classroom at YCCS Virtual High School you see students hard at work at computers stationed around the room. "Hard at work" meaning they are typing, reading, writing in notebooks at the side of their computers and working in small groups on projects. You see a teacher kneeling beside a student animatedly explaining a concept and then that student turning back toward his computer screen with renewed determination to complete the task at hand. What you don't see are students staring at the ceiling, looking out of the window, texting or idly chatting while a teacher stands at the front of the class lecturing. There is an energy a hum of exciting. You wouldn't suspect that these students were not considered the cream of the crop or top of the class. You wouldn't guess that all of them had dropped out of high school at some point – with three, two or even less than one semester left to go until they earned their high school diploma – but this exactly the student population that YCCS Virtual High School is committed to serving. The YCCS Virtual High School Passport program is an innovative educational model developed and operated by K^{12} and implemented in partnership with Youth Connection Charter School and the Chicago Public Schools District to address the "silent" epidemic of the nearly 15,000 students who drop out of Chicago public high schools each year. Launched in 2008, YCCS Virtual High School's Passport program is Chicago's first and only blended learning high school dropout recovery program. Students enrolled in the program have achieved astounding results. In its first year of operation, YCCS Virtual High School had a graduation rate of 92% and by its second year that number had climbed to 95%. This is a full-service model with robust school and community-based social service supports including academic counseling, mentoring, social service referrals, tutoring, guidance counseling, college counseling, and student activities.

Indiana is facing its own drop out crisis. According to the 2010 American Community Survey, 130,280 Hoosiers ages 18-24 lack a high school diploma.[1] Roughly 22,700 students in Indiana did not graduate from high school in 2011.[2] In 2011, Indiana had 12 schools that graduated less than 60% of its students and another 29 high schools that graduated only 60% to 70% of its senior class.

Indiana Urban Education Solutions, Inc. (formerly named "Indiana Passport Academies, Inc.") is proposing to bring this innovative and highly effective educational model to Indiana students and families to address the very real drop out crisis in our state. Over the next five years, Indiana Urban Education Solutions, Inc. ("IUES") will open four (4) Passport Academies (two in Marion County and two in Lake County) specifically targeting two Indiana school districts which data shows to have the most pervasive dropout challenges: Indianapolis Public Schools (IPS), and Gary Community School Corp (GCSC). This application requests approval from the Indiana Charter School Board for four separate charters to operate these Passport Academies. The four schools will be connected in a network: governed by one governing board and provided with education, technology and management services by the proposed Education Service Provider, K^{12} Classroom LLC.

Our Vision

Our vision is that Indiana Urban Education Solutions ("IUES") and its network of Passport Academies ("IUES Passport Academies") will be a network of nationally recognized, blended learning, charter high schools that build the academic and non-academic skills of youth and young adults who have dropped out of high school, reengaging them in the learning process, and empowering them to graduate from high school prepared to achieve success in the world of work, college and life. Our graduates will be College Ready and Career Ready.

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[1] FILES: 2010 American Community Survey [Indiana]/prepared by the U.S. Census Bureau, 2010

[2] Alliance for Excellent Education (Alliance), "The High Cost of High School Dropouts," 2011

Our Mission

The mission of IUES Passport Academies is to help Indiana residents who haven't been able to finish their high school education earn a high school diploma and achieve post high school success by providing a unique blended learning high school experience that combines flexible scheduling, online work, face-to-face instruction, career exploration and wrap-around services designed to adapt to our students' educational needs and life circumstances.

The Need

Life circumstances for Indiana residents without a high school diploma can be bleak. With the national spotlight now shining on the drop out epidemic, more studies have been done looking at the social and economic impact of failing to graduate from high school. According to the Alliance for Excellent Education, "on average, a high school graduate in Indiana earns **$8,055** more each year than a high school dropout does. [3] The lost lifetime earnings from the 22,700 drop outs highlighted above is close to **$2.9 billion**." [4] National Statistics paint an even more concerning picture:

- Recent dropouts will earn $200,000 less than high school graduates, and over $800,000 less than college graduates, in their lives.
- Dropouts make up nearly half the heads of households on welfare.
- Dropouts make up nearly half the prison population[5]

Unfortunately, 5 out of every 10 students attending either Indianapolis Public Schools or Gary Community School Corporation do not graduate or do not actually meet state standards to graduate from high school. IPS and GCSC currently have the lowest graduation rates in the state of Indiana, 47.3% and 51% respectively. [6] These school corporations are, by definition, dropout factories – "chronically underperforming high schools that are poorly serving some or all of their students… where the typical freshman class shrinks by 40 percent or more by the time the students reach their senior year… and have fewer resources and less-qualified teachers than schools in more affluent neighborhoods with larger numbers of white students.[7]

Gary is a city on the verge of either revitalization or desertion. The 2010 Census showed that the city has lost 22% of its residents over the last ten years. The population, which peaked at 178,320 in 1960, is now 80,294. Nearly 10,000 of those residents are between the ages of 15-24 and 3000 of those young adults between the ages of 18 -24 do not have a high school diploma or job training. Community, parents, and students want good schools in Gary, but right now there is simply little access and little choice in Gary. Gary Community School Corp has been on Academic Probation (F) for the past 6 years. Gary reported a dropout rate of 10% but nearly 20% of the remaining cohort did not graduate on time. Gary's largest high school is slated for turnaround under PL 221 and 3 of the 5 charter schools in the city are on academic watch or probation.

At the same time, the city's new mayor, Karen Freeman-Wilson, and other community leaders have a vision for turning around the city. Hoping to capitalize on Gary's natural assets like its interstates, railways and waterway, Gary has mounted a campaign to attract new business and jobs to the city. For example, the Northwest Regional Development Authority is investing $30 million in a Gary/Chicago International Airport expansion and gave the city a $28 million grant to help rebuild Marquette Park along Lake Michigan. But to provide the manpower for these initiatives, Gary needs an educated workforce that is prepared to step into these jobs. IUES plans to open one of our first two Passport Academies in the Gary Community School Corporation district in the fall of 2013. Gary students and community members can't afford for us to wait.

Indianapolis has led the state in urban education reform. Indianapolis' mayor was the first in the country granted authority to charter schools. The city is home to 23 charter schools. Organizations like the Mind Trust are

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[3] Alliance for Excellent Education (Alliance), "The High Cost of High School Dropouts," 2011

[4] Alliance, "Education and the Economy," 2011 (for Class of 2010).

[5] Alliance, "High School Drop Out Fact Sheet," (2010).

[6] (Non-waiver rate excludes those graduates who received a diploma with a waiver and have not met the basic expectation that all students pass the state's Graduation Examination before exiting high school with a diploma).

[7] Alliance for Excellent Education: Dropout Factories. (n.d.). Retrieved from http://www.all4ed.org/about_the_crisis/schools/dropout.

working to attract education entrepreneurs that will drive transformation and innovation on a city-wide scale. At the same time, the Indianapolis Public Schools district is at odds with city's story of growth and prosperity. Indianapolis Public Schools has been on Academic Probation (F) for the past 6 years. Five of the seven schools selected for turnaround under Public Law 221 are high schools within IPS. The school district had the highest reported dropout rate in Indiana in 2011– over 20%. 333 students dropped out of IPS schools last year alone.

IUES have surveyed community needs for our proposed schools by assessing data and engaging with local thought leaders, youth advocates, community centers and faith based institutions to obtain input on the challenges and promises of reengaging youth and young adults who have dropped out of high school. Stakeholders across the community agree that much is left to be done and many more left to reach to serve the needs of this population. Much of our outreach to date has focused on Indianapolis. However, we have a plan in place to strategically build relationships in Gary and Lake County as well as Indianapolis. We will continue working diligently to establish partnerships with:

- Postsecondary degree programs to ensure that our students have the opportunity to earn dual college credit, participate in college campus visits and obtain access to financial aid counseling as early as possible so that they will be prepared to pursue a college education;
- Locally based business, non-profit organizations and government agencies to provide our students with the opportunity to explore their career interests, gain work experience in paid or unpaid internships, develop valuable job skills, and be mentored by professionals so that they are ready to be successful in the world of work; and
- Social service agencies and faith-based institutions to secure critical wrap around services that will address the non-academic needs of our students and remove obstacles in their path to achieving success in college, careers and life.

Below is a list of organizations with which we have begun establishing the foundation for strong working relationships. Some will point drop outs towards our doors, others will provide valuable services needed by our students and still others may be that next step from our Passport Academies into a brighter future.

- *Light of the World Christian Church*
- *Edna Martin Christian Center*
- *Martin Luther King Community Center*
- *Forest Manor Multi-Service Center*
- *Shepherd Community Center*
- *Greater Indianapolis Chamber of Commerce Workforce Development Committee*
- *UPS Ohio Valley Region*
- *Indiana Safety Professionals*

A Solution

The plan for the IUES Passport Academies was created and will be implemented by a Founding Group composed of the Board of Indiana Urban Education Solutions (IUES) assisted by K^{12} Classroom LLC ("K^{12}"), a wholly owned subsidiary of K12 Inc. (NYSE: LRN). K12 Inc is a technology-based education company and the largest provider of individualized online and blended education programs primarily for students in kindergarten through high school in the U.S. IUES will become the single governing board for the network of Passport Academies after the schools' charters are approved. When the charters are granted, K^{12} Classroom LLC is proposed to be the network's Education Service Provider (ESP), managing the daily operations of the school as well as providing the school's curriculum.

K^{12}'s mission is to provide any child access to exceptional curriculum and tools that enable him or her to maximize his or her success in life, regardless of geographic, financial, or demographic circumstance. Founded in 2000, K^{12} has provided over 2 million courses - core subjects, AP®, world languages, credit recovery, and electives - to more than 200,000 students worldwide. K^{12}, using the entire K^{12} suite of services and instructional curriculum (currently including K^{12}, Aventa, A+, and Middlebury Interactive) including core subject areas in multiple levels as well as electives, world languages, credit recovery courses, remedial courses, and AP courses, has shown academic success and achievement in the schools it serves across the country. In the 2011-2012 school year, K^{12} is providing educational products and services to 97,000 K-12 students in online and blended learning public schools in 29 states and the District of Columbia.

We plan to replicate aggressively given the urgency and extent of the need, opening our first two schools in 2013 and the remaining two schools in 2014. According to the Alliance for Excellent Education, by moving just one drop out to graduate status, Indiana can improve its economic growth. A recent report gave a snapshot of the likely benefits if just 1,000 dropouts in the state had graduated from high school. According to the report, these 1,000 new graduates, combined, would likely:

- Earn $10 million in additional earnings in an average year;
- Spend an additional $1 million each year purchasing vehicles; and
- Support 80 new jobs in the state, increase the gross state product by $12 million, and pour an additional $1 million annually into state coffers, all through their increased spending and investments."[8]

Our growth plans will enable us to operate at full capacity in each school by the fall of 2016 with a maximum enrollment of 300 students per campus. When all four campuses are at capacity, IUES Passport Academies will serve up to 1200 students each school year.

The Model

The Passport Academy is a blended learning school designed specifically to address the varying academic needs of its students who have dropped out of high school. By blended we mean that our students, all of whom will be in attendance each day both at the school's physical location as well as studying offsite, will utilize web-based resources as well as be engaged in traditional teacher-led instruction. Under the direction of their teachers, students will be assigned an individualized curriculum designed to meet state standards and graduation requirements as well as provide the remediation and interventions necessary for success. Daily, students will spend approximately 3.5 hours studying onsite at our school facility and an additional 2.5 hours studying offsite at home or another location such as a public library, community center, etc. To accommodate family and work responsibilities, students may choose to attend either the daily morning or afternoon session at the school facility, depending on their individual schedules. Our teachers will carefully monitor the attendance and progress of each student assigned as part of their class list.

The best way to describe an IUES Passport Academy student's experience is that there will be a balance between online and offline work, synchronous and asynchronous sessions led by licensed teachers, and daily instructional activities. Onsite, students will work independently using the K[12] curriculum under the direction of their state-licensed teachers and academic coaches. During their onsite time, small groups of students will also meet with their teachers for direct instruction on difficult topics, on gaps identified through assessments, for discussions, projects, writing workshops, presentations, and other aspects of instruction best addressed in small groups. Offsite, students will continue to study independently following an Individualized Learning Plan. Knowing that student success is rooted in the mastery of both academic and nonacademic skills, IUES Passport Academies will have a well-developed and scheduled advisory program which emphasizes the types of academic and nonacademic skills Dr. David Conley at the University of Oregon and others have identified as foundational for future success. This blended approach is the best way we know to provide a truly student-centric offering.

According to the Americas Promise, "opportunity youth"- young people ages 16-24 who are out of work and out of school – pose different challenges and require different solution strategies." By offering students who are disconnected from school and work an innovative, highly personalized, effective model of education, IUES will be addressing an extremely underserved segment of Indiana's population. We will provide each of our students with a detailed plan for achieving both high school and post high-school success including:

- Graduation from a two or four-year college degree program;
- Completion of a strong vocational certification program;
- Employment in a high growth career field.

Whatever pathway they chose, our students will have the opportunity to become contributing members of the social and economic wellbeing of their communities.

[8] Alliance for Excellent Education (Alliance), "Education and the Economy: Boosting Indiana's Economy by Improving High School Graduation Rates," March 2011

SECTION I: EVIDENCE OF CAPACITY

Founding Group

Founding Group Membership

1. **Key Members of the Founding Group for the Proposed School(s)**

The IUES Board consists of individuals who are key community members and representatives of various stakeholders who have come together to share their expertise in the areas of education, technology, community relations, business, finance, government, and law. IUES Board members have a vision for building excellent schools in Indiana and are well positioned to: provide necessary oversight; promote the charter network's mission; lead planning and policy making; and ensure the achievement of charter requirements. We are actively recruiting other members who share our commitment to IUES Passport Academies and also have a variety of experience and talents, together providing strong and effective governance. Members of the Founding Group and areas of expertise are as follows:

Jerry Woodbridge, Ph.D*., IUES Board President*
Faculty, Indiana Wesleyan University, Adult Teacher and Licensure Program
Gary Sailes, Ph.D*., IUES Board Vice President*
Associate Professor, IU Bloomington Department of Kinesiology
James Betley*, IUES Secretary and Treasurer*
Of Counsel, Tax, Ice Miller LLP

INDIANA URBAN EDUCATION SOLUTIONS BOARD/FOUDING GROUP				
	Board Members	**Jerry Woodbridge**	**Gary Sailes**	**James Betley**
Area of Expertise				
	Financial Management			
	Parent and Community Engagement		x	
	Performance Management			x
	Legal			x
	Curriculum, Instruction, Assessment	x	x	
	School Leadership, Administration and Governance	x		
Ethnic Diversity				
	Caucasian	x		x
	Native American			
	African American		x	
	Latino / Latina			
	Asian or Pacific Islander			
Gender Diversity				
	Female	x		
	Male		x	x

When the charter is granted, K^{12} Classroom LLC is proposed to be the network's Education Service Provider (ESP), managing the daily operations of the school as well as providing the school's curriculum. Key K^{12} personnel who are on the school's development team and will be assigned to this project are listed below:

Peter Stewart, Senior Vice President, School Development
Peter will direct the overall delivery of all contracted services for the Indiana network of Passport Academies through various staff members within School Development including Darren Reed Vice President, Blended Schools.
Donna Dixon, Senior Vice President, Blended Schools Operations
Donna will oversee the day-to-day operations of the IUES Passport Academies. She has extensive previous experience scaling quality schools with Sylvan Learning.
Tamara Carpenter, Vice President, School Development
Tamara is responsible for all aspects of launching new schools including the areas of finance, human relations, student services, curriculum and instruction, facilities, accountability and governance.
Darren Reed, Vice President, Blended Schools
Darren's role is to provide leadership support and mentoring for the Head of School as well as ensuring that the school meets all intended outcomes related to academic achievement, enrollment, budgeting, compliance, etc. He will work with School Development as well as Operations and Planning to support all aspects of school launch and serve as a direct link to K12 regional and corporate level support.
Zach Wasilew, Vice President, Blended Schools Operations and Planning
Zach oversees and implements the planning and opening of new blended schools locations for K12 and its partners. His areas of expertise are budgets and facilities.
Keith Stephenson, Regional Vice President, Blended Schools
Keith will support Darren Reed to ensure that the schools in Indiana are performing well with specific focus on leadership, academics (including Title I, ELL, Special Education), state compliance (non-financial), and that the schools' programs (particularly in advisory, counseling, and overall culture) are designed and implemented well.
Leah Rodgers, Senior Director Academics, Blended Schools
Leah will be providing support and training to the Head of School and instructional staff on best practices (e.g., instructional methods, metrics, systems and technology needs, etc.) to ensure the school has a successful start, in addition to ongoing guidance and resources to ensure student needs are being met and academic gains are being obtained.
Jennifer Kendall, Director Special Programs
Jennifer is responsible for providing support and management services for each of the Passport Academies in all special programs areas including special education, 504, Response to Intervention (RtI), Title I, English as a Second Language (ESL) and Advanced Learners Programs. Special programs policies and procedures are created to comply with state and federal regulations for each school.
Amy Biasbas, Manager, Regional Operations
Amy will support Donna Dixon in the oversight of the day-to-day operations of the IUES Passport Academies.

(**Attachment 1** of the application includes full resumes (including contact information) of the IUES Board members and K12 advisors.)

2. **Partners in Planning and Establishing the Proposed School(s)**
   See answer to number 1 above.
3. **Founding Group Development**

IUES is deeply committed to, and passionate about, developing high quality schools that can offer youth and young adults who have dropped out of high school another chance at achieving high school and post high school success. Recognizing that this population needs an intensely personalized and individualized solution to the challenge of completing high school, we reached out to community organizations, business professionals and education service providers to identify opportunities to partner around building a network of innovative blended learning charter schools that would prepare our students to realize their full potential in life. We have identified K12 as an EMO partner that has the capacity and experience to deliver a high quality blended school model that will combine the best of face-to-face and online learning to produce high academic achievement outcomes for our students. K12 has deep roots in the Indiana educational community. It first began managing charter schools in Indiana in 2008. Through its involvement in urban education reform and grassroots organizing for parents and students, K12 became aware of the need to serve an often forgotten segment of the population - young adults who have for various reasons, been unable to earn a high school diploma. Working together, we are confident that IUES and K^{12} can achieve our vision of creating excellent blended learning schools that will reengage Indiana's high school students who have dropped out of high school in their learning process and empower them to graduate from high school prepared to achieve success in the world of work, college and life.

School Leader and Leadership Team

1. Head of School Recruitment Strategy.

A candidate for Head of School has not yet been identified for the first proposed school in this application. An explanation of our timeline, criteria, and process for recruiting and hiring the Head of School is contained in **Attachment 2.**

2. School Development Team

Until the HOS and other members of the school leadership team have been hired, IUES will work with the K^{12} development team to lead the development of the school. The resumes of the K^{12} development team are included in **Attachment 1** and the roles that these individuals will assume were described in a previous section of this application. IUES Board members will not be compensated for leading the development of the school. Following the execution of the Service Agreement between IUES and K^{12}, the K^{12} will employ identified IUES administrative staff including the Head of School. Members of the K^{12} school development team are employees of K12 Inc. and as such will be compensated by K12.

3. Administrative/management Team Recruitment Strategy

The responsibilities of the K^{12} School Management staff who will serve as the interim administrative/management team are described above in response to question 1 in this section of the application. Their full resumes are included in **Attachment 1.** The timeline, criteria and process fo**r recruitment a**nd hiring of the school's first administrative/management team are included in **Attachment 3**.

Legal Status and Governing Documents

The following governance documents for Indiana Urban Education Solutions, Inc. are included in **Attachment 4** of this application: Application for 501(c)(3) federal tax-exempt status submitted to the IRS; Copy of the Articles of Incorporation; and a copy of IUES Board Bylaws. A completed signed Statement of Assurance has been included as **Attachment 5** of this application.

Governing Board

1. Governance Structure and Composition.

IUES will become the single governing board for the network of IUES Passport Academies after the schools' charters are granted by our sponsor, the Indiana Charter School Board (ICSB). As our sponsor, ICSB will provide oversight for all aspects of our schools including governance. The bylaws of IUES provide for a Board of a minimum of three members and a maximum of seven members. Board members will serve staggered terms to provide continuity in governance. We currently have three Board members and feel confident that we have the skills and experience needed to effectively serve as directors of IUES Passport Academies. The Board is actively recruiting other members who share our commitment to IUES Passport Academies and also have a variety of experience and talents, together providing strong and effective governance. Specifically, we are in the process of vetting candidates who will add some combination of financial/accounting experience, community engagement expertise and strong ties to Lake County, IN to our board. The board will consider appointing a Governance Committee that will have an ongoing and continuous focus on identifying, preparing, and recruiting future board members. In **Attachment 6** to this application, we have provided a completed and signed Board Member Information Sheet for each proposed Board member for the governing board of IUES Passport Academies. In compliance with our sponsor's (ICSB) policy, each IUES Board member will undergo an expanded background check prior to execution of the charter agreement, utilizing one of the approved providers listed on the ICSB website.

2. Pre-Existing Nonprofit Organization

NOT APPLICABLE. This application is being submitted by the board of the Indiana nonprofit corporation, Indiana Urban Education Solutions, Inc. formed for the purpose of organizing, developing, managing, and operating a network of Indiana public charter schools (see **Attachment 4**).

3. Governing Entity's Responsibilities

The IUES Articles of Incorporation state that the first purpose of the IUES corporation is to "organize, develop, manage and operate charter schools in the state of Indiana in accordance with the provisions of the Indiana Charter Schools Act, Ind. Code § 20-24, *et seq*, as amended…"

IUES will be responsible for providing innovative and autonomous programs in our network of Passport Academies fulfilling the purposes of Indiana charter schools as spelled out in IC 20-24-2-1. As mentioned previously, IUES is proposing to contract with K^{12} to be the school's Education Service Provider (ESP). IUES has determined that K^{12} is uniquely situated with 10 years of experience providing not only the K^{12} end-to-end curriculum and learning system, but also the associated administrative and technology services necessary to deliver that curriculum and maximize student academic achievement. IUES will maintain full control of the adoption of all school policies and oversight of the ESP's implementation of those policies as well as overseeing the school's quality and operational and financial performance. K^{12} shall reasonably cooperate with such monitoring and oversight including any independent, third-party financial and administrative audits of the program. Pending agreement on the terms of the Services Agreement by IUES and K^{12}, administrative staff is anticipated to be employees of K^{12}, while teachers will be employees of IUES. The administrative staff will assist in the development of policies concerning the educational and operational issues of IUES Passport Academies and will present such policies for Board consideration and adoption, but IUES itself will retain ultimate responsibility for the adoption of Passport Academy policies and for overseeing the administrative staff's implementation of procedures consistent with those policies.

4. Procedures

As provided in the Bylaws (see **Attachment 4**), the IUES Board will meet at least four times each year, once during each calendar quarter. Special meetings may be held upon the call of the President or a majority of the directors then in office. It is anticipated that the IUES Board will meet as often as once per month or more frequently, as needed, especially in the planning phase leading up to the opening of our first schools. Typically the IUES Board will use meetings to discuss emerging issues such as facilities, budget or strategic planning and review reports about ongoing committee work. Unless the IUES Board determines otherwise, the IUES Board will hold an annual meeting at a time and place to be determined by the IUES Board each year, for the purpose of election of directors and officers of the corporation and consideration of any other business brought before the meeting.

The bylaws provide for the IUES Board to create and appoint standing, special, or other committees "to undertake studies, make recommendations and carry on functions for the purpose of efficiently accomplishing the purposes of the Corporation." There are no committees at the present time.

IUES will comply with Indiana's Public Access Laws as described within IC § 5-14. Public notice will be given for all meetings, including executive sessions, at least 48 hours (excluding Saturdays, Sundays, and legal holidays) before the meeting is held. Notice will be posted (including date, time and place of meeting) at the location that the meeting is to be held until such time as the principal office of the charter school has been identified. Appropriate notice will also be given to news media organizations as required under IC § 5-14. Notice of regular board meetings will be posted at least once per year and will be available on our network's website. Additional notice will be given if there is a change in the date, time and/or location of a regularly scheduled meeting.

5. Ethics and Conflicts of Interest

IUES has included Code of Ethics and Conflict of Interest Policies in this application as **Attachment 7.** We will work to cultivate a culture of accountability and transparency keeping in mind that one of our most important responsibilities is to keep the public trust. Honesty, integrity, and fair practice will be our governing principles as we conduct business on behalf of our schools. In dealing with conflicts of interest, we will (a) require those with a conflict (or who think they may have a conflict) to disclose the conflict/potential conflict, and (b) prohibit interested board members from voting on any matter that gives rise to a conflict between their personal interests and the nonprofit's interests.

6. Advisory Bodies

Community buy-in and support will be critical for the success of our Passport Academies. Although policies regarding the exact composition and structure of advisory councils have not yet been established, we look forward to establishing non-voting advisory bodies at the regional (Marion and Lake County) level. Such advisory councils will provide greater insight into the needs and resources of the particular communities in which our schools will be located.

7. Grievance Process

IUES is interested in achieving and fostering student/family satisfaction. If student or, where applicable, parental complaints arise regarding the operation of IUES Passport Academies, school personnel and parents will collaborate to seek solutions. A summary of the Grievance Policy that has been drafted for consideration and adoption by our Board is found in the Student Discipline Policy in **Attachment 15**. The procedures are intended to ensure that student/family grievances are addressed fairly by the appropriate people in a timely manner. IUES Passport Academies prohibits discrimination against students/families on the basis of disability, race, color, gender, national origin, religion, and ancestry.

As parents and students represent our primary stakeholders, IUES Passport Academies will utilize a variety of electronic and print tools to provide pertinent corporate or school documents free of charge to parents. As part of its outreach plans, IUES Passport Academies will make available information on its curriculum and policies to all persons, including parents and students, considering enrollment in the school. Information sessions open to interested students, families and the general public will be held throughout the school corporation as well as online. Information sessions will be advertised in various print and electronic media. During these sessions, prospective patrons have the opportunity to interact with the IUES Passport Academy curriculum, including lessons and materials, and have questions answered. The information provided will include, but not be limited to, background on the K^{12} curriculum, Passport Academies, and a Parent-Student Handbook that includes policies on admission, enrollment, role of responsible adult, promotion standards, course level placement, materials and computers, Internet service, school outings, special education, standardized tests, and teacher conferences. Enrollment forms will be available online on the network's website, as well as board documents including articles of incorporation; adopted policies and postings of board meetings and agendas; minutes and audits; and school documents such as notices of meetings, agendas, and minutes; policies; forms; handbooks; annual reports; student performance information; and regular reports about what has been accomplished and what is planned in the near future highlighting events where parents are encouraged to attend. Whenever possible, print copies of documents posted on the school's website will be made available to parents upon request.

School Management Contracts

a. Brief overview of the Proposed ESP

IUES is proposing to contract with K^{12} Classroom LLC ("K^{12}"), a wholly owned subsidiary of K12 Inc. (NYSE: LRN), to be the school's Education Services Provider (ESP). K^{12}'s mission is to provide any child access to exceptional curriculum and tools that enable him or her to maximize his or her success in life, regardless of geographic, financial, or demographic circumstance. Founded in 2000, K^{12} has provided over 2 million courses - core subjects, AP®, world languages, credit recovery, and electives - to more than 200,000 students worldwide. K^{12}, using the entire K^{12} suite of services and instructional curriculum (currently including K^{12}, Aventa, A+, and Middlebury Interactive) including both core subject areas in multiple levels and electives, world languages, credit recovery courses, remedial courses, and AP courses, has shown academic success and achievement in the schools it serves across the country In the 2011-2012 school year, K^{12} is providing educational products and services to 97,000 K-12 students in online and blended learning public schools in 29 states and the District of Columbia.

Listed below are the major blended or hybrid schools that K^{12} is serving in 2011-12. K^{12}'s roots in urban blended learning date back to 2006 when they partnered with the Chicago Virtual Charter School Board and Chicago Public Schools (CPS) (actively supported by then CPS CEO Arne Duncan) to launch one of the nation's first full-time blended schools. Since then they have helped launch many other blended schools whose instructional models fall into one of three major groupings:

Passport Schools: This model, which we propose for our Indiana network of Passport Academies, follows the Flex School model (see description below), but is designed specifically for students who have dropped out of high school. It requires lower student-to-teacher ratios and additional counseling and advisory staff. The K^{12} Passport program affiliated with the Youth Connections Charter School in Chicago, also supported by CPS, grew out of the success they achieved with the Chicago Virtual Charter School started in 2006.

Flex Schools: These schools have students on site each day, five days per week. The core teachers and admin staff are on site, as are counselors and advisors. School culture, sports, clubs, activities are all completed at the school site. Students complete online courses at the schools. Teachers examine the regular flow of student achievement data and submitted work to design and implement small-group and individualized interventions. In order to increase the number of courses available to students, electives are taught online by state-certified teachers.

Hybrid Schools: In these schools, students complete some of their academic work at a physical site, staffed by certified teachers, and the rest is completed at home. Often, the amount of time spent on site is determined by academic progress or family need. The average number of days spent on site is listed for each in the table below.

K[12] blended learning programs work because each student receives the support and services they need for a successful education.

- Chicago Virtual Charter School, a hybrid school, has outperformed the Chicago Public School System in reading, math, and science by up to 16 percentage points. The school was one of 147 state public schools to receive an Illinois Honor Award for achieving significant gains in academic performance in 2009.
- The Youth Connections Charter School program, also located in Chicago at Malcolm X Community College, is a Passport program for over-age, under-credited, out-of-school youth. It had a graduation rate of 92% in its first year of operation and 95% in its second year. This is a full-service model with robust school and community-based social service supports: academic counseling, mentoring, social service referrals, tutoring, guidance counseling, college counseling, and student activities.

K12 MANAGED BLENDED SCHOOLS (Fall 2011)			
SCHOOL	**STATE**	**YR. OPENED**	**MODEL**
Chicago Virtual Charter School	IL	2006	Blended (1 - 2 days on site)
Hoosier Academy - Indianapolis	IN	2008	Blended (50% on site)
Hoosier Academy - Muncie	IN	2008	Blended (50% on site)
Hawaii Technology Academy	HI	2008	Blended (1 - 2 days on site)
YCCS - Chicago	IL	2009	Passport - at-risk (5 - days)
Michigan Virtual Charter Academy	MI	2010	Passport - at-risk (5 - days)
San Francisco Flex Academy	CA	2010	Flex (5 days)
Silicon Valley Flex Academy	CA	2011	Flex (5 days)
Agora Learning Center - Philadelphia	PA	2010	Passport - at-risk (5 - days)
Maurice J. Moyer Academy - Wilmington	DE	2010	Flex for HS (5 - days)
Arizona Virtual Academy - YMCA (17 sites in Greater Phoenix)	AZ	2010	Blended (3 - 5 days on site)
Arizona Virtual Academy - Globe and Kingman	AZ	2011	Blended (3 - 5 days on site)
Oklahoma Virtual Academy - Tinker AFB	OK	2010	Blended (3 - 5 days on site)
Colorado Virtual Academy - Peterson AFB	CO	2011	Blended (3 - 5 days on site)
Colorado Virtual Academy - Buckely AFB	CO	2011	Blended (3 - 5 days on site)
Wyoming Virtual Academy - F.E. Warren AFB	WY	2011	Blended (3 - 5 days on site)
Kansas Virtual Academy - McConnell AFB	KS	2011	Blended (3 - 5 days on site)
Texas Virtual Academy - Lackland AFB	TX	2011	Blended (3 - 5 days on site)
Utah Virtual Academy - Hill AFB	UT	2011	Blended (3 - 5 days on site)
ESTIMATED TOTAL STUDENTS IN BLENDED SCHOOLS = 3,900			

b. ESP Selection Due Diligence

Knowing that we will be utilizing a blended learning model to provide an innovative and effective education for students who have dropped out of school, it is imperative that the Education Service Provider (ESP) contracted to manage the school (1) has a track record of directly relevant experience in operating a blended learning school;(2) can offer a comprehensive, rigorous and individualized online curriculum; and (3) evidences possession of sufficient financial, technology and human capital resources to manage a network of schools across the state. The Board researched K12 Inc. and other blended learning management companies as potential ESPs. The Board has elected to contract with K[12] Classroom LLC as its ESP. We are confident that K[12] – being the largest provider of blended education programs for K-12 students in the country; having a robust suite of services and instructional curriculum (including K[12], Aventa, A+, and Middlebury Interactive) that offers both core subject areas in multiple levels and electives, world languages, credit recovery courses, remedial courses, and AP courses; and providing educational products and services to 97,000 K-12 students in online and blended learning public schools in 29 states and the District of Columbia (including 35 blended learning schools across 14 states) – will enable us to realize our vision of operating a nationally recognized network of "world class" blended learning schools that will prepare students for high school and post high school success.

c. A draft term sheet is included as **Attachment 8.**

d. A draft of the proposed management contract detailing all of the above terms is included in **Attachment 8**. We are aware that, prior to executing the contract, it must be approved by the Indiana Charter School Board's office. Once approved by the ICSB, IUES and K^{12} will execute the contract and subsequently submit an executed copy of the contract to be kept on file with the ICSB. We understand that this contract is subject to Indiana's Public Access Laws, including public records requests.

e. IUES Oversight of ESP

The essential function of the IUES Board will be policymaking, the assurance of sound operations and financial management, and active participation in the provision of necessary funds. IUES has ultimate responsibility to determine general, academic, financial, personnel and related policies deemed necessary for the administration and development of IUES Passport Academies in accordance with its stated purposes and goals. IUES will be responsible for monitoring K^{12}'s performance under and in compliance with the terms of the services agreement related to the operation of IUES Passport Academies. The Board will monitor K^{12}, including the HOS and administrative staff, through a variety of tools, including, but not limited to: administrator evaluations; frequent direct reporting from the HOS, academic administrators, and operations management; parent surveys; and the multiple data collecting/reporting tools which are built into IUES/K^{12} technological frameworks. In addition to annual financial audits, IUES will also arrange for a third-party evaluation of K^{12}'s performance as well as the academic and operational performance of the school.

IUES will have the authority to: approve policies and procedures regarding employment including but not limited, to appointment, contracts, qualifications of professional and nonprofessional staff, professional development and dismissal of employees; approve all personnel actions; and fix the salary or other compensation of the employees of IUES Passport Academies. K^{12} or one its affiliates will employ the administrative staff necessary to provide the educational products and services as agreed to by K^{12} and IUES in the Service Agreement such as the Head of School (HOS) and other potential positions such as the Information Technology Director and Operations Manager. The Head of School will be employed by K^{12}, however the IUES Board will have input on the selection of the HOS. K^{12} will have the responsibility and authority for determining staffing levels necessary to carry out its obligations to IUES in accordance with the terms of an approved Service Agreement. IUES Passport Academies' administrative staff will manage the school, handling all day-to-day academic, operational, and management issues. The administrative staff will assist in the development of policies concerning educational and operational issues of IUES Passport Academies and present such to the IUES Board for consideration and adoption. However, the IUES Board itself will retain ultimate responsibility for the adoption of academy policies and for overseeing the administrative staff's implementation of procedures consistent with those policies. The IUES Passport Academies administrative staff will be structured based on the schools' education program and projected enrollment.

Unless otherwise agreed in writing by K^{12} and IUES, IUES Passport Academies' teachers, guidance counselor/dean, and Academic Coaches will be employees of IUES. IUES will review recommendations made by K^{12} regarding the hiring and dismissal of teachers. However, IUES will have the authority to determine in its sole discretion whether any person to be employed by IUES as a teacher shall be hired or any teacher employed by IUES shall be dismissed.

f. Conflicts of Interest

Currently IUES has retained Marilee Springer, Of Counsel for Ice Miller LLP, as its legal representative. Ice Miller LLP also represents K12 Inc. in its government relations within the state of Indiana. Ice Miller has made both IUES and K12 Inc. aware of the potential conflict of interest and both parties have signed Conflict of Interest waivers which are available upon request. We are confident that Ice Miller's representation of K12 Inc. involves separate matters from its representation of the IUES Board and that Ice Miller will be able to provide IUES with competent and diligent legal representation.

g. Evidence that the service provider is authorized to do business in Indiana.

K12 Classroom LLC, the proposed Education Service Provider for IUES Passport Academies, is authorized to do business in Indiana. Their Certificate of Authority is included in **Attachment 8.**

Network Vision, Growth Plan & Capacity

1. 5-year Business Plan

This question is not applicable to our application because we have not completed a 5 year business plan. We have responded to questions 2-5 in lieu of submitting a completed 5 year business plan.

2. Strategic Vision & Five Year Growth Plan

IUES Passport Academies will be a network of four blended learning high schools that will build the academic and non-academic skills of youth and young adults who have dropped out of high school, reengaging them in the learning process and empowering them to graduate from high school prepared to achieve success in the world of work, college and life. IUES Passport Academies will be located in Marion County and Lake County reaching youth and young adults who are often forgotten by and on the outskirts of society. The table below provides greater detail:

Proposed School Name	Opening Year	School Model (e.g., college prep, dropout recovery)	Geographic Community *	School District(s) in Proposed Location	Grade Levels at Full Enrollment
Indianapolis Passport Academy	2013	Dropout Recovery	Indianapolis	Indianapolis Public Schools	Gr. 9-12
Gary Passport Academy	2013	Dropout Recovery	Gary	Gary Community School Corporation	Gr. 9-12
Indianapolis Passport Academy II	2014	Dropout Recovery	Indianapolis	Indianapolis Public Schools	Gr. 9-12
Lake County Passport Academy (TBD)	2014	Dropout Recovery	Lake County—TBD	Lake County—TBD	Gr. 9-12

We plan to replicate aggressively given the urgency and extent of the need, opening our first two schools in 2013 and the remaining two schools in 2014. Our growth plans will enable us to operate at full capacity in each school by the fall of 2016 with a maximum enrollment of 300 students per campus. When all four campuses are at capacity, Indiana Passport Academies will serve up to 1200 students each school year. The table below illustrates the planned enrollment at Indianapolis Passport Academy which will be replicated at each of the Passport Academies.

Proposed School Name:	**Indianapolis Passport Academy**	
Academic Year	Grade Levels	Student Enrollment (Planned/Maximum)

Year 1(Fall 2013)	9-12	150 / 180
Year 2	9-12	200 / 240
Year 3	9-12	250 / 300
Year 4	9-12	250 / 300
Year 5	9-12	250 / 300
At Capacity	9-12	250 / 300

We have targeted these two regions due to several factors:

1. Data – figures show significant numbers of youth ages 18-24 in these counties who lack a high school diploma (over 35,000 total); double digit high school dropout rates (20% for IPS and 10.1% for GCSC); and/or school corporations with graduation rates under 60% (47.3% for IPS and 51.3% for GCSC).
2. Availability of social service supports – a major component of the Passport Academy model is the provision of wrap-around services. We understand that most of the students who will enroll in our academies will have significant challenges that could pose obstacles to their ability to fully focus on pursuing their educational goals. Marion and Lake County have strong community based organizations that can provide our students with access to needed resources such as counseling, housing, child care, legal services and health care.
3. Access to postsecondary institutions – Both Marion and Lake County offer a range of postsecondary degree options including Indiana University Northwest, Purdue University Calumet, Ivy Tech Community College of Indiana, Valparaiso University, Indiana University-Purdue University Indianapolis (IUPUI), Marian University, Butler University, and Martin College.
4. Strong industries – The majority of our students will need a job while they are going to school whether that is high school or college. Indiana has a vibrant business community that can offer trade, technical or professional jobs in which students can earn a decent living that will help them support a family and be contributing members of the communities in which they live. Marion County and Lake County industries include advanced manufacturing, information technology, logistics, life sciences and green technology. Although Gary has a very high unemployment rate (10.1%), there is a resurgence in investment to stimulate economic growth. For example, the Northwest Regional Development Authority is investing $30 million in a Gary/Chicago International Airport expansion and a data center is expected to announce an investment of up to $100 million in Gary. But most of these jobs will require a high school diploma and at least some postsecondary education.

Desired Impact

Because students will be coming in with various levels of credit accumulation along with some students entering as adult learners beyond the age of 21, it is not possible to estimate how our enrollment and graduation numbers will affect the dropout and graduation rates of the districts in which the schools will be located. However, we have set very clear goals for retention and graduation rates for our Passport Academies. For example, by year three, each of our schools will have an 85% retention rate and 90% of students designated as seniors upon enrollment (based upon credit accumulation and TABE scores) will graduate within a single academic year. While it is difficult to forecast what percentage of our students will have 9th, 10th, 11th or 12th grade credit accumulation status at enrollment, we expect that we will have more students coming in at an 11th or 12th grade level simply because experience has shown that this is the profile of students most likely to return to school. We estimate that when all four schools are enrolling at planned capacity, we will graduate over 330 students per year and that by our fifth year of operation nearly 1000 IUES Passport Academy students will have earned their high school diplomas. Ultimately the goal of our network of Passport Academies is for 100% of its graduates to go on to postsecondary degree programs, technical certification programs, apprenticeships, military service or directly into a career or trade.

3. Organizational Capacity for Success

The IUES Board is well positioned to oversee the development and implementation of its network of four blended learning high schools that will serve Indiana residents who have previously dropped out of high school. The IUES Board includes individuals who have operated and worked in schools both at the elementary and higher education level. In addition, members bring administrative, scholarship, advocacy, legal, teaching and youth development skills to this endeavor to make a positive and measurable difference in the lives of students who enroll in our academies. Within the next month, the IUES Board will add two members to our board. We are recruiting candidates looking specifically for individuals with some combination of the following qualities: Gary residency or strong ties to the Gary community; finance and/or accounting expertise; and community engagement or advocacy experience.

On a continuing basis, the IUES Board will evaluate its needs, in terms of skills and experience and then actively look for candidates with that specific skills-set. We will also seek out those who embrace our philosophy of constant teaching and learning, not only for students but for all IUES Passport Academy community members.

At IUES, board development is extremely important to us. The Board will be responsible for monitoring K^{12}'s performance under and in compliance with the terms of the Service Agreement for educational products and administrative and technology services related to the operation of our schools. Knowing this, we will have formal board training schedule at least four times a year. Members will complete Board Evaluation and Self-Assessment tools at least annually. We understand that preparation and evaluation of performance create opportunity for greater achievement.

The IUES Board has also been diligent in our selection of an Education Services Provider. Given our vision and mission, we believe that K^{12} is uniquely positioned to be a partner that will support and ensure the long term success of our network of Passport Academies.

K^{12} is the nation's largest provider of virtual and blended school management. No one in the country has more experience with blended learning schools than K^{12}, which currently has approximately 31 blended learning sites including learning centers. K^{12} knows how much investment and effort it takes to get blended learning right. They have the depth of experiences, talent, resources, best-practices, and operational know-how to take IUES Passport Academies from concept to reality. K^{12} leadership has helped us to see that this work is both difficult and complicated. Many organizations claim to provide hybrid or blended learning programs. However, few have walked the walk like K^{12}. Below are just a few points that reflect K^{12}'s capacity to operate IUES Passport Academies.

Scope of Operations

- In the 2011-2012 school year, K^{12} is providing educational products and services to 97,000 full-time K-12 students in online and blended learning public schools in 29 states and the District of Columbia. This equates to well over one million semester courses this year alone.
- As of June 2011, K^{12} had approximately 2,500 employees with varied expertise and knowledge located in the U.S. and abroad including 1,150 teachers. In addition, there are approximately 2,400 teachers who are employed by virtual public schools or hybrid schools that K^{12} manages under turnkey solution contracts with those schools. With a staff so talented and diverse, K^{12} can effectively provide a wide array of services to our blended school students and their families as well as directly to their schools. K^{12} services can be categorized broadly into academic support services, technology services and management services.
    - Academic Support Services
        - Teacher recruitment, training, and management support
        - Special education services, including ELL and Gifted Education
        - Supporting at-risk learners
        - Student Support Services (especially for high school: college and career planning)
    - Management Services
        - Turnkey Services (Responsibility for all aspects of the management of the school)
        - Compliance and Tracking Services
        - Financial Support Services
        - Facility, Operations, and Technology Support Services
        - Human Resources Support Services

Upon award of the contract by IUES, K^{12} will immediately staff a school launch team in Indiana to ensure delivery of quality academies on time for school opening in the fall of 2013 and then again in 2014. K^{12}'s official school launch process will include the assignment of talented staff (resumes and brief descriptions of responsibilities provided in **Attachment 1**) to extensive tasks within the following school development areas:

- Budget/Finance
- Facilities
- Government Affairs/Governance
- Marketing/Enrollment
- Human Resources/Staffing
- Professional Development
- Technology/IT
- Operations/Systems
- Legal
- Instructional Program
- Compliance SBE/CDE

A key member of the K^{12} school launch team, Tamara Carpenter, Vice President of School Development, is an Indianapolis native and resides in the heart of the city.

World Class Curriculum (Both Online and Offline)

- Based on decades of education research, the K^{12} curriculum packages high-quality lessons with assessments that ensure students achieve success at each level. For any given lesson, the curriculum development team at K^{12} creates and assembles different learning components to satisfy the diverse needs of students in multiple learning environments. The team strategically chooses the appropriate interactive activities, printed material, assessment, video, laboratory, essay assignment, or hands-on exercise to provide a well-coordinated and purposeful learning experience.
- Unlike other online learning companies, K^{12} has made an unusual commitment to develop a number of learning resources in-house, with their own staff of subject matter experts. They did this for one basic reason: What existed did not fully measure up to their standards. Their award-winning K^{12} print materials reflect the highest levels of quality and visual appeal.
- The K^{12} Product Development group has a direct historical connection to the work of the Core Knowledge Foundation. This longstanding connection has disposed K^{12} curriculum to be very favorably aligned to the Common Core standards, whose development K^{12} has followed closely in draft and final form. K^{12} is committed to providing a curriculum that fully aligns to the Common Core standards.

Fiscal Viability

- Financial guarantee and investments - Where there is a shortfall in cash needs, such as capital expenditures to open facilities or operating expenses needed before school begins, K^{12} will provide a loan to IUES to be reimbursed over time. No additional funding arrangements will need to be made; the management company is providing a back-stop for financial investments. At the same time, K^{12} will provide IUES with a guarantee that should the agreed-upon budget not meet financial expectations, K^{12} will reduce their fees to ensure that the network of schools maintains a balanced budget. They will also work with us to secure grants, fundraise, and seek ways to direct more dollars towards student instruction. For more detail see **Attachment 20**.
- Credit Guarantee - K^{12}, as a management company within the context of the Service Agreement and for the purposes of the lease with any landlord, will provide a financial guaranty for the school's investments. This financial guarantee is of great value to IUES in securing buildings and the appropriate financing for the improvements needed for facilities.
- Back Office Support - K^{12} is also able to provide back office support for our network of schools, including accounting, and other services as agreed upon in the Services Agreement (see draft services agreement in **Attachment 8**). K^{12} has 10 years of experience managing school finances for blended and virtual schools in 29 states and the District of Columbia and has proven procedures and policies in place that IUES Passport Academies will benefit from which will ensure smooth operations.

Sector Innovator and Thought Leader

K^{12} is a national provider of blended and virtual education services. With the success of its drop out recovery school in Chicago, they have received a great deal of interest from urban districts across the country to replicate this promising model. In 2012, K^{12} will add 8 new schools across three states to its portfolio of blended high schools serving drop outs and at-risk students. K^{12} sees the value of bringing the drop out recovery model to Indiana. First, because of the great need (high school graduation rates are staggeringly low in Marion and Lake counties) but also because Indiana has charter laws that allow for innovation but not at the expense of accountability.

State and local government, authorizers, postsecondary institutions, community leaders, students and parents have in significant ways, united around the mission of improving the access to and quality of education available to all students. This is exactly the kind of community that K^{12} wants to continue investing in. Given that K^{12} currently manages three schools in Indiana, it is apparent to IUES that this state and its students and families are incredibly important to K^{12}'s overall mission. Although those schools are overseen by boards separate from IUES, the local resources and regional infrastructure built by K^{12} over the last three years will be available to our network of schools.

4. Organizational Capacity for Growth

We have selected K^{12} as our partner and Education Service Provider due in great part to their extensive experience launching and operating blended schools across the country. No other organization we researched has more than a plan for how they will grow. K^{12} has a track-record. K^{12} is currently contracted to lead and manage successful blended schools in the following major urban centers: Chicago (2), San Francisco Bay area (2), Philadelphia (2), Indianapolis (2), and Washington, DC (1). They have had long-term (greater than three years) operating experience with all of these blended schools. They have also been selected to launch new blended schools in Newark, New Jersey (2), and Ohio (3) in the fall of 2012. .

In addition to these specifically urban blended schools, the table "K^{12} Managed Blended Schools (Fall 2011)", in the "School Management Contracts" section of our application above provides a sense of their other experiences launching and managing these types of schools:

We found K^{12}'s candor about the challenges of opening schools to be refreshing and reassuring. Some of the lessons they have learned in the past few years are not too surprising, but indicate to us that they don't come at these kinds of projects naively and have internalized lessons. A few of the lessons they shared with us:

- Real estate (in all its phases: leases, P&Z approval, construction, FF&E, final approvals (getting your COO) takes longer than expected. Plan for stalls;
- Expect business owners to object to rezoning for school purposes if you haven't first reached out to them. Even then, many will object;
- Positive school culture and engaged strong leaders are crucial;
- Turn-arounds are tough (see our response in **Section IV Question 3** below);
- In terms of enrollment, district support is best. Community support is the next most effective way to identify students (especially those who have dropped out);
- Expect enrollments for at-risk students in summer not the spring;
- Getting teachers to change habits is much harder than getting students to adopt new models of learning and instruction. While Professional Development is critical, it is not sufficient. Vigilance and a systems-based approach to daily planning are the keys;
- Developing clusters of schools in geographic areas is critical in providing: shared resources; a sense of peer connection; the ability to develop future leaders; and opportunity to share best practices.
- The onsite IT network should seek to emulate a 1950s toaster (simple, reliable, even boring). Complexity crashes systems. K^{12} recommends a belt and suspenders model: hardwiring at terminals backed up by a robust wireless network.
- Launching new blended schools is both hard and complicated. Each aspect (or task) of a school launch needs to be described as a discrete, assigned to single lead, set with a specific timeline, measured for successful completion and linked to other dependent tasks. They have developed a proprietary launch plan which includes 1000+ discrete tasks organized under thirteen categories (Academic Plan, Program Plan, HR, Finance, Facilities, etc.), scheduled against seven specific phases of development. When a critical task has slipped, they know it. K^{12} would be happy to show ICSB this plan in a demonstration. They have found that this approach is critical to launching more than one new school at a time.

5. Greatest Anticipated Risks and Challenges

The risks that IUES may encounter in achieving the organization's desired outcomes in Indiana and the practices that the organization will employ to meet these challenges and mitigate risks include:

Challenge and Risk 1: Competition from other schools providing similar high quality educational instruction for those who have dropped out of high school in Marion and Lake Counties, specifically in Indianapolis and Gary. Over 130,000 Hoosiers ages 18-24 lack a high school diploma. Organizations in Indiana have begun to realize the real

need to serve this population. Goodwill Industries is currently operating four Excel Centers throughout Indiana – three in Indianapolis and one in Anderson serving a total of 1200 students. Christel House DORS is opening one school in Indianapolis in the fall of 2012 and will have a maximum capacity of 300. When the student enrollment of the Indiana network of Passport Academies is at its maximum, we will serve over 1200 students. Even with such an overwhelming need, we are not certain at what point the market will be saturated.
Methods of Meeting the Challenge and Mitigating Risks: Provide a full-service, student-centric, blended learning high school committed to empowering students to acquire the academic and life skills needed to succeed in post-secondary education and career opportunities. Develop strong partnerships with community based organization that will refer students and parents to our Passport Academies. Utilize effective marketing and recruitment strategies to engage potential students and parents who are sometimes difficult to reach. Keep lines of communication open with other organizations serving this population of students to minimize duplication of effort and ensure that our Passport Academies are operating in the communities with the greatest need.

Challenge and Risk 2: Changes in state or federal legislation, especially those resulting in significantly reduced levels of entitlement and competitive grant funding.
Methods of Meeting the Challenge and Mitigating Risks: Take a conservative approach in budgeting assuming and applying for competitive grants only to supplement the program spending reflected in the budget.

Challenge and Risk 3: State Accountability System will not accurately reflect the performance of our students and schools.
Methods of Meeting the Challenge and Mitigating Risks: Work with the Indiana Charter School Board and the Indiana Department of Education to develop appropriate performance metrics that will accurately tell the story of impact we are making on student achievement in our Passport Academies.

Challenge and Risk 4: Substantial receivables from the State of Indiana which cause the organization to borrow thereby increasing its debt.
Methods of Meeting the Challenge and Mitigating Risks: As proposed in the draft services agreement, K^{12} will issue credits against amounts billed for services and products to ensure the school does not end a fiscal year with a financial deficit.

Challenge and Risk 5: This student population is at high risk of dropping out again due to changes in life circumstances.
Methods of Meeting the Challenge and Mitigating Risks: Provide holistic wrap-around services that will address the academic and non-academic needs of students.

Network Management

1. Shared/Centralized Support Services

It is the intention of the Board of IUES that each school operate independently with its own separate charter and that any network level or centralized services be provided by the Education Service Provider under the terms of an approved Service Agreement. Shared and centralized support services provided to the network by K^{12} have been provided in the Term Sheet and Draft Services Agreement as **Attachment 8** and give a preliminary scope and cost of services, allocation of costs and service goals between IUES and K^{12}.

2. School- and Organization-Level Decision-Making Authority

(Note: In the DRAFT Service Agreement with K^{12} Classroom LLC, K^{12} provides three levels of support underneath their management fee: local (on-site) staff and services, regional support in which the region is defined by the model "blended schools" rather than by strict geography, and national support. In the chart below, any service function designed or implemented primarily by regional or national support is considered a Network decision. In all cases, K^{12} implements the policies and procedures of the local not-for-profit board. In all cases, decisions will include all levels to the extent possible.)

Function	Network/ Management Organization Decision-Making	School Decision-Making
Performance Goals	X	
Curriculum	X	
Professional Development	X	
Data Management and Interim Student Assessments	X	
Grade Level Promotion Criteria		X
Culture	X	
Budgeting, Finance, and Accounting	X	
Student Recruitment	X	X (Shared in Year 1, lead in Year 2+)
School Staff Recruitment and Hiring	X (Year 1)	X (Year 2+)
HR Services (payroll, benefits, etc.)	X	
Development	X	
Community Relations		X
Information Technology	X	
Facilities Management	X	
Vendor Management / Procurement	X	
Other operational functions, if any	X	

3. Organizational Charts

Organizational charts for the network as a whole, and the school level at full capacity have been provided as **Attachment 10**.

SECTION II: SCHOOL DESIGN

Education Plan

Curriculum and Instructional Design

1. **Instructional Design and Academic Standards**

IUES Passport Academies will be blended learning schools designed specifically to address the varying academic needs of its students who have dropped out of high school. By blended, we mean that our students, all of whom will be in attendance five days a week at both the school's physical location as well as studying offsite, will utilize both online learning resources as well as be engaged in traditional teacher-led instruction. In 2010, the U.S. Department of Education released *Evaluation of Evidence-Based Practices in Online Learning: A Meta-Analysis and Review of Online Learning Studies,* the largest study of online learning to date. While online learning is relatively new in K–12 public education, the report notes two important findings (while also encouraging the creation of new models to study):

- *Students who took all or part of their class online performed better, on average, than those taking the same course through traditional face-to-face instruction.*
- *Instruction combining online and face-to-face elements (i.e., blended instruction) resulted in better student outcomes compared to both purely face-to-face and purely online instruction.* [9]

While there may be other schools whose coursework is "computer assisted," IUES Passport Academies will provide much more, including:

- Support from onsite credentialed teachers and other educators in small groups and in one-on-one interactions;
- Greatly increased course offerings;
- Standards-based online and hands-on curriculum and instructional materials;
- Interactive technology;
- Significant differentiation to meet the needs of different kinds of learners;
- Onsite academic and social support from skilled teachers and academic coaches;
- Community, collaboration, and socialization;
- Powerful assessment tools; and
- A state of the art learning management system to monitor student achievement and improve student performance.

Under the direction of IUES Passport Academy teachers, students will be assigned an individualized curriculum designed to meet state standards and graduation requirements as well as provide the remediation and interventions necessary for success. Daily, students will spend approximately 3.5 hours studying onsite at our school facility and an additional 2.5 hours will be spent studying offsite at the student's home or another location of his/her choosing such as a public library, community center, etc. To accommodate family and work responsibilities, students will choose to attend either the daily morning or afternoon session at the school facility, depending on their individual schedules. Our teachers will carefully monitor the attendance and progress of each student assigned as part of their class list.

IUES Passport students will be engaged in a variety of subjects and course material with the award-winning K[12] curriculum. The majority of onsite classes (the core courses) will be taught by an onsite teacher, supported also by Academic Coaches when students are working independently in their online coursework. Students will work with the school's Guidance Counselor to choose courses that are appropriate for them and that meet state requirements.

The school facility will be designed to have a variety of student areas including: areas for focused study; teacher direct instruction; student collaboration for projects and experiential learning/labs; and social space, including space for events. The space for focused study will be set up with work stations with a computer provided by the school, textbooks and other materials. Each work station will have ample light, power, and an Internet connection, with supervision and support provided by teachers as well as paraprofessionals we call Academic Coaches. Academic Coaches ensure academic culture, help fix computer problems, answer questions and help individual students when needed. In addition to the focus area, there will be break out rooms for direct instruction as well as sufficient space for group work, administrative offices, common space and a faculty lounge.

An Overview of the Curriculum

IUES Passport Academies will utilize K[12]'s mastery-based, world-class online curriculum to provide students with an exceptional learning experience. Each course includes online lessons, worksheets, and teacher guides that can be downloaded, as well as traditional material such as books, science equipment, art supplies, CDs, and other hands-on materials and manipulatives. Combining traditional classroom instruction with the latest in individualized, online learning approaches, IUES Passport Academies' staff will use K[12] content and systems to ensure our students are provided with the tools they need to succeed in school and beyond. The exceptional, individualized high school K[12] curriculum covers both the core subject areas and electives. Based on decades of education research, the K[12] curriculum packages high-quality lessons with mastery-based assessments that ensure students achieve success at each level. It has been approved for use in Indiana public schools.

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[9]U.S. Department of Education "Evaluation of Evidence-Based Practices in Online Learning: A Meta-Analysis and Review of Online Learning Studies," 2010.

K^{12} offers a diverse curriculum catalog of courses to meet the learning needs of any student population. K^{12} offers over 150 high school courses with varied levels of content ranging from Core to Comprehensive, Honors, and Advanced Placement® (AP) courses. Mathematics, English, Science, and History courses are available in multiple versions—Core, Comprehensive, Honors, and where applicable, Advanced Placement®—to meet the needs of diverse learners. Students can also take up to four years of world language (depending on the language), and choose from a variety of electives, including anthropology, web design, and digital photography.

- **K12 Core courses** are similar to the standard courses offered by many other programs. They meet all academic requirements for each course area both for graduation as well as for potential admission into a wide range of colleges.
- **K12 Comprehensive courses** are designed for students entering with a strong foundational knowledge and aptitude in the subject area being covered, as well as solid study skills.
- **K12 Honors courses** hold students to a greater degree of accountability, and demand even greater independence and self-discipline than their Comprehensive counterparts.
- **The K12 Advanced Placement (AP®) courses** are college-level courses that follow curriculum specified by the College Board and are designed to prepare students for success on AP exams, providing students the opportunity to earn credit at most of the nation's colleges and universities.

Alignment of Curriculum

IUES is confident that K12's curriculum meets the Indiana Academic Standards and Common Core Standards. A Scope and Sequence for courses that will be offered at our Passport Academies is featured in **Attachment 11**. The K^{12} core curriculum is a rigorous and content-rich curriculum that aligns well to Indiana Academic Standards. K^{12} curriculum is also well aligned to the Common Core State Standards (CCSS) in Mathematics and English Language Arts as adopted by Indiana. K^{12} is prepared for Indiana's pilot of the CCSS assessment items beginning in 2012-2013 and 2013-2014 and the implementation of the related Partnership for Assessment of Readiness for College and Careers (PARCC) assessments in 2014-2015. More information about alignment can be found in **Scope and Sequence Attachment 11**.

AP Approved Courses/Dual Credit

IUES will also work with K^{12} to create a "dual pathway" for students to earn college credit while enrolled at the Passport Academies by offering Advanced Placement Courses as well as dual college credit courses. Agreements will be sought with local colleges such as Ivy Tech Community College and Purdue University Calumet to develop an articulated agreement for co-enrollment whereby students can earn high school and college credits at the same time. Credits may be earned in a variety of ways, including: physically attending classes at the IUES Passport Academy site or on the local college campuses; by taking credit-earning online classes in a supervised setting at the Passport Academies; and by the school negotiating the right to have some of its coursework at the Passport Academies' facilities considered a co-enrolled credit course at a college. For our AP course needs, K^{12} currently offers 19 Advanced Placement courses that have been approved by the College Board. These courses were officially approved through the AP Audit process in the summer months of 2011. K^{12} AP courses are college level courses that follow curriculum specified by the College Board. These courses are designed to prepare students for success on AP exams, providing students the opportunity to earn credit at most of the nation's colleges and universities.

Additional Resources

IUES Passport students will also have access to K^{12} suite of supplemental courses and resources to better enhance the curriculum and further support individual student needs a description of these courses and resources can be found in our course Scope and Sequence as **Attachment 11**.

Highly Effective Teachers

IUES Passport Academy teachers will be experienced educators and highly qualified as defined by the No Child Left Behind Act of 2001. They will have a Bachelor's or higher degree, be Indiana-licensed, and demonstrate competency in high school education based on their assignment. Each teacher will also demonstrate technological competency. The faculty will include regular education and special education teachers. The school will employ, as needed, appropriately licensed ESL or bilingual teachers for our ELL identified students. In addition, all general education teachers will receive training in teaching and providing modifications to ELL students and providing assistance to parents/coaches. Teacher candidates will be interviewed by the HOS who will make hiring recommendations to the IUES Board. All instructional staff will undergo a criminal records check. Teachers will be employed by IUES.

Evidence-based Support

The Passport Academies' blended learning focus is heavily supported by growing research. Blended learning, for example, allows for a fundamental redesign of the educational model that supports our school's primary focus including:

- A more consistent and personalized pedagogy that allows each student to work at his/her own pace and helps each child feel and be successful at school. Leveraging technology, blended-learning programs can let students learn at their own pace, use preferred learning modalities, and receive frequent and timely feedback on their performance for a far higher quality learning experience. As online programs capture student achievement data in real-time across the school, teachers can spend more time helping personalize learning for students. (Horn and Staker, 2011)[10]
- Productive new school models that require fewer, more specialized teachers and use space more efficiently. Teachers shifting to blended-learning models are finding that they have more time to focus on high-value activities like critical thinking, writing, and project-based learning as they spend less time on low-value, manual tasks. These opportunities to innovate can occur even as providers take advantage of the things that leading brick-and-mortar schools do well, such as creating a strong, supportive culture that promotes rigor and high expectations for all students, as well as providing healthy, supportive relationships and mentorship. (Horn and Staker, 2011)[11]
- A shift from lecture to student-centered instruction in which students become active and interactive learners. (Watson, 2008)[12]
- Increases in interaction between student-instructor, student-student, student-content, and student-outside resources.

2. **Instructional Strategies**

There will be many different practices used by IUES Passport Academy teachers and Academic Coaches. Most significantly, teachers and coaches will have the opportunity to take on different roles to support the learning process of each individual student and carry out the mission of the school. Students will have different needs and the following instructional strategies will lend to successful academic and experiential outcomes: Teach; Assess; Remediate or Enrich; Monitor.

Teach

Students will be self-engaging in the web-based curriculum on a daily basis to retrieve an immense amount of information through the use of technology as an instructional tool. However, they will also be given direction instruction from state-certified teachers. Direct teaching is an integral component of the Passport instructional model. It is essential for teachers to deliver instruction based on student needs. Direct Instruction can take place in several formats, whether it is facilitated in breakout groups or remediation, which can take place in small groups or one-on-one sessions.

Teachers will be expected to follow a set of guiding instructional strategies when working with students within any of these settings. Effective teachers plan and deliver direct instructional lessons that include the following elements: Warm Up –> Pre Assessment –> Mini Lesson –> Practice (Individual or Group) –> Post Assessment –> Follow Up (Remediation or Enrichment)

Assess

IUES Passport Academies' teachers will consistently plan lessons that drive instruction and assess students for mastery of state standards and skills. Assessments will be administered formally or informally and may be done online or in person. Teachers will use both formal and informal assessments. Informal assessments may include

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[10] *The Rise of K–12 Blended Learning* by Michael B. Horn and Heather Staker, 2011

[11] *Ibid*

[12] *Blending Learning: The Convergence of Online and Face-to-Face Education* by John Watson, 2008

observations of daily work, classroom discussions, online threaded discussions, kmail (K^{12}'s secure internal communication system) communication about a particular topic, and more. Formal assessments within the high school curriculum include tests, quizzes, papers, and assignments. Many kinds of assessments will be used to support instruction and drive remediation including:

- Quizzes and unit tests embedded in K^{12} curriculum: To assess student understanding of course content; and
- Scantron Achievement Series (or another diagnostic assessment): To ensure students are mastering coursework throughout the year.

Assessments will be reviewed by teachers and coaches, and with students (and parents) so there can be a targeted approach to remediating any deficiencies and engaging students in appropriately challenging coursework. At IUES Passport Academies, student academic data will be reviewed on a daily, weekly, monthly, and quarterly basis to both ensure mastery of skills and to adjust instruction as needed. This intense focus on data analysis is what allows a Passport student to have a customized learning experience

Remediate or Enrich

Student centric learning is a cornerstone of the Passport Academy instructional model. Student performance data will be frequently analyzed in order to tailor student learning and instruction around the specific needs of each student.

Teachers will provide students with targeted interventions or remediation throughout the year. Teachers or coaches will identify a weakness or academic deficiency and then plan a lesson or activity that can re-teach the skill using a different method than what was introduced in the online curriculum. Teachers will administer interventions, testing whether that intervention was successful, and tracking progress of student mastery and intervention effectiveness. They will also maintain and record every administered intervention in order to help best serve each student in obtaining academic success, which can be done in various K^{12} systems.

Enrichment opportunities will also be available to students who excel and show mastery of expected skills and standards as well as advanced progress in the K^{12} curriculum. To augment their learning experience, small group advanced work, including project-based learning will be available. This includes, but is not limited to, self-paced labs, academic challenges, and projects. Some students may also take advantage of Independent Study experiences, internships, or other job opportunities to support their studies. These opportunities will be made available through the school Guidance Counselor and by utilizing other resources within the local community.

Monitor

All instructional staff will support the student-centered learning experience for all Passport students. Unlike traditional school designs, Passport teachers and coaches all play an active role in monitoring different aspects of student learning on an ongoing basis. "Monitoring" therefore takes on a different definition. Academic Coaches and Teachers are responsible for monitoring students on a daily basis, keeping in mind each student's short and long-term academic goals. The expectation is that all instructional staff, including coaches, shares the responsibility of each student's success at the school. No student is assigned to one teacher and the staff has a shared responsibility to support all students.

3. **Key Educational Features that *Differ* from Current Education Model**

The model which we propose for our IUES Passport Academies is based upon the K12 Passport program, which has been successfully implemented at the Youth Connections Charter School (YCCS) Virtual High School in Chicago. The Chicago based Passport program is limited to students ages 18-20. Under Illinois law, students "age out" at 21 meaning they are no longer supported by state funding upon reaching the age of 21. Indiana does not have an upper age limit at which a student "ages out". By law, our schools will have to serve a wider age range of students. However, the elements of the educational program will remain the same as that used at YCCS Virtual High School.

4. **Course Scope and Sequence**

In **Attachment 11,** we have provided a course scope and sequence by subject, for high school grades 9-12 curriculum that demonstrates clear alignment with Indiana's Academic Standards and the Common Core. The courses we have included in the scope and sequence will be offered to Passport Academies' students to meet the course and credit requirements for both the Indiana Core40 and General High School Diplomas, which are the diplomas that the Indiana Passport Academies will initially offer. Our Passport Academies will be able to offer many additional courses, in fact we will be able to offer more than a total of 150 K^{12} high school courses aligned to Indiana's

Academic Standards and the Common Core and designed to help students earn their high school diploma and find their own path to post-high school success—whether that's in college or in the workforce. Not all K^{12} courses may be offered every semester, but course alignments for courses in addition to those provided in **Attachment 11** are available on request.

Pupil Performance Standards

Indiana's Academic Standards and the Common Core State Standards (CCSS) set the foundational guidelines for what we expect our students to know and be able to do as they progress through our academic program. At a minimum, IUES Passport Academies students will demonstrate mastery of the state-level and CCSS learning objectives which are aligned and embedded within the K^{12} curriculum. IUES Passport Academies' curriculum is rigorous, content-rich and fully aligned to both the Indiana's Academic Standards and the CCSS. The Scope and Sequence provided in **Attachment 11** details the alignment of each of the core courses and electives that IUES Passport Academies is offering beginning fall 2013.

IUES Passport Academies' pupil performance standards will conform to the Indiana Accountability System to the extent that we can work with ICSB as stated in the Accountability System guidelines (p. 5): *If necessary and at its sole discretion, the ICSB may agree to amend certain goals or measures to align with a unique charter school model (e.g., alternative education/dropout recovery model).* We understand that ICSB is revising the Accountability Plan to address unique student populations such as ours and we endorse that effort.

1. Exit Standards

The IUES Passport Academies exit standards for graduating students from high school (our only division) are included in this application in **Attachment 12.**

2. Promotion Policies

In traditional Indiana high schools, students are expected to graduate in four years completing and passing ten courses each year - thereby earning ten credits per year which qualifies them to be promoted to the next grade. IUES Passport Academies, however, will be serving students who have previously dropped out of high school – students who will in many cases be over-aged and under-credited and who will be managing real life circumstances that have, in the past, been barriers to them completing high school. While we *will* designate students by grade level upon enrollment in IUES Passport Academies (based upon credit accumulation at previous school(s) and TABE scores), this designation will have very little practical meaning for our students. Rather students' short and long terms goals as well as assessed progress towards those goals will be based upon an Individualized Learning Plan.

The Individualized Learning Plan (ILP) which is updated at least quarterly will take into account a student's academic record, teacher recommendations, student interest surveys, and data within third-party assessments (Indiana state test results, TABE results, Scantron Performance series for reading and math, the ACT's *Explore, Plan, and the ACT* testing system, Accuplacer, and possibly others). Upon enrollment, it will give a student and IUES Passport Academy staff a complete view of that student's academic strengths and deficiencies. It will act as a detailed plan for getting a student from Point A (credit accumulation and academic proficiency upon enrollment) to Point B (achieving high school and post high school success). As students move through the IUES Passport Academy program, they and IUES Passport Academy staff will mark their progress by measuring how much closer they are to earning their high school diploma and how prepared they are for success: at a community college or a four-year college; in a strong vocational program that prepares students for a specific career; or employment in a high growth career field.

We will inform parents and students of our graduation criteria in information sessions, parent-student handbooks, on our school websites, and through responses to inquiries.

High School Graduation Requirements *(High Schools Only)*

1. **Graduation Requirements**

IUES Passport Academies' students will meet Indiana Graduation Requirements, described in IC § 20-32-4 by (1) demonstrating mastery of the standards that are tested on End-of-Course Assessments (ECAs) for Algebra I and English 10; (2) accumulating the credits required for either an Indiana Core 40 or General High School Diploma; and (3) meeting additional requirements required by the IUES Board. The additional requirements are described in detail in the IUES Passport Academies' Exit Standards (see **Attachment 12).** In addition to the ECAs and accumulated credit requirements, Exit Standards include requirements regarding grade point average; service learning hours; K^{12} coursework hours; Test of Adult Basic Skills (TABE): and a senior portfolio.

IUES Passport Academy students will be required to log into K12 coursework a total of six hours daily, approximately 3.5 hours of coursework at our school facility and an additional 2.5 hours offsite at the student's home or another location of his/her choosing. Therefore, it is a requirement that students complete 360 minutes of coursework on a daily basis. IUES Passport Academy students will earn credit for each course they have completed and passed. In our first year of operation, we will offer our students the opportunity to earn a Core 40 High School Diploma or, where circumstances are appropriate, a student may earn a General High School Diploma. Both of these diplomas require a minimum of 40 credits to graduate. IUES students will earn credit for courses taken at IUES, and credits that are transferred from previous schools.

Our grading scale will be: A = 100-90%; B = 89-80%; C = 79-70%; and D = 69-60%. Grades for AP courses will be weighted an additional grade point on a student's transcript. Partial credit will be awarded for teacher graded assignments which are turned in late, with special consideration give for late work completion caused by health issues and other circumstances as well as late work completed during "catch-up" periods. During the planning year we will consider a course grading system that incorporates several factors including required assignments and assessments, classroom participation, attendance, and other factors.

In addition to the name and address of the school, information on student transcripts will include a student's name, ID number, grade, gender, birth place, date of birth, home address, enrollment date, withdrawal date, expected graduation date, courses taken (including course number, title, grade earned, credit earned), GPA, and immunization history.

In the Scope and Sequence submitted with our application (see **Attachment 11**), we have listed thirteen elective courses which will be offered to meet the course and credit requirements for both the Indiana Core 40 and General High School Diplomas, which are the diplomas that IUES Passport Academies will initially offer.

2. Career and College Readiness

In our first year of operation we will offer our students the opportunity to earn a Core 40 High School Diploma or, where circumstances are appropriate, a student may earn a General High School Diploma. Course and credit requirements for the Core 40 Diploma and the General Diploma are detailed in **Attachment 12**.

We know that our students will enter with varying academic skill levels and that many will need to find a non-traditional path to post high school success. For some this will mean that they will "achieve greater educational benefit" pursuing a General High School Diploma. At the same time, our goal is to prepare our students to be able to make a choice about the path that they will take. According to the Indiana Department of Education, Indiana's Core 40 Diploma "is the academic foundation all students need to succeed in college, apprenticeship programs, military training and the workforce." It is now also a college admissions requirement for all four-year public Indiana colleges. For many of our students, education will be the key that unlocks the chains of generational poverty. So we will work diligently help our students earn a Core 40 Diploma.

At IUES Passport Academies our instructional model is anchored by the ILP (more detail provided above in the section on Promotion Policies). Upon enrollment in an IUES Passport Academy, a student's transcripts are evaluated and specific course recommendations are made based on academic ability and progress toward high school credit requirements. High school staff will then work with each student to develop their ILP mapping out course requirements, internship experiences, academic and social service supports and career and college readiness experiences needed to earn a Core 40 Diploma (or where appropriate a General Diploma) and achieve post high school success along multiple pathways.

Student will also be assigned an Advisory Leader to support them through their high school experience. The Leader will remain the same through each student's high school experience. It is our hope for each student to develop a special relationship with at least one IUES Passport Academy staff member who is invested in that student's education and post high school success. An Advisory Leader is a coach, motivator, teacher, friend, advocate, and mentor. Advisory Leaders help students manage their time appropriately, focus on their academic achievements, and identify resources, so they can achieve greatness. Students will attend an advisory session at the beginning of each day for a minimum of twenty minutes with their assigned Advisory Leader. Advisory Leaders will serve as the homeroom teacher and the first point of contact for students and parents (for all non-content area questions and needs). Daily Advisory sessions will include a variety of topics such as: goal setting: progress monitoring; career tracking; culture building; college preparation; and more.

Mentoring, internships, job shadowing, college visits, financial aid counseling and student portfolios will supplement our students' academic experience insuring that they have real world connections to post high school success.

3. Serving At-Risk Students

Because we are, from the outset, focused on serving a population of students that are at greater risk of dropping out and/or not meeting the proposed graduation requirements, we intensively focus on removing the obstacles to our students completing their high school education from the beginning of their educational experience with us. For our students, life circumstances – parenting responsibilities, lack of transportation, low wage jobs and rising bills, and unstable housing – often get in the way. What K^{12} offers IUES as an ESP is experience in dealing with this population. For example, Based upon lessons learned from YCCS Virtual High School, IUES Passport Academy students, who have been absent for multiple days, will receive a phone call from the school Registrar, Guidance Counselor/Dean or Advisory Leader. If necessary, an IUES Passport Academy Staff member will conduct a home visit to help reconnect the student to his/her learning process. Early King, the YCCS Virtual High School Head of School, sums up the commitment needed to serve this population succinctly, "We do whatever it takes."

What YCCS Virtual High School has learned in their three years of operation is that, in order to help their students achieve their goal of earning a high school diploma, the school has to provide an array of wrap-around services to support developmental needs. To provide the needed wrap-around support services, IUES Passport Academies is committed to developing partnerships with community-based support services and connecting students with these resources so that they can be accessed even outside of the school day including housing referrals, bus passes, psychiatric and psychological services, drug counseling, and legal services.

With blended learning at the center of an IUES Passport Academy student's educational experience, we are able to provide engaging multi-model learning, literally, at a student's finger tips as well as interactive web-based lessons that track and adapt to a student's level of academic proficiency and pace of learning. A student's interaction and advancement through the K^{12} curriculum is based upon two main principles: individualization and mastery. Remediation opportunities which are scaffolded into the curriculum allow a student to master prerequisite skills, close learning gaps, and complete courses at a more productive pace.

School Calendar and Schedule

1. Proposed Calendar and Weekly Schedule of Classes

Attachment 13 includes the proposed calendar for the first year of operation for the Indianapolis and Gary Passport Academies and the weekly schedule of classes. We intend to follow as closely as possible the public school calendars of the school corporations in which our Passport Academies are located. Neither Indianapolis Public Schools nor Gary Community School Corporation has published their 2013-2014 calendars as of the time of the submission of our application. The calendar we are submitting in **Attachment 13** is subject to change when those calendars become available.

Overview of Academic and Non-academic Programs

A detailed overview of our Academic and Non-Academic programs is provided above and in our Scope and Sequence as **Attachment 11**.

Instructional Day and Year

Each school year we will provide a minimum of 180 instructional days for all of our students which complies with the Indiana State Board of Education's rules. Each instructional day will consist of a total of six hours as required for high school students in Indiana. We will offer two 3.5 hour onsite sessions per day Monday through Friday (excluding vacations) for students to choose from. Morning sessions are scheduled from 9:00 a.m. to 12:30 p.m. and afternoon sessions from 1:00 p.m. to 4:30 p.m. Daily, students will spend approximately 3.5 hours studying onsite at our school facility and an additional 2.5 hours will be spent studying offsite at the student's home or another location of his/her choosing such as a public library, community center, etc. To accommodate family and work responsibilities, students will choose to attend either the daily morning or afternoon session at the school facility, depending on their individual schedules. Our teachers will carefully monitor the attendance and progress of each student assigned as part of their class list.

School Culture

1. IUES Passport Academies Culture

Building a purposeful and healthy school culture within IUES Passport Academies is vital in producing strong academic outcomes for students. A positive school culture is neither random nor vague, but rather strategically designed to produce intended school outcomes. IUES Passport Academies will be rooted in cultural best practices and it is expected that the Heads of School ensure that these cultural norms are being carried out by the students and staff throughout the entire school on a daily basis.

The foundation of a positive school culture is a sound statement of the school's mission and goals. The mission of each IUES Passport Academy is to prepare Indiana residents who have previously dropped out of high school to be successful in college and/or a career by providing an individualized, engaging, and flexible blended learning experience.

The following school values are aligned with the personal characteristics and mindsets required to help all IUES Passport Academy students and staff to achieve our mission, promoting a positive academic environment, and reinforcing student intellectual and social development. These values are specifically identified as core attributes of successful IUES Passport Academy students. These values will be evident in all students and staff within our school.

- **Respectful:** Treating students, parents, staff, and the local community with high respect and regard;
- **Open-minded:** About learning in a unique blended environment, challenging oneself to think differently, and openly accepts others and input;
- **Honest:** With self, daily work, and with staff who are supportive of the student learning process;
- **Flexible:** Patient, perseverant, dedicated, and able to adapt to different learning environments;
- **Responsible:** Ownership of personal behavior and outcomes, responsive, willing to reach out for help when it is needed;
- **Self-Disciplined**: Motivated, focused, driven, and having belief in own self;
- **Proactive:** Thinks ahead, is optimistic, active in communicating needs, anticipating areas of support, and ownership of own academic success.

The IUES Passport Academies values define the culture of the school and all staff members must be committed to each and understand their impact on student success. The process for introducing these values to all IUES Passport Academy staff will begin during the hiring process, well before the first day of school. During the interview process, candidates will be provided with a written explanation of each school value. The HOS will also discuss the expectation that all staff are expected to embody, promote and reinforce all values with all students and how upholding these values help to achieve the school's mission.

These values will also be reinforced with all staff during the staff on-boarding process and prior to the start of the school year. Training will focus on these values and how each specifically leads to success of all students, regardless of challenges they may bring to the school. Additionally, the HOS will schedule specific professional development sessions focused solely on the importance of school culture and how IUES Passport Academies values lead to successful students.

As an initial way to make students and families aware of the school values, all outreach and enrollment communications for IUES Passport Academies will include the schools' values and how IUES Passport Academies is committed to building well-rounded students who are both academically strong and sound of charter. During the student on-boarding process, specific sessions will be led by HOS and staff that focus on expectations for students to build their understanding of and commitment to IUES Passport Academies values. During this process, staff will also reinforce and further explain the meaning of these values and how they can help students reach their goals and grow into highly successful students.

2. A Day in the Life of an IUES Passport Academy Student

8:40am to 9:00 am – Jamal gets to school a little early today to talk with his Math Teacher before Advisory. He likes math but he was struggling with a few things – his scores on the last couple of quizzes had been lower than he wanted and he just couldn't seem to move past the lesson introducing congruency. First he stops by the "Curriculum Wall" to check assignments, quizzes, test and Breakout Group information, then he heads to see Miss M. Sure enough Miss M. was in class and he knew she would work with him for a little bit before class started.

9:00am to 9:25am – Jamal wasn't sure he was going to like the "Advisory" class at first. He is kind of shy but he is getting to know the other students and learning some really cool things about what he needed to do to realize his goals and dreams.

9:25am to 10:25am – Jamal heads to the learning hub to log onto the OLS and start his day. It's cool that he has his own carrel and computer. He really likes that he gets to decide what he is going to study for the day. When he dropped out of high school last year, he only had a few classes left to take. His life was complicated and he just couldn't go to school six hours a day. He needed to work. Now he gets to go to school, keep his job and set his own path for how he is going to get his diploma. Jamal starts with Geometry and decides to tackle Biology from home after he gets off of work.

10:30am to 11:00am – Jamal heads to a Focused Intervention Time session with Miss M. He noticed that he had been scheduled for the breakout session when he checked the "Curriculum Wall" earlier in the day.

11:00am to 12:20pm – Jamal heads back to the learning hub. He feels confident that he can tackle some of the things he was struggling with in Geometry after the Focused Intervention Session with Miss M. He works his way through congruency and moves on to the next lesson in Geometry.

12:20pm to 12:30pm – Jamal powers down his work station. He checks his Kmail to see if he's got new messages from any of his teachers. He sees that his English teacher announced a poetry slam for extra credit and signs up. Maybe he's not so shy after all.

8:00pm to 10:30pm – Jamal logs back onto his OLS from his apartment. He just got off of work and he has a few hours to study before he heads to bed. He checks his Biology assignments and digs into the lesson.

3. A Day in the Life an IUES Passport Teacher

(Note - At IUES Passport Academies students are not grouped into classrooms by grade level. These are artificial designations that do not serve our student population. Students are assigned course schedules and an Advisory Leader based upon the goals outlined in their ILP.)

8:00am to 9:00am – Michelle, the Math Subject Matter Expert Teacher, arrives at Indianapolis Passport Academy at 8:00 am. It's Monday, so Michelle posts her weekly assignments tests and quizzes for her courses on the "Curriculum Wall." After completing her posts, Michelle spends a few more minutes going over Jamal's geometry quiz from the day before. She noticed that Jamal was still struggling with one of the concepts and wants to provide the Academic Coaches with a list of strategies to use when the Jamal is working independently that should help him focus his efforts. Michelle's students will start trickling into class around 8:30 am. Even though Advisory doesn't start until 9am, she knows that that several of her kids will arrive early to ask questions about work from the day before or to get a head start on their lessons.

9:00am to 9:25am – Each school day begins with a twenty minute "Advisory" period and she has been assigned a homeroom of students who she will guide throughout their school experience. She's excited about the day's Advisory lesson. Her group is talking about personal finance and she's got a banker coming in to talk about how credit scores impact everything from home ownership to hiring decisions.

9:25am to 10:25am - After Advisory, Michelle heads to the main learning hub where she and the other Subject Matter Expert Teachers and Academic Coaches begin assisting and monitoring students as they log onto the Online Learning System working independently on their coursework (assignments, tests, quizzes, or activities both on and offline) for the morning session. In the IUES Passport model students can choose to work on whatever subject they want throughout the day, but they are responsible for managing their time efficiently so they can complete all of their assigned daily work. The core of the IUES Passport Academy blended learning program is that students are able to work at their own pace. At the same time, Michelle understands that she must actively support students by responding to questions as they arise, redirecting students who fall off task, guiding small group discussion or directing students to appropriate resources.

10:30am to 11:00am – Michelle heads to the small break out room to lead a Focused Intervention Time session on congruence and similarity. Four students completing their Geometry course requirements have been struggling with this concept and she has identified them to be in need of remediation.

11:30am to 12:00pm – After returning from lunch, Michelle leads a large Breakout Forum on test prep for the Algebra 1 ECA.

12:00pm to 12:30pm – Michelle heads back to the learning hub to support students working independently and assist in the school's transition from the morning to the afternoon shift of students.

12:30pm to 1:00 pm – Michelle reads and answers emails from a few parents and preps for her afternoon advisory session.

1:00pm to 4:30pm – Michelle's day covering the afternoon shift from 1:00 – 4:30pm looks very similar to her morning shift except that her breakout groups have different topics and different numbers of students.
4:30pm to 5:30pm – Michelle debriefs with the HOS and other Subject Matter Expert Teachers. A short PD session is scheduled right after the debriefing regarding using Scantron Performance Assessment data to inform her lesson planning. Michelle grabs her IUES Passport Academy issued laptop and heads home. She knows that she will be reviewing unit assessment data from students taking Algebra I to make sure they are on target for course completion and prepared to take the ECA. It took her a little while to get used to this new style of teaching at the Passport Academy but now she is enjoying the shift from a sole focus on teaching, to a focus on student learning is central. She works hard to ensure that she has real-time knowledge of how students are progressing towards their ILP goals. She can't wait to see them walk across the stage at the graduation ceremony.

Supplemental Programming

1. **Summer School**

At the present time, we are not planning to offer summer school.

2. **Co-curricular Activities**

Our co-curricular activities will focus on developing a strong sense of "community" among our students. IUES Passport Academies will determine initial student interests and ideas for additional clubs by a survey distributed as part of orientation activities or during welcome meetings and calls. It is normal for new schools to wait for student interest before making a final decision on what the exact co-curricular programs the school plans to offer. Co-curricular activities that were suggested by students and are being offered at the YCCS Virtual High School over the last three years are Capoeira; Hip Hop Dance; Zumba; Weightlifting; Poetry Group; Student Council; Peer-to-Peer Tutoring; Restorative Justice; SES; and Speakers Series.

Establishing a sense of school community is a high priority of IUES Passport Academies and is an important part of a successful blended school in just the same way as in a traditional school. IUES Passport Academy administrators will survey the students, parents and teachers at least once a year on the success of the clubs and events and gather feedback for future planning. We will seek the support of philanthropic donations, in-kind services or community-based sponsorships to fund these activities.

3. **Student Mental, Emotional, and Social Development and Health**

There are many non-academic factors that can impede a student's ability to perform at his/her highest academic potential. We are committed to intensely understanding the non-academic needs of each student and equally committed to providing relevant support services to address those needs.

IUES Passport Academies will also actively pursue additional community involvement and resources. There will be a vast array of needs among students and the schools will be committed to finding resources to support individual student needs to the best of the IUES Passport Academies' ability. Each IUES Passport Academy will conduct a needs assessment for each student at the onset of the school year that allows for the design of targeted services that become a part of each student's ILP. Just as IUES Passport Academies teachers will conduct an academic baseline needs assessment for all students to tailor instruction, non-academic assessments are also administered to tailor wrap-around support services to support developmental needs. Among the additional services and partnerships to support student success may include:

- Mentoring and Role-Model Program
- Career Assessment and Exploration
- Post-Secondary Transition Planning (including resume drafting, the reality of financial aid, applications, essays, etc.)
- Academic Tutoring
- Health and Fitness Programs
- Personal Finance
- Resume Workshops
- Leadership Development Program
- Child Care Services and Education
- Legal Services for our students who have been arrested in the past and need to address their criminal records
- Paid Internships
- Clubs

4. **Other Student-Focused Activities and Programs**

Other student-focused activities and program which will be integral to our educational and student-development plans include service learning opportunities for students working to obtain the required Service Learning hours for graduation; Independent Study experiences, internships, or other job opportunities to support students' studies; incentive programs for students and parents to be awarded throughout the year for meeting school expectations and showing academic growth; school wide events that help promote positive school culture and create strong school community, while considering students' social needs (e.g., school skate, Taste of IUES Fair; dances, etc.); and field trips.

Special Populations and At-Risk Students

1. *Overall Plan for Serving Students with Special Needs*

Following receipt of an application for enrollment or the identification of a student with a disability, the IUES Passport Academy shall determine whether the student has been identified as a child with disabilities eligible for special education and related services pursuant to the Individuals with Disabilities Education Act, 20 U.S.C. 1401 et seq. ("IDEA") or Section 504 of the Rehabilitation Act of 1973 ("Section 504"), and / or the Americans with Disabilities Act ("ADA"). If so, the school shall obtain a copy of the student's individualized education plan ("IEP") or Section 504 plan or develop a compliant IEP or 504. A properly constituted IEP or Section 504 team (including the Passport Academy's Special Education Manager[13], 504 Coordinator, and other designees) shall convene to determine what services will be provided to the student and what forms of assistive technology are necessary to support the student's access to web based curricula, if necessary. The school shall be responsible for providing an eligible student with a free appropriate public education ("FAPE"), including specialized instruction and related services in accordance with the terms of the student's IEP or Section 504 plan, taking into account all individual circumstances, within the meaning of Section 504 of the Rehabilitation Act of 1973 and Title II of the Americans With Disabilities Act. It is likely the school will enroll students across all disability categories and stands willing to ensure FAPE is provided for all students.

2. Indentifying and Meeting the Learning Needs of Students with Special Needs

a. Identifying Students with Special Education Needs

The IUES Passport Academy enrollment application, a conference call with a placement counselor, and conferences with a IUES Passport Academy general education teacher all provide an initial child find query (CFQ) for the parent and/or student to indicate a student with special education needs. In addition, a review of previous school records by the IUES Passport Academy Special Education Director will be undertaken upon receipt of such records to identify any students enrolling who have previously been identified as a student with a disability. In addition, IUES Passport Academy general education teachers will be provided professional development prior to and during the school year on their child find responsibilities, including possible indicators of special needs related to achievement and behaviors. Posting and public notification within the school corporation concerning the process for screening and the availability of special services and programs of instruction for students with disabilities will be on the school website, in addition to being sent via electronic and/or US postal service mail to all enrolled families.

Within the first few days of the school year, students take an adaptive diagnostic assessment (Scantron Performance Series or another similar baseline assessment tool). The results of this assessment allow teachers to create Individual Learning Plans (ILP) that identify a student's area of weakness or areas of advancement. The general education student's progress and mastery of curriculum, work samples, and assessments from the Online School (OLS) provide the general education teachers with information that may indicate a student with special education needs.

IUES Passport Academies will have a documented process for identifying "at-risk" students, built on the Indiana "responsiveness to intervention" (RTI) framework. IUES Passport Academies' approach to RTI is simple: IUES Passport Academies stands ready to provide parents and students with the support they need to have a successful academic experience. Based on No Child Left Behind (NCLB) and IDEA 2004, IUES Passport Academies will implement a system of three tiers for providing interventions to help all students. All students in Passport Academy will participate in Tier I, with the general education teacher supporting the regular IUES Passport Academies school curriculum in two ways: (1) reviewing, recording, and analyzing Scantron benchmarks and all state-mandated testing, and (2) creating a differentiated Individual Learning Plan (ILP) for each student, based on their age appropriate grade and on curriculum placement levels. For Tier II, the general education teacher gives

[13] In SY2013 and SY2014, the K[12] Student Services Manager, Blended Region (who will oversee K[12] blended school programs for special education, ELL, Advanced Learner Program, and at risk students) will serve as the Special Education Manager for the IUES Passport Academies. Beginning in SY2015, an IUES Passport Academies Special Education Manager will be employed to serve the four charter schools.

extra support and attention to students whose progress and test scores show gaps in skills acquisition. In Tier II, the general education teacher begins a program of one to three research-based intervention strategies (best practices) and documentation of these strategies over a six week period, including at least four assessments. If a student responds to Tier II intervention strategies, the student can remain at this level of support or return to Tier I, when mastery of skills occurs. If a student does not respond to Tier II, the student is referred for a Tier III Student Meeting, which is attended by members of the RTI Committee (teachers trained by IUES Passport Academies for this work), the general education teacher, student and the parent/guardian. The RTI Committee gives additional support to the teacher, student and the parent/guardian, implementing and reviewing additional, more intensive strategies for the student's specific needs. Depending on student response to more intensive interventions, a student may remain in Tier II (shows marked improvement) or may be referred for a meeting to determine if further diagnostic evaluations and possible special education services are warranted. The RTI Coordinator, Assistant Coordinator, Committee Members, and General Education teachers at IUES Passport Academy will all receive continuing professional development regarding RTI and the role it plays in our school. A detailed schedule of this training is available upon request.

In addition, parents may request an evaluation for possible special education needs. Students undergoing an initial or reevaluation will be assessed following the guidelines of the state agency by a licensed school psychologist and appropriately licensed team members – whose roles/responsibilities vary based on the suspected disability.

b. Specific, Evidence-Based Instructional Programs for Students with Special Education Needs

IUES Passport Academies' educational program will address the needs of a variety of special student populations. Students with special needs are supported by their IUES Passport Academy general education teacher in the least restrictive environment, in addition to receiving the supportive services of a special education teacher. The student's IEP determines the type and amount of services necessary to meet the goals of the IEP. Related services, if required will be provided at the school site with the frequency, timing and duration dependent on each student's individual needs.

Students with disabilities fully participate in all general education classroom activities with their classmates including sport, clubs and events. If necessary, transportation is provided to accommodate the special needs of the student as determined by the IEP team.

IUES Passport Academies will ensure that each student with a disability is placed in the least restrictive environment. The usage of assistive technology should assist in leveling the playing field. The continuum of placement options is detailed below:

Full inclusion with services provided within the general education classroom: Students may receive accommodations and assistive technology support within the general education classroom as determined by their IEP and coordinated by the general and special education teachers. The IUES Passport Academy team of general education teachers conferences with the student and parent on a schedule determined by the IEP team. This conference allows the general education teachers to support the student's IEP goals through instruction, provision of strategies, accommodations, and modifications to assignments as needed for the student to access and make progress in the general education curriculum. The IUES Passport Academy special education teacher also conferences with the student and parent on a schedule determined by the IEP team. This conference allows the special education teacher to support IEP goals by supporting the student's instruction through specially designed instruction to allow the student to access and make progress in the general education curriculum. The general education and special education teachers also conference regularly to discuss the progress of the student in the general education curriculum, progress toward the attainment of IEP goals, and strategies to be implemented within the general education classroom for lessons, assessments, assignments and quizzes. General and special education teachers may co teach or team teach to ensure all students receive the benefit of two licensed educators skilled in differentiating instruction.

Full inclusion with a continuum of services provided beyond the general education classroom (related services): Students requiring a related service, i.e. speech, may receive this service outside the general education classroom. IUES Passport Academies believes it is vital that all parties (student, parent, general education teacher, special education teacher, etc.) are aware of the focus of the related service session and work together to ensure the goal generalizes from one environment to another.

Resource room or "pull out" supportive services: Depending on the individual needs of each student as determined by the IEP team, the special education teacher will have a resource room available for small group or individual pull out sessions. The instruction that occurs during these sessions will be highly focused on IEP goals. The frequency, time and duration of these pull out sessions are as individualized as the students attending IUES Passport Academies. It is possible that the some students will spend less than one hour per day in the resource room with other spending less than one hour outside of the room in their general education classrooms.

c. Evaluating and Monitoring Progress

Oversight and compliance monitoring at IUES Passport Academies is assured through many means including detailed monitoring of student progress and achievement both in the general education curriculum and on IEP goals through work sample collection, instruction and assessment, work submissions and assessment data collected through the online school by a team of highly qualified teachers. File review and monitoring of timelines and processes by the Director of Special Education at IUES Passport Academies; and national oversight and monitoring of the program by the Education Service Provider's National Director of Special Education.

Parents of children with disabilities are members of their children's IEP Team as a matter of law. Accordingly, parents are expected to participate fully in all aspects of the IEP process including the identification, evaluation, eligibility, and IEP planning for their child. Progress reporting for students with disabilities will be conducted on the same basis as for non-disabled students, and IUES Passport Academies will adhere to plans developed by the Indiana Department of Education for participation of students with disabilities in statewide assessments.

d. IUES Passport Academies Plan for Promoting Graduation for Students w/ Special Education Needs

IUES Passport Academies believes all students should strive to meet the Core40 graduation requirements but recognizes that there are exceptions to this and will recognize the general diploma option when/if necessary on an individual basis. For students with disabilities, the IEP team determines the appropriate graduation plan for each student. If the team believes that a general diploma is appropriate for the student, the team will ensure the appropriate formal opt out process is in place following IN Code 20-32-4-7, 8, 9, 10.

e. Qualified Staffing for Students with Special Education Needs

The staffing plan is entirely dependent on the population of IUES Passport Academies and the individual needs of these students. IUES Passport Academies is committed to hiring the necessary number of special education teachers and related service personnel as necessary based on the IEP's of enrolling students. The school is prepared to begin the school year with one highly qualified special education teacher and prepared to hire additional teachers as deemed necessary by enrollment.

f. Examples of Accommodations for Special Needs Students

Accommodations and modifications vary student by student and are driven by the IEP needs identified for each individual student. In other schools where K^{12} is the ESP, students use a variety of assistive technology tools from screen readers to adaptive switches to touch screens and voice to text tools. In addition to assistive technology, special education teachers are skilled in modifications to the online and off line curriculum including but not limited to alternate response requirements, audio, enlarged or Braille text. K^{12}'s teacher training tools include many sessions for the special education staff focusing on topics such as accommodations and modifications to the K^{12} curriculum, data collection and management, accessibility and assistive technology.

3. English Language Learner (ELL) Students

a. Indentifying ELL Students

Whenever a student enrolls in IUES Passport Academies, he/she will be administered a Home Language Survey to determine if the home language is other than English. If this is found to be the case, the student will be assessed for language proficiency using the WIDA-ACCESS Placement Test (W-APT). If scores indicate a proficiency level lower than 5.0, accommodations may be made accordingly.

b. Specific Instructional Programs

Passport Academy's ELL program's overarching standard is that students will use English to communicate and demonstrate academic, social, and cultural understanding. To reach this standard, it is critical that instructional approaches, both in ESOL and general education classes, accommodate the needs of Indiana's linguistically and culturally diverse student and parent populations. The contracted ESOL teacher can provide support to the students by integrating WIDA standards and differentiating instruction and tasks to accommodate second language learners.

Among other interventions, the ESOL teacher may relate background information and experiences to help students better grasp a concept, scaffold instruction to aid the students in comprehension, adjust speech or content, provide project based learning experiences, necessary visuals and modeling of best instructional practices for the general education teachers.

c. Student Progress

A yearly language proficiency assessment (ACCESS for ELLS) as well as culminating data on the student's academic performance scores will become part of the components that develop each student's individual education plan and inform the decision to exit students from ELL services.

d. Staffing for ELL Students

IUES Passport Academies will employ, as needed, an appropriately licensed ESOL or bi-lingual teacher for the ELL identified students. Passport Academy will provide professional development activities to train teachers on strategies to instruct ELL students and will support parent involvement through translation of materials to improve communication with parents, web-based parent support groups, and parent training through virtual and face to face meetings.

4. Students Performing Below Grade Level

All students will be required to take the Scantron Performance Series test (or another baseline assessment tool such as SASS) in at least both Reading and Math two times a year, at the beginning and end of each school year. Scantron Performance Series is a web-based, adaptive test which quickly pinpoints the proficiency level of each student. The information from the assessments is valuable to parents, teachers, and students because it provides a report illustrating each student's strengths and weaknesses, a National Percentile Ranking, and illustrates academic growth for a school year.

IUES Passport Academies will identify students who are academically "at-risk" based on this baseline assessment and additional factors to identify students who may be in need of academic help within the first few weeks of enrolling in the school. The student will be referred to the school's Response to Intervention (RtI) Team made up of a variety of staff members, including but not limited to, a Teacher (acting as the Response to Intervention Team Leader), Academic Coach, and Counselor. The RtI process will also include involvement from the student who has been identified and their legal guardian or parent. The RtI team's goal is to provide support to students who are academically at-risk, perhaps with below grade level skill gaps and deficiencies, in order to increase content knowledge and skills to close the achievement gap.

The team will meet bi-monthly to review student data within the curriculum and additional assessment results to discuss whether modifications need to be made to daily instruction and identify specific strategies to use that will further support the individual student improve academically. The team will follow a similar process for collecting data, developing a plan with specific strategies to improve deficiencies, and then remediating the skill, which will be done over and over again as needed to increase each student's learning in necessary content areas.

Parents will be included in routine discussions and progress will be shared to keep them informed of the team's work and student's progress.

5. Intellectually Gifted Students

a. Evidence-Based Instructional Programs, Practices and Strategies

K^{12} offers challenging courses at varying levels and extend from Core Courses to Comprehensive Courses, Honors Courses, and Advanced Placement Courses, including eligible courses approved by the AP College Board. The school will meet with parents and students and review student records from previous schools the students attended to identify students who have previously taken honors level and/or AP courses and to inform them of honors, AP and dual credit courses available through IUES Passport Academies.

K^{12} will work with the Board to create a "dual pathway" for students to earn college credit while enrolled at the IUES Passport Academies taking Advanced Placement Courses as well as taking dual enrollment courses. Agreements will be sought with local colleges such as Ivy Tech Community College and Purdue University Calumet to develop an articulated agreement for co-enrollment whereby students can earn high school and college credits at the same time. Credits may be earned in a variety of ways, including: physically attending classes at the IUES Passport Academy site or on the local college campuses; by taking credit-earning online classes in a supervised setting at the Passport Academies; and by the school negotiating the right to have some of its coursework at the IUES Passport Academies' facilities considered a co-enrolled credit course at a college.

Enrichment opportunities will also be available to students who excel and show mastery of expected skills and standards as well as advanced progress in the K12 curriculum. To augment their learning experience, small group advanced work, including project-based studies will be available. This includes, but is not limited to, self-paced labs, academic challenges, and projects. Some students may also take advantage of Independent Study experiences, internships, or other job opportunities to support their studies. These opportunities will be made available through the local school Guidance Counselor and by utilizing other resources within the local community.

b. Staffing For Intellectually Gifted Students

While all teachers are Highly Qualified to teach courses they are assigned, Advanced Placement Courses are taught by teachers who receive training specifically for teaching AP courses.

c. Progress

Students enrolled in the AP College Board approved courses will be encouraged to take the AP exam and receive the opportunity to participate in the AP Network to prepare for the AP Exam.

Student Recruitment and Enrollment

1. Student Recruitment and Marketing

Under the contract with the IUES Board, K12 can provide pupil recruitment services, including creating, designing, and preparing information to assist parents and students in making an informed choice about IUES Passport Academies. As part of its outreach plans, IUES Passport Academies will make available information on their curriculum and policies to all persons, including parents and students considering enrollment in the school. The information will include, but not be limited to, background on the K12 curriculum, IUES Passport Academies, and a Parent-Student Handbook that includes policies on admission, enrollment, role of responsible adult, grade level promotion, course level placement, materials and computers, Internet service, school outings, special education, standardized tests, and teacher conferences.

IUES Passport Academies will use several means of recruitment for potential students and their families. K12, as part of the anticipated service agreement, will employ an enrollment director whose job will be leading the recruitment and enrollment process.

- Information sessions open to interested families and the general public;
- Grade-appropriate awareness activities such as flyers and sponsored events;
- Media such as radio, TV, Internet, and out of home advertising (e.g., billboards);
- Call centers to provide information to prospective applicants;
- Parent orientation sessions that will be conducted in the district, state, or online;
- Recruiting materials about the schools' mission, curriculum, leadership, and the application process .

2. Provide, as Attachment 14, the school's Enrollment Policy, which should include the following:

The IUES Passport Academies Enrollment Policy is included in this application as **Attachment 14.**

Student Discipline

1. Philosophy

IUES Passport Academies will work to ensure that each of its schools is a place where all students can learn and all staff can teach in a safe, secure and orderly environment. To ensure that an environment is created where teaching and learning can flourish, IUES Passport Academies has developed a series of rules that address proper student behavior, maintenance of order within the school and while people are engaged in school activities (see **Attachment 15** Code of Conduct), and a statement of student rights and responsibilities. IUES Passport Academies staff will ensure that parents and students are well informed of these policies both before enrollment and at the time students enroll in IUES Passport Academies. The Code of Conduct will be signed by families and students to show that they have read and understand the rules, in order to hold them accountable for their actions. As such, students will know what type of behavior is expected of them, and parents will be reassured about the type of classroom and campus environment maintained at IUES Passport Academies. Core Values of the IUES Passport Academies were defined above but include the: **Honesty, Responsibility**, **Self-Disciplined, Proactive**.

Student monitoring and academic accountability is critical to the success of all students in IUES Passport Academies. There are a number of ways to hold students accountable for the work they are doing, but this task relies most on the work of the Teachers and Academic Coaches who monitor most of student's daily activities while on campus. Their job is to make sure students are making progress on a daily basis. IUES Passport Academies will provide daily planners for each student to help teach organizational and planning skills in an effort to drive them towards being more independent.

Standardized Testing Procedures

IUES Passport Academies will administer all required tests, maintain control over those tests, and will ensure the security of those tests. The school will have a designated testing coordinator who is responsible for the receipt and secure distribution of all testing materials for the school. Test materials will be shipped to the administrative offices of IUES Passport Academies and will be under the oversight of the school testing coordinator. The school will utilize secure lock boxes to secure the tests at the end of each day. Tests will be administered by certified IUES Passport Academies instructional personnel. Specific testing dates will be published no later than one month prior to the testing window. IUES Passport Academies' Special Education program will meet the individual testing accommodations of students as designed in the student's Individual Education Plan (IEP). Upon completion of tests, the test administrators will return all test materials to the IUES Passport Academies school testing coordinator for prompt shipping to scoring centers. Results are returned to the administrative offices for distribution to students.

2. Provide as Attachment 15 the school's discipline policy

A Code of Conduct including a progressive discipline policy has been drafted and is being recommended for adoption by the IUES Board at the next Board meeting in compliance with all IUES Passport Academies policies. The Code of Conduct is included in **Attachment 15** of this application.

Parents & Community

1. Demand

Analysis of current data resulted in our conclusion that there is a substantial underserved population of youth and young adults in Indianapolis and Gary who have dropped out of high school and that this underserved population provides more than sufficient demand to meet our enrollment projections. We based our enrollment projections on (1) the number of potential students; (2) an analysis of other existing schools serving this population; and (3) the appropriate sized enrollment in each school to adequately serve the individualized needs of our students. IUES and its advisors from K12 researched high school dropout and graduation rates of school corporations across Indiana. Approximately 22,700 students in Indiana did not graduate from high school in 2011.[14] Additionally, we conducted data mapping to determine which communities had the greatest percentage of young adults ages 18-24 without a high school diploma. Lake and Marion have a combined count of 35,399 young adults ages 18-24 who don't have a high school diploma[15].

School Corporation	2010-2011 Graduation Rate	2010-2011 Dropout Rate
Indianapolis Public Schools	47.3%	20%
Gary Community Schools	51%	10.1%

In the last few years Goodwill has opened Excel Centers to serve as a pathway for high school dropouts to earn their diploma and go on to better postsecondary opportunities. Even with three campuses currently operating in Indianapolis and one new school scheduled to open in Anderson next fall, Excel Centers have reported a waiting list of up to 1,200 students. Excel Centers are only able to serve the tip of the iceberg in terms of demand.

Discussions with community and faith-based organizations have given us insight into the unique characteristics and challenges of the population we are looking to serve within particular communities in Indianapolis and Gary. In addition, our proposed partner, K12, has shared with us best practices they apply in other blended learning programs for drop out students in need of an alternative choice for their public school education. Key best practices are smaller enrollments and lower student-to-teacher ratios than traditional schools.

[14] Alliance, "Education and the Economy," 2011 (for Class of 2010); http://www.all4ed.org/publication_material/EconStates

[15] FILES: 2010 American Community Survey [Indiana]/prepared by the U.S. Census Bureau, 2010

As described previously in the Education Plan section of this application, under the contract with the governing board, K[12] can provide pupil recruitment services, including creating, designing, and preparing information to assist parents and students in making an informed choice about enrolling in IUES Passport Academies.

Parent Engagement

For our non-adult student populations, parents will play a key role in student success at each IUES Passport Academy. IUES Passport Academies' instructional model provides parents with the ability to monitor and support student learning virtually, a benefit for parents who may not be able to visit the school facility. In this model, parents can monitor student coursework, assessment data, mastery of objectives, etc. via the online systems and tools. In addition to monitoring student progress, parents and students will be encouraged to sign a *School-Family Compact*. The compact will outline how parents, the entire IUES Passport Academies staff, and students will share the responsibility for improved student academic achievement and the means by which the charter school and parents will build and develop a partnership to help children achieve the State's high standards. The parent compact will also include commitments from parents that demonstrate specifically how they will support their child's education at their Passport Academy.

Each IUES Passport Academy will produce a master calendar of school events that help promote the academic and nonacademic goals of the school. This calendar will be provided to students and parents at the beginning of the year. Examples of these events may include:

- Back-to-School Night
- Parent Conference Nights
- Student Academic Showcase Nights
- Student and School Award Ceremonies
- Field Trips
- School Events
- Board Meetings

Parent Involvement/Volunteering

IUES Passport Academies will provide a system for parent volunteerism, including an efficient system for background checks. This parent volunteering system will describe the parent volunteer opportunities, process for communicating to parents and a system for tracking and background checks.

Parent Communication Strategies

IUES Passport Academies will provide consistent, accurate, and appropriate communications to all families. These communications will include pertinent school and student information of all kind.

IUES Passport Academies will employ various communication methods to ensure that parents are well informed of all pertinent school issues in a timely manner. Each Passport Academy HOS and staff will utilize the following strategies and tools for such communication:

- Letters from the Head of School
- Bulletin boards
- School newspapers
- Access to teacher phone numbers, Kmail (email) access, etc.

2. Community Resources

There are many non-academic factors that can impede a student's ability to perform at his/her highest academic potential. We are committed to intensely understanding the non-academic needs of each student and equally committed to providing relevant support services to address those needs. The network of Passport Academies will also actively pursue additional community involvement and resources. There will be a vast array of needs among students and the schools will be committed to finding resources to support individual student needs to the best of IUES Passport Academies'' ability. A detailed list of the types of wrap-around services we expect to offer is provided above in Educational Design Section of this application.

3. Evidence of Community Demand and Support

Attachment 16 includes letters from several Indiana community-based organizations and individuals as evidence of the demand for and in support of the proposed Indiana network of Passport Academies.

Performance Management

1. Primary Interim Assessments

The primary interim assessments that the IUES Passport Academies will use to assess student learning are: TABE;

Scantron Performance Series; Scantron Achievement Series; K12 Embedded Curriculum Assessments (e.g., quizzes and unit tests); Study Island; ACT's Explore, Plan, Engage, and ACT College Readiness Tests; Accuplacer (for some students).

2. Data

IUES Passport Academies will be rooted in a culture of data analysis where the Head of School, teachers, academic coaches, parents and students are keenly aware of the academic skill levels (mastery and non-mastery) in each subject area. Data analysis is fundamental to this process where teachers and academic coaches review student progress in order to remediate or enrich each student's learning experience. This intense focus on data analysis is what allows students in the blended school model to have a customized learning experience.

IUES Passport Academies' instructional leaders and staff engage in frequent "Data Meetings" to analyze and disaggregate data to drive teaching and learning. Data meetings are purposeful and follow specific process for reviewing, analyzing, and reflecting on the data. They are scheduled regularly and include:

Instructional Data Meetings Including:

- Achievement Exercise Report - A list of students and the objectives they have mastered and not mastered to show progress they are making to become proficient towards mastering all grade level standards in each subject. Teachers will make a list of whom to target and provide focused instruction to in the upcoming week.
- K12 Performance Data Reports – List of all students and their overall course averages will be used to quickly identify struggling students.

Student Data Meetings

Teachers will have regular data meetings with students to discuss their goals, how they are progressing toward these goals, and develop improvement strategies.

Leadership Team Meetings Including:

The Head of School will meet with the Administrative Team to review how the school is doing overall.

- Staff Meetings: Data from the Leadership Team Meetings are summarized and shared with all staff at monthly staff meetings.
- Scorecard Meetings: The staff will have Scorecard Meetings to reflect on how the school is tracking against monthly, quarterly and yearly academic, enrollment, financial, reporting, operational and other targets. These meetings will take place at least four times a year after each quarter concludes and data should be analyzed collectively

3. Student Information System

Students, parents, teachers, administrators and the Board may continuously measure and receive reports on student achievement gains during the school year using the school's learning management and student information systems. Using these systems, the school will deliver the curriculum to its students and permit teachers and parents to see, at every moment, how the student is progressing. These systems provide each student with an individualized learning experience. The school will be using the following management tools which are components of the education program that K^{12} will provide to the school:

Learning Management System (LMS)

The LMS is an intuitive, web-based software platform. It provides access to more than 22,000 online lessons and courses; lesson/unit/term assessments; hands-on activities; alternative learning approaches; classroom collaboration tools; and optional and supplemental lessons and activities, as well as lesson planning and scheduling tools and progress tracking tools. Students, parents and teachers can access the LMS with an Internet connection at any time.

Student Administration Management System (SAMS)

SAMS, the master digital database, captures raw student data, stores it, organizes it, and integrates with other systems. SAMS collects and provides all of the information required to manage student enrollment and monitor student performance. TotalView School and MyInfo are two sides of SAMS. They are applications for administrators, teachers, parents, and students to use that display the information stored in the SAMS database. TotalView School serves the school—teachers, administrators, and other staff—by providing a secure, internal communications tool, an overview of their students' current progress and history, and the status of the shipment of curriculum materials. It allows teachers to interact one-on-one with students. Parents and students use MyInfo as a secure communications tool to track students' course progress, grades, and attendance history, and to check the status of course material shipments.

Please refer to the response to the immediately preceding question explaining how school staff interprets and uses student performance data to improve instruction and student achievement. The Head of School will work with his/her administrative team and staff to determine appropriate professional development topics to address throughout the year including analyzing, interpreting, and using performance data to improve student achievement.

4. Training and PD for Data Driven Instruction

As we mentioned in the immediately preceding response, the Head of School will work with his/her administrative team and staff to determine appropriate professional development topics to address throughout the year including using performance data to improve student achievement. Generally these events will be scheduled monthly and are targeted to address specific school goals and needs. K^{12} has a number of people who are experts on this topic using K^{12} products and services. The K^{12} Vice President Blended Schools can provide support in organizing additional support from these specialists.

5. Corrective Action

The IUES Passport Academies' Student Achievement Improvement Process (SAIP) will be a primary means of self-evaluation of the curriculum, instructional methods and practices on an annual basis. The SAIP process is a multi-stage planning process which will take into consideration data collected about the success the school is having in reaching its academic and nonacademic goals as stated in measurable terms in this charter application. The stages of the SAIP process are: (1) Prepare for Readiness to Benefit; (2) Collect, Sort, and Select Data; (3) Analyze the School Data; (4) Set and Prioritize Goals; (5) Research Effective Practices; (6) Craft Action Plan; (7) Monitor Implementation of Plan; (8) Evaluate Impact on Student Achievement.

In addition to the SAIP process, IUES Passport Academy will also be involved in self-assessment and evaluation in other ways. School staff will regularly track and report to the Board, administrators, teachers, and students the successes and challenges the school is experiencing in realizing the school's vision, achieving its mission, and accomplishing its goals and objectives.

SECTION III: IMPLEMENTATION PLAN

Human Capital

Network-wide Staffing

	Year 1	Year 2	Year 3	Year 4	Year 5
Number of high schools	2	4	4	4	4
Total schools	**2**	**4**	**4**	**4**	**4**
Student enrollment (Planned/Maximum)	150/180	200/240	250/300	250/300	250./300
Management Organization Positions – School Staff Employed by K^{12} per the Services Agreement					
Head of School	2	4	4	4	4
Operations Manager	1	1	1	1	1
Special Education Director	1	1	1	1	1
Information Technology Manager	1	1	1	1	1
Registrar	1	1	1	1	1

	Year 1	Year 2	Year 3	Year 4	Year 5
Office Administrator	4	4	4	4	4
Total back-office FTEs	**10**	**12**	**12**	**12**	**12**
High School Staff					
Guidance Counselor/Dean	4	4	4	4	4
Classroom Teachers (Core Subjects)	8	16	16	16	16
Special Education Teachers	2	4	4	4	4
Specialized School Staff 1 [Nurse—contracted*]	2	2	2	2	2
Teacher Aides and Assistants [Academic Coaches/Student Teachers]	0	8	8	8	8
Total FTEs at high schools	**26**	**34**	**34**	**34**	**34**
Total Network FTEs	**26**	**34**	**34**	**34**	**34**

*IUES Passport Academies will provide health services from personnel holding appropriate credentials. We plan to explore partnerships with local medical service providers in Marion and Lake Counties in order to co-locate health clinics in one or more of our facilities. This would enable us to provide high quality health services at a greatly reduced cost to the network. For example, Hoosier Academy, another school managed by K12 in Indianapolis has partnered with Learning Well to provide nursing services to their Middle and High School at no cost.

School Leadership & Staff Hiring, Management and Evaluation

1. Recruitment and Development of IUES Passport Academies Heads of Schools

Our timeline and process for recruiting and hiring the school leaders in all of the schools in the IUES Passport Academies network is described in **Attachment 3**.

2. Recruitment and Development of IUES Passport Academies Teachers.

In the first year of operation, the process to advertise for, select and employ instructional, counseling and support staff for the IUES Passport Academies will begin after ICSB has approved the charter and school enrollments are confirmed. After the first year of operation, teaching personnel and other staff will be recruited beginning in the spring and continuing into the summer each school year. Instructional and other staff will be recruited with advertisements in well-known educational trade publications such as *Education Week*, via online job recruitment sites such as Monster.com, and in local media throughout Indiana. School administrators will also attend job fairs and set up recruiting sites to inform teachers about the school and interview them. An effective method of recruitment is by referral from current teachers. The number and types of teachers recruited will depend on student needs from year to year. Ongoing enrollment will necessitate hiring throughout the year as necessary.

IUES Passport Academy teachers will be experienced educators and highly qualified as defined by the No Child Left Behind Act of 2001. They will have a Bachelor's or higher degree, be Indiana-licensed, and demonstrate competency in high school education based on their assignment. Each teacher will also demonstrate technological competency. The faculty will include regular education and special education teachers. The school will employ, as needed, appropriately licensed ESL or bilingual teachers for the ELL identified students. In addition, all general education teachers will receive training in teaching and providing modifications to ELL students and providing assistance to parents/coaches.

Teacher candidates will be interviewed by the HOS who will make hiring recommendations to the IUES Board. All instructional staff will undergo a criminal records check. Teachers will be employed by IUES. Compensation levels (salary and benefits) for IUES Passport Academy teachers will be competitive with local salaries and benefits.

3. Staffing Excellent Teachers

As we have stated previously in this application, the network of IUES Passport Academies will provide excellent teachers for every student in our schools by:

- Hiring the most qualified teachers (experienced educators; highly qualified as defined by the No Child Left Behind Act of 2001; Bachelor's or higher degree; Indiana-licensed; demonstrated competency in high school education based on their assignment; and demonstrated technological competency).
- Implementing a teacher evaluation process and tools to be developed prior to school opening by the Head of School and affirmed by the IUES Board. Head of School will have access to teacher performance data on a regular basis. Teachers will be evaluated at least twice a year by the Head of School and data will be collected by using a specific performance rubric outlining criteria for all elements of the job as it relates to "Instruction, Communication, and Professionalism". Evaluation results will be shared with each teacher following the observation in a meeting with the Head of School and new goals will be set to improve each individual's performance over time. In addition to formal observations, teachers and staff members will be observed informally and provided with feedback and suggestions throughout the year. Through the formal observation process, each staff member will identify specific goals to achieve throughout the year, including the goals in the teacher's Individual Professional Development Plan, that support the school's mission. From their personal goals, staff members will develop measurable objectives and targets based on among other things areas for improvement and areas outside their general job responsibilities that support the school's general goals.

Evaluating the Performance of the School leader and teachers

Monitoring and assessing the HOS' performance with respect to the school's specific educational and financial goals is among the IUES Board's primary responsibilities. To facilitate this process, the HOS will provide regular reports on students' academic progress, the school's financial performance, facilities and other aspects of the school's business operations, human resources issues, parent satisfaction, and other relevant matters. An annual review of the HOS will be done using survey results from various constituencies.

Throughout the school year, the HOS will be expected to meet performance standards that determine effective school leadership: strategic leadership, instruction and assessment, organizational management, school climate and culture, communications, and policy and governance. The HOS will both self-evaluate and be evaluated by the K12 Regional Vice President Blended Schools, based on these standards and the HOS competencies. In the event that issues arise regarding the performance of the HOS, such issues will be addressed as set forth in the draft Services Agreement (see **Attachment 8**).

Administrative staff will be evaluated throughout the year by the HOS. The HOS will build staff reinforcement of the school culture, values, and behavioral norms into the evaluation process. Administrative and instructional staff members will be evaluated based upon their effectiveness in these areas and a plan for improvement will be developed if necessary.

A teacher evaluation process and tools will be developed prior to school opening by the HOS and affirmed by IUES. However, K12's Passport Manual does provide a recommended evaluation rubric. The HOS will have access to teacher performance data on a regular basis. Onsite teachers will be evaluated at least twice a year by the HOS and data will be collected by using a specific performance rubric outlining criteria for all elements of the job as it relates to "Instruction, Communication, and Professionalism". Evaluation results will be shared with each teacher following the observation in a meeting with the Head of School and new goals will be set to improve each individual's performance over time. In addition to formal observations, teachers and staff members will be observed informally and provided with feedback and suggestions throughout the year.

Through the formal observation process, each staff member will identify specific goals to achieve throughout the year, including the goals in the teacher's Individual Professional Development Plan, that support the school's mission. From their personal goals, staff members will develop measurable objectives and targets based on among other things: (1) areas for improvement; and (2) areas outside their general job responsibilities that support the school's general goals. Teachers will be evaluated on three domains: Instruction, Communication, and Professionalism.

4. Addressing Unsatisfactory HOS or Teacher Performance

In the proposed services agreement, there are provisions for the IUES Board to address their dissatisfaction or concern about the job performance of a K12 staff member assigned to the IUES program. The first step is for the IUES Board to discuss the matter with the HOS. If the dissatisfaction is with the HOS, the IUES Board is to provide written notice to K12 with an explanation of the specific issues and requested action. It is K12's responsibility to review the request and respond in a timely manner.

Each year, each teacher and the Head of School will create the teacher's Individual Professional Development Plan. The plan will have measurable objectives based on, among other things, the previous year's annual evaluation, and the assurance that the teacher is highly qualified in the core academic subjects the teacher teaches and is licensed in the same manner as all other public school teachers in Indiana. The teacher is the first and foremost connection between the student and IUES Passport Academy. The effective performance of their duties is critical to student success and retention. Annual performance evaluations shall be based on, among other things, how well the teacher's professional development plan was carried out and the measurable objectives were achieved. Formative evaluations will be conducted at least twice each year. The HOS will be involved in continuous quality development and ongoing evaluation of performance. The school will employ growth plans and intervention plans to assist struggling teachers. These plans will have measurable goals for teachers to achieve to change their intervention status. With this approach to evaluating teacher performance and remediating if needed, we think we will retain our teachers and that they will be high performing. There are also provisions in the proposed services agreement for K12 to raise concerns about IUES student support employees (e.g., teachers, guidance counselors, and academic coaches.) K12 will recommend the addition or elimination of specific positions. That request will be considered by the Board.

If there is turnover in the administrative and teaching staff, we are prepared to recruit and train high performing administrators and teachers in their place with the assistance of our ESP, K12.

5. Compensation

According to the terms of the proposed services agreement (see **Attachment 8**), K12 will employ the IUES Passport Academies administrators. IUES Passport Academies will employ the teachers and support staff.

Benefits Information:

K12 offers a generous suite of benefits programs for its employees. While benefits packages vary depending on location and employment status, benefits may include:

Comprehensive Health Benefits - K12 offers medical and dental coverage for individuals and their eligible dependents, including domestic partners. K12 offers multiple plan options to best meet the employee's (and their family's) needs. Coverage is effective the first day of employment: Medical, Prescription / Pharmacy, Dental, Vision

Protection - K12 offers programs that help employees prepare for life's ups and downs: Basic Life and Personal Accident Insurance, Voluntary Supplemental Life, Short-Term Disability, Long-Term Disability

Retirement Savings Plan - K12 understands that individual planning for retirement is critical. Therefore, we offer a 401(k) program with multiple investment options to help employees save for their retirement through Principal Financial Group. Currently, K12 offers a discretionary company match.

Pre-tax Benefits - Pre-tax benefit programs are designed to help lessen the financial burden to employees so they can take care of themselves and those most important to them: Health Care Flexible Spending Account, Dependent Care Flexible Spending Account.

Work/Life Balance Programs - K12 encourages all employees to maintain a balance between work and their personal lives. K12 encourages employees to take advantage of all the wellness programs so employees can take time to recharge: Paid Holidays, Paid Time Off (vacation, sick, and personal days), Assistance with certain gym memberships, Wellness Programs, Employee Assistance Program (EAP).

IUES Passport Academies will formalize its benefit package during the year of planning but will include participation in a retirement plan as prescribed by law. If IUES Passport Academies cannot obtain benefits which are as comprehensive and cost-effective as K12's, the two parties will discuss the merits of having K12 employ the teachers.

Professional Development

1. Support and Development of HOS

K[12] professional development programs, both in-person and online, enable teachers to better utilize technology for instruction. According to both the International Association for K–12 Online Learning (iNACOL) and *Education Week*, K¹² is the nation's leader in preparing teachers to teach using online curriculum. The IUES Passport Academies' instructional staff will participate in a variety of engaging training sessions year-round both in person and asynchronously, which will include, but are not limited to a variety of types of training to maximize effectiveness in the blended school environment, introduce and refresh them about effective online instructional methodologies, and to develop their confidence in their ability to perform well in a public charter school environment.

In order for teachers to be effectively led by the school administrators, academic school leaders will participate in professional development on a monthly basis to ensure that the school is following its strategic plan for student achievement and strategies are executed and evaluated for quality performance. Administrators will also take advantage of leadership training in best practices in leadership, curriculum, and instruction such as attending the national charter school conference, National Charter School Resource Center trainings, the iNACOL conference, state and national Title 1 Conferences, and ICSB, Indiana Department of Education, and Indiana Public Charter Schools conferences.

2. Professional Development – Prior to School Opening

School Based Training will take place before school starts and continue throughout the year as needed. The purpose of the school-based training is to provide teachers and staff with additional training that is more school specific and essential to their daily responsibilities at the school. Depending on needs that come up throughout the year, K[12] will provide additional ongoing support and training to the staff and school as it is needed.

3. Professional Development Schedule

The entire IUES Passport Academy staff will engage in monthly professional development meetings and weekly staff discussions. During the monthly professional development meetings, the school will receive training on various topics that will enhance the support programs at the school, in addition to improving academic offerings and instruction. Topics may include differentiation, instructional strategies, RtI training, data analysis, data metrics review, and school goals.

Weekly Staff Meetings will be used to address important announcements, plan school events, field trips, and discuss current student challenges. The team will also use this time to review student data and determine appropriate curriculum or content needs for the upcoming week. Teachers will identify who may need remedial support and identify skill deficits that will be focused on the following week. Additionally, staff will review student progress consistently and develop plans that are individualized to support students who fall behind or get off track in their coursework.

All IUES Passport Academy specific professional development opportunities are closely linked to the school's Student Achievement Improvement Plan (SAIP). The responsibility for planning and providing this additional, school specific ongoing professional development belongs to the Head of School with the assistance of the academic administrator. Topics covered will include assessment, technology, instructional strategies, and content.

Special education teachers will be included in all aspects of the professional development. In order for teachers to develop effective IEPs with appropriate content, instructional modifications, and measurable goals, teachers of students with special needs must be very knowledgeable about the content the special needs students are studying. In some cases, assessments will also need to be modified to meet the terms of a student's IEP. Cases like these demand that special education, and regular education teachers are familiar with the scope and sequence of the curriculum, the goals for each child, and the ways they can best achieve success through content or instructional modification.

4. Evaluating Professional Development Effectiveness

In addition to surveying teachers and administrators about the effectiveness and success of the professional development program, the SAIP process will be another method of evaluating professional development in terms of analyzing the effectiveness of the instructional methods and practices in the IUES Passport Academies.

Start-Up & Operations

- **Start-Up Plan**

In **Attachment 17** we have provided a detailed start-up plan for the period between charter approval, execution of the charter agreement, and the first day of student attendance for the two IUES Passport Academies opening in the fall of 2013 (Indianapolis and Gary Passport Academies).

The proposed IUES network of Passport Academies will open in the fall of 2013, and therefore this question is not applicable to our schools.

Start-Up Staffing and Costs

The Start-Up (Year 0) Budget and Staffing worksheets in the Budget and Staffing Workbook are provided in **Attachment 19.**

- **Transportation**

It is the intent of IUES Passport Academies to ensure that transportation is not a barrier to equal access for students. Information sessions open to prospective students and their families and the general public will be held at locations convenient to public transportation throughout the Indianapolis and Gary school districts as well as online. One of the main criteria for the locations of the Passport Academies' facilities will be convenient access to and from transportation by bus, car and foot. We will educate all parents and students about the reduced student fares available on IndyGo, Gary Public Transportation Corporation, and the Northwest Indiana Regional Bus Authority. We also assume that some students will drive to school in their own vehicles. We will seek facilities which are convenient to secure parking. IUES Passport Academies will rent buses, as needed, for field trips and athletic events.

IUES Passport Academies will comply with the federal McKinney-Vento Homeless Assistance Act if and as applicable including but not limited to meeting the following requirements of that law:

- Homeless students have a right to transportation to school;
- Schools must post information in the community regarding the rights of homeless students, in schools and other places that homeless families may frequent; and
- School districts must identify a McKinney-Vento Liaison to assist students.

IUES Passport Academies will provide bus passes to homeless students and low income students as needed. Our primary means of providing transportation assistance will be through the provision of bus passes for public transportation. If public bus transportation is unavailable, we will identify and provide an alternate means of transportation to and from each Passport Academy, if, and as, needed. Arrangements for transporting students with special needs will be made on an as-needed basis pursuant to the student's Individualized Education Plan (IEP). Transportation for special education students will be provided in accordance with all applicable State and Federal laws.

- **Safety and Security**

Overall Plan

IUES Passport Academy intends to adopt policies, procedures and plans during the planning year to ensure a safe, orderly and drug-free school. These plans will be reviewed with all school staff and will be evaluated regularly by the Board, staff and families for effectiveness, fairness and utility, modifying where necessary. A rough draft Student and Family Handbook is already available upon request as is a draft Safety plan. IUES Passport Academy rules and safety issues will be explained to parents and students at least several times a year in meetings and in K^{12}'s online forum for parents and students.

IUES Passport Academy will have zero tolerance policy in regards to weapons and violence, including threats of violence. It is our intention that IUES Passport Academy culture and student behavior shall create an orderly environment in order to allow the students and staff to focus on learning. The Head of School will ensure that all staff are provided with step-by-step procedures for reporting and handling all serious incidents that might occur in or near IUES Passport Academy campuses.

Discipline Philosophy and Training

Each staff member will be trained in Harry Wong's approach to classroom management and organization. This approach contains key elements that will foster student involvement and cooperation in all classroom activities; and establish a productive working environment. These elements include:

- Establishing a positive climate
- Organizing the classroom
- Developing rules, routines, and procedures
- Assigning and managing work
- Preparing for instruction
- Managing behavior
- Maintaining momentum

Instituting these practices school wide will allow for consistency and continuity for all students regardless of their age or the classroom they are assigned to.

Additional Safety Measures

After extensive research and consultation with other charter schools, we plan to create a safety plan that encompasses these strategies and procedures:

- Student ID badges will be distributed to each student to wear throughout the day. The ID badge will serve as their personal identification and indicates the student is allowed entry into or out of the school.
- A visitor check in system will be implemented that requires each visitor to the school to check in immediately upon entering the school building. This system will be easy to use while supporting a safe environment for all, including the visitor.
- Students using inquiry-based learning, for instance in hands-on laboratory investigations, will follow school adopted safety procedures and adhere to experimental procedures.
- As defined by city code, students will have regular practice in following emergency drills: tornado, fire, bomb, stranger on campus, plus any other as applicable or required by state law.
- Daily attendance will be taken and families will be notified of a student's absence in a timely manner.
- The school will have access to an auto-dialer that automatically calls phone numbers supplied by the family to alert them of school closings due to weather and other emergencies.
- Detailed procedures for drop-off and dismissal will be created, practiced and employed to guarantee the safe transfer of students to their families, and from their families to the school as needed.
- We will comply with all applicable health and safety requirements (e.g., immunizations, building inspector, fire department, and municipal license authority, all other federal, state, and local health and safety laws and regulations) for our facility. All necessary certificates and occupancy permits will be obtained and will be in effect prior to the opening of the school.
- Parents of non-adult students will be required to sign permission slips for any activities that take place off-site.

Discipline

A progressive discipline policy for serious infractions has been drafted for IUES Board consideration (**see Attachment 15**)

Technology Specifications and Requirements

a. Technology Equipment and Services

When students are at school, each student will have access each day, for the time they are in attendance, to a personal laptop or thin-client computer. These computers will support the then currently available Operating Systems, such as Microsoft 7. Each computer will have ample protection for the student's appropriate curricular experience as well as equivalent Lo-Jack – like systems to prevent theft or misuse.

Students must also have access offsite to a computer and Internet service that meets the minimum specifications necessary to access the school's curriculum on the K¹² Online School (OLS) at home or at other locations where students are studying. Minimum specifications are:

- Speed: 1.8 GHz or better
- RAM: 512 MB (minimum)
- Disk space: 20 GB or more
- CDROM or DVD drive
- Monitor: 15-inch flat panel
- Audio: 16-bit sound card
- Modem: 56 kbps (minimum)
- Microphone and speakers
- Operating system: Windows XP SP2
- Microsoft® Internet Explorer version 6.0
- Adobe® Reader®
- Macromedia Flash™
- Shockwave™
- QuickTime®
- McAfee® Virus Protection

Minimum connection requirements to access the K¹² OLS would be a 33.2 kbps dial-up connection. A high-speed Internet connection, such as a DSL or Cable Modem connection, is recommended.

Students who maintain perfect attendance in the first thirty days of the semester will be loaned a laptop for academic use. These laptops will be inventoried and tagged as property of the school. The intention of this program is to assist these well-performing students to carry on their studies when not at the IUES Passport Academy school site. All students who have been assigned laptops for perfect attendance during the first 30 days of school will be required to return their laptops when they have accumulated 7 unexcused absences. The school will adopt policies for the use of these laptops including conduct that will constitute abuse of this privilege and grounds for revoking the privilege.

K^{12} will provide technical support for K^{12} issued computer equipment (see "Technical Support" in the next section) and has extensive experience and success providing this support for families in all 50 states and in 70 countries. If students are using their own computer equipment offsite, students and their families are responsible for the maintenance and repair of that equipment.

b. Technical Support

Technical support for student online learning activities at school will be provided by teachers and the school IT staff with back up, as needed, from appropriate K^{12} regional and corporate staff. All technical support personnel are knowledgeable in K^{12} systems' use and have received training on resolving technical support problems. Technical assistance will be provided to our students and their families by K^{12} according to the terms of our educational products and services agreement. K^{12} provides technical support for students and parents including web-based, email, and phone support. All support personnel are knowledgeable in K^{12} systems use and have received training on resolving technical support problems. K12's provides support in three (3) general areas: 1) Customer Care (using the LMS, shipment of materials); 2) Technical Support (available only for K12 issued equipment or K12 systems); 3) Enrollment Consultants (assistance for enrolling students).

K^{12} Technical Support is managed by a knowledgeable and mature Customer Support Team. Students and families can choose to access support through three separate channels; information about all three channels is available via the "Customer Support" portal on the K^{12} website:

- Phone Support: The K^{12} Customer Care and Tech Support is staffed to handle technical support issues 24 hours per day, 7 days per week. The telephone number is provided on the K^{12} Customer Support portal.
- E-mail: E-mail support is available 24 hours per day, 7 days per week. The form-driven front end is accessed via the K^{12} Customer Support portal, and guides the customer to provide all necessary information to allow a fast and accurate response. K^{12} responds within 24 business hours of receiving a customer e-mail inquiry.
- Self Help: Self help is available 24 hours per day, 7 days per week. This web-based channel is accessed via the K^{12} Customer Support portal; it provides answers to frequently asked questions (FAQs), video tutorials, teaching resources, software downloads, and other information on common issues.

Data Retention, Security, and Confidentiality Procedures

All student data is currently stored indefinitely by K^{12}. While the K^{12} reserves the right to re-evaluate this policy within all applicable data retention laws and regulations, they believe that permanent record storage (through active databases or archives) is vital to presenting accurate information regardless of timeframe.

All school personnel are trained in and adhere to the Family Educational Rights and Privacy Act (FERPA) to ensure the confidentiality of student records. This also includes maintaining equal levels of security on electronic transmission of information. All IUES Passport Academy faculty and staff will sign a Computer and Network Acceptable Use Policy related to Internet access to student information.

c. Dealing with Technical Malfunctions

The K^{12} Online School (OLS) is available for students and parents to log in 7 days a week, 24 hours a day. The OLS exceeds 99.99% uptime and has never been down for an entire day. As part of good preparation, parents/students are requested to print their students' lesson guides two weeks in advance. These lesson guides reference the materials, activities, and lessons that students are required to complete on a daily basis. Alternatives to logging into the OLS in the event of OLS system down time and, instead, using the materials cited in the lesson guides to complete each activity and lesson are clearly explained. Upon request, these materials can be mailed in hard copy to families experiencing an interruption in Internet service. Additionally, if the K^{12} OLS were unavailable at any time, students are invited to visit websites where activities and/or test preparation lessons are offered using their school log-in credentials (examples: www.studyisland.com, www.streaming.discoveryeducation.com, and http://kids.nationalgeographic.com/kids/?source=NavKidsHome, www.solpass.org) If the primary or supplied computer experiences technical issues, the student can use another computer within the environment to access required instructional content until the primary or supplied computer is repaired since the required content is accessible using any computer that has Internet access. If there is a technology services (ISP) failure, the student can temporarily access local publicly available Internet (e.g., at a local public library) and use a computer to access the OLS and all other K^{12} systems required to access instructional content until the ISP failure is corrected.

Students using the curriculum at home or offsite must also have Internet access which they are responsible for setting up. The school will establish a set rate to assist qualified students with the cost of their home Internet service. K^{12} will ask that all families first contact their Internet Service Provider (ISP) if they are experiencing Internet connectivity problems. If the ISP determines there is a problem with K^{12} issued hardware or software, families will contact the K^{12} Technical Support staff for further assistance. All students may also access the school's web-based curriculum via local publicly available Internet such as in public libraries.

d. Data Protection and Back-up

K^{12}'s content development and learning management systems have been deployed in a fully redundant configuration into a biometrically secured level 3 facility with complete data redundancy to include mirrored file systems, hourly data snapshots, daily incremental backup, weekly full backup, secured off-site backup storage and secondary data center for disaster recovery in a distinct geographic location.

Insurance Coverage

IUES Passport Academies will indemnify the Indiana Charter School Board, the Indiana Department of Education, any related entities, and their respective members, officers, employees, officials and agents. In addition, IUES Passport Academies will obtain liability insurance coverage naming the Indiana Charter School Board and the Indiana Department of Education as Additional Insured on a primary basis. We are working with Arthur Gallagher & Co. Insurance Brokers to obtain insurance coverage. The coverage will meet or exceed the insurance requirements of the Indiana Charter School Board including Workers' Compensation Liability, Commercial General Liability, Directors' and Officers' Liability and Legal/Professional Liability, Automobile Liability, Umbrella/Excess Liability, Property Insurance, Student Accident Coverage, and Fidelity Bond. (see **Attachment 18**). The estimated cost for insurance has been included in the budget in **Attachment 19**.

Facility Plan

1. *Facilities*

Our first two Passport Academies, opening in the fall of 2013, will be located in the Indianapolis Public Schools district and Gary Community School Corporation district. Our third Passport Academy, opening in fall of 2014, will also be located in the Indianapolis Public School district. The fourth Passport Academy, also opening in the fall of 2014, will be located in Lake County. The specific school district in Lake County is under consideration.

K^{12}, on behalf of the IUES Passport Academies, will lead the facilities search. K^{12}, as a management company providing services to its charter school partners, has demonstrated the capacity to open more than 20 new blended learning locations throughout the United States. The company employs professionals with experience in real estate transactions, municipal approvals, construction, and the installation of the furniture, fixtures, and equipment. As described in the description of the Founding Group advisors, Mr. Zach Wasilew, K^{12} Vice President of Blended Schools Planning and Operations will oversee this process. Mr. Wasilew has more than fifteen years working in commercial real estate and over six in opening school facilities for K^{12} and his previous employer, Rasmussen College; this work includes facilities' and budget planning, real estate transactions, and construction management

K^{12} has contracted with local, licensed commercial real estate agents in both Indianapolis and Gary to assist in the search and securing of the needed space for our schools opening in 2013. In looking to secure an appropriate facility to house the Passport Academies, K^{12} will analyze property rental and utility rates across the school districts to ensure that lease and build-out costs do not exceed the budget. K^{12} estimates that it is a 10-month process with multiple stages and interdependency of tasks including selecting, acquiring, build out and taking occupancy of the school facility. The timeline below provides detail. At this point, K^{12} is searching for appropriate real estate on behalf of Passport Academies and thus, according to the timeline inserted below, we are in Phase I of facilities development.

Calendar	Jul-12/Feb-13	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13
Month		1	2	3	4	5	6	7	8	9	10
1) Site Selection		ID Partners	Review Market	ID Sites							
2) Negotiation				RFP	LOI	Lease	Signed				
3) Construction						Plans	Drawings	Approval	Construction	Fit Out	Site Open
4) Operations - Hiring	Recruit HOS/Ofc Admin			Recruit/Hire Other Admin/Instr. Staff (Jan-June-13)		Hire HOS/Ofc Admin				Train Personnel	School Starts
5) Operations - Enrollment				Recruit/Enroll Students			Open Enrollment Ends				School Starts

K[12] is utilizing the following criteria in searching for the appropriate facilities:

- Safe location for students to access before and after school hours;
- Relatively easy access to public transportation;
- Central location in the core of the metropolitan area that provides access to a large group of the target student population;
- A building that accommodates our space needs and avoids any occupancy problems, e.g. Compliance with ADA, no environmental liability, use and zoning permitting appropriate;
- A landlord that can deliver the space affordably, on time and be a solvent partner; and
- A dedicated, separated first floor entrance for the students

In order to carefully plan for each Passport Academy's facility needs based on the educational program and anticipated enrollment, K[12] conducted an analysis to project required square footage, classroom space and other education spaces. Based on our current student demand, we are planning on utilizing a space of approximately 7,500 to 10,000 square feet. This space allows for large blended classrooms complemented by learning labs for direct instruction as well as sufficient space for additional group work, staff offices, and a faculty lounge.

The safety of our students and staff is our primary criteria for evaluating the suitability of space for our academies. Other important criteria for site selection are: access to public transportation; controlled pedestrian crossings and safe walking access; location on a major street with safe and easy student drop-off; affordability; walking distance to retail food establishments; open plan configuration to minimize renovation costs; sufficient parking; and availability with appropriate renovations for the school to open in the fall of 2013. The facility should also provide sufficient wiring and communication capabilities to support the high-tech nature and infrastructure of a Passport Academy. It will comply with applicable building codes, fire prevention codes, and local zoning codes as well as health and safety codes, laws, and regulations including the federal Occupational Safety and Health Act of 1970 and the Americans with Disabilities Act (ADA) established by law for school buildings. Our school facility will have building security, facility maintenance, and restricted access to school premises allowing for a safe environment conducive to learning.

We plan to lease sites to defray the capital requirements for opening and to provide flexibility for growth or relocation depending on student need. Based upon K[12]'s facilities experience, leasing will enable us to find a partner to make the capital improvements needed to retrofit an existing building, and the school can then reimburse the landlord over time in rent. We expect to match the term length and/or a right to terminate with the applicable time line of charter approval and also any additional opportunities to renew. For each school, we have estimated anticipated Year 1 facility costs (rent at $159,000 in Indianapolis and $127,000 in Gary); maintenance $30,000; and utilities (phone and Internet; other utility costs are included in the rent) $32,000. We estimate that the landlord on behalf of the charter school will need to spend approximately $200,000 in build out. This amount is variable based on the size of the leased facility and the original building condition. All facility improvements will be completed in compliance with applicable law and regulations utilizing appropriately licensed architects and contractors.

There are further costs the school estimates that the landlord most likely will not provide. We estimate that each IUES Passport Academy will spend an additional $20,000 on soft costs for the project: consultants, architects, and lawyers for the real estate transaction. We expect to spend an additional $170,000 for furniture and fixtures. And, as stated earlier in this proposal, a Passport Academy is highly dependent on technology and thus Internet access. As a result, each of our schools will make considerable investments in IT infrastructure estimated at an incremental $30,000: wireless network, Internet connectivity devices including routers and switches, and data cabling.

We are in process of reviewing the recommended properties and have identified three potential locations for the Indianapolis school facility and two locations for the Gary facility which may be utilized for our schools opening in the fall of 2013:

Indianapolis Passport Academy Fall 2013 Potential Sites

- 136 N. Delaware St, Empire Square, Indianapolis, IN 46204
- 922 N. Pennsylvania St, Indianapolis, IN 46204
- 2220 N. Meridian St., Indianapolis, IN 46208

Gary Passport Academy Fall 2013 Potential Sites

- Southeast corner of Clark Road & 5th Avenue (US 20)
- Southwest corner of Grant street & 35rh Avenue

Due diligence on all of the buildings in regard to use permitting, environmental liability, construction schedule, landlord solvency, state and local health and safety requirements as described in IC § 20-26-7, 20-24, and as required by the Indiana State Department of Health, Office of the State Fire Marshall, Department of Public Works, and the corresponding local agencies will be conducted. A similar process will be utilized for the two schools that will be opening in the fall of 2014. Based upon K^{12}'s experience with facilities' planning, we are confident that appropriate facilities can be identified, acquired and prepared for start of school.

2. Identified Facilities

This question is not applicable to our application because we are still in the process of identifying a facility. Please see our response to the previous question in this section.

3. Network Facilities Plan

K^{12}, on behalf of IUES Passport Academies, intends to secure the services of local real estate agents, attorneys, general contractors, and subcontractors where applicable to assist in completion of tasks related to securing facilities. These sub-contractors will be competitively bid on a quality and cost comparison basis to find the right partners for the school. The K^{12} team will oversee these partners to manage a successful delivery of the facilities on time and on budget. The timeline for identifying our third and fourth facilities is similar to that provided in the question above except that it runs from November 2013 through August 2014.

Budget & Finance

1. Accounting, Purchasing, Payroll, and Audits

According to the terms of the proposed services agreement, with oversight by the IUES Passport Academies Board, K^{12} will provide administrative services to IUES Passport Academies at the network and school levels, including financial management, budgeting and financial reporting, and maintenance of financial and student records. IUES Passport Academies will, at all times, maintain its financial records in compliance with generally accepted accounting principles (GAAP) as defined by the American Institute of Certified Public Accountants and Indiana State Board of Accounts ("SBOA") accounting, auditing and reporting procedures and requirements.. IUES Passport Academies will engage in financial planning in the short and long term to provide for the financial viability of the school. We will establish school fiscal policies as needed to provide the education program in our charter, including staff salaries and benefits and procurement. We will establish financial policies and procedures including identifying those responsible for making and receiving regular financial reports and audits. The IUES Passport Academies administrative staff, under the guidance of the Board will be accountable for compliance with all local, state and federal laws and regulations pertaining to public schools, including budgets and financial records. The Operations Manager will be adept at using financial software to manage fiscal responsibilities, safeguard assets, provide reliable financial information, and promote operational efficiency that will ensure compliance with all regulatory guidelines. The Operations Manager and the Head of School will be responsible for planning, preparing and presenting an annual school budget to the Governing Board for adoption.

IUES will establish a Finance Committee made up of knowledgeable financial advisors who will work closely with the IUES Passport Academies Operations Manager to ensure that the financial needs of the school are met and that there is full compliance with all local, state and federal laws and regulations that apply to charter schools.

The Finance Committee and the Operations Manager will work together to prepare and implement internal controls and processes to protect the assets of the school and minimize the possibility of fraud or misuse of funds. The internal controls and procedures manual will address the following, at a minimum. This is not intended to be an exhaustive list.

- Cash receipts and Disbursements
- Procurement Process
- Human Resource Policies and Processes
- Fixed Asset Policy
- Budgeting, Forecasting and Reporting Processes

2. Audits

To monitor the performance of each school as well as the network of schools, K12, in collaboration with the Schools, will arrange for independent financial and administrative audits of the programs. As permitted by IC-20-24-8-7, the Passport Academies may use any money distributed by law to the charter schools to prepare financial reports and conduct audits that the charter schools determine are necessary for the conduct of the affairs of the charter schools. In addition, the State Board of Accounts will conduct required biannual audits of the schools which are part of normal state oversight.

3. 5-Year Pro-Forma Budget

In **Attachment 19** we have included a detailed 5-Year Pro-Forma Budget for the four proposed IUES Passport Academies. This budget combines the four separate budgets of our four proposed schools aligned to the term sheet and draft services agreement (management contract) in Attachment 8.

We have also included two Budget and Staffing Workbooks for these Passport Academies (one workbook for Indianapolis Passport Academy/Indianapolis Passport Academy II and the other for the Gary Passport Academy/Lake County Passpor*t Academy). Although the school models are the s*ame for all four proposed charter schools, there are differences between the Indianapolis area and Lake County area schools (e.g., projected revenues) which necessitate two separate budget workbooks for these two pairs of schools.

a. **Detailed Budget Narrative –** A detailed Budget Narrative has been provided as **Attachment 20**.

SECTION IV: PORTFOLIO REVIEW & PERFORMANCE RECORD

1. Organizational Portfolio

The information listed above has been entered into an Excel workbook and included as **Attachment 21** of this application.

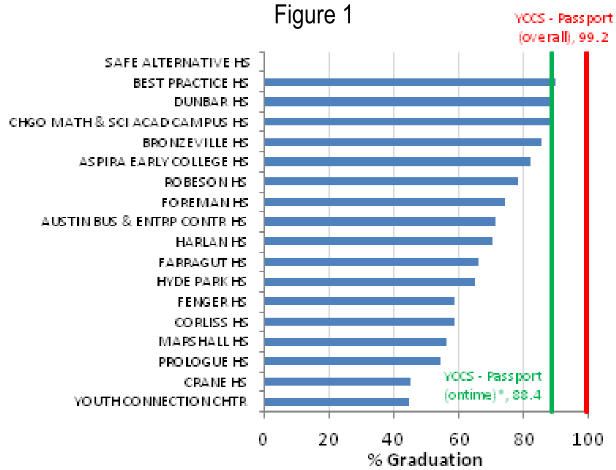
2. High-Performing School – YCCS Virtual High School

In 2008, K12 was asked by the Chicago Public Schools district to partner with Youth Connections Charter School in an initiative to bring a new model of learning to the city's alternative student population. YCCS has 22 campuses operated as a single, flexible charter from the Chicago Public Schools (CPS) serving at-risk students ages 16-20 and those who have dropped out of high school. YCCS offers a variety of different programs throughout its campuses including career-themed, flex time and early college programs. However, none offered an educational experience as student-centric or as effective in supporting student success as the blended learning high school model offered by K12 at YCCS Virtual High School. The mission of K12 Passport is to break the cycle of underachievement for at-risk 18- to 21-year old students who have dropped out of school but who still have a desire to learn. Passport is Chicago's first and only online high school dropout recovery program.

IUES Passport Academies will serve a population of students very similar to those enrolled at YCCS Virtual High School. For the 2010-2011 school year, 85% percent of YCCS Virtual HS students were from low-income families. Some of the enrolled students had been incarcerated and were on parole; some were expelled from public school because of violence; others had left school because they were pregnant. Sixty-nine percent were Black; thirty percent were Hispanic. We expect the life stories of our students to reflect the themes above and the demographics of our student populations to reflect the school districts in which the Passport Academies are located – a student body that will be majority Black and Hispanic and low income.

At YCCS Virtual High School students enroll with varying levels of credit accumulation, having been out of school for different lengths of time. They often enter 3 to 4 grade levels behind in academic proficiency regardless of the credits they have earned. As described above, these students come with challenging life circumstances. Many work multiple jobs and have family demands. With this being said, the academic outcomes of YCCS Virtual High School Students are astounding. The clearest indication of the YCCS students' response to K12 Passport is in: the 99% graduation rate and 88% on-time graduation; the 82% class attendance rate; and the 92% post-secondary attendance. On-time graduation means that YCCS – Passport students completed the credits needed for graduation within the semesters required to complete the credits under a typical course load. So, if a student started the Passport program needing 5 credits to graduation and the typical course load per semester is 3 credits the student would need to attain the 5 credits in two semesters to be counted as an on-time graduate. More detail is provided below:

Figure 1



1.1 Graduation Rate

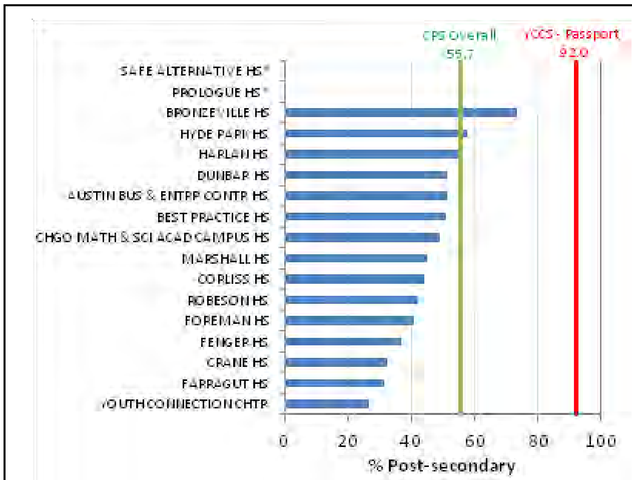
The YCCS – Passport overall graduation rate is higher than any of the comparison schools (see Figure 1). The YCCS – Passport on-time graduation rate, which is more comparable to the NCLB calculation, is surpassed only by *Best Practice High School*.

The YCCS campus performance review states that the K12 Passport campus has a 100% graduation rate. Students who had not succeeded in or who had not been well served by their previous public schools persevered and succeeded under Passport. The results are remarkable given the prior history of these students. They did not graduate from those schools; they did from YCCS – Passport. They did not continue at their previous schools; they did at YCCS – Passport and in the face of life circumstances that were even more daunting.

1.2 Post-secondary Attendance

The YCCS – Passport graduates attend post-secondary institutions at a much higher rate than any of the comparison group schools (see Figure 2). Many of the YCCS – Passport students continue their studies at Malcolm X Community College, where the YCCS – Passport program is located. Since some of the K12 Passport curriculum allows students to earn college credits from Malcolm X CC, there is added incentive for student to continue their education into post-secondary studies.

Figure 2



1.3 YCCS – Passport students and competency-based tests: The Test of Adult Basic Skills Education

For young adults, the *Test of Adult Basic Education* (TABE) is a widely used measure of reading and math skills. The TABE is a competency-based test. The YCCS – Passport program uses it as a performance baseline when students enter the program and as a post-test when students leave. Notable proficiency gains are as follows:

- **87%** of Passport students increased their ***Applied Math*** Scores from August to January on Test of Adult Basic Education (TABE)
- **81%** of Passport students increased their ***Math computation*** scores from August to January on Test of Adult Basic Education (TABE)
- **77%** of Passport students increased test scores over a five month period in ***Reading*** on the Test of Adult Basic Education (TABE)
- Student's greatest gains were achieved on test that measured Problem Solving, Reasoning, Data Analysis and Computation in Context – skills that are critical for 21st century employment.

K12 believes its blended schools, but in particular the first one it created for students who have dropped out of schools, are successful because they attend to both the academic and the non-academic needs of their students comprehensively. As a curriculum and teaching company, K12 has invested millions in its products, offerings, and services. However, they had little experience dealing with an urban student population like that at YCCS Virtual High School. The major challenge the school (and K12) faced was providing comprehensive wrap-around services to their students. The students enrolled in this program were all "over-age / under-credited" students. While students willing to return to high school to earn a diploma rather than pursue GED are internally motivated to some degree, the academic, social, and real-life challenges that contributed to their dropping out previously had not evaporated. Early on it became clear that the school needed to develop an array of support services for their students and to do so within strict budget constraints. While Chicago Public Schools was helpful in providing specific Special Education services, that was all they could provide.

Meeting this challenge, the YCCS Passport program Head of School, Early King, spearheaded an effort to identify the most critical and urgent student needs and seek community partners to assist in their delivery (and cost). During a recent audit of the school conducted by Boston-based School Works, the research team was particularly impressed by the wide array of multi-year partnerships the school has developed and maintained. These read like a list of Maslow's hierarchy of needs:

Housing: Many YCCS students are homeless. Consistent with the federal McKinney-Vento Act, the school has created partnerships with Mercy Home for Boys and Girls, Tabitha House, Night Ministry, Teen Living, and Inner Voice to provide short and/or long-term housing options for its students and their dependents.

Day Care: A partnership with Salvation Army allows students to receive free day-care for their children while they are on campus in class.

Medical Care: Through outreach to Harmony Healthcare, many YCCS students can now access high-quality medical care via the Medicaid program. Many students who were eligible were unaware of their options and were going without basic care.

Gas/Electric, Rental Assistance: Community and Economic Development Association of Cook County (CEDA) provides many YCCS students with access to programs that provide assistance with rent and utilities.

Mentoring: Explorers (through the Boy Scouts of America) and TRIO (located inside of Malcolm X College) are two excellent programs which match at-risk students with mentors.

Internships/Job Opportunities: The Pyramid Program helps to match YCCS students with paid and unpaid internships and also serves as center for finding work (including resume writing, interviews, dress codes, and work expectations)

Individual Counseling: The school works with Inner Voice (which also provides career counseling and rental assistance listed above) and Community Counseling Centers of Chicago (a full range of mental health offerings) to help meet the social-emotional needs of YCCS.

Legal: Partnerships with local firms connects YCCS students who have legal troubles with pro-bono attorneys. The services provided range from helping students with restraining orders and protective custody, to working with courts and judges to formally amend existing criminal records so students can attend colleges, be eligible for grants, and even enter the military services.

Mr. King reports that this array of services is part of the connective tissue of his school, a part of its culture. Students know that committed adults, both the staff and the army of service providers, take deep concern in their well-being and future. All K12 Passport programs now use the template created in Chicago and adapt it for their student needs and local community resources.

3. Improving Performance at Moyer Academy

In 2010, K12 took on the considerable challenge of turning around a failing middle and high school: Maurice J. Moyer Academy ("Moyer") in Wilmington, Delaware. Moyer was originally founded as a community charter school in 2006. In February 2010 the Delaware Department of Education (DDOE) revoked Maurice J. Moyer Academy's charter after a state review determined the school had failed to meet standards set for Delaware charter schools. In response to the needs of the community and in the interest of the students, the Department of Education granted extraordinary authority to K12 to assume operations of the school under state provisions and clear performance expectations in the 2010-2011 school year. K12 was selected by the state to continue to operate the school in 2011-2011, the last year Moyer was to be a state governed public school. A new Delaware nonprofit corporation, The New Maurice J. Moyer Academy, Inc., was formed, with a board made up of certified teachers, parents and community members. The Board of The New Maurice J. Moyer Academy applied for and was granted a new charter to operate Moyer with a planning year beginning in July 2011 and the charter school opening in September 2012. K12 is proposed to continue to provide educational products and services for the operation of the "New Moyer" charter school.

The students now attending Moyer are almost all low income (93% free/reduced lunch eligible) and minority (91% Black and 8% Latino or bi-racial). More than one-fourth (28%) are special needs students with IEPs or 504 Plans. The school struggles with the community's long-held perception, although not true, that Moyer was founded only for "underperforming students"—as an alternative school for dropouts or those at risk of dropping out. This perception has become a self-fulfilling prophesy that K12 is on a mission to turn around with a blended school model.

Results Indicating the School is Low-Performing

Moyer is struggling on many fronts. The daily attendance rate is low—81%. Suspension rate is high. Classroom disruptions and defiant behavior account for two-thirds of student disciplinary offenses. Academic achievement is very low. In 2010-2011, K12's first year as Moyer's education service provider, Moyer grades 6-10 students taking the state mandated tests, the DCAS, only scored between 3% and 6% proficient in math and between 3% and 24% proficient in reading depending on their grade level. With little outreach to them from the school, parents had lost interest in the school as evidenced by a nonfunctioning PTA.

Causes for the School's Problems

The image of Moyer in the Wilmington community as a school for only "underperforming students" resulted in the majority of students enrolling to be underperforming. Because data wasn't driving instruction, student deficiencies were not remediated.

Moyer's student population, like the population we expect to enroll in IUES Passport Academies, is desperately in need of a lot of support to succeed. The lack of school outreach to parents caused a failure to leverage that important support group. Turnover of the teaching staff and administrators created a steep learning curve for the new administrative and instructional staff which affects student learning as well. Technology problems discouraged students and parents.

Strategies to Improve Performance

A new Head of School was hired and started working in December 2011. The Head of School has implemented several strategies, with an instructional staff made up of almost all new teachers, that seem to already have had a positive effect on the students and school including:

- Blended school model with K12 web-based curriculum complemented by worksheets and teacher guides, as well as traditional materials such as novels and textbooks, science lab equipment, art supplies, cds, and other hands-on materials and math manipulative tools;
- Mandated pullouts for students needing support;
- Improved attendance enforcement including personal calls to and conferences with parents of absent students;

- Parent meetings and newsletters;
- Mandatory five day school week, 8 hour school day;
- Assignment of each teacher to oversee and report weekly on the progress of a cohort of twelve students;
- Use of escalation reports and ecollege to track student progress; and
- Use of teacher evaluations to determine teacher stress points.

There are already indications that these strategies are improving student performance and stabilizing the school environment:

- Proficiency rates on the math and reading DCAS assessments for half of the grades rose from the October 2011 to the February 2012 administration of the DCAS; and
- the number of daily behavior incident referral rates has dropped by two-thirds from December 2011 to March 2012.

Expectations for Satisfactory Performance

K^{12} expects to see continued improving academic performance at Moyer measured by higher DCAS proficiency rates. They also expect fewer escalation reports as student behavior improves. For the next nine months they expect to see incremental improvement. By early 2013, which will coincide with the winter administration of the DCAS, they expect measurable improvement. They have already learned lessons in turning around an existing school which can be applied to starting new schools such as IUES Passport Academies:

- Starting a new school with students who have chosen to enroll is a great advantage;
- Once a model has proven successful, fidelity to the model is crucial;
- Don't start late—there are many steps to new school development;
- Every school leader deserves a second chance, however school leaders must be held accountable for the success of their schools; and
- Success in the traditional school model is not the same as success in the blended model: success in the blended model is much more data-driven.

The information in the following sections of the application relate solely to K^{12} as the proposed Education Service Provider in that Indiana Urban Education Solutions is a newly formed non-profit corporation and has not previously operated any charter schools or conducted any business according to its Articles of Incorporation.

Financials for Schools Operating in the State of Indiana

(a) K^{12} Classroom LLC is currently the ESP for three Indiana charter schools: Hoosier Academy Indianapolis, Hoosier Academy Muncie, and Hoosier Academy Virtual School. Hoosier Academy Virtual School was established in 2011 and therefore does not yet have audited financial statements. **Attachment 22** to this application includes the FY09 and FY10 SBOA audited financial statements for Hoosier Academy Indianapolis and Hoosier Academy Muncie. The FY11 independent audits of these schools are being finalized and will be submitted to ICSB when they are available.

(b) The internal financial statements of Hoosier Academy Indianapolis and Hoosier Academy Muncie including balance sheets and income statements through the end of June 2011 will be available when the FY11 independent audits of those schools are finalized. We will submit them to ICSB when they are available. We have included in **Attachment 23** the 2009, 2010, and 2011 annual reports including financial statements and management letters and the 10-Q Quarterly Report (Second Quarter FY2012; Filed Period 12/31/12) of K12 Inc., the parent company of K^{12} Classroom LLC. K12 Inc. does not break out financial reporting by state or school. All K^{12} services are provided under the terms of the service agreement without additional fees.

3. Financials for K12 Inc.

Attachment 23 to this application includes (a) the 2009, 2010, and 2011 annual reports including financial statements and management letters of K12 Inc., the parent company of K^{12} Classroom LLC; and (b) the K12 Inc. 10-Q Quarterly Report (Second Quarter FY2012; Filed Period 12/31/12). K^{12} does not break-out financial reporting by state or school. All of our services are provided under the terms of the service agreement without additional fees.

4. Contract Terminations

K^{12} has not had any such contracts. Some contracts have not been renewed at the end of the scheduled term, but no contracts meet the description in this section.

5. Charter revocations, non-renewals, shortened or conditional renewals, or withdrawals/non-openings

K^{12} has not worked with any charter school that has had its charter revoked, non-renewed, or shortened. A charter school that K^{12} works with in Pennsylvania (Agora Cyber Charter School) was renewed in 2010 with the condition that several items of additional information be submitted, which have been completed with the Pennsylvania Department of Education.

6. Performance Deficiencies

In 2009, the Pennsylvania Department of Education (PDE) intervened with the Agora Cyber Charter School. However, the intervention involved shortcomings of the board that governed the school and the primary contractor (a company called Cynwyd Group) at the charter school. K^{12} was a subcontractor to provide educational products and services to the school. The resolution involved extensive cooperation between K^{12} and the Pennsylvania Department of Education whereby a new board was constituted to govern the charter school; the Cynwyd group was removed from any role with the school; and K^{12} became the direct contractor for educational products and services to the school. Based upon this solution, the charter was renewed by PDE.

7. Current or Past Litigation

As a result of the actions described in paragraph 3 above, Cynwyd Group initiated litigation against both K^{12} and the Pennsylvania Department of Education (PDE). The complaint is longer than five pages and therefore is not attached. However, the litigation was dismissed with prejudice and, as noted above, PDE renewed the school's charter with K^{12} as the direct contractor for educational products and services and no ongoing role for the Cynwyd Group.

Attachment 25 to this application is a PDF file that contains all application components, including the Proposal Overview and Enrollment Projections Template, the Proposal Narrative Template, and all required Attachments except for Attachment 9 (the organization's business plan).

ATTACHMENTS

ATTACHMENT 1

Faculty Vita 2010

Dr. Jerry Woodbridge (Founding Group Member)

Indiana Wesleyan University

4201 S. Washington St., Marion, IN 46953

866-468-6498 | 765-674-6901

jerry.woodbridge@indwes.edu

Academic Degrees

Degree	Institution	Year	Studies
Ph.D. in Education	Walden University	2003	Education & Ed. Technology
M.A.T.	Jacksonville University	1997	Integrated. Learning w/ Ed. Tech
B.S.	Eastern Nazarene College	1984	Early Childhood/Elem. Ed

Certifications/Licenses

MA Lifetime license P-6th grade

Professional Experience

Year	Professional Experience
Sept. 1, 2009 – Present	Faculty for the Adult Teacher & Licensure Program Indiana Wesleyan University Marion, IN
May, 2009 – Present	Online Adjunct faculty for the Ed.D and Ed.S program Liberty University
April, 2006 –Aug. 2009	Assistant Director of Master in Education Online Program Indiana Wesleyan University Marion, IN
Aug. 2005 - Dee. 2005	Director of Learning/Curriculum Specialist Millennial Christian School Jacksonville, FL
Sept. 2005 – Dec. 2005	Education Professor at Jones College Jacksonville, FL
Feb. 2005 - April 2006	Online Facilitator – MAED program Indiana Wesleyan University Marion, IN
Aug. 2003 – July, 2004	Adjunct Faculty – Master of Arts in Teaching program for Jacksonville University Jacksonville, FL
June 2003 – Present	Online Facilitator – MAED program for University of Phoenix

Aug.98 – June, 2001	7^{th}-9^{th} grade Science Teacher Providence School
June -July, 2000	Summer Institute Team Teacher for MAT Jacksonville University
Sept. 99 –May, 2000	Higher Ed. Consortium Grant – Teaching Elem. & High School Science- Co-Instructor Jacksonville University
Aug. 96 – June, 1998	5^{th} grade teacher, 5^{th}-8^{th} Science & Technology Teacher Grace Christian Academy Jacksonville, FL
Aug. 95 – June, 1996	3^{rd} teacher & Young Astronaut Sponsor Duval County Public Schools: North Shore Elementary Jacksonville, FL
Aug. 93 – June, 1995	Kindergarten & 2^{nd} grade teacher [Lake Forest location] Seacoast Christian School Jacksonville, FL
Sept. 91 – July, 1993	K-8^{th} Physical Science Instructor/Summer Camp Instructor Hands-On Science Program for Home-School students Museum of Science & History Jacksonville, FL
Aug. 90 – June, 1991	6^{h} grade teacher Grace Christian Academy Jacksonville, FL
Aug. 88 – June, 1990	4^{th} grade Teacher Christian Heritage Academy Jacksonville, FL
Aug. 84 – June, 1986	1^{st}-2^{nd} grade Teacher / 3^{rd}-4^{th} grade Teacher Christian Heritage Academy Jacksonville, FL

Professional and Academic Association Memberships

ISTE – International Society for Technology in Education
ASCD – Association of School and Curriculum Development
AACTE - *American Association of Colleges for Teacher Education*
iNACOL – International Association for K-12 Online Learning
NSTA - National Science Teachers Association

Professional Assignments and Activities (non-teaching)

IWU Curriculum Coordinator for the M.Ed online program (2008-2009),
IWU M.Ed Curriculum Steering Committee (2007-2009)
IWU M.Ed Envisioning Curriculum Task Force (2009)
IWU NCATE Steering Committee (2009)
CAPS Faculty Retreat Committee (2008)
Co-chair for Faculty Retreat Committee (2009/2010)
SevenStar Advisory Committee (2009/2010)
Conference Director Embracing Innovation, Encouraging Excellence Conference (2009)
IWU Faculty Development (Critical Thinking and Grading Workshops) (2009)
Independent Colleges of Indiana - Technology Summit Committee (2010)

Pearson Educational Technology Advisory Committee (2010)
Liberty University Dissertation Committee (2011-present)

Courses Taught

Technology	Curriculum & Instruction	Research
Integrating Technology in the Classroom	Foundations of Curriculum & Instruction	Action Research
Facilitating Learning/Technology	General Methods of Instruction Student Teaching	Applied Educational Research
Technology in Education	Assessment & Learning	Qualitative Research
	Standards Based Differentiated Instruction	Dissertation Committee
	Classroom Learning Principles	
	Integrating Diverse Perspectives in Education	
	Applied Master Portfolio/Practicum	
	Teaching Natural & Social Sciences	
	Secondary Teaching Methods and Resources	
	Student Teaching 1 & 2	

Course Writing

EDUT 571 Innovative Teaching for the 21st Century Secondary Classroom (2012)

Faculty Development

Critical Thinking
Grading
Business & Mgmt Curriculum Committee

Scholarship

Papers and Presentations

Year	Presentations	Location
1999	Recipe for Creative Teaching	FETC Orlando, FL
1999	Houston, We have a problem…	Duval County Expo Jacksonville, FL
1999	Houston, We have a problem…	ASCI Orlando, FL
2000	Science for the New Millennium.	NSTA Orlando, FL
2003	Technology Integration as a Teaching Strategy	EQRE Pittsburgh, Pennsylvania

Scholarship

Papers and Presentations

2004	How Effective Is a Master's Program that Models Constructivist Teaching Strategies Integrated with High Level Technology in Transforming Graduates' Classroom Teaching?	SITE Atlanta GA
2004	Technology Integration as a Transforming Teaching Strategy.	NECC New Orleans, LA
2008	The Adult Professional Learner. Conference	Adult Education Conference Indianapolis, IN
2008	Course Writing is Like Jazz.	Mid West Scholars Indianapolis, IN
2008	Course Writing is Like Jazz.	CAAHE Richmond, Virginia
2009	What Does Web 2.0 have to do with Learning?	MWSC Indianapolis, IN
2009	A Learning Community for Online Professors	No Educator Left Behind Indianapolis, IN
2009	"Preparing Virtual Educators: Teachers: Do not Fall in Love with your Real Estate"	EIEE Marion, IN
2010	How to Engage, Inspire, and Educate Students Using Current Research Web 2.0 tools?	Teacher Professor Conference Cambridge, MA
2011	"Do Not Get Your Wires Crossed"	MidWest ATE Conference Lafayette, IN
2012	"Preparing Virtual Educators: Teachers: Do not Fall in Love with your Real Estate"	Belizean International Symposium in Education Belize City, Belize

Articles

Year	Articles
1998	Technology Trials and Triumphs. TechLearning.com
2002	Defining a Technology-Integrated Curriculum. TechLearning.com
2004	A Digital Kaleidoscope: Learning with Multimedia TechLearning.com
2004	Observations, Reflections, & Research of a Laptop Classroom. TechLearning.com
2005	Handheld Hints with Tony Vincent. TechLearning.com
2005	Is Dana where it's A.T.? eSchool News FETC Blog
2005	Charting Your Course for Inclusive Education eSchool News FETC Blog

Grant Applications and Awards

Year Grant

2008	IWU Lilly Scholarship Initiative – Embracing Innovation, Encouraging Excellence Conference allowed 30 adjunct faculty to attend this conference in 2009.
1998	First Place Winner of the Compaq Teacher Lesson Plan Contest: Arturia 5 – Underwater Sea Colony
1996	Recipient of "Top of the Class" for using creativity in teaching WTLV – Channel 12 – Jacksonville, Florida

References

Dr. Robert Townsend – Indiana Wesleyan University
robert.townsend@indwes.edu
(317) 650-4318

Dr. Ella Bush - Indiana Wesleyan University
ella.bush@indwes.edu
(219) 742-0360

Dr. Sherri Wynn - Indiana Wesleyan University
sherri.wynn@indwes.edu
(317) 690-1353

Dr. Roxie Sporleder - Indiana Wesleyan University
Roxie.sporleder@indwes.edu
(765) 662-7612

ACADEMIC VITA

Gary Alan Sailes, Ph.D. (Founding Group Member)
Department of Kinesiology
School of HPER
Indiana University
Bloomington, IN 47405
812-855-0538
812-855-3193 (fax)
gsailes@indiana.edu

EDUCATION

Degree	Institution	Date	Discipline
Ph.D.	University of Minnesota	1984	Kinesiology
M.S.	Mankato State University	1976	Kinesiology
B.A.	University of Buffalo	1973	Sociology

PROFESSIONAL EXPERIENCE

Dates	Institution	Position
Current	Indiana University	Associate Prof.*
9/85-7/89	University of Delaware	Assistant Prof.
9/76-8/85	Chicago State University	Associate Prof.*
9/75-8/76	Mankato State University	Teaching Asst.
1/75-8/75	University of Buffalo	Graduate Asst.
5/73-1/75	YMCA of Buffalo, New York	Program Director

* Tenured

SCHOLARSHIP

SCHOLARLY INTERESTS

Sport Sociology (The Socio-Cultural Experiences of African Americans in Sport)

BOOK PUBLICATIONS

2012 Sport and Higher Education: Issues and Controversies, Cognella Publishers, Dubuque, Iowa (current project)

2010 Modern Sport and the African American Experience, Cognella Publishers, Dubuque, Iowa.

2003 African Americans in Sport: Contemporary Themes Transaction Publications, Rutgers, New Jersey.

1995 Mental Training for Tennis, Brown Publishers: Dubuque Iowa.

1994 Facts & Figures on the Black Athlete, Investigative report for the Black Congressional Caucus, Washington, D.C.

1984 Championship Tennis Drills for Coaches and Advanced Players, Chicago State University Press, Illinois.

BOOK CHAPTERS

2010 "The African American Athlete: Social Myths and Stereotypes," in Modern Sport and the African American Athlete, Gary Sailes (ed.), Cognella Publishers: San Diego, p55-68.

2010 "An Examination of Basketball Performance Orientations among African American Males," in Modern Sport and the African American Athlete, Gary Sailes (ed.), Cognella Publishers: San Diego, p. 107-116.

2010 with Hinton, K., Jenkins, Z., & Gregg, E., "Brown Sugar: Media Images of African American Female Professional Athletes," in Modern Sport and the African American Athlete, Gary Sailes (ed.), Cognella Publishers: San Diego, p. 217-230.

2010 with Hunt, T., Ivery, I., , "Talented Genetics or Genetically Talented: The Historical Rationale for Black Athletics Success," in Modern Sport and the African American Athlete, Gary Sailes (ed.), Cognella ublishers: San Diego, p. 137-154.

2008 Social Issues of Sport in Advising Student Athletes: A collaborative Approach to Success by eds. Leslie-Toogood, A. & Gill, E., Monograph Series Number 18, National Academic Advising Association, pp. 13-22.

2003 A Comparison of Professional Sports Career Aspirations Among College Athletes in African Americans in Sport: Contemporary Themes by Gary Sailes, Transaction Publishers: New Jersey, pp. 261-270

2003 An Examination of Basketball Performance Orientations Among African American Males in African Americans in Sport: Contemporary Themes by Gary Sailes, Transaction Publishers: New Jersey, pp. 121-129.

2003 Betting Against the Odds: An Overview of Black Sports Participation in African Americans in Sport: African American in Sport: Contemporary Themes, by Gary Sailes, Transaction Publishers: New Jersey, pp.23-35

2003 Writer for "African Americans in Sports" an encyclopedic publication edited by David K Wiggins, Sharpe Publications, Inc., New York.

2003 The Case Against NCAA Proposition 48 in African Americans in Sport: Contemporary Themes, by Gary Sailes, Transaction Publishers: New Jersey, pp. 121-129.

2000 The African American Athlete: Social Myths and Stereotypes@ in Racism in College Sports II by Dana Brooks and Ron Althouse, (eds.) Fitness Technologies, Morgantown, WV.

1996 An Investigation of Campus Stereotypes: The Myth of Black Athletic Superiority and the Dumb Jock Stereotype@ in Sport in Society: Equal Opportunity or Business as Usual? Richard Lapchick, (Ed.), Sage Publications: California, pp. 193-202.

1994 "The Case Against NCAA Proposition 48" The American Black Male: His Present Status and His Future by Richard Majors & Jacob Gordon (eds.), Nelson-Hall Publishers: Chicago.

1993 "A Guide for College Bound Athletes" Student Athletes: Shattering the Myths and Sharing the Realities by Wyatt Kirk & Sarah Kirk (eds.),American Counseling Association: Alexandria, Virginia.

REFEREED PUBLICATIONS

2011 Review of "Sport, Race, Activism and Social Change: The Impact of Dr. Harry Edwards' Scholarship and Service," International Journal of Sport Communication, Volume 4, Issue 4, December. pp. 532-534.

3

2008 Social Issues of Sport in Advising Student Athletes: A collaborative Approach to Success by eds. Leslie-Toogood, A. & Gill, E., Monograph Series Number 18, National Academic Advising Association, pp. 13-22.

2007 "March Madness, May Sadness: Graduation Rates and Team Success Among NCAA Final four Men's Basketball Teams, Journal for the Study of Sports and Athletes in Education, 1:1, Spring, p. 89-102.

2002 "Betting Against the Odds: An Overview of Black Sports Participation" Shades of Diversity: Issues and Strategies Monograph Series, AAHPERD, Volume X

1997 Betting Against the Odds: An Overview of Black Sports Participation, Journal of African American Men, 2:2/3, pp. 11-22.

1996 A Comparison of Professional Sports Career Aspirations Among College Athletes@ Academic Athletic Journal, 11:2, pp. 20-28.

1996 "An Examination of Basketball Performance Orientations Among African American Males" Journal of African American Men, 1:3, pp. 37-46.

1994 "An Investigation of Black Student Attrition at a Large, Predominantly White, Midwestern University" The Western Journal of Black Studies 17, pp. 179-182.

1993 "An Investigation of Campus Stereotypes: The Myth of Black Athletic Superiority and the Dumb Jock Stereotype" Sociology of Sport Journal 10, pp. 88-97.

1993 "An Investigation of Academic Accountability Among College Student Athletes" The Academic Athletic Journal Spring, pp. 27-39.

1991 "The Myth of Black Sports Supremacy" Journal of Black Studies 21, pp. 480-487.

1990 "Discrepant Attitudes of Intercollegiate Athletes as a Function of Race" Journal of Sport Behavior 13, pp. 87-101.

1987 "A Socioeconomic Explanation of Black Sports Participation Patterns" The Western Journal of Black Studies 11, pp. 164-167.

1986 "The Exploitation of the Black Athlete: Some Alternative Solutions" Journal of Negro Education 55, pp. 439-442.

ADDITIONAL PUBLICATIONS

2005 "Whether you think you can or think you can't, you're right!" The Indy Black Pages, 3rd Annual Edition, p. 18.

2001 Professional Athletes: Cultural Icons or Social Anomalies? USA Today Magazine, September, p. 56.

2000 Developing Better Athletes: Mental Toughness Training for Sports Black Coaches Association Journal, Spring, p. 8.

1999 Basketball at Midnight The Unesco Courier, April, p.25.

1994 "A Status Report on the Educational Attainment of African Americans" unpublished report prepared for the Black Congressional Caucus, Washington, D.C.

1993 "Black Student Retention: I.U. and Predominantly White Universities" African American Forum, Fall, p. 4.

1991 "Utilizing National Parameters to Establish Black Student Retention Objectives" ICBHE Agenda 1, pp. 1-2.

1991 "Winning At All Costs: Are HBCU's Also Guilty" Black Issues in Higher Education, June 20, p. 40.

1990 "The Case Against NCAA Proposition 48" The Indianapolis Recorder Newspaper (three part series) May 12, 26, June 2.

1991 "Inner-City Sport Participation: Why All the Emphasis" unpublished paper presented and distributed at the Midwest AAHPERD Convention, Milwaukee, February 14-16.

1986 "Sport and Black Americans" DAHPERD Newsletter, 15, pp. 1-4.

SCHOLARLY/RESEARCH PRESENTATIONS

2011 "The Sport Sociology Scholar as Student Athlete Mentor" paper presented at the national conference for the North American Society for the Sociology of Sport, Minneapolis, MN, November 2-5.

2011 "The Experience of the Black Athlete in College Sports" chaired two sessions at the annual conference for the North American Society for the Sociology of Sport, Minneapolis, MN., November 2-5.

2007 "Strategies for Teaching Large Classes in Sport Sociology," paper presented at the national conference for the North American Society for the Sociology of Sport, Pittsburgh, Pa, October 31-November 3.

2007 "Student Athletes' Perceptions of Campus Racial Climate," paper presented at the national conference for the North American Society for the Sociology of Sport, Pittsburgh, Pa, October 31-November 3.

2006 "March Madness & May Sadness: An Investigation of Graduation Rates among Final Four Basketball Teams", paper presented at the national conference for the North American Society for the Sociology of Sport, Vancouver, British Columbia, November 1-4.

2006 "The Old Boy's Network in Professional Football and Basketball: An Examination of Hiring Tendencies Among Black and White Head Coaches in the NFL and the NBA", paper presented at the national conference for the North American Society for the Sociology of Sport, Vancouver, British Columbia, November 1-4.

2006 "Social Mobility, Athletics, and Black athletes in Collegiate Sport", paper presented at the national conference for the North American Society for the Sociology of Sport, Vancouver, British Columbia, November 1-4.

2005 "Applied Sport Sociology in Teaching and Sport Management Contexts" Panelist at the national conference for the North American Society for the Sociology of Sport, Winston-Salem North Carolina, October 26-29.

2004 "Bringing Sport Sociology to Life in the Classroom," Paper presented at the national conference for the North American Society for the Sociology of Sport, Tucson. Arizona, November 2-5.

2004 "The Changing Culture of American Golf: The Tiger Woods Effect;" Paper presented at the national conference for the North American Society for the Sociology of Sport, Tucson. Arizona, November 2-5.

2003 "Keynote: No Teacher Left Behind" Appalachia Intermediate Unit 8 Teachers' In-service annual meeting, Altoona, Pa, October 20.

2003 "21st Century Leadership" Purdue University North Central Student Leadership Conference, Westville, In, April 12.

2003 "Sellout: the State of Collegiate Sports" Panel Moderator, Indiana University, April 8.

1999 Sports: Untapped Potential for Fund Raising@, paper presented at the second annual Black Philanthropy Conference, Oakland, Ca., May 16-19.

1998 Panelist Race and Sport@ North American Society for the Sociology of Sport, Las Vegas, November 22.

1997 Professional Sports Aspirations Among NCAA Division I Football and Basketball Student Athletes, paper presented at the College Board National Education Forum, Chicago, Illinois, October 26.

1997 The Perceptions of African American Student Athletes at NCAA Division I Universities@ paper presented at the American Psychological Association annual conference, Chicago, Illinois, August 15-17.

1997 Betting Against the Odds: Professional Sports Aspirations of African American Athletes at NCAA Division I Schools@ paper presented at the National Alliance of African American Athletes annual Conference, Atlanta, Georgia, June 20-11.

1997 Perceptions and Experiences of Student Athletes at NCAA Division I Institutions@, paper presented at the Illinois Association of College Admissions Counselors annual conference, Decatur, Illinois, May 1.

1997 The Influence of Culture on African American Styles of Basketball Play, Black Athlete, White Campus: Perceptions and Experiences@ two papers presented at the North Central Sociological Association annual conference, Indianapolis, Indiana, April 24-27.

1997 Sports as Intervention for At-Risk African American Male Youth: A Program Model (paper) Women In Sport: Contemporary Issues, (chaired panel of speakers representing women's sports organizations) at the annual AAHPERD Conference, St. Louis, Missouri, March 20-23.

1997 The Black Athlete and Philanthropy, paper presented at The National Conference on Black Philanthropy, Philadelphia, Pennsylvania, March 6-9.

1997 The African American Athlete: Cultural Icon or Social Anomaly?, paper presented at the national conference of the National Association of African and African American Studies, Houston Texas, February 12-16.

1996 The Myth of Black Athletic Superiority, paper presented at the North Central Sociological Association annual conference, Louisville, Kentucky, April 26-28.

1995 An Examination of Basketball Performance Orientations among African American Males, paper presented at NASSS, San Francisco, Ca, November 22-25.

1994 "Stereotypes of the Black Athlete" paper presented at the American Sociological Association annual conference, Los Angeles, California, August 5-9.

1994 "Racism in Sport" paper presented at the Sport Sociology Academy at the national meeting of AAHPERD, Denver, Colorado, April 12-16.

1993 "Academic Clustering Among Athletes at Big Ten Universities", paper presented of Sport, Ottawa, Ontario, Canada, November 3-6.

1993 "Cultural Variations in Informal Basketball Play", paper presented of Sport, Ottawa, Ontario, Canada, November 3-6.

1993 "Shaq Attacks the NBA: The Economic and Media Impact of Shaquille O'Neal on the National Basketball Association", paper presented of Sport, Ottawa, Ontario, Canada, November 3-6.

1993 Organized and Chaired Session on Intercollegiate Athletics, at the national meeting of the North American Society for the Sociology of Sport, Ottawa, Ontario, Canada, November 3-6.

1992 "Chasing the Dream: The Socialization of the Black Athlete" at the Maccabiah-Wingate International Congress, Wingate Institute, Israel, June 27-29.

1992 "An Investigation of Academic Accountability Among College Student Athletes", paper presented at the national meeting of the North American Society for the Sociology of Sport, Toledo, Ohio, November 4-7.

1992 Case Against NCAA Proposition 48", paper presented at the national meeting of the North American Society for the Sociology of Sport, Toledo, Ohio, November 4-7.

1992 Black Athlete in Contemporary American Sport'", at the national meeting of the North American Society for the Sociology of Sport, Toledo, Ohio, November 4-7.

1992 Participated on panel entitled "A Book Review Panel Discussion of A. Yiannakis and S.I. Greendorfer (eds.)Applied Sociology of Sport" at the national meeting of the North American Society for the Sociology of Sport,Toledo, Ohio, November 4-7.

1992 "The Myth of Black Athletic Superiority" at the national convention of the American Alliance for Health, Physical Education, Recreation, and Dance, Indianapolis, Indiana, April 7-11.

1992 "An Investigation of Academic Accountability Among College Student Athletes" at the annual meeting of the North Central Sociological Association, Fort Wayne, Indiana, April 23-26.
23-25.

1991 "Perceptions of Black and White Student Athletes" at the national meeting of the American Alliance for Health, Physical Education, Recreation, and Dance, San Francisco, California, April 3-7.

1991 "Inner-City Sport Participation: Why All the Emphasis?" at the Midwest Convention of the American Alliance for Health, Physical Education, Recreation, and Dance, Milwaukee, Wisconsin, February 14-16.

1990 "The Socioeconomic Determinants of Black Sport Participation", Organized and Chaired Panel on Intercollegiate Athletics at the annual meeting of the North American Society for the Sociology of Sport, Denver, Colorado, November 7-11, 1990.

1990 "The Educational, Socio-cultural, and Economic Impact of NCAA Bylaw 5-1-(J), Proposition 42" at the annual meeting of the North Central Sociological Association & the Southern Sociological Society, Louisville, Kentucky, March 21-25.

1988 "Developing Mental Toughness in the Student Athlete" Chaired four sessions entitled "Psychological Skills for Sport Achievement", "Critical Issues in Coaching", "Strength Testing of Five to Eight Year Old Children", and "Research in Sport and Athletics" at the annual meeting of the Eastern District of AAHPERD, Philadelphia, Pennsylvania, February 17-21.

1986 Chaired panels entitled "The Black Athlete" and "The High School Participant". Presented on panel entitled "Assessing Academic Exploitation of Intercollegiate Athletes" at the annual meeting of the North American Society for the Sociology of Sport, Las Vegas, October 29-November 1.

1985 “The Socialization of the Black Athlete” paper presented at the annual conference of the North American Society for the Sociology of Sport, Boston, MA., November 3-6.

GRANTS

2011 NCAA/Horizon League $15,000

2011 NCAA/City University of New York Athletics $2,000

2010 NCAA/Horizon League $11,000

2009 Minority Achievers Program (Indiana University) $2,000.

2007 Telluride Association ($16,000)

1996 Lilly Endowment ($40,000)

1991 United States Tennis Association ($2,500)

1990 Indiana University Graduate School ($4,200) "An Investigation of Minority Student Attrition and Retention at Indiana University" Published study.

1989 United States Tennis Association ($250.00) "Effects of Target-Oriented Hitting On Ground Stroke Accuracy in Tennis. Published study.

1987 Indiana University Post-Doctoral Fellowship ($15,000)

1979 Bush Foundation Fellowship ($25,000)

SCHOLARLY SERVICE ACTIVITIES

2011- Journal for the Study of Sports and Athletes in Education

2004 Editorial Board, Journal of African American Studies

1999-2002 Editorial Board, Sport Sociology Journal

1999-2005 Editor, Journal of African American Men

1998 Independent Editor, Research Quarterly for Exercise & Sport

1996 Chair, AAHPERD/NASPE Sport Sociology Academy

1985 Chair, EAHPERD Research Council

2005- **Reviewer**: Sport Sociology Journal, Journal of Culture and Sport, Research Quarterly for Exercise and Sport, Quest, Journal of Popular

Culture, Journal of Sport and Social Issues, Journal of African American Studies

TEACHING

CLASSES

P211 Introduction to Sport Management (Developed 1989)

P328 Issues in College Athletics (Revised 2011)

P392 Sport and American Society (Developed 1989)

K500 Race and Ethnicity in Sport (Developed 2006)

K512 Topics in Commercial Sport (Developed 2002)

K513 Sports in Higher Education (Revised 2012)

K522 The Role of Sport in Society (Revised 2003)

A264 History of Sport and the Afro American Experience (Developed 2005)

A265 Sport and the Afro American Experience (Revised 2004)

SERVICE

PROFESSIONAL OFFICES HELD

Board Member, National Alliance of African American Athletes,

Board Member, National Council for African American Men,

Board Member, Wheeler Boy's Club, Indianapolis, IN.,

Chair, Convention Planner, Board member National Alliance of African American Athletes,

Vice President for Physical Education; Delaware Association for Health, Physical Education, Recreation, and Dance,

President; Delaware Association for Health, Physical Education, Recreation and Dance, State Delegate; National Association for Sport and Physical Education;

Committee Member and Secretary, Eastern District Association of the American Alliance for Health, Physical Education, Recreation, and Dance Council for Conventions

UNIVERSITY COMMITTEE ASSIGNMENTS

Student Affairs

Faculty Senate

Athletic Advisory Board

University Black Caucus

DEPARTMENTAL COMMITTEES

NCATE Evaluation Team

Curriculum

Graduate

Student Relations

Academic Standards

Budget and Grant Proposals

Search Committee

Minority Affairs

University Governance

Research Undergraduate Studies Committee

Sports Studies Committee

ADMINISTRATIVE EXPERIENCE

Coordinator: Undergraduate Sports Marketing & Management Program, Department of Kinesiology, Indiana University, 1997-2008.

Associate Department Chairperson; Department of Health, Physical Education, Recreation, and Dance; Chicago State University, 1980-1985

Associate Coordinator of Clinical Studies (student teaching); University of Delaware; College of Physical Education, 1985-1989

Director of Intramural Sports and Campus Recreation; Department of Health, Physical Education, Recreation, and Dance; Chicago State University, 1980-1985

Chief Academic Advisor; Department of Health, Physical Education, Recreation, and Dance Student Majors; Chicago State University, 1980-1985

Director of Programs; YMCA of Buffalo, New York, 1973-1975.

Director of Programs, Facilities Coordinator; SUNY Buffalo Amherst Campus Athletics and Recreation Facility, 1975-1976

Assistant Director of Intramural Sports; Mankato State University, 1976-1977

PROFESSIONAL MEMBERSHIPS

100 Black Men of Indianapolis (Wellness Committee Chair, Executive Board Member)

Indiana Sports Corporation

American Alliance for Health, Physical Education, Recreation, and Dance

Indiana Association for Health, Physical Education, Recreation and Dance

National Association for Sport and Physical Education

North American Society for the Sociology of Sport

American Sociological Association

HONORS/AWARDS

2011 NASSS Distinguished Service Award

2011 Who's Who among American Professionals

2010 Eli Lilly Company Community Service Award

2009 Indiana University Sport Management Majors Club Appreciation Award

2004-11 Nominated "Outstanding Teacher" Indiana University

2003 Purdue University North Central Campus Certificate of Appreciation

2000 Indiana USPTA Tennis Pro of the Year

1999 Central Indiana Tennis Association Community Service Award

1999 Teaching Excellence Recognition Award, Department of Kinesiology, Indiana University

1998 Community Service Award, Christ Apostolic Church, Indianapolis

1991 Who's Who In American Education

1980 Outstanding Young American Award

1969 Air Force Aid Society Scholarship

1969 Non-Commissioned Officers Wives' Club of Lajes Air Force Base Scholarship

1969-72 New York State Educational Scholarship

1979 Graduate School Scholarship; University of Minnesota; Minneapolis, Minnesota;

ADVISEMENT

Collegiate 100 of 100 Black Men Inc.

Indiana University Student Sport Marketing Major's Club

Indiana University Black Student Union

University of Delaware Undergraduate Sport Management Majors

Chicago State University Undergraduate Kinesiology Majors

CONSULTING

1985-Current: Work(ed) with over 1000 high school, college and professional athletes, coaches, teams and sports organizations in the areas of athlete career development, life skills development, performance enhancement (www.garysailesphd.com).

JAMES R. BETLEY (Founding Group Member)

IceMiller LLP
One American Square
Suite 2900
Indianapolis, IN 46282-0200
Phone 317-236-5874
Fax 317-236-2219
James.betley@icemiller.com

PROFESSIONAL HISTORY

Year	Professional Experience
March 2008 – Present	Of Counsel, Tax Ice Miller LLP
June 2001 – March 2008	Self-Employed Professional Photographer
June 1998 – Nov. 1999	Associate, Corporate Gray Cary Ware & Freidenrich (now a part of DLA Piper)

Related Publications/Presentations

- Indiana Charter School Handbook, 2011
- Serving on an Indiana Nonprofit Board Handbook, 2011
- "Legal Issues in Forming an Indiana Charter School," Presented October 7, 2011

Professional Assignments and Activities

Board Member, Westside Economic Development Corporation (2010 – present).

Member, Professional Development Committee, Ice Miller LLP (2010 – present).

Member, Indiana State Bar Association

EDUCATIONAL HISTORY

Degree	Institution	Year	Studies
n/a	Art Center College of Design	2000-2002	Photography
J.D.	University of Michigan	1995-1998	Law
B.A.	Northwestern University	1989-1993	English

INITIATIVES LAUNCHED - If you have played a leading role in launching any significant organizations, initiatives, programs or projects (including during school), please list them below.

- Represents a number of tax-exempt entities (including charter schools, charter school management organizations and education reform organizations) on a broad range of issues including corporate formation and governance, achieving tax-exemption, tax compliance, lobbying and political activities, unrelated business income and other business matters, including joint ventures, mergers, taxable subsidiaries, limited liability companies, and other affiliates to minimize tax liability and protect nonprofit status.

- Provides advice and counseling regarding the federal and state taxation of various governmental and quasi-governmental entities including compliance with Indiana's Open Door and Open Access Laws.

- Represents clients before the Internal Revenue Service, the Indiana Department of Revenue, and the Indiana Department of Local Government Finance on a variety of matters, ranging from obtaining favorable IRS Private Letter Rulings, Determination Letters and Department of Revenue Letters of Findings, to successfully obtaining tax relief under the IRS Innocent Spouse relief program.

- Managed a career as a professional photographer for seven years in Los Angeles, Chicago, New York and Indianapolis, including all aspects of running a business as a sole proprietor.

Peter Stewart (Advisor)
pstewart@k12.com

Experience

2000 - Present K12, INC

Senior Vice President, School Development

- Helped shape the company's initial strategic direction and tactical approach prior to initial launch;
- Lead and manage a team of fourteen focused on creating new opportunities for the company's distance-learning offerings as well as state and federal grants.
- Lead the company's efforts to work with large urban school districts as part of their comprehensive school reform and NCLB efforts. Work with school boards, technology staff, central administration, curriculum leaders, and legal departments to create strategic, tactical, and implementation plans. Largest implementation to date: School District of Philadelphia's elementary science program, 178 schools, 3,000 classrooms, 84,000 students grades K – 5;
- Lead the planning, incubation, and development of all new public school models, including blended schools, classroom-based, drop-out recovery, and all new models for Federal grants (RTTT, SIG, I3);
- Work with product development, finance, systems, research and evaluation, operations, school management, government affairs, and marketing teams to help recommend the company's strategic direction to our Board;
- Direct all aspects of starting new charter schools: identifying community partners, drafting charter application, presenting and defending the application to charter authorizer, preparing all budgets, negotiating all legal and contractual documents, supporting the not-for-profit Board, recruiting and hiring all administrative and teaching staff, securing and preparing the facilities, marketing the school and recruiting students, working with the media for focused stories, preparing teacher training, overseeing the launch of the school;
- Work with state-specific regulators and legislators to create policies conducive to web-based education reforms;
- Work with existing school districts and State Departments of Education to start Internet-based programs of their own;
- Assist in organizing the governance and administrative leadership of new schools;
- Assist in the training of administrators and faculty.

1999 – 2000 TELLURIDE MOUNTAIN SCHOOL, Telluride, Colorado

Founding Head of School (grades K through eight)

- Provided leadership to students, parents, faculty and Board;
- Recruited and trained all faculty members;
- Developed all school policies and wrote faculty and parent handbooks;
- Created curricula for each grade;
- Developed and oversaw school budget;
- Organized all major school events;
- Built new technology lab for school;
- Taught four classes daily in addition to administrative responsibilities.

1998 – 1999 TELLURIDE SCHOOL DISTRICT, Telluride, Colorado

District Curriculum Coordinator (grades kindergarten through twelve)

- Created and lead integrated curriculum workshops for teachers;
- Initiated effort to place all curricula online;
- Developed accelerated units for students in grades K-12;
- Served as active member of administrative and technology teams.

1993 – 1998 ST. HILDA'S & ST. HUGH'S, New York City
Head of Upper School (grades four through eight)
English teacher (grades six through eight)
- Responsible for the academic development of students;
- Supervised curriculum development and faculty training;
- Served as active member of admissions and technology committees.

1990 – 1992 THE AMERICAN INTERNATIONAL SCHOOL OF ZURICH, Switzerland
English Teacher (grades seven through twelve)
- Created curricula for middle school literature and senior honors courses;
- Coached varsity rugby and skiing teams.

Education

1996 TEACHERS COLLEGE, COLUMBIA UNIVERSITY, New York City
M.A. in English

1990 WILLIAMS COLLEGE, Williamstown, Massachusetts
B.A. in English
- Selected to spend junior year at Exeter College, Oxford University;
- Member of varsity cross country and rugby teams.

Donna Dixon (Advisor)
ddixon@k12.com

President/ Chief Operating Officer/ Sr. VP

New business/ Reorganizations / Marketing/ Growth Initiatives/ Organizational Development

Profit Improvement/ Franchise Operations/ Team Building/ Cost Control

Special Skills: Developing aggressive growth initiatives to capitalize on market opportunities. Exceeding financial performance objectives. Turning-around under-performing operations. Controlling operating costs by improving staff productivity. Setting high standards and getting workforce to respond.

1998-2011, Sylvan Learning, Educate, Inc.

1998-2001, VP Sales/Operations Corporate Centers, 43 units

2001-2005, Sr. VP Sales/ Operations, 73-250 units

2006-2009, President Sylvan Learning, Corporate Centers Division, 273 (sell down decision)

2009- Current, Franchisee Sylvan Learning , Washington, DC- Baltimore MD, Sterling VA

- **Developed new operating model for Sylvan Learning corporate centers, increasing average sales 168%.** New operating model for corporate centers produced sales revenues almost twice the volume of the average franchise center. Corporate centers prior to this model were producing an average of $280K annually. After re-staffing, retraining and setting operating standards a typical corporate center produced an average of $680K annually.

- **Revitalized unit operations, improving profits $9.1M first year, 29% second year and 20% third year.** . Analysis showed Sylvan needed better unit-level management of labor costs. Created labor model to effectively and efficiently tend to education and customer service at corporate centers. Post-implementation and training, profits nearly doubled and continued to improve for two more years.

- **Spearheaded development of Sylvan's 100-person National Call Center, improving sales conversion 30%.** Development of a call center to improve the core competency of conversion of first time callers to Sylvan. Conversion of 31% to 40% improved the flow of clients to the centers along with supporting the consistency of the advertised message to the

1989-1998, Ratner Companies, Hair Cuttery

1989-1991, VP Sales/ Operations, 143 units

1991-1993, Sr.VP Sales/Operations, 175 units

1993-1998, President Hair Cuttery, 600 units

- **Reorganized operations to focus on individual accountability at Hair Cuttery, increasing profits $12M.** Organization needed new standards for profitable growth. Installed new labor scheduling system, restructured compensation and reward programs that supported company growth objectives. As direct result of program, first year profits grew 38%. Profits improved another 23% during second year.

- **Directed Hair Cuttery growth from standstill to 90 units per year, taking sales from $43M to $200M.** Organization needed structure and standards for profitable growth. Location of sites, opening and operating had to be defined and followed to maintain control during the expansion years. Real Estate standards as well as opening and operating standards, span of control and employee profiles had to be embraced and followed to be successful with such rapid expansion.

Cole National Corp. 1984-1989, Things Remembered

1984 District Manager, Things Remembered

1985- 1987 Regional Manager, Things Remembered

1987-1988, Regional Director, Things Remembered

1988-1989, VP of Stores, Eyelab

Additional Sales and management experiences, Melville Corp. (Allied Stores)May Company, Sears Roebuck and Co.

Teaching Experience, Eastchester Elementary School , Eastchester, NY.

Mercy College, BS Psychology, Education

Post graduate course work at UVA, Darden School, and Wharton 1993-1998

TAMARA R. CARPENTER (Advisor)

tcarpenter@k12.com

ACCOMPLISHMENTS

- Planned and executed the Charles A. Tindley Accelerated School's 2nd annual volunteer recognition event generating significant community support and raising over $25,000 in donor contributions.
- Directed the successful application and start-up phase of a new charter school in Brooklyn, NY as Director of New Schools for City Prep Academies.
- Generated gains of more than 50% in community partnerships and more than 110% in youth participants as the Director of Programs for the 100 Black Men of Indianapolis.
- Increased the MLK Center's Grandparents Raising Grandchildren program operating budget by 232% and spearheaded an agency-wide volunteer recruitment and retention initiative that boosted volunteer participation by 313%.
- Founded the Kinship Care Community Roundtable promoting dialogue and collaboration among kinship caregivers and more than 25 educational and social service providers, government agencies and local foundations.

PROFESSIONAL EXPERIENCE

K12, Inc. Herndon, VA — 11/11 – Present

Vice President, School Development

Work with policy makers, school administrators, community leaders and others to develop opportunities to expand K12's Blended School models among district public schools and charter schools in the Midwest where K12's programs can be utilized to meet the needs of students. Serve as a liaison to K12's School Services and Government Relations teams on issues associated with the launch of all new programs.

Charles A. Tindley Accelerated School, Indianapolis, IN — 04/10 – 07/11

Director of Advancement

Facilitated the engagement of national funders in supporting the replication and expansion of Tindley schools. Under the direction of the CEO, worked with strategic planning committee to coordinate the application, start-up and implementation of new schools. Led community building efforts and assisted with public relations activities.

City Prep Academies, New York, NY — 07/09 – 03/10

Director of New School Development

Responsible for spearheading City Prep's growth and expansion in the Mid-Atlantic and New England region, managing the application and start-up process of new network schools and leading community building initiatives (including identifying and training new board members) in New York, Connecticut and Maryland.

Carnegie Corporation of New York, New York, NY — 08/08 – 07/09

National Urban Fellow

Served as Liaison to the Harlem Children's Zone producing policy options paper to guide replication of Harlem Children's Zone education strategy under the federal government's Promise Neighborhoods initiative; and reviewed, assessed and actively assisted in improving quality of grant proposals including evaluating proposed budgets, staffing, work plans and project deliverables as related to proposal goals and institutional capability.

100 Black Men of Indianapolis, Indianapolis, IN — 06/07 – 05/08

Director of Programs

Led five mentoring-based, educational, youth development programs that served over 600 Central Indiana children each year; and guided the development and implementation of first comprehensive, organization-wide strategic plan.

The Martin Luther King Center, Indianapolis, IN — 05/05 – 05/07

Program Director

Managed the Second Time Around: Grandparents Raising Grandchildren program providing wrap-around services such as support groups, financial assistance, academic support services and counseling for grand-families.

Cook County Public Guardian's Office – Juvenile Division, Chicago, IL 01/03 – 01/05

Attorney and Assistant Public Guardian

Attorney for the Public Guardian's Office, a government agency charged with representing over 18,000 children in abuse and neglect proceedings within Cook County:

- Managed complex caseload of over 120 youth from birth through twenty-one years old;
- Advocated for the best interest of my clients ensuring safety and well-being in placement, visitation and guardianship court orders and securing necessary mental health, education, housing and medical services.

Chicago Public Schools, Chicago, IL 08/01 – 06/02

Program Manager, Office of Education-to-Careers

Planned and implemented start-up of national college-prep program in five urban high schools for the third largest school district in the US:

- Instrumental in establishing city-wide business advisory board enlisting executives from major corporations such as Citibank, Nuveen and the Federal Reserve Bank of Chicago;
- Supervised site-based teams leading site leaders, teachers and counselors in strategic planning, advisory council development, training, trouble shooting, and classroom design;
- Surpassed enrollment, retention and scholastic goal earning Rookie-of-the-Year and Meritorious Service Awards.

Chicago Public Schools, Chicago, IL 10/00 – 07/01

Program Coordinator, Office of Human Resources

Formulated project plans and coordinated with staff to implement programs initiated by senior executives:

- Spearheaded recruitment initiative for alternatively certified teacher candidates;
- Directed the successful consolidation of new-hire enrollment process for three separate units convening focus groups, compiling work flow data and providing recommendations on all aspects of implementation from intake forms to work space design.

Morgan Stanley, Chicago, IL 02/00 – 10/00

Financial Advisor

Bank One Securities Corporation, Chicago, IL 09/98 – 12/99

Project Manager

EDUCATION

- M.P.A., Baruch College School of Public Affairs, July 2009 New York, NY
  Awarded National Urban Fellowship covering full tuition and living expenses as part of a rigorous, 14-month, leadership development program
- J.D., Indiana University School of Law, September 1998 Bloomington, IN
  Awarded partial academic scholarship
- B.S.B.A. in Management and Finance, Washington University, May 1995 St. Louis, MO
  Awarded full-academic scholarship to John M. Olin School of Business
- Semester Abroad, Fall 1994, Washington University London, England

LICENSES

- Illinois State Bar License, November 1999

TRAINING/ ASSOCIATIONS

- National Multiple Sclerosis Society Advisory Council, March 2010 - Present
- NYC Charter Center School Start-up Trainings, July 2009 – March 2010
- United Way Leadership Training, September 2006

DARREN REED (Advisor)

dreed@k12.com

VISONIONARY EDUCATIONAL LEADER

- ✓ Twenty years of public and private educational leadership experience with proven ability to build organizational excellence.
- ✓ Visionary leader with successful history of igniting innovation and positive organizational change.
- ✓ Exceptional instructional leadership track record in improving academic outcomes for all students.
- ✓ Passionate advocate for technology's use in transforming teaching and learning.
- ✓ Exceptional interpersonal and communication skills with ability to build capacity of all organization stakeholders to realize organizational goals and vision.
- ✓ Passionately committed to the academic and social development of all students, particularly at-risk student population.
- ✓ Seasoned educational consultant and trainer with ability to engage diverse audiences on a variety of topics.
- ✓ Highly adaptive to organizational change.

EDUCATION

GEORGE WASHINGTON UNIVERSITY, Doctoral Candidate, Ed Leadership, **May 2012**

THE COLLEGE OF WILLIAM & MARY, M.A. Education Policy, Planning & Leadership, 1999

HIRAM COLLEGE, B.A. Elementary Education, Hiram, Ohio, 1992

PROFESSIONAL CAREER

K12 INC., Herndon, VA **2008 - Present**

Industry Leader in K-12 Online Educational Options

Vice President, Blended Schools

Designed and implemented innovative blended learning school instructional models that combined the best practices in both face-to-face and online instruction; developed regional organizational accountability measures and systems to ensure high academic outcomes for schools; developed Head of School performance evaluation tool to recruit, develop, evaluate and retain quality school leaders; built collaborative and supportive relationships with multiple 501(c)3 boards; led successful charter and contract renewal process for multiple charter schools in different states; managed regional budget; represented company in national online education advocacy efforts.

Regional Vice President, Northern Region

Successfully led and provided oversight to K12's Virtual/Online and blended schools and programs in K12's Northern Region of the United States; hired and developed local school leaders; built board relations across six states; led strategic planning efforts to ensure academic success and school compliance; served as a conduit between schools and K12 headquarters to ensure organizational goals.

Senior Director of Urban Programs and School Development, School Management

Instrumental in building K12's national capacity to better serve at-risk student populations within various virtual school learning models; Emphasis on Urban Hybrid and blended learning programs; led organization through difficult legal period that led to successful outcome for K12 and increased advocacy from PA state department of education for online education and for-profit companies leading charter schools; Key committees: Academic Achievement Task Force; Agora High School Leadership Project (Philadelphia, PA); Grants for At-Risk Communities Task Force.

ALEXANDRIA CITY PUBLIC SCHOOLS, Alexandria, VA **2002- 2008**

Cora Kelly School for Math, Science, and Technology – Innovative focus school serving primarily at-risk students

Principal

- Provided instructional leadership that led to increases in student achievement and attainment of Full VA state level Accreditation and Federal NCLB/AYP requirements for student subgroups.
- Implemented and trained leadership team and staff in the *Effective Schools* framework for student achievement that included extensive team building and use of data to inform instructional practices.
- Hired, trained and retained high caliber of instructional and support staff that reflects school diversity;
- Utilized school and community resources to engage growing Spanish-speaking parent and student population.
- Developed multi-faceted school-based media campaign to highlight and support school successes as well as academic and support programs.
- Established successful "Boys to Men Mentoring and Role Model Program" program to address academic, social and behavioral needs of identified 3rd – 5th grade boys.

FAIRFAX COUNTY PUBLIC SCHOOLS, Fairfax County, VA **1999- 2002**

Virginia's largest school district with reputation for high achieving schools

Assistant Principal

- Chaired school improvement planning committee for three years and developed plan that led to meeting federal NCLB and state level accountability measures (Accredited); Developed, planned and implemented academic and cultural programs and assemblies that supported school academic and character education goals; Co-chaired Special Education local screening team.

NEWPORT NEWS PUBLIC SCHOOLS, Newport News, VA, **1992-1999**

An Achievable Dream Academy, an innovative public/private school partnership for at-risk students

Summer School Principal

- Provided strong instructional leadership to summer remediation and enrichment program for diverse regular and special education student populations; Hired and trained highly qualified teaching staff.

Teacher

- **Named 1997 Teacher of the Year**; Taught grades 3-8 in school communities with a wide range of socioeconomic and ethnic diversity; conducted school and district level instructional workshops for teachers to enhance student instruction; Served in a variety of school level leadership capacities including school improvement chairperson, SCA Advisor, Yearbook Advisor, etc.

PUBLIC SPEAKING, CONSULTING & PRESENTATIONS

- Recapturing Credit and More: Blended Learning & At-Risk Students, iNACOL, Indianapolis, IN, 2011
- Interview - Benefits and Challenges of Blended Learning, Getting Smart, 2011
- Building Your Educational Playlist, Panelist, Excellence in Action Summit, 2011
- Blended Learning – Presentation to Ohio State House, 2011
- Issues of Diversity in Virtual Education, iNACOL, Austin, TX, 2009
- Closing the Achievement Gap: Success for All Students, Euclid, Ohio 2008
- Graduate Seminar: Legal Issues for Teachers: The George Washington University 2005-2011
- Cultural Competency and School Leaders, The George Washington University, 2007
- Teaching & Learning: Using Data to Guide the Instruction: Alexandria VA, 2006
- Classroom Management and the At-Risk Student, AYA Education Network, 2004

- Write-On! Motivating and Inspiring Young Authors, Richmond, VA 2000, Cleveland, Ohio 2001
- Certified Diversity Trainer, Newport News, VA 1995-1999

BOARD LEADERSHIP, APPOINTMENTS & MEMBERSHIPS

Board Member, Future Kings Non-Profit Mentoring Program (2011-Present)

Board Member, Argosy University School of Education, Arlington, VA (2006-2008)

President, Alexandria Association of School Administrators, Alexandria VA (2006-2008)

Member, Association for Supervision and Curriculum Development (ASCD)

Member, National Association of Elementary School Principals (NAESP)

Member, Virginia Association of Elementary School Principals (VAESP)

Member, National Rites of Passage Institute (NROPI)

Member, National Association of Black School Educators (NABSE)

Member, International Council for Online Learning (iNACOL)

References Available Upon Request

ZACHARY DAVID WASILEW (Advisor)
zwasilew@k12.com

SUMMARY

- Successful entrepreneur who helped Rasmussen College achieve 10X revenue growth in 6 years
- Strategy and planning executive who can identify a long-term strategy and create a repeatable process for sustainable growth
- Real estate professional with 15 years of experience in retail market selection, site selection, development, construction, sales, leasing, and facilities management
- Operating partner who can build the team and diligently execute the plan; tripled the total retail locations of Rasmussen College in 6 years

EXPERIENCE

Private Consultant **Chicago, IL**
Consulting Education companies on geographic expansion: acquisition or de novo October 2010 – Present

Clients:
Meritas, a Sterling Capital portfolio company: Premium K-12 education provider with 8 schools, 11,000 students
- Reviewing Chicago market and other U.S. metro areas for market entry
- Identifying key characteristics of current Meritas schools, markets, and operating results for analogous review of new market opportunities
- Setting up repeatable process for market evaluation: demographics, market dynamics, and competition

Tricoci University of Beauty Culture: Beauty College with 8 locations
- Performed due diligence for acquisition of Indiana – based school
- Acquisition process was streamlined to completion in 3 months, LOI to closing
- Identifying new markets for entry: setting up criteria and process for geographic expansion decisions

RASMUSSEN, INC. **Chicago, IL**
Private, For Profit Post-Secondary Education Company June 2004 – October 2010
$250+ million revenue, 21 campus locations in 5 states; 40% revenue CAGR over 6 years

Director of Real Estate September 2008 – October 2010
- Identified, developed, and implemented new campus market openings, tripling the retail locations of the College
- Evaluated each new market opportunity's fit with company strategy, analogous market comparisons, review of competition, and financial forecast
- Reported to CEO and CFO at different times thus providing a great opportunity to participated in strategy and implementation across the enterprise and the education sector.

Project managed and helped create the organic growth process for each project from inception to grand opening:
- *New Campus Results:* the 13 new campus units contribute to over 30% of company's current revenue
- *Total Projects Costs:* Over $70 + m in real estate construction, and $90 + m in contingent lease obligations
- *Repeatable Growth Process:* Built team to open at least 3-5 new units each year
- *Business Planning:* Created with executive team buy-in the five year business plan for each new campus: projected financial statements, strategy for growth, and operational timeline
- *Local Market Conditions:* Adapted each project to the local demographics, availability of real estate, economic conditions, existing retail patterns, and competitor's locations and strengths
- *Retail Site Selection:* Collaborated with local economic development corporations, real estate agents, state regulators, and real estate developers to identify the best possible retail locations using criteria of access and visibility to the major road artery, traffic counts, and sufficient parking
- *Vendor Team:* Sourced and managed team of developers, real estate agents, attorneys, consultants. Overcame extremely difficult credit conditions for developer partners in 2008-2010, working with and expanding their banking relationships.
- *Negotiation:* As in-house real estate developer, managed the negotiations between land owners, developers and the College for leases and/or build-to-suit construction contracts
- *Entitlements and Economic Incentives:* Represented the company to appropriate municipalities and government agencies seeking incentives, zoning changes, permit approvals, and economic development
- *Construction:* Collaborated with the construction project manager to ensure entitlement process complements construction schedule. Provided each campus on budget and on-time
- *Operations:* Integrated the incoming operations team to ensure new campus success:
  - Collaborated with the marketing and sales department to optimize market entry
  - Synchronized the timing of the regulatory approval with the construction, sales team, and operations manager to minimize excess labor cost

RASMUSSEN, INC. Continued

Director of Corporate Development — June 2005 - August 2008

- Evaluated acquisition and partnership opportunities
- Market research identifying the key characteristics and key competition for existing and new campus locations

Managed Leased Real Estate Portfolio:

- Business planning and forecasting to provide office space and expanded retail locations to support 40% employee CAGR; relocated and expanded two corporate headquarters locations; each lease obligation in excess of $10 million.
- Expanded, relocated and/or renovated 50% of mature campuses

Created, Managed and Implemented Key Company Reporting:

- Created comprehensive automated daily reporting overlay software for real time inventory of the student population; thereby consolidating 6 different databases of student information.
- Standardized terminology, enrollment calendars and reporting across 3 different school systems
- Oversaw the implementation of the Company reporting conducted weekly, monthly, and quarterly
- Trained business unit managers on financial and operating metrics so that these reporting tools improved the operating decisions for each business unit

Summer Internship and part-time during Business School — June 2004 – May 2005

- Financial and operational due diligence for the Webster College acquisition, including financial modeling, demographic market investigation, real estate negotiation and review
- Conducted market surveys to help identify strategic objectives for acquisition and expansion of new school locations; performed statistical analysis of market data to identify key demographic trends
- Negotiated leasing contracts for a new campus location and two corporate office relocations.

CB RICHARD ELLIS, INC. — **Chicago, IL**

Large, Publicly Held Commercial Real Estate Services Firm — Nov. 1996 – Sept. 2003

Director — May 2002 – Sept. 2003

Represented Ford Motor Company's real estate department; provided real estate transaction management, strategy and implementation throughout North and South America

- Determined project feasibility, site selection, financial forecasts and government approvals for the Ford-brand car dealership locations, with an annual budget in excess of $60 million
- Developed and maintained real estate implementation processes resulting in decreased cycle time and lower project costs that allowed Ford to reduce real estate personnel by 50% over five years
- Exclusive manager for Ford Credit's portfolio of North American foreclosure properties
- Project managed teams of approximately 15 vendors and client personnel per project

Associate Director — June 1999 - April 2002

- Directed transaction teams that annually disposed of $45 million of real estate
- Represented Ford Motor Credit sales locations in relocating, renewing, or subletting locations
- Performed profitability analysis and real estate contract review for car dealership locations

Associate — Nov. 1996 - May 1999

- Project manager for leasehold acquisitions for various clients, including The Stanley Works, McDonald's Corporation and Sears Roebuck, and Company
- Evaluated the market value of The Stanley Works' global real estate portfolio. Assisted in sales of real estate in foreign markets: Australia, Brazil, France, Indonesia, New Zealand, and the United Kingdom
- Sourced investment professionals for the RREEF funds disposition of apartment real estate

EDUCATION

THE UNIVERSITY OF CHICAGO GRADUATE (BOOTH) SCHOOL OF BUSINESS — **Chicago, IL**

Master of Business Administration, Concentrations in Finance & Economics — Sep. 2003 – Jun. 2005

- Co-Chair of the Dean's Marketing Action Committee

VANDERBILT UNIVERSITY — **Nashville, TN**

Bachelor of Arts, Chemistry — Aug. 1990 - May 1994

- Received Outstanding Award in Analytical Chemistry for lab research in support of post-doctoral research
- Treasurer of the Pi Kappa Alpha fraternity

Keith T. Stephenson, Ed.D. (Advisor)

kstephenson@k12.com

PK–8 SCHOOL PRINCIPAL

Offering 18 years of Achievement in Developing Productive Student-Focused Environments to Maximize Learning Experiences

Dedicated, resourceful leader with proven ability to create and monitor policies and practices that promote a safe learning environment; ensure a school culture that encourages continuous improvements for teachers and students; develop an environment that encourages open communication with colleagues, students, and the community; and mentor educators in the creation and implementation of class instruction, lesson plans, and student assessment in conjunction with state learning regulations. Oversight of 800 students, staffing, scheduling, and an annual budget in excess of $7 million. Detailed educational knowledge and core skills include:

Strategic Planning / Student-Centered Instruction / Program Development / Parental & Community Involvement Attendance & Grade Reports / Individual Education Plans / Curriculum Development & Implementation Extracurricular Involvement / Training and Development / Budgeting & Forecasting / Team-Building / Educational Administration / Faculty & Staff Development / Instructional Programming / Grant Proposals

EDUCATION

The George Washington University, Washington, DC
Ed.D. Educational Administration & Policy Studies, 2010
Dissertation Topic: The Impact of NCLB Sanctions on School Learning Environments
Bowie State University, Bowie, MD, **M.Ed. Administration & Supervision,** 2002
Lehigh University, Bethlehem, PA, **BA English,** 1994

LEADERSHIP EXPERIENCE

Maurice J. Moyer Academy, Wilmington, DE (2011-Present)
Vice President/Head of School for K12

Plan, control, and direct the overall activities for the only blended learning school in the State of Delaware. Moyer Academy serves students in grades six through twelve. Scope of position includes: Staff recruitment, development, and evaluation; fiscal management; record and administration organization & maintenance; student discipline; program initiatives; team-building; shared decision-making; school values promotion; advisory council coordination; and creation of a safe, respectful, and fair environment.

- Transformed a chaotic school culture into a stable, data-driven learning environment.
- Overhauled the master schedule to maximize the use of teaching staff to meet the needs of all students.
- Revised procedures around online learning practices to maximize student achievement
- Generated all of the charter reports mandated by the State of Delaware.
- Created campaign for 100% acceptance rate for seniors (into 4-year colleges).

Friendship Public Charter School, Chamberlain Campus, Washington, DC (2009 – 2011)
Principal

Served as the principal for the largest pre-kindergarten through 8th grade school in Washington DC (800 students).

- Reduced student discipline rate by 78% in one school year by implementing student discipline program.
- Challenged to transform a troubled school into a high-performing school. Enhanced critical “bottom line” indicators through continuous establishment of improvement strategies.
- Stretched curriculum development function in all academic subjects to boost the quality of education.
- Effectively managed a $7 million budget aligning with all budgetary requirements.

Kts318@yahoo.com ▪ Mobile: (202) 288-0092

Hugh M. Browne Education Campus, Washington, DC **(2002 – 2009)**
Principal (2005 – 2009) **/ Assistant Principal** (2002 – 2005)

- Developed and implemented a full-service community school model that resulted in improved educational outcomes for students.
- Successfully led school through transformation from a junior high school to a PK–8 school.
- Created student success program that reinforced students' sense of identity and personal integrity, increased students' grade-point averages of 3.0 by 30%.
- Met AYP guidelines in Reading in 2008, subgroups included special education, African-American, and socioeconomically disadvantaged.
- Implemented school uniform policy that significantly reduced disciplinary problems.
- Improved school culture that resulted in declined serious offenses, dropping off the list of "Persistently Dangerous" designation.
- Reduced student's discipline rate by 66% by implementing school-wide discipline program.
- Served as mentor principal for three cohorts of resident principals in New Leaders for New Schools Leadership Training Model.
- Designed a comprehensive academic support program to identify and provide services for students with disadvantaged backgrounds.

TEACHING EXPERIENCE

***American History Teacher,* Jefferson Junior High School,** Washington, DC (2000 – 2002)
- Developed innovative lesson plans and strategies for teaching American History for a Junior High School that included use of state-of-the art technology.
- Served as head coach of football team, head coach of track team, and school sponsor for National History Day (citywide competition).

***Language Arts Teacher,* Old Mill Middle School North,** Millersville, MD (1998 – 2000)
- Employed the use of a buddy system to facilitate student partnering of non-readers with advanced readers.
- Led students to 97% pass rate on Maryland functional reading test.

***Elementary School Teacher,* Monument Elementary School,** Trenton, NJ (1994 – 1998)
- Developed grade-level appropriate curriculum and led classroom instruction in all basic subject areas: reading, writing, math, social studies, and science.
- Served as head coach of basketball team.

PRESENTATIONS

Common Sense Institute, Monmouth, New Jersey, 2012
New Leaders For New Schools, Washington, DC 2011
District of Columbia Schools Principal's Academy, Washington, DC, 2009
National Middle School Association Conference, Denver, CO, 2008
Edgewood/Brookland Family Support Collaborative, Washington, DC, 2008
Euclid Senior High School, Euclid, OH, 2008
Johns Hopkins University, Baltimore, MD, 2007

AWARDS / HONORS

Rogerline Nicholson "Building Stronger Communities" Award, 2005
Governor's Teacher Recognition Award, 1997
Monument Elementary School – Named Teacher of the Year 1997

LEAH RODGERS (Advisor)

lrodgers@k12.com

Education: **DePaul University**, Chicago, IL (Nov. 2004)
Masters in Education GPA: 3.94
Illinois Initial Type (03) Certification

Michigan State University, East Lansing, MI (May 2003)
Bachelor of Arts GPA: 3.49
Major: Elementary Education Minors: Geography and English

Job Experience: **Senior Director of Academics, Blended Schools** (August 2011-Current)
K12 Inc.

- Provide training and support to six different blended school principals and teaching staff
- Create academic and instructional programming for all blended schools
- Manage strategic planning process, metrics, and initiatives for all blended schools
- Identify data, systems, and product development needs for blended schools

Head of School, Chicago, IL (Jul. 2010-Jul. 2011)
Chicago Virtual Charter School, Kindergarten through Twelfth Grade

Academic Administrator, Chicago, IL (Jan. 2008-Jun. 2010)
Chicago Virtual Charter School, Kindergarten through Eleventh Grade

- Supported the Principal in a Vice Principal role, carrying out the school mission and goals
- Trained, evaluated, and supported teachers through ongoing professional development, focused trainings, and by providing ongoing support to improve staff competencies and knowledge for blended instruction
- Tracked and maintained data and analytics for the school, increasing 3-8th grade state test scores by eight percent in math and three percent in reading

Northern Regional Manager, Chicago, IL (Jul. 2007-Dec. 2008)
K^{12}, Teacher Effectiveness Division

- Provided support and training to school administrators and teachers in the Northern Region
- Planned and led academically focused monthly National Professional Development events for K-8 teachers across the country
- Problem solved for hundreds of teachers on the *Teacher Support Hotline*
- Built training resources, guides, and tutorials to assist teachers in the field
- Quantified and prepared data reports for hotline inquiries and participation in training events

Teacher, Chicago, IL (Aug. 2006-Jun. 2007)
Chicago Virtual Charter School, 7th and 8th Grade

- Prepared presentations to communicate the need for the unique educational opportunity for families attending CVCS and presented to Illinois state legislators at the capitol in Springfield
- Created personalized instructional plans for students that incorporated individualized goals and academic expectations for the school year
- Consistently tracked attendance and progress while communicating regularly with students and families
- Motivated students and increased student engagement by encouraging students to work beyond their potential by offering incentives and rewarding great effort

Teacher, Chicago, IL (Sept. 2004-Jun. 2006)
Octavio Paz Charter School, 2nd and 4th Grade

- Managed twenty-three students while introducing and maintaining classroom expectations and individual management plans
- Executed academic excellence by celebrating student achievement
- Facilitated parent-teacher conferences
- Created lessons that reflected state and district curriculum standards and benchmarks
- Focused on ISAT and IOWA strategies and skills to prepare students for testing
- Performed reading miscue analysis' on different students to determine reading abilities and fluency

Student Teacher, Chicago, IL (Mar. 2004-Jun. 2004)
Agassiz Elementary, 5th Grade

- Differentiated instruction and assessments to accommodate students with special needs and varying learning styles
- Taught both at-risk and special needs students including; English Language Learners, Emotionally Impaired, those with ADHD, and several Learning Disabled
- Built a strong and safe classroom community which helped enhance relationships
- Interacted with small groups of students on problem solving skills and strategies while assessing their performance

Teaching Related Experience:

Student Mentor, Lansing MI (Sept. 2000-May 2003)
"Spartan Buddies Program"

- Mentored an at risk family of seven girls from a single parent home for 3 years
- Engaged in weekly activities outside of the home involving real world experiences

Youth Camp Counselor, Okemos, MI (Jun. 2001-Jul. 2001)
Meridian Township Summer Parks and Recreation

- Supervised 25-40 children of mixed ages for an eight week summer program
- Created and implemented lesson plans with cross-curricular themes that included lessons, games, activities and field trips that were fun and educational for kids

Study Stop Tutor, Lansing, MI (Sept. 1999-Dec. 1999)
Spartan Village Elementary

- Tutored an elementary student in reading, writing, math and science twice a week in an after school program
- Worked specifically on reading level appropriate books and improving the student's vocabulary

Technology/ Skills: Proficient in Microsoft Word, Microsoft Excel, Microsoft Outlook, PowerPoint, Elluminate, Internet, Digital Photography, Educational Software, Beginners Sign Language, Moderate German, Soccer Instruction

Interests: Cooking, soccer, tennis, golf, arts & crafts, traveling, reading, and outdoor activities

Jennifer Kendall (Advisor)
jkendall@k12.com

ABILITIES

- Extensive experience in all compliancy and academic aspects of special education and federal Title programs in a virtual or blended setting

- Establish effective working relationships with all stakeholders sharing the common goal of student success in a variety of educational settings

EMPLOYMENT HISTORY

K12, Herndon, VA
Director, Special Programs July, 2006 to present
Ensure compliancy of all aspects of educational programming for all K12 managed schools serving students with disabilities, provide professional development for school leaders and stakeholders, explore innovative supportive services for students with disabilities or those deemed at risk, provide representation at the national level in the development of regulations and policies for those serving students with disabilities as well as those serving students in Federal Title programs

Ohio Virtual Academy, Maumee, OH
Special Education Manager July, 2004 – July, 2006
Provide direct, daily support to a staff of 30+ special education teachers and leaders, ensure compliancy and academic success for 500+ students with disabilities, provide professional development for all staff including school leaders, general education teachers and special education related staff, represent the school and staff at state specific department of education meetings

Ohio Virtual Academy, Maumee, OH
Intervention Specialist September, 2002 – June, 2004
Ensure compliancy and academic success for 16+ students with disabilities, work closely with related service providers, general education staff and peers, use data to define instructional needs of students

ADDITIONAL EMPLOYMENT EXPERIENCES

- Autism inclusion coordinator for Columbus Public Schools
- Special Education Teacher for Columbus Public Schools
- Lead Residential Specialist for Goodwill Industries (supported adults with disabilities in their independent living goals)
- Special Olympics event coordinator
- Speech language pathologist, White Oak School District

EDUCATION

B.A., Speech Language Communication, University of Rio Grande
B.A. + Special education teacher licensure (K-12), Ohio Dominican University
M.A. Special Education Administration, University of Dayton

Amy G. Biasbas (Advisor)

agbiasbas@k12.com

Education

Master of Education – University of Missouri, St. Louis, MO ▪ 2003
Bachelor of Science in Environmental Sciences – Purdue University, West Lafayette, IN ▪ 1995

Professional Experience

Operations Director Blended Schools – K12 Inc., St. Louis, MO ▪ March, June 2010 – Present

- Collaborate with regional team to create, contribute to, and edit Blended School blueprints
- Develop training plans and deliver training face-to-face and virtually to school administration and staff regarding operational tasks
- Conduct quarterly operational audits to ensure schools are in compliance with all state and local compliance requirements
- Provide follow-up recommendations and training, if deficiencies are identified during quarterly audit
- Collaborate with regional team to develop a score card metric that will be used to evaluate the progress schools are making towards regional/company benchmarks and goals
- Provide training and support to the HOS in strategizing ways to meet regional/company benchmarks and goals
- Communicate with K12 School Services; Director of Operations and team, to ensure Blended School needs are being captured in all K12 initiatives
- Serve as school's/K12 first contact for questions and escalations, and provide K12 closeness/visibility into operational needs of schools in the region

Head of School St. Louis Public Schools Virtual School – K12 Inc., St. Louis, MO ▪ June, 2008 – June, 2010

- Worked to develop and grow the hybrid school model in conjunction with district partner.
- Supervised and lead all operational aspects of a K-8 hybrid school program and 9-12 High School hybrid program with district partner.

Virtual Teacher St. Louis Public Schools Virtual School– K12 Inc., St. Louis, MO ▪ October,2007– June, 2008

- Taught students grades K-3 virtually and face to face.
- Worked to develop and grow the hybrid school model in conjunction with district partner.

Program Developer– KidsPlay, St. Louis, MO ▪ January, 2005 – June, 2007

Researched, wrote, and trained staff to use curriculum for Preschool and 1-6th grade after school program.

Middle School Science Teacher – Parkway School District, ▪ Manchester, MO ▪ August, 2000- June, 2004

- Taught science and language arts for grades 6-8th grades.

AmeriCorps Volunteer– American Youth Foundation, St. Louis, MO ▪ August,1997 – August,1998

Sustainable Development Volunteer– Belize City, Belize ▪ June-August,1994

ATTACHMENT 2

School Leader

A candidate for Head of School (HOS) has not yet been identified for the Indianapolis and Gary IUES Passport Academies proposed to open in 2013. Pending agreement on the terms of the services agreement (management contract) by IUES Passport Academies and K^{12}, administrative staff, including the HOS, are anticipated to be employees of K^{12}. K^{12} will determine the employment terms for administrative personnel including the Head of School.

In seeking to identify School Leaders in more than one school, we will utilize four approaches:

1. Attract existing staff at schools K^{12} manages, with a focus on the schools in Indianapolis and Muncie. Out of state transfers to Indiana will also be considered. Having staff on board who are familiar with K^{12}'s systems, curriculum, methodologies, and their organization in general is a huge help. This is as true for teachers, as it is for operational support staff, and ideally for school leaders.
2. Utilize the local contacts of our Board members, existing local K^{12} staff, and highly supportive community groups.
3. Through paid ads, as well as earned media, spread the word in the general press about the launching of these new schools. Ensure that articles focus on both students and families as well as educators.
4. Utilize all web-based options in Indiana for public school leaders and public charter school leaders.

We have already begun items #1 and #2 above and have interested candidates. We would begin #3 and #4 upon formal charter approval and after the charter agreement and the services agreement have been executed. Many great school leaders (HOS) will not be eligible to start (formally) until the end of the school year in which they accept. In networks of schools, a launch should not be dependent upon the leader's start-date. Many tasks must begin months in advance unless the leader is free from current-year obligations. The process is lead by K^{12}'s existing HR team working in support of the SVP of Blended School Operations (Donna Dixon). K^{12}'s HR team helps recruit, interview, hire, onboard (including benefits), and train over 1,000 new FT online teachers annually. They have helped recruit and hire school leaders in 30+ states. Should this application be approved, they would provide the same resources and services to our board – all of which are provided to our school as part of their management service agreement (and thus at no additional cost). According to the 2012 ICSB application timeline, we project that the HOS recruitment and hiring process could begin in July 2012. HOS interviews will take place between October and March 2011 and hiring in March 2013. We realize that many top HOS candidates will need to complete the school year at their present job. We will hope for the best, but realize that a June HOS start date is very likely for the best candidates. Our school development team made up of our Board, other administrators, and K^{12}, can handle the normal roles assigned to a HOS until that person is able to start. IUES Passport Academies, Inc. and K^{12} will comply with all EEOC (Equal Employment Opportunity Commission) regulations concerning the hiring of employees. Candidates must comply with all state laws requiring fingerprinting and other documentation.

In the hiring of the HOS, K^{12} shall provide the Board with background information on finalists for the position, and an opportunity to interview finalists if the Board so chooses, and a reasonable time for the Board to provide K^{12} with comments upon the finalists. However, given the unique academic materials, highly technical integration of the K^{12} OLS and academic components, as well as the financial risk which K^{12} will undertake, it is the Board's determination that K^{12}, itself, is in the best position to make final hiring, and supervisory decisions relative to the administrators.

Compensation level (salary and benefits) for the Head of School will be competitive with starting local salaries and benefits. Employment agreements will be signed. Benefits will be secured. As a vacancy occurs in this position, the same recruitment, selection, and employment techniques will be used.

The HOS is responsible for ensuring that the vision and mission of the Passport Academy is shared and carried out by all school stakeholders, including all Passport Academy staff members. The HOS will work collaboratively with the IUES Board, K^{12}, and serve as the instructional leader overseeing the school's instructional program, finances, operations, enrollment, community, and state/K^{12} assessments, while holding teachers accountable for ensuring positive academic outcomes and student success. The HOS will bear chief responsibility for implementing the school's education program; attaining the school's objectives for high student achievement; managing, evaluating, promoting, and releasing school personnel; creating a school culture that is disciplined, orderly, and conducive to learning; and nurturing a strong relationship among the School, the parents, and the community.

The qualifications we will seek in a Head of School are:

- Instructional Leadership;
- Significant experience working writing and managing budgets;
- Experience writing and dealing with curriculum, technology, and training/professional development;
- A record of leadership and sound management;
- A passion for helping students attain high standards;
- Strong interpersonal skills and experience in team-building;
- An understanding of the diversity and unique character of the school; and
- Consistently exceptional professional evaluations and outstanding references from peers, former colleagues, parents, and members of the school community.

ATTACHMENT 3

Administrative/Management Team

Candidates for the Administrative/Management Teams have not yet been identified for the Indianapolis and Gary IUES Passport Academies proposed to open in 2013. Pending agreement on the terms of the services agreement (management contract) by IUES Passport Academies and K^{12}, administrative staff, including the HOS, are anticipated to be employees of K^{12}. The IUES Passport Academies' projected staffing plan is structured according to functional areas of school operation related to student enrollment. The functions are necessary for proper support of students, families and faculty. The number of specific positions will be determined by confirmed enrollments. The table below represents the plan for staffing for SY2013-2017.

IUES Passport Academies School Staffing Chart Years Start Up-5						
	Start Up	Year 1	Year 2	Year 3	Year 4	Year 5
Administrative Staff						
Head of School	1.0 FT	1 FT	1 FT	1 FT	1 FT	1 FT
Operations Manager		0.5 FT	0.25 FT	0.25 FT	0.25 FT	0.25 FT
Special Ed Manager		K^{12} Blended Schools	K^{12} Blended Schools	0.25 FT	0.25 FT	0.25 FT
Information Technology Manager		0.5 FT	0.25 FT	0.25 FT	0.25 FT	0.25 FT
Registrar		0.5 FT	0.25 FT	0.25 FT	0.25 FT	0.25 FT
Office Administrator	1 FT	1 FT	1 FT	1 FT	1 FT	1 FT

In seeking to identify School Leaders in more than one school, we will utilize four approaches:

1. Attract existing staff at schools K^{12} manages, with a focus on the schools in Indianapolis and Muncie. Out of state transfers to Indiana will also be considered. Having staff on board who are familiar with K^{12}'s systems, curriculum, methodologies, and their organization in general is a huge help. This is as true for teachers, as it is for operational support staff, and ideally for school leaders.
2. Utilize the local contacts of our Board members, existing local K^{12} staff, and highly supportive community groups.
3. Through paid ads, as well as earned media, spread the word in the general press about the launching of these new schools. Ensure that articles focus on both students and families as well as educators.
4. Utilize all web-based options in Indiana for public school leaders and public charter school leaders.

We have already begun items #1 and #2 above and have interested candidates. We would begin #3 and #4 upon formal charter approval and after the charter agreement and the services agreement have been executed. Many great school leaders will not be eligible to start (formally) until the end of the school year in which they accept. In networks of schools, a launch should not be dependent upon the leader's start-date. Many tasks must begin months in advance unless the leader is free from current-year obligations. The process is lead by K^{12}'s existing HR team working in support of the SVP of Blended School Operations (Donna Dixon). K^{12}'s HR team helps recruit, interview, hire, onboard (including benefits), and train over 1,000 new FT online teachers annually. They have helped recruit and hire school leaders in 30+ states. Should this application be approved, they would provide the same resources and services to our board – all of which are provided to our school as part of their management service agreement (and thus at no additional cost). According to the 2012 ICSB application timeline, we project that the Administrative/Management Team recruitment could begin in July 2012 for the Office Administrator followed in January 2013 by recruitment of the remaining members of the Administrative/Management Team. Office Administrator interviews will take place between October and December 2012 and hiring in January 2013. Other Administrative/Management Team members will be interviewed and hired between January 2013 and June 2013. IUES Passport Academies, Inc. and K^{12} will comply with all EEOC (Equal Employment Opportunity Commission) regulations concerning the hiring of employees. Candidates must comply with all state laws requiring fingerprinting and other documentation.

Compensation level (salary and benefits) for the Administrative/Management Team members will be competitive with starting local salaries and benefits. Employment agreements will be signed. Benefits will be secured. As a vacancy occurs in these positions, the same recruitment, selection, and employment techniques will be used.

We take as a given that all Passport Academy staff members contribute to the school's mission and goals and carry out all assigned duties and responsibilities in order to maximize student performance. The following Administrative/Management Team staffing positions have been identified as essential to ensuring the academic success of the Passport Academy model:

Operations Manager is responsible for the day-to-day business affairs of the school including accounting, reporting, budgeting, forecasting, cash collections and disbursements, and vendor contracting. The qualifications we will seek in a candidate for this position are:

- Formal accounting or finance training
- Sincere ethical commitment to education
- Strong references
- Relevant work experience

Special Education Manager is responsible for providing support and management services for all special programs areas including special education, 504, Response to Intervention (RtI), Title I, English as a Second Language (ESL) and Advanced Learners Programs. Staff hiring, training, and supervision for these programs is managed, if not directly conducted, by the Special Education Manager. Special programs policies and procedures are created to comply with state and federal regulations for each school. In SY2013 and SY2014, the K^{12} Blended Schools Region Special Education Manager will serve as the Special Education Manager for the IUES Passport Academies. Beginning in SY2015, an IUES Passport Academies Special Education Manager will be employed to serve the four charter schools. The qualifications we will seek in a candidate for this position are:

- Master's degree or equivalent; or five to seven years related experience and/or training; or equivalent combination of education and experience. Special Education administrative experience and appropriate licensure required.
- Ability to read, analyze, and interpret common scientific and technical journals, financial reports, and legal documents. Ability to respond to common inquiries or complaints from customers, regulatory agencies, or members of the business community. Ability to write speeches and articles for publication that conform to prescribed style and format;
- Ability to apply advanced mathematical concepts such as exponents, logarithms, quadratic equations, and permutations. Ability to apply mathematical operations to such tasks as frequency distribution, determination of test reliability and validity, analysis;
- Ability to apply principles of logical or scientific thinking to a wide range of intellectual and practical problems. Ability to deal with nonverbal symbolism (formulas, scientific equations, graphs, musical notes, etc.,) in its most difficult phases. Ability to deal with a variety of abstract and concrete variables; and
- Knowledge of Microsoft Office: Word Excel, Outlook, and Access software.

Information Technology Manager is responsible for the School's technology systems and the technical training of teachers. The qualifications we will seek in a candidate for this position are:

- Extensive knowledge of hardware configuration, network administration, Internet-based education programs, school information systems, and community-building tools, and enterprise applications;
- Experience assisting users with Microsoft Office products on various platforms;
- Significant experience in a senior level technology position;
- Professional and customer-oriented attitude in dealing with those new to technology; and
- Experienced technology trainer, policy manger, and technical writer

Registrar supports administrators by processing requests for both new enrollments and withdrawals, maintaining student files and records that are both clerical and academic in nature, performing routine administrative duties and facilitating communications with various stakeholders.

- Develop student data reports and attendance reports as needed, including attendance audits;
- Fulfill records requests for withdrawn students;
- Request and track receipt of records for newly enrolled students;
- Maintain the K[12] and state student-level database;
- Maintain student cumulative files and other student records;
- Establish secure access to student records;
- Assist in course promotions;
- Assist in the preparation and maintenance of transcripts and records release forms;
- Process parent contact and data information change requests;
- Maintain relationships with local school districts for records reporting;
- Assist counselors verifying graduation requirements and credits earned (if applicable);
- File and maintains all permanent student records, including transcripts; and
- Maintain a high-level of discretion and security of student information.

The qualifications we will seek in a candidate for this position are

- High school diploma or equivalent AND
- one year of related work experience OR
- an equivalent combination of education and experience
- Preferred qualifications: Associate's degree, experience working in a charter school, state financial database experience

.

Office Administrator supports daily operations and functions at the main office of the school, including but not limited to; student attendance, administrative tasks, reports, student records, filing, and facility management. The qualifications we will seek in a candidate for this position are:

- Strong organizational skills;
- Strong time management skills;
- Ability to work both independently and with a team;
- Fluency in Spanish is highly desirable;
- Experience in school front office preferable;
- Proficiency with Microsoft Office; and
- A.A. degree or equivalent experience.

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Total Postage & Fees	$ $10.60	04/09/2012

INDIANAPOLIS IN 46206 ST SNOW
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Internal Revenue Service
Street, Apt. No.; or PO Box No.
P.O. Box 192
City, State, ZIP+4
Covington, KY 41012-1092

PS Form 3800, August 2006 See Reverse for Instructions

ICE MILLER LLP U.S. Dept of Treasury $*******850.00 04/09/2012 385156

INVOICE #	DISTRIBUTION	MATTER #	INV. DATE	INV. AMOUNT	INVOICE DESCRIPTION
CR000008471	redman	32857.0001	04/09/2012	850.00	Filing fee for Form 1023

VENDOR: 4776 074000010 192479848 385156

For questions, please call the Ice Miller LLP Accounting Department @ (317) 221-2802

THIS CHECK IS VOID WITHOUT A BLUE & PURPLE BACKGROUND AND A CUSTOM WATERMARK (ICE MILLER LLP) ON THE BACK - HOLD AT ANGLE TO VIEW

ICEMILLER LLP
LEGAL COUNSEL

JP Morgan Chase
111 Monument Circle
Indianapolis, Indiana 46277
20-1/740

Check No.
385156

OPERATING CASH
ONE AMERICAN SQUARE, SUITE 2900
INDIANAPOLIS, INDIANA 46282

Date	Amount
04/09/2012	$*******850.00

Void After 180 Days

PAY EIGHT HUNDRED FIFTY AND 00/100 USD

TO THE ORDER OF U.S. Dept of Treasury

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ICE MILLER LLP

Authorized Signature

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⑈385156⑈ ⑆074000010⑆ 192479848⑈

Form 1023 Checklist

(Revised June 2006)

Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code

Note. *Retain a copy of the completed Form 1023 in your permanent records. Refer to the* General Instructions *regarding Public Inspection of approved applications.*

Check each box to finish your application (Form 1023). Send this completed Checklist with your filled-in application. If you have not answered all the items below, your application may be returned to you as incomplete.

☑ Assemble the application and materials in this order:

- Form 1023 Checklist
- Form 2848, *Power of Attorney and Declaration of Representative* (if filing)
- Form 8821, *Tax Information Authorization* (if filing)
- Expedite request (if requesting)
- Application (Form 1023 and Schedules A through H, as required)
- Articles of organization
- Amendments to articles of organization in chronological order
- Bylaws or other rules of operation and amendments
- Documentation of nondiscriminatory policy for schools, as required by Schedule B
- Form 5768, Election/Revocation of Election by an Eligible Section 501(c)(3) Organization To Make Expenditures To Influence Legislation (if filing)
- All other attachments, including explanations, financial data, and printed materials or publications. Label each page with name and EIN.

☑ User fee payment placed in envelope on top of checklist. DO NOT STAPLE or otherwise attach your check or money order to your application. Instead, just place it in the envelope.

☑ Employer Identification Number (EIN)

☑ Completed Parts I through XI of the application, including any requested information and any required Schedules A through H.

- You must provide specific details about your past, present, and planned activities.
- Generalizations or failure to answer questions in the Form 1023 application will prevent us from recognizing you as tax exempt.
- Describe your purposes and proposed activities in specific easily understood terms.
- Financial information should correspond with proposed activities.

☑ Schedules. Submit only those schedules that apply to you and check either "Yes" or "No" below.

Schedule A	Yes ___	No ✓	Schedule E	Yes ___	No ✓
Schedule B	Yes ✓	No ___	Schedule F	Yes ___	No ✓
Schedule C	Yes ___	No ✓	Schedule G	Yes ___	No ✓
Schedule D	Yes ___	No ✓	Schedule H	Yes ___	No ✓

- ☑ An exact copy of your complete articles of organization (creating document). Absence of the proper purpose and dissolution clauses is the number one reason for delays in the issuance of determination letters.
  - Location of Purpose Clause from Part III, line 1 (Page, Article and Paragraph Number) Pg.2, Art. III, Sec. 3.2
  - Location of Dissolution Clause from Part III, line 2b or 2c (Page, Article and Paragraph Number) or by operation of state law Pg.3, Art. IV
- ☑ Signature of an officer, director, trustee, or other official who is authorized to sign the application.
  - Signature at Part XI of Form 1023.
- ☑ Your name on the application must be the same as your legal name as it appears in your articles of organization.

Send completed Form 1023, user fee payment, and all other required information, to:

Internal Revenue Service
P.O. Box 192
Covington, KY 41012-0192

If you are using express mail or a delivery service, send Form 1023, user fee payment, and attachments to:

Internal Revenue Service
201 West Rivercenter Blvd.
Attn: Extracting Stop 312
Covington, KY 41011

Printed on recycled paper

Form **1023**
(Rev. June 2006)
Department of the Treasury
Internal Revenue Service

Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code

OMB No. 1545-0056

Note: *If exempt status is approved, this application will be open for public inspection.*

*Use the instructions to complete this application and for a definition of all **bold** items.* For additional help, call IRS Exempt Organizations Customer Account Services toll-free at 1-877-829-5500. Visit our website at **www.irs.gov** for forms and publications. If the required information and documents are not submitted with payment of the appropriate user fee, the application may be returned to you.

Attach additional sheets to this application if you need more space to answer fully. Put your name and EIN on each sheet and identify each answer by Part and line number. Complete Parts I - XI of Form 1023 and submit only those Schedules (A through H) that apply to you.

Part I Identification of Applicant

1 Full name of organization (exactly as it appears in your **organizing document**) **Indiana Passport Academies, Inc.**	2 c/o Name (if applicable)
3 **Mailing address** (Number and street) (see instructions) **One American Square** — Room/Suite **2900**	4 Employer Identification Number (EIN) **45-4984421**
City or town, state or country, and ZIP + 4 **Indianapolis, IN 46282**	5 Month the annual accounting period ends (01 – 12) **06**
6 Primary contact (officer, director, trustee, or **authorized representative**) a Name: **James R. Betley, Authorized Representative**	b Phone: **317-236-2358** c Fax: (optional) **317-592-4809**

7 Are you represented by an authorized representative, such as an attorney or accountant? If "Yes," provide the authorized representative's name, and the name and address of the authorized representative's firm. Include a completed Form 2848, *Power of Attorney and Declaration of Representative,* with your application if you would like us to communicate with your representative. ☑ Yes ☐ No

8 Was a person who is not one of your officers, directors, trustees, employees, or an authorized representative listed in line 7, paid, or promised payment, to help plan, manage, or advise you about the structure or activities of your organization, or about your financial or tax matters? If "Yes," provide the person's name, the name and address of the person's firm, the amounts paid or promised to be paid, and describe that person's role. ☐ Yes ☑ No

9a Organization's website:

b Organization's email: (optional)

10 Certain organizations are not required to file an information return (Form 990 or Form 990-EZ). If you are granted tax-exemption, are you claiming to be excused from filing Form 990 or Form 990-EZ? If "Yes," explain. See the instructions for a description of organizations not required to file Form 990 or Form 990-EZ. ☐ Yes ☑ No

11 Date incorporated if a corporation, or formed, if other than a corporation. (MM/DD/YYYY) **02 / 14 / 2012**

12 Were you formed under the laws of a **foreign country?** If "Yes," state the country. ☐ Yes ☑ No

For Paperwork Reduction Act Notice, see page 24 of the instructions. Cat. No. 17133K Form **1023** (Rev. 6-2006)

Part II Organizational Structure

You must be a corporation (including a limited liability company), an unincorporated association, or a trust to be tax exempt. (See instructions.) **DO NOT file this form unless you can check "Yes" on lines 1, 2, 3, or 4.**

1 Are you a **corporation**? If "Yes," attach a copy of your articles of incorporation showing **certification of filing** with the appropriate state agency. Include copies of any amendments to your articles and be sure they also show state filing certification. ☑ Yes ☐ No

2 Are you a **limited liability company (LLC)**? If "Yes," attach a copy of your articles of organization showing certification of filing with the appropriate state agency. Also, if you adopted an operating agreement, attach a copy. Include copies of any amendments to your articles and be sure they show state filing certification. Refer to the instructions for circumstances when an LLC should not file its own exemption application. ☐ Yes ☑ No

3 Are you an **unincorporated association**? If "Yes," attach a copy of your articles of association, constitution, or other similar organizing document that is dated and includes at least two signatures. Include signed and dated copies of any amendments. ☐ Yes ☑ No

4a Are you a **trust**? If "Yes," attach a signed and dated copy of your trust agreement. Include signed and dated copies of any amendments. ☐ Yes ☑ No

b Have you been funded? If "No," explain how you are formed without anything of value placed in trust. ☐ Yes ☑ No

5 Have you adopted **bylaws**? If "Yes," attach a current copy showing date of adoption. If "No," explain how your officers, directors, or trustees are selected. ☑ Yes ☐ No

Part III Required Provisions in Your Organizing Document

The following questions are designed to ensure that when you file this application, your organizing document contains the required provisions to meet the organizational test under section 501(c)(3). Unless you can check the boxes in both lines 1 and 2, your organizing document does not meet the organizational test. **DO NOT file this application until you have amended your organizing document.** Submit your original and amended organizing documents (showing state filing certification if you are a corporation or an LLC) with your application.

1 Section 501(c)(3) requires that your organizing document state your exempt purpose(s), such as charitable, religious, educational, and/or scientific purposes. Check the box to confirm that your organizing document meets this requirement. Describe specifically where your organizing document meets this requirement, such as a reference to a particular article or section in your organizing document. Refer to the instructions for exempt purpose language. Location of Purpose Clause (Page, Article, and Paragraph): **Pg.1-2, Art. III, Sec. 3.2** ☑

2a Section 501(c)(3) requires that upon dissolution of your organization, your remaining assets must be used exclusively for exempt purposes, such as charitable, religious, educational, and/or scientific purposes. Check the box on line 2a to confirm that your organizing document meets this requirement by express provision for the distribution of assets upon dissolution. If you rely on state law for your dissolution provision, do not check the box on line 2a and go to line 2c. ☑

2b If you checked the box on line 2a, specify the location of your dissolution clause (Page, Article, and Paragraph). Do not complete line 2c if you checked box 2a. p.3, Art. IV

2c See the instructions for information about the operation of state law in your particular state. Check this box if you rely on operation of state law for your dissolution provision and indicate the state: ☐

Part IV Narrative Description of Your Activities

Using an attachment, describe your *past, present,* and *planned* activities in a narrative. If you believe that you have already provided some of this information in response to other parts of this application, you may summarize that information here and refer to the specific parts of the application for supporting details. You may also attach representative copies of newsletters, brochures, or similar documents for supporting details to this narrative. Remember that if this application is approved, it will be open for public inspection. Therefore, your narrative description of activities should be thorough and accurate. Refer to the instructions for information that must be included in your description.

Part V Compensation and Other Financial Arrangements With Your Officers, Directors, Trustees, Employees, and Independent Contractors

1a List the names, titles, and mailing addresses of all of your officers, directors, and trustees. For each person listed, state their total annual **compensation**, or proposed compensation, for all services to the organization, whether as an officer, employee, or other position. Use actual figures, if available. Enter "none" if no compensation is or will be paid. If additional space is needed, attach a separate sheet. Refer to the instructions for information on what to include as compensation.

Name	Title	Mailing address	Compensation amount (annual actual or estimated)
See Attached			

Part V **Compensation and Other Financial Arrangements With Your Officers, Directors, Trustees, Employees, and Independent Contractors** *(Continued)*

b List the names, titles, and mailing addresses of each of your five highest compensated employees who receive or will receive compensation of more than $50,000 per year. Use the actual figure, if available. Refer to the instructions for information on what to include as compensation. Do not include officers, directors, or trustees listed in line 1a.

Name	Title	Mailing address	Compensation amount (annual actual or estimated)
See Attached			

c List the names, names of businesses, and mailing addresses of your five highest compensated **independent contractors** that receive or will receive compensation of more than $50,000 per year. Use the actual figure, if available. Refer to the instructions for information on what to include as compensation.

Name	Title	Mailing address	Compensation amount (annual actual or estimated)
None			

The following "Yes" or "No" questions relate to *past, present, or planned* relationships, transactions, or agreements with your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed in lines 1a, 1b, and 1c.

2a Are any of your officers, directors, or trustees **related** to each other through **family** or **business relationships**? If "Yes," identify the individuals and explain the relationship. ☐ Yes ☑ No

b Do you have a business relationship with any of your officers, directors, or trustees other than through their position as an officer, director, or trustee? If "Yes," identify the individuals and describe the business relationship with each of your officers, directors, or trustees. ☐ Yes ☑ No

c Are any of your officers, directors, or trustees related to your highest compensated employees or highest compensated independent contractors listed on lines 1b or 1c through family or business relationships? If "Yes," identify the individuals and explain the relationship. ☐ Yes ☑ No

3a For each of your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed on lines 1a, 1b, or 1c, attach a list showing their name, qualifications, average hours worked, and duties.

b Do any of your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed on lines 1a, 1b, or 1c receive compensation from any other organizations, whether tax exempt or taxable, that are related to you through **common control**? If "Yes," identify the individuals, explain the relationship between you and the other organization, and describe the compensation arrangement. ☐ Yes ☑ No

4 In establishing the compensation for your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed on lines 1a, 1b, and 1c, the following practices are recommended, although they are not required to obtain exemption. Answer "Yes" to all the practices you use.

a Do you or will the individuals that approve compensation arrangements follow a conflict of interest policy? ☑ Yes ☐ No

b Do you or will you approve compensation arrangements in advance of paying compensation? ☑ Yes ☐ No

c Do you or will you document in writing the date and terms of approved compensation arrangements? ☑ Yes ☐ No

Part V **Compensation and Other Financial Arrangements With Your Officers, Directors, Trustees, Employees, and Independent Contractors** *(Continued)*

d Do you or will you record in writing the decision made by each individual who decided or voted on compensation arrangements? ☑ Yes ☐ No

e Do you or will you approve compensation arrangements based on information about compensation paid by **similarly situated** taxable or tax-exempt organizations for similar services, current compensation surveys compiled by independent firms, or actual written offers from similarly situated organizations? Refer to the instructions for Part V, lines 1a, 1b, and 1c, for information on what to include as compensation. ☑ Yes ☐ No

f Do you or will you record in writing both the information on which you relied to base your decision and its source? ☑ Yes ☐ No

g If you answered "No" to any item on lines 4a through 4f, describe how you set compensation that is **reasonable** for your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed in Part V, lines 1a, 1b, and 1c.

5a Have you adopted a **conflict of interest policy** consistent with the sample conflict of interest policy in Appendix A to the instructions? If "Yes," provide a copy of the policy and explain how the policy has been adopted, such as by resolution of your governing board. If "No," answer lines 5b and 5c. ☑ Yes ☐ No

b What procedures will you follow to assure that persons who have a conflict of interest will not have influence over you for setting their own compensation?

c What procedures will you follow to assure that persons who have a conflict of interest will not have influence over you regarding business deals with themselves?

Note: A conflict of interest policy is recommended though it is not required to obtain exemption. Hospitals, see Schedule C, Section I, line 14.

6a Do you or will you compensate any of your officers, directors, trustees, highest compensated employees, and highest compensated independent contractors listed in lines 1a, 1b, or 1c through **non-fixed payments**, such as discretionary bonuses or revenue-based payments? If "Yes," describe all non-fixed compensation arrangements, including how the amounts are determined, who is eligible for such arrangements, whether you place a limitation on total compensation, and how you determine or will determine that you pay no more than reasonable compensation for services. Refer to the instructions for Part V, lines 1a, 1b, and 1c, for information on what to include as compensation. ☐ Yes ☑ No

b Do you or will you compensate any of your employees, other than your officers, directors, trustees, or your five highest compensated employees who receive or will receive compensation of more than $50,000 per year, through non-fixed payments, such as discretionary bonuses or revenue-based payments? If "Yes," describe all non-fixed compensation arrangements, including how the amounts are or will be determined, who is or will be eligible for such arrangements, whether you place or will place a limitation on total compensation, and how you determine or will determine that you pay no more than reasonable compensation for services. Refer to the instructions for Part V, lines 1a, 1b, and 1c, for information on what to include as compensation. ☐ Yes ☑ No

7a Do you or will you purchase any goods, services, or assets from any of your officers, directors, trustees, highest compensated employees, or highest compensated independent contractors listed in lines 1a, 1b, or 1c? If "Yes," describe any such purchase that you made or intend to make, from whom you make or will make such purchases, how the terms are or will be negotiated at **arm's length**, and explain how you determine or will determine that you pay no more than **fair market value**. Attach copies of any written contracts or other agreements relating to such purchases. ☐ Yes ☑ No

b Do you or will you sell any goods, services, or assets to any of your officers, directors, trustees, highest compensated employees, or highest compensated independent contractors listed in lines 1a, 1b, or 1c? If "Yes," describe any such sales that you made or intend to make, to whom you make or will make such sales, how the terms are or will be negotiated at arm's length, and explain how you determine or will determine you are or will be paid at least fair market value. Attach copies of any written contracts or other agreements relating to such sales. ☐ Yes ☑ No

8a Do you or will you have any leases, contracts, loans, or other agreements with your officers, directors, trustees, highest compensated employees, or highest compensated independent contractors listed in lines 1a, 1b, or 1c? If "Yes," provide the information requested in lines 8b through 8f. ☐ Yes ☑ No

b Describe any written or oral arrangements that you made or intend to make.
c Identify with whom you have or will have such arrangements.
d Explain how the terms are or will be negotiated at arm's length.
e Explain how you determine you pay no more than fair market value or you are paid at least fair market value.
f Attach copies of any signed leases, contracts, loans, or other agreements relating to such arrangements.

9a Do you or will you have any leases, contracts, loans, or other agreements with any organization in which any of your officers, directors, or trustees are also officers, directors, or trustees, or in which any individual officer, director, or trustee owns more than a 35% interest? If "Yes," provide the information requested in lines 9b through 9f. ☐ Yes ☑ No

Part V **Compensation and Other Financial Arrangements With Your Officers, Directors, Trustees, Employees, and Independent Contractors** *(Continued)*

b Describe any written or oral arrangements you made or intend to make.
c Identify with whom you have or will have such arrangements.
d Explain how the terms are or will be negotiated at arm's length.
e Explain how you determine or will determine you pay no more than fair market value or that you are paid at least fair market value.
f Attach a copy of any signed leases, contracts, loans, or other agreements relating to such arrangements.

Part VI **Your Members and Other Individuals and Organizations That Receive Benefits From You**

The following "Yes" or "No" questions relate to goods, services, and funds you provide to individuals and organizations as part of your activities. Your answers should pertain to *past, present,* and *planned* activities. (See instructions.)

1a In carrying out your exempt purposes, do you provide goods, services, or funds to individuals? If "Yes," describe each program that provides goods, services, or funds to individuals. ☑ Yes ☐ No

b In carrying out your exempt purposes, do you provide goods, services, or funds to organizations? If "Yes," describe each program that provides goods, services, or funds to organizations. ☐ Yes ☑ No

2 Do any of your programs limit the provision of goods, services, or funds to a specific individual or group of specific individuals? For example, answer "Yes," if goods, services, or funds are provided only for a particular individual, your members, individuals who work for a particular employer, or graduates of a particular school. If "Yes," explain the limitation and how recipients are selected for each program. ☐ Yes ☑ No

3 Do any individuals who receive goods, services, or funds through your programs have a family or business relationship with any officer, director, trustee, or with any of your highest compensated employees or highest compensated independent contractors listed in Part V, lines 1a, 1b, and 1c? If "Yes," explain how these related individuals are eligible for goods, services, or funds. ☐ Yes ☑ No

Part VII **Your History**

The following "Yes" or "No" questions relate to your history. (See instructions.)

1 Are you a **successor** to another organization? Answer "Yes," if you have taken or will take over the activities of another organization; you took over 25% or more of the fair market value of the net assets of another organization; or you were established upon the conversion of an organization from for-profit to non-profit status. If "Yes," complete Schedule G. ☐ Yes ☑ No

2 Are you submitting this application more than 27 months after the end of the month in which you were legally formed? If "Yes," complete Schedule E. ☐ Yes ☑ No

Part VIII **Your Specific Activities**

The following "Yes" or "No" questions relate to specific activities that you may conduct. Check the appropriate box. Your answers should pertain to *past, present,* and *planned* activities. (See instructions.)

1 Do you support or oppose candidates in **political campaigns** in any way? If "Yes," explain. ☐ Yes ☑ No

2a Do you attempt to **influence legislation**? If "Yes," explain how you attempt to influence legislation and complete line 2b. If "No," go to line 3a. ☐ Yes ☑ No

b Have you made or are you making an **election** to have your legislative activities measured by expenditures by filing Form 5768? If "Yes," attach a copy of the Form 5768 that was already filed or attach a completed Form 5768 that you are filing with this application. If "No," describe whether your attempts to influence legislation are a substantial part of your activities. Include the time and money spent on your attempts to influence legislation as compared to your total activities. ☐ Yes ☑ No

3a Do you or will you operate bingo or **gaming** activities? If "Yes," describe who conducts them, and list all revenue received or expected to be received and expenses paid or expected to be paid in operating these activities. **Revenue and expenses** should be provided for the time periods specified in Part IX, Financial Data. ☐ Yes ☑ No

b Do you or will you enter into contracts or other agreements with individuals or organizations to conduct bingo or gaming for you? If "Yes," describe any written or oral arrangements that you made or intend to make, identify with whom you have or will have such arrangements, explain how the terms are or will be negotiated at arm's length, and explain how you determine or will determine you pay no more than fair market value or you will be paid at least fair market value. Attach copies or any written contracts or other agreements relating to such arrangements. ☐ Yes ☑ No

c List the states and local jurisdictions, including Indian Reservations, in which you conduct or will conduct gaming or bingo.

Part VIII Your Specific Activities *(Continued)*

4a Do you or will you undertake **fundraising**? If "Yes," check all the fundraising programs you do or will conduct. (See instructions.) ☑ Yes ☐ No

- ☑ mail solicitations
- ☑ email solicitations
- ☑ personal solicitations
- ☐ vehicle, boat, plane, or similar donations
- ☑ foundation grant solicitations
- ☑ phone solicitations
- ☐ accept donations on your website
- ☐ receive donations from another organization's website
- ☑ government grant solicitations
- ☐ Other

Attach a description of each fundraising program.

b Do you or will you have written or oral contracts with any individuals or organizations to raise funds for you? If "Yes," describe these activities. Include all revenue and expenses from these activities and state who conducts them. Revenue and expenses should be provided for the time periods specified in Part IX, Financial Data. Also, attach a copy of any contracts or agreements. ☐ Yes ☑ No

c Do you or will you engage in fundraising activities for other organizations? If "Yes," describe these arrangements. Include a description of the organizations for which you raise funds and attach copies of all contracts or agreements. ☐ Yes ☑ No

d List all states and local jurisdictions in which you conduct fundraising. For each state or local jurisdiction listed, specify whether you fundraise for your own organization, you fundraise for another organization, or another organization fundraises for you.

e Do you or will you maintain separate accounts for any contributor under which the contributor has the right to advise on the use or distribution of funds? Answer "Yes" if the donor may provide advice on the types of investments, distributions from the types of investments, or the distribution from the donor's contribution account. If "Yes," describe this program, including the type of advice that may be provided and submit copies of any written materials provided to donors. ☐ Yes ☑ No

5 Are you **affiliated** with a governmental unit? If "Yes," explain. ☐ Yes ☑ No

6a Do you or will you engage in **economic development**? If "Yes," describe your program. ☐ Yes ☑ No

b Describe in full who benefits from your economic development activities and how the activities promote exempt purposes.

7a Do or will persons other than your employees or volunteers **develop** your facilities? If "Yes," describe each facility, the role of the developer, and any business or family relationship(s) between the developer and your officers, directors, or trustees. ☐ Yes ☑ No

b Do or will persons other than your employees or volunteers **manage** your activities or facilities? If "Yes," describe each activity and facility, the role of the manager, and any business or family relationship(s) between the manager and your officers, directors, or trustees. ☑ Yes ☐ No

c If there is a business or family relationship between any manager or developer and your officers, directors, or trustees, identify the individuals, explain the relationship, describe how contracts are negotiated at arm's length so that you pay no more than fair market value, and submit a copy of any contracts or other agreements.

8 Do you or will you enter into **joint ventures**, including partnerships or **limited liability companies** treated as partnerships, in which you share profits and losses with partners other than section 501(c)(3) organizations? If "Yes," describe the activities of these joint ventures in which you participate. ☐ Yes ☑ No

9a Are you applying for exemption as a childcare organization under section 501(k)? If "Yes," answer lines 9b through 9d. If "No," go to line 10. ☐ Yes ☑ No

b Do you provide child care so that parents or caretakers of children you care for can be **gainfully employed** (see instructions)? If "No," explain how you qualify as a childcare organization described in section 501(k). ☐ Yes ☐ No

c Of the children for whom you provide child care, are 85% or more of them cared for by you to enable their parents or caretakers to be gainfully employed (see instructions)? If "No," explain how you qualify as a childcare organization described in section 501(k). ☐ Yes ☐ No

d Are your services available to the general public? If "No," describe the specific group of people for whom your activities are available. Also, see the instructions and explain how you qualify as a childcare organization described in section 501(k). ☐ Yes ☐ No

10 Do you or will you publish, own, or have rights in music, literature, tapes, artworks, choreography, scientific discoveries, or other **intellectual property**? If "Yes," explain. Describe who owns or will own any copyrights, patents, or trademarks, whether fees are or will be charged, how the fees are determined, and how any items are or will be produced, distributed, and marketed. ☐ Yes ☑ No

Part VIII Your Specific Activities *(Continued)*

11 Do you or will you accept contributions of: real property; conservation easements; closely held securities; intellectual property such as patents, trademarks, and copyrights; works of music or art; licenses; royalties; automobiles, boats, planes, or other vehicles; or collectibles of any type? If "Yes," describe each type of contribution, any conditions imposed by the donor on the contribution, and any agreements with the donor regarding the contribution. ☐ Yes ☑ No

12a Do you or will you operate in a **foreign country** or **countries?** If "Yes," answer lines 12b through 12d. If "No," go to line 13a. ☐ Yes ☑ No

b Name the foreign countries and regions within the countries in which you operate.

c Describe your operations in each country and region in which you operate.

d Describe how your operations in each country and region further your exempt purposes.

13a Do you or will you make grants, loans, or other distributions to organization(s)? If "Yes," answer lines 13b through 13g. If "No," go to line 14a. ☐ Yes ☑ No

b Describe how your grants, loans, or other distributions to organizations further your exempt purposes.

c Do you have written contracts with each of these organizations? If "Yes," attach a copy of each contract. ☐ Yes ☐ No

d Identify each recipient organization and any **relationship** between you and the recipient organization.

e Describe the records you keep with respect to the grants, loans, or other distributions you make.

f Describe your selection process, including whether you do any of the following:

(i) Do you require an application form? If "Yes," attach a copy of the form. ☐ Yes ☐ No

(ii) Do you require a grant proposal? If "Yes," describe whether the grant proposal specifies your responsibilities and those of the grantee, obligates the grantee to use the grant funds only for the purposes for which the grant was made, provides for periodic written reports concerning the use of grant funds, requires a final written report and an accounting of how grant funds were used, and acknowledges your authority to withhold and/or recover grant funds in case such funds are, or appear to be, misused. ☐ Yes ☐ No

g Describe your procedures for oversight of distributions that assure you the resources are used to further your exempt purposes, including whether you require periodic and final reports on the use of resources.

14a Do you or will you make grants, loans, or other distributions to foreign organizations? If "Yes," answer lines 14b through 14f. If "No," go to line 15. ☐ Yes ☑ No

b Provide the name of each foreign organization, the country and regions within a country in which each foreign organization operates, and describe any relationship you have with each foreign organization.

c Does any foreign organization listed in line 14b accept contributions earmarked for a specific country or specific organization? If "Yes," list all earmarked organizations or countries. ☐ Yes ☐ No

d Do your contributors know that you have ultimate authority to use contributions made to you at your discretion for purposes consistent with your exempt purposes? If "Yes," describe how you relay this information to contributors. ☐ Yes ☐ No

e Do you or will you make pre-grant inquiries about the recipient organization? If "Yes," describe these inquiries, including whether you inquire about the recipient's financial status, its tax-exempt status under the Internal Revenue Code, its ability to accomplish the purpose for which the resources are provided, and other relevant information. ☐ Yes ☐ No

f Do you or will you use any additional procedures to ensure that your distributions to foreign organizations are used in furtherance of your exempt purposes? If "Yes," describe these procedures, including site visits by your employees or compliance checks by impartial experts, to verify that grant funds are being used appropriately. ☐ Yes ☐ No

Part VIII Your Specific Activities *(Continued)*

15	Do you have a **close connection** with any organizations? If "Yes," explain.	☐ Yes	☑ No
16	Are you applying for exemption as a **cooperative hospital service organization** under section 501(e)? If "Yes," explain.	☐ Yes	☑ No
17	Are you applying for exemption as a **cooperative service organization of operating educational organizations** under section 501(f)? If "Yes," explain.	☐ Yes	☑ No
18	Are you applying for exemption as a **charitable risk pool** under section 501(n)? If "Yes," explain.	☐ Yes	☑ No
19	Do you or will you operate a **school**? If "Yes," complete Schedule B. Answer "Yes," whether you operate a school as your main function or as a secondary activity.	☑ Yes	☐ No
20	Is your main function to provide **hospital** or **medical care**? If "Yes," complete Schedule C.	☐ Yes	☑ No
21	Do you or will you provide **low-income housing** or housing for the **elderly** or **handicapped**? If "Yes," complete Schedule F.	☐ Yes	☑ No
22	Do you or will you provide scholarships, fellowships, educational loans, or other educational grants to individuals, including grants for travel, study, or other similar purposes? If "Yes," complete Schedule H.	☐ Yes	☑ No

Note: Private foundations may use Schedule H to request advance approval of individual grant procedures.

Part IX Financial Data

For purposes of this schedule, years in existence refer to completed tax years. If in existence 4 or more years, complete the schedule for the most recent 4 tax years. If in existence more than 1 year but less than 4 years, complete the statements for each year in existence and provide projections of your likely revenues and expenses based on a reasonable and good faith estimate of your future finances for a total of 3 years of financial information. If in existence less than 1 year, provide projections of your likely revenues and expenses for the current year and the 2 following years, based on a reasonable and good faith estimate of your future finances for a total of 3 years of financial information. (See instructions.)

A. Statement of Revenues and Expenses

		Type of revenue or expense	Current tax year	3 prior tax years or 2 succeeding tax years			
			(a) From 02/12 To 06/12	(b) From 07/12 To 06/13	(c) From 07/13 To 06/14	(d) From To	(e) Provide Total for (a) through (d)
Revenues	1	Gifts, grants, and contributions received (do not include unusual grants)	0		342,384		342,384
	2	Membership fees received	0	0	0		0
	3	Gross investment income	0	0	0		0
	4	Net unrelated business income	0	0	0		0
	5	Taxes levied for your benefit	0	0	0		0
	6	Value of services or facilities furnished by a governmental unit without charge (not including the value of services generally furnished to the public without charge)	0	0	0		0
	7	Any revenue not otherwise listed above or in lines 9–12 below (attach an itemized list)	0	0	106,052		106,052
	8	Total of lines 1 through 7	0	0	448,436		448,436
	9	Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is related to your exempt purposes (attach itemized list)	0	0	1,941,067		1,941,067
	10	Total of lines 8 and 9	0	0	2,389,503		2,389,503
	11	Net gain or loss on sale of capital assets (attach schedule and see instructions)	0	0	0		0
	12	**Unusual grants**	0	0	0		0
	13	Total Revenue Add lines 10 through 12	0	0	2,389,503		2,389,503
Expenses	14	Fundraising expenses	0	0	0		
	15	Contributions, gifts, grants, and similar amounts paid out (attach an itemized list)	0	0	0		
	16	Disbursements to or for the benefit of members (attach an itemized list)	0	0	0		
	17	Compensation of officers, directors, and trustees	0	0	0		
	18	Other salaries and wages	0		722,800		
	19	Interest expense	0	0	0		
	20	Occupancy (rent, utilities, etc.)	0	88,924	355,693		
	21	Depreciation and depletion	0	20,152	120,912		
	22	Professional fees	0	16,000	60,000		
	23	Any expense not otherwise classified, such as program services (attach itemized list)	0	7,750	1,130,098		
	24	Total Expenses Add lines 14 through 23	0	132,826	2,389,503		

Part IX Financial Data *(Continued)*

B. Balance Sheet (for your most recently completed tax year)			Year End: 2012
	Assets		(Whole dollars)
1	Cash	1	0
2	Accounts receivable, net	2	0
3	Inventories	3	0
4	Bonds and notes receivable (attach an itemized list)	4	0
5	Corporate stocks (attach an itemized list)	5	0
6	Loans receivable (attach an itemized list)	6	0
7	Other investments (attach an itemized list)	7	0
8	Depreciable and depletable assets (attach an itemized list)	8	0
9	Land	9	0
10	Other assets (attach an itemized list)	10	0
11	Total Assets (add lines 1 through 10)	11	0
	Liabilities		
12	Accounts payable	12	0
13	Contributions, gifts, grants, etc. payable	13	0
14	Mortgages and notes payable (attach an itemized list)	14	0
15	Other liabilities (attach an itemized list)	15	0
16	Total Liabilities (add lines 12 through 15)	16	0
	Fund Balances or Net Assets		
17	Total fund balances or net assets	17	0
18	Total Liabilities and Fund Balances or Net Assets (add lines 16 and 17)	18	0
19	Have there been any substantial changes in your assets or liabilities since the end of the period shown above? If "Yes," explain.	☐ Yes	☑ No

Part X Public Charity Status

Part X is designed to classify you as an organization that is either a **private foundation** or a **public charity.** Public charity status is a more favorable tax status than private foundation status. If you are a private foundation, Part X is designed to further determine whether you are a **private operating foundation.** (See instructions.)

1a Are you a private foundation? If "Yes," go to line 1b. If "No," go to line 5 and proceed as instructed. If you are unsure, see the instructions. ☐ Yes ☑ No

b As a private foundation, section 508(e) requires special provisions in your organizing document in addition to those that apply to all organizations described in section 501(c)(3). Check the box to confirm that your organizing document meets this requirement, whether by express provision or by reliance on operation of state law. Attach a statement that describes specifically where your organizing document meets this requirement, such as a reference to a particular article or section in your organizing document or by operation of state law. See the instructions, including Appendix B, for information about the special provisions that need to be contained in your organizing document. Go to line 2. ☐

2 Are you a private operating foundation? To be a private operating foundation you must engage directly in the active conduct of charitable, religious, educational, and similar activities, as opposed to indirectly carrying out these activities by providing grants to individuals or other organizations. If "Yes," go to line 3. If "No," go to the signature section of Part XI. ☐ Yes ☑ No

3 Have you existed for one or more years? If "Yes," attach financial information showing that you are a private operating foundation; go to the signature section of Part XI. If "No," continue to line 4. ☐ Yes ☑ No

4 Have you attached either (1) an affidavit or opinion of counsel, (including a written affidavit or opinion from a certified public accountant or accounting firm with expertise regarding this tax law matter), that sets forth facts concerning your operations and support to demonstrate that you are likely to satisfy the requirements to be classified as a private operating foundation; or (2) a statement describing your proposed operations as a private operating foundation? ☐ Yes ☑ No

5 If you answered "No" to line 1a, indicate the type of public charity status you are requesting by checking one of the choices below. You may check only one box.

The organization is not a private foundation because it is:

a 509(a)(1) and 170(b)(1)(A)(i)—a church or a convention or association of churches. Complete and attach Schedule A. ☐

b 509(a)(1) and 170(b)(1)(A)(ii)—a **school.** Complete and attach Schedule B. ☑

c 509(a)(1) and 170(b)(1)(A)(iii)—a **hospital,** a cooperative hospital service organization, or a medical research organization operated in conjunction with a hospital. Complete and attach Schedule C. ☐

d 509(a)(3)—an organization supporting either one or more organizations described in line 5a through c, f, g, or h or a publicly supported section 501(c)(4), (5), or (6) organization. Complete and attach Schedule D. ☐

Part X **Public Charity Status** *(Continued)*

e	509(a)(4)—an organization organized and operated exclusively for testing for public safety.	☐
f	509(a)(1) and 170(b)(1)(A)(iv)—an organization operated for the benefit of a college or university that is owned or operated by a governmental unit.	☐
g	509(a)(1) and 170(b)(1)(A)(vi)—an organization that receives a substantial part of its financial support in the form of contributions from publicly supported organizations, from a governmental unit, or from the general public.	☐
h	509(a)(2)—an organization that normally receives not more than one-third of its financial support from gross **investment income** and receives more than one-third of its financial support from contributions, membership fees, and gross receipts from activities related to its exempt functions (subject to certain exceptions).	☐
i	A publicly supported organization, but unsure if it is described in 5g or 5h. The organization would like the IRS to decide the correct status.	☐

6 If you checked box g, h, or i in question 5 above, you must request either an **advance** or a **definitive ruling** by selecting one of the boxes below. Refer to the instructions to determine which type of ruling you are eligible to receive.

a **Request for Advance Ruling:** By checking this box and signing the consent, pursuant to section 6501(c)(4) of the Code you request an advance ruling and agree to extend the statute of limitations on the assessment of excise tax under section 4940 of the Code. The tax will apply only if you do not establish public support status at the end of the 5-year advance ruling period. The assessment period will be extended for the 5 advance ruling years to 8 years, 4 months, and 15 days beyond the end of the first year. You have the right to refuse or limit the extension to a mutually agreed-upon period of time or issue(s). Publication 1035, *Extending the Tax Assessment Period,* provides a more detailed explanation of your rights and the consequences of the choices you make. You may obtain Publication 1035 free of charge from the IRS web site at *www.irs.gov* or by calling toll-free 1-800-829-3676. Signing this consent will not deprive you of any appeal rights to which you would otherwise be entitled. If you decide not to extend the statute of limitations, you are not eligible for an advance ruling. ☐

Consent Fixing Period of Limitations Upon Assessment of Tax Under Section 4940 of the Internal Revenue Code

For Organization

(Signature of Officer, Director, Trustee, or other authorized official) (Type or print name of signer) (Date)

(Type or print title or authority of signer)

For IRS Use Only

IRS Director, Exempt Organizations (Date)

b **Request for Definitive Ruling:** Check this box if you have completed one tax year of at least 8 full months and you are requesting a definitive ruling. To confirm your public support status, answer line 6b(i) if you checked box g in line 5 above. Answer line 6b(ii) if you checked box h in line 5 above. If you checked box i in line 5 above, answer both lines 6b(i) and (ii). ☐

(i) (a) Enter 2% of line 8, column (e) on Part IX-A. Statement of Revenues and Expenses. ____________

(b) Attach a list showing the name and amount contributed by each person, company, or organization whose gifts totaled more than the 2% amount. If the answer is "None," check this box. ☐

(ii) (a) For each year amounts are included on lines 1, 2, and 9 of Part IX-A. Statement of Revenues and Expenses, attach a list showing the name of and amount received from each **disqualified person.** If the answer is "None," check this box. ☐

(b) For each year amounts are included on line 9 of Part IX-A. Statement of Revenues and Expenses, attach a list showing the name of and amount received from each payer, other than a disqualified person, whose payments were more than the larger of (1) 1% of line 10, Part IX-A. Statement of Revenues and Expenses, or (2) $5,000. If the answer is "None," check this box. ☐

7 Did you receive any unusual grants during any of the years shown on Part IX-A. Statement of Revenues and Expenses? If "Yes," attach a list including the name of the contributor, the date and amount of the grant, a brief description of the grant, and explain why it is unusual. ☐ **Yes** ☑ **No**

Part XI User Fee Information

You must include a user fee payment with this application. It will not be processed without your paid user fee. If your average annual gross receipts have exceeded or will exceed $10,000 annually over a 4-year period, you must submit payment of $750. If your gross receipts have not exceeded or will not exceed $10,000 annually over a 4-year period, the required user fee payment is $300. See instructions for Part XI, for a definition of **gross receipts** over a 4-year period. Your check or money order must be made payable to the United States Treasury. *User fees are subject to change. Check our website at www.irs.gov and type "User Fee" in the keyword box, or call Customer Account Services at 1-877-829-5500 for current information.*

1 Have your annual gross receipts averaged or are they expected to average not more than $10,000? ☐ Yes ☑ No
If "Yes," check the box on line 2 and enclose a user fee payment of $300 (Subject to change—see above).
If "No," check the box on line 3 and enclose a user fee payment of $750 (Subject to change—see above).

2 Check the box if you have enclosed the reduced user fee payment of $300 (Subject to change). ☐

3 Check the box if you have enclosed the user fee payment of $750 (Subject to change). ☑

I declare under the penalties of perjury that I am authorized to sign this application on behalf of the above organization and that I have examined this application, including the accompanying schedules and attachments, and to the best of my knowledge it is true, correct, and complete.

Please Sign Here

Jerry L. Woodbridge
(Signature of Officer, Director, Trustee, or other authorized official)

Dr. Jerry Woodbridge
(Type or print name of signer)

4-8-12
(Date)

President
(Type or print title or authority of signer)

Reminder: Send the completed Form 1023 Checklist with your filled-in-application. Form 1023 (Rev. 6-2006)

Schedule B. Schools, Colleges, and Universities

If you operate a school as an activity, complete Schedule B

Section I Operational Information

1a Do you normally have a regularly scheduled curriculum, a regular faculty of qualified teachers, a regularly enrolled student body, and facilities where your educational activities are regularly carried on? If "No," do not complete the remainder of Schedule B. ☑ **Yes** ☐ **No**

b Is the primary function of your school the presentation of formal instruction? If "Yes," describe your school in terms of whether it is an elementary, secondary, college, technical, or other type of school. If "No," do not complete the remainder of Schedule B. ☑ **Yes** ☐ **No**

2a Are you a public school because you are operated by a state or subdivision of a state? If "Yes," explain how you are operated by a state or subdivision of a state. Do not complete the remainder of Schedule B. ☐ **Yes** ☑ **No**

b Are you a public school because you are operated wholly or predominantly from government funds or property? If "Yes," explain how you are operated wholly or predominantly from government funds or property. Submit a copy of your funding agreement regarding government funding. Do not complete the remainder of Schedule B. ☑ **Yes** ☐ **No**

3 In what public school district, county, and state are you located?

4 Were you formed or substantially expanded at the time of public school desegregation in the above school district or county? ☐ **Yes** ☐ **No**

5 Has a state or federal administrative agency or judicial body ever determined that you are racially discriminatory? If "Yes," explain. ☐ **Yes** ☐ **No**

6 Has your right to receive financial aid or assistance from a governmental agency ever been revoked or suspended? If "Yes," explain. ☐ **Yes** ☐ **No**

7 Do you or will you contract with another organization to develop, build, market, or finance your facilities? If "Yes," explain how that entity is selected, explain how the terms of any contracts or other agreements are negotiated at arm's length, and explain how you determine that you will pay no more than fair market value for services. ☐ **Yes** ☐ **No**

Note. Make sure your answer is consistent with the information provided in Part VIII, line 7a.

8 Do you or will you manage your activities or facilities through your own employees or volunteers? If "No," attach a statement describing the activities that will be managed by others, the names of the persons or organizations that manage or will manage your activities or facilities, and how these managers were or will be selected. Also, submit copies of any contracts, proposed contracts, or other agreements regarding the provision of management services for your activities or facilities. Explain how the terms of any contracts or other agreements were or will be negotiated, and explain how you determine you will pay no more than fair market value for services. ☐ **Yes** ☐ **No**

Note. Answer "Yes" if you manage or intend to manage your programs through your own employees or by using volunteers. Answer "No" if you engage or intend to engage a separate organization or independent contractor. Make sure your answer is consistent with the information provided in Part VIII, line 7b.

Section II Establishment of Racially Nondiscriminatory Policy

Information required by **Revenue Procedure 75-50.**

1 Have you adopted a racially nondiscriminatory policy as to students in your organizing document, bylaws, or by resolution of your governing body? If "Yes," state where the policy can be found or supply a copy of the policy. If "No," you must adopt a nondiscriminatory policy as to students before submitting this application. See Publication 557. ☐ **Yes** ☐ **No**

2 Do your brochures, application forms, advertisements, and catalogues dealing with student admissions, programs, and scholarships contain a statement of your racially nondiscriminatory policy? ☐ **Yes** ☐ **No**

a If "Yes," attach a representative sample of each document.

b If "No," by checking the box to the right you agree that all future printed materials, including website content, will contain the required nondiscriminatory policy statement. ▶ ☐

3 Have you published a notice of your nondiscriminatory policy in a newspaper of general circulation that serves all racial segments of the community? (See the instructions for specific requirements.) If "No," explain. ☐ **Yes** ☐ **No**

4 Does or will the organization (or any department or division within it) discriminate in any way on the basis of race with respect to admissions; use of facilities or exercise of student privileges; faculty or administrative staff; or scholarship or loan programs? If "Yes," for any of the above, explain fully. ☐ **Yes** ☐ **No**

Schedule B. Schools, Colleges, and Universities *(Continued)*

5 Complete the table below to show the racial composition for the current academic year and projected for the next academic year, of: (a) the student body, (b) the faculty, and (c) the administrative staff. Provide actual numbers rather than percentages for each racial category.

If you are not operational, submit an estimate based on the best information available (such as the racial composition of the community served).

Racial Category	(a) Student Body		(b) Faculty		(c) Administrative Staff	
	Current Year	Next Year	Current Year	Next Year	Current Year	Next Year
Total						

6 In the table below, provide the number and amount of loans and scholarships awarded to students enrolled by racial categories.

Racial Category	Number of Loans		Amount of Loans		Number of Scholarships		Amount of Scholarships	
	Current Year	Next Year	Current Year	Next Year	Current Year	Next Year	Current Year	Next Year
Total								

7a Attach a list of your incorporators, founders, board members, and donors of land or buildings, whether individuals or organizations.

b Do any of these individuals or organizations have an objective to maintain segregated public or private school education? If "Yes," explain. ☐ Yes ☐ No

8 Will you maintain records according to the non-discrimination provisions contained in Revenue Procedure 75-50? If "No," explain. (See instructions.) ☐ Yes ☐ No

Indiana Passport Academies, Inc.
One American Square, 2900
Indianapolis, Indiana 46282
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Part I, Line 7 – Authorized Representatives

The following individual will serve as authorized representative of Indiana Passport Academies, Inc. (the "Corporation"),[1] as provided on the attached Form 2848, *Power of Attorney and Declaration of Representative*:

James R. Betley
Ice Miller LLP
One American Square, Suite 2900
Indianapolis, IN 46282-0200

Part II, Line 1 – Proof of Corporate Status

A copy of the Articles of Incorporation (the "Articles") of the Corporation is attached hereto as Exhibit A.

Part II, Line 5 – Bylaws

A copy of the Corporation's Bylaws is attached hereto as Exhibit B.

Part IV, Narrative Description of Activities

The Corporation was incorporated as an Indiana nonprofit corporation on February 14, 2012. Section 3.2 of the Corporation's Articles provides that the Corporation is organized and at all times will be operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). No part of the Corporation's net earnings will inure to the benefit of any director or officer of the Corporation. Furthermore, no part of the Corporation's net earnings will inure to the benefit of any other private individual, except for payments and distributions in furtherance of the Corporation's charitable, educational or other purposes.

The Corporation's charitable purposes, as set forth in Section 3.1 of its Articles, are as follows:

(a) To establish, develop and administer charter schools in the state of Indiana in accordance with the provisions of the Indiana Charter Schools Act, Ind. Code § 20-24, *et seq*, as amended;

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1 The Corporation plans to file Articles of Amendment with the Indiana Secretary of State to change its name to "Indiana Urban Education Solutions, Inc.," which is the name under which the Corporation is applying for its charters. Once the Articles have been filed and certified, the Corporation will notify the Internal Revenue Service of the change.

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(b) To receive and disburse funds or other property incident to or necessary for the operation of said charter schools; and

(c) In furtherance of the aforesaid purposes, to transact any and all lawful business for which corporations may be incorporated under the Act, provided such business is not inconsistent with the Corporation being organized and operated exclusively for charitable or educational purposes.

The Corporation's Board of Directors consists entirely of individuals from the Indianapolis community who share a commitment to education and have a variety of experience and talents suitable for management of charter schools. The Board is actively recruiting at least two other members with financial and/or community involvement backgrounds. The board plans to meet at least 10 times a year.

In furtherance of its charitable and educational purposes, the Corporation, with the assistance of K12, Inc., a Virginia based charter school operator,[2] has filed charter applications with the Indiana Charter School Board (the "Indiana Charter Board") for four (4) drop-out recovery schools: two in Marion County, Indiana and two in Lake County, Indiana.[3] The school districts in these areas, Indianapolis Public Schools (IPS), and Gary Community School Corp (GCSC), currently have the lowest graduation rates in the state of Indiana, 47.3% and 51% respectively. The Corporation's mission is to provide an alternative for Indiana students who have not completed their high school education to earn a high school diploma and achieve post high school success by providing a blended learning high school experience that combines flexible scheduling, online work, face-to-face instruction, career exploration and wrap-around services specifically designed to adapt to the students' educational needs and life circumstances.

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[2] K12 Inc., a technology-based education company, provides proprietary curriculum, software systems, and educational services for individualized learning for students in kindergarten through 12th grade (K12) primarily in the United States. The company's products include K12 Curriculum, which consists of online lessons, learning kits, and lesson guides; online school platform, a Web-based software platform that provides access to its online lessons, lesson planning, and scheduling tools, as well as its progress tracking tool and assessment tracking tools; and student administration management system, a proprietary student information system that stores student-specific data and is used for various functions, including enrolling students in courses, assigning progress marks and grades, tracking student demographic data, and generating student transcripts. It also offers student community tools that foster communication and interaction among families and school personnel. In addition, the company offers a range of academic support services, including teachers and related services, gifted and special education services, supporting at-risk learners, and student support services; and management services, such as turnkey services, compliance and tracking services, financial support services, and human resources support services, as well as facility, operations, and technology support services. It distributes its products and services to public schools, hybrid schools, traditional schools, school districts, private schools, and public charter schools, as well as directly to consumers. K12, Inc. was founded in 2000 and is headquartered in Herndon, Virginia.

[3] The Charter School Application (without attachments) is attached hereto as Exhibit C. The entire Application runs approximately 400 pages and is therefore not included in the Exhibit; it will be made available upon request.

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The Corporation estimates a total enrollment of 150 students between 9th and 12th grade per school for each school's first year of operation, 200 students per school for each school's second year of operation and 250 students per school (capacity) thereafter. The school(s) will be open to all without regard to race, religion, gender or national origin. Each school will be operated as an activity under the corporate structure of the Corporation. The Corporation anticipates that, if these schools are successful, it may apply for more charters in the future.

The Corporation's Board plans to execute a term sheet, a draft of which is attached hereto as Exhibit D, to enter into a management services agreement with K12 Classroom, LLC, a Delaware limited liability company, and wholly-owned subsidiary of K12, for management services related to the daily operational activities of its school(s). The specific terms of the management services agreement with K12 (or any management company) will be negotiated at arms-length and will be consistent with the Corporation's status as a nonprofit entity under the Internal Revenue Code and applicable state law, including but not limited to any applicable provisions prohibiting or restricting private benefit or private inurement. The board will ensure that any compensation arrangement with a management company will be consistent with industry practices and market rates and in accordance with any applicable law and Internal Revenue Service guidance.

Furthermore, any management services agreement will be subject to, and will incorporate by reference, the terms and conditions of the charter(s), if granted, and no provision of the agreement will interfere with the Corporation's ability to perform its obligations under such charter(s). The terms must comply with the specific requirements of, and be approved by, the Indiana Charter Board. See *Exhibit K* of the Indiana Charter Board's Sample Charter Agreement, attached hereto as Exhibit E (the entire Sample Charter Agreement may be found @ http://www.doe.in.gov/sites/default/files/icsb/icsb-charter-agreementfinaljanuary-2012.pdf) and the Indiana Charter Board's Charter Recipient Policies (October 2011) attached hereto as Exhibit F.

If the charter(s) are granted, the Corporation will at all times remain legally responsible to the Indiana Charter Board for the operations and management of its school(s) and for ensuring that the terms and conditions of the charter(s) are satisfied. The Corporation's Board consists of independent qualified individuals who were selected to insure that the school(s) could hold a management company accountable and could provide effective oversight over the underlying activities of the school(s). In addition, the Corporation's Board selected independent legal counsel (who does not provide legal services to K12) to ensure that the Corporation is well-advised in negotiating the terms of a management services agreement. The Indiana Charter Board, as a new authorizer in Indiana, is committed to ensuring that the Corporation's Board has the requisite authority to exercise sufficient control over a management company.

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Finally, the Corporation will be financially responsible for the school(s) and will have exclusive control of, and be responsible for, the funds received by the school(s).

Code Section 501(c)(3) provides that an organization that is, among other requirements, organized and operated exclusively for charitable, scientific, or educational purposes, no part of the net earnings of whic h inures to the benefit of any private shareholder or individual, is exempt from taxation. Treasury Regulation §1.509(a)(3)-1(d)(2) provides that the term charitable is used in its generally accepted legal sense, and includes such purposes as advancement of education. Treasury Regulation §1.501(c)(3)-1(d)(3)(i) provides that the term "educational," as used in Code Section 501(c)(3), relates to (a) the instruction or training of the individual for the purpose of improving or developing his capabilities; or to (b) the instruction of the public on subjects useful to the individual and beneficial to the community.

As an example of an organization which, if it otherwise meets the requirements of this section, is educational, Treasury Regulation §1.501(c)(3)-1(d)(3)(ii), Example (1), provides a primary or secondary school, a college, or a professional or trade school, which has a regularly scheduled curriculum, a regular faculty, and a regularly enrolled body of students in attendance at a place where the educational activities are regularly carried on. The Corporation will operate multiple high school drop-out recovery schools, each of which has a regularly scheduled curriculum, a regular faculty, and a regularly enrolled body of students.

All of the activities of the Corporation, as described herein, are charitable because they advance education within the meaning of Code Section 501(c)(3) and Treasury Regulation §§1.509(a)(3)-1(d)(2) & 1.501(c)(3)-1(d)(3). Therefore, the Corporation is an organization described in Code Section 501(c)(3).

Part V, Lines 1a-b – Compensation of Officers, Directors and Highest-Compensated Employees

Name	Title	Address	Compensation
James R. Betley	Director, Secretary/Treasurer	One American Square, Suite 2900 Indianapolis, IN 46282	-0-
Dr. Gary Sailes	Director, Vice-President	8147 Winterset Circle Indianapolis, IN 46214-2287	-0-

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Dr. Jerry Woodbridge	Director, President	1455 W. Forest Lane Marion, IN 46952	-0-

Part V, Section 3a – Qualifications of Directors and Officers

Dr. Jerry Woodbridge Dr. Jerry Woodbridge is an Assistant Professor - School of Ed. Leadership - ATLP - Transition to Teaching and is Online Adjunct faculty for the Ed.D and Ed.S program at Liberty University. Prior to that, she was Assistant Director of Master in Education Online Program at Indiana Wesleyan University Marion, IN, Director of Learning/Curriculum Specialist at Millennial Christian School Jacksonville, FL, Education Professor at Jones College Jacksonville, FL, Adjunct Faculty – Master of Arts in Teaching program for Jacksonville University Jacksonville, FL and, between 1984 and 2001 taught 1st-9th grade at several schools in Jacksonville, FL, including Grace Christian Academy, Christian Heritage Academy, and Seacoast Christian School. Dr. Woodbridge received her B.S., Early Childhood/ Elementary Education, 1984, from Eastern Nazarene College, her MAT, Integrated Learning with Ed. Technology in 1997, Jacksonville University, and a Ph.D, Education w/ Ed Tech specialization, 2003, from Walden University.

Dr. Gary Sailes Gary Sailes, Ph.D. is an Associate Professor of Sport Sociology in the Department of Kinesiology and Adjunct Professor in the Department of African American and African Diaspora Studies at Indiana University. Dr. Sailes has conducted extensive research on the campus experiences of the student athlete. He has written seven books, over fifty published articles and led two Congressional hearings addressing the problems facings today's student athlete. As a consultant to the commercial sports industry, Dr. Sailes works with elite high school, collegiate, professional and Olympic athletes, coaches and teams in the areas of athletic performance enhancement and career development. He received the 2011 Distinguished Service Award from the North American Society for the Sociology of Sport. He received a Ph.D. in Kinesiology at University of Minnesota, 1984, a M.S. in Kinesiology at Mankato State University, 1979 and a B.S. in Sociology at SUNY Buffalo, 1973.

James Betley James Betley is of counsel in Ice Miller LLP's Tax Group. Mr. Betley focuses his practice on the representation of tax-exempt, governmental and quasi-governmental entities (including charter schools and charter school management organizations) on a broad range of issues including corporate formation and governance, achieving tax-exemption, tax compliance, lobbying and political activities, unrelated business income and other business matters, including joint ventures, mergers, taxable subsidiaries, limited liability companies, and other affiliations. Prior to joining Ice Miller LLP, Mr. Betley spent nine years as a professional photographer and worked as a corporate attorney in Silicon Valley in the law firm of Gray Cary Ware & Freidenrich (now a part of DLA Piper). Mr. Betley received his Bachelor of Arts in English from

Northwestern University in 1993 and his Juris Doctorate from the University of Michigan in 1998. He is admitted to practice law in Indiana, Colorado and California.

Part V, Line 4 – Compensation

The Corporation does not compensate its directors or officers for their service in this volunteer capacity.

Part V, Line 5a – Conflict of Interest Policy

A copy of the Corporation's Conflict of Interest Policy is attached hereto as Exhibit G. The policy was adopted by resolution of the Corporation's Board of Directors.

Part VI, Line 1a – Provision of Services to Individuals

As described in Part IV, the Corporation will provide a high school education to students throughout Indiana.

Part VIII, Line 4 – Fundraising Activities

The Corporation has not yet adopted a formal fundraising plan and is, therefore, unable to provide representative written materials at this time. All of the Corporation's fundraising activities will be for the benefit of the Corporation and all such activities will be directed by the Corporation's Board. The Corporation does not plan to use the services of professional fundraisers with respect to any of its fundraising efforts. The Corporation anticipates that its fundraising activities will be conducted primarily in the State of Indiana.

Part VIII, Line 7b – Management of Activities

As described in more detail in Part IV, the Corporation plans to enter into a management services agreement with K12 to manage the daily operational activities of its charter school(s). There are no business or family relationships between K12 and the officers or directors of the Corporation. Any such arrangement will be entered pursuant to the Corporation's Conflict of Interest Policy, described in Part V, Line 5a. The specific terms of any management services agreement with K12 (or any management company) will be negotiated at arms-length and will be consistent with the Corporation's status as a nonprofit entity under the Internal Revenue Code and applicable state law, including but not limited to any applicable provisions prohibiting or restricting private benefit or private inurement.

Part IX – Financial Data

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Line 7 – Other Revenue

	07/11 – 06/12	07/12 – 06/13	07/13 – 06/14
Title I Funds	0	0	106,052

Line 9 – Gross Receipts

The Gross Receipts line item includes the basic state funding (based on Average Daily Membership) for the Indianapolis and Gary charter schools.

Line 23 – Other Expenses

The Other Expenses line item includes certain categories, Instructional Materials, Curriculum Delivery and Educational Services, which serve as the management fee for the charter management organization.

	07/11 – 06/12	07/12 – 06/13	07/13 – 06/14
Professional Development	0	0	3,600
Technology	0	0	75,668
Assessment materials	0	0	11,828
Computers	0	0	53,658
Other classroom supplies	0	0	4,250
Field trips, other unclassified items	0	0	16,000
Instructional Materials	0	0	197,110
Curriculum Delivery	0	0	244,933
Educational Services	0	0	162,146
Administrative Computers	0	2,750	11,000
Office supplies	0	5,000	20,000
Board Training, retreats	0	0	10,000

Printing/Newsletter/Annual Report Services	0	0	10,000
Internet Services	0	0	44,182
Telephone/Telecommunication Services	0	0	11,600
Travel	0	0	4,320
Postage	0	0	10,681
Special Education Services	0	0	150,300
Transportation	0	0	10,000
Insurance	0	0	40,000
Indiana Charter School Board Admin Fee	0	0	38,822
Totals:	0	7,750	1,130,098

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Schedule B, Section I, Line 1b – School Description

As described in more detail in Part IV, the Corporation will offer high school education courses in Indiana. Students will have a blended learning experience, combining the traditional brick and mortar education with a virtual online learning program.

Schedule B, Section I, Line 2b – Funding

The Corporation has not yet received its charter (s) from the Indiana Charter Board. However, the charters are granted, the Corporation's schools will be funded in the same way that traditional public schools are funded, which comes primarily in the form of state formula aid. See Ind. Code § 20-24-7, *et. seq.* attached hereto as Exhibit H. The Corporation is also eligible for start-up and growth loans (which must be repaid) under the state's charter school advancement account loan program. In addition, Indiana offers some funding, for which charter schools may be eligible, for programs that target special populations and educational programs. Finally, the Corporation is permitted to, and anticipates seeking funding from federal grant programs, state tuition support, and private foundation funding.

I/2787730.2

AMENDED AND RESTATED
ARTICLES OF INCORPORATION OF
INDIANA URBAN EDUCATION SOLUTIONS, INC.

ARTICLE I

Name

The name of the Corporation is Indiana Urban Education Solutions, Inc.

ARTICLE II

Classification of Corporation

The Corporation is a public benefit corporation.

ARTICLE III

Purposes and Powers

Section 3.1. Purposes. The purposes for which the Corporation is formed are:

(a) To organize, develop, manage and operate charter schools in the state of Indiana in accordance with the provisions of the Indiana Charter Schools Act, Ind. Code § 20-24, *et seq*, as amended;

(b) To receive and disburse funds or other property incident to or necessary for the operation of said charter schools; and

(c) In furtherance of the aforesaid purposes, to transact any and all lawful business for which corporations may be incorporated under the Act, provided such business is not inconsistent with the Corporation being organized and operated exclusively for charitable or educational purposes.

Section 3.2. Nonprofit Purposes.

(a) The Corporation is organized and operated exclusively for charitable and educational purposes and its activities shall be conducted in such a manner that no part of its net earnings shall inure to the benefit of any member, director, officer or other private person, except that the Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth in Section 3.1.

(b) No substantial part of the activities of the Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office.

(c) Notwithstanding any other provision of these Articles of Incorporation, the Corporation shall not carry on any other activities not permitted to be carried on:

(i) By a corporation exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or corresponding provisions of any subsequent Federal tax laws, or

(ii) By a corporation, contributions to which are deductible under Section 170(c)(2), Section 2055(a)(2), or Section 2522(a)(2) of the Internal Revenue Code of 1986, as amended, or corresponding provisions of any subsequent Federal tax laws.

Section 3.3. Powers. Subject to any limitation or restriction imposed by the Act, any other law, or any other provisions of these Articles of Incorporation, the Corporation shall have the power:

(a) To do everything necessary, advisable or convenient for the accomplishment of any of the purposes hereinbefore set forth, or which shall at any time appear conducive to or expedient for the protection or benefit of the Corporation, and to do all of the things incidental thereto or connected therewith which are not forbidden by law; and

(b) To have, exercise and enjoy in furtherance of the purposes hereinbefore set forth all the general rights, privileges and powers granted to corporations by the Act, as now existing or hereafter amended, and by the common law.

Section 3.4. Limitations on Powers. If the Corporation is or becomes a private foundation (as defined in Section 509(a) of the Internal Revenue Code of 1986, as amended, or corresponding provisions of any subsequent Federal tax laws), the Corporation shall be subject to the following requirements:

(a) The Corporation shall distribute its income for each taxable year at such time and in such manner as not to become subject to the taxes on undistributed income imposed by Section 4942 of the Internal Revenue Code of 1986, as amended, or corresponding provisions of any subsequent Federal tax laws.

(b) The Corporation shall not engage in any act of self-dealing that would subject any person to the taxes imposed on acts of self-dealing by Section 4941 of the Internal Revenue Code of 1986, as amended, or corresponding provisions of any subsequent Federal tax laws.

(c) The Corporation shall not retain any excess business holdings which would subject it to the taxes on excess business holdings imposed by Section 4943 of the Internal Revenue Code of 1986, as amended, or corresponding provisions of any subsequent Federal tax laws.

(d) The Corporation shall not make any investments in such a manner as to subject it to the taxes on investments that jeopardize charitable purposes imposed by Section 4944 of the

Internal Revenue Code of 1986, as amended, or corresponding provisions of any subsequent Federal tax laws.

(e) The Corporation shall not make any expenditures which would subject it to the taxes on taxable expenditures imposed by Section 4945 of the Internal Revenue Code of 1986, as amended, or corresponding provisions of any subsequent Federal tax laws.

ARTICLE IV

Distribution of Assets on Dissolution

In the event of the complete liquidation or dissolution of the Corporation, or the winding up of its affairs, the Board of Directors shall, after paying or making provision for the payment of all the liabilities of the Corporation, distribute all the assets of the Corporation exclusively for the purposes of the Corporation as follows:

First, all funds received by the Corporation from the Indiana Department of Education ("Department") shall be returned to the Department not more than thirty (30) days after dissolution;

Second, all remaining assets shall be distributed in such manner, or to such organization or organizations organized and operated exclusively for educational purposes as shall at the time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or corresponding provisions of any subsequent Federal tax laws, as the Board of Directors shall determine; and

Third, any such assets not so disposed of shall be disposed of by the Judge of the Circuit Court of Marion County, Indiana, exclusively for such purposes or to such organization or organizations, as said Court shall determine, which are organized and operated exclusively for such purposes.

ARTICLE V

Term of Existence

The Corporation shall have perpetual existence.

ARTICLE VI

Registered Office and Registered Agent

Section 6.1. Registered Office and Registered Agent. The street address of the Corporation's registered office is One American Square, Suite 2900, Indianapolis, IN 46282 and the name of the Corporation's registered agent at that office is James R. Betley.

Section 6.2. Principal Office. The post office address of the principal office of the Corporation is One American Square, Suite 2900, Indianapolis, IN 46282.

ARTICLE VII

No Members

The Corporation shall have no members.

ARTICLE VIII

Board of Directors

Section 8.1. Number and Term of Office. The number of directors shall be as specified in or fixed in accordance with the Bylaws of the Corporation; provided, however, that the minimum number of directors shall be three (3). The term of office of a director shall be as specified in the Bylaws. Directors may be elected for successive terms. Terms of office of directors may be staggered as specified in the Bylaws.

Section 8.2. Qualifications. Each director shall have such qualifications as may be specified from time to time in the Bylaws of the Corporation or as required by law.

Section 8.3. Board of Directors. The names and addresses of the Board of Directors of the Corporation are:

Names	Addresses
James R. Betley	One American Square, Suite 2900 Indianapolis, IN 46282
Gary Sailes	8147 Winterset Circle Indianapolis, Indiana 46214-2287
Dr. Jerry Woodbridge	1455 W. Forest Lane Marion, IN 46952

ARTICLE IX

Name and Address of Incorporator

The name and address of the incorporator of the Corporation is James R. Betley, One American Square, Suite 2900, Indianapolis, IN 46282.

ARTICLE X

Indemnification

Section 10.1. Rights to Indemnification and Advancement of Expenses. The Corporation shall indemnify as a matter of right every person made a party to a proceeding because such person is or was:

(a) a member of the Board of Directors of the Corporation,

(b) an officer of the Corporation, or

(c) while a director or officer of the Corporation, serving at the Corporation's request as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, whether for profit or not (each an "Indemnitee"), against all liability incurred by such person in connection with the proceeding; provided that it is determined in the specific case that indemnification of such person is permissible in the circumstances because such person has met the standard of conduct for indemnification specified in the Act. The Corporation shall pay for or reimburse the reasonable expenses incurred by an Indemnitee in connection with any such proceeding in advance of final disposition thereof in accordance with the procedures and subject to the conditions specified in the Act. The Corporation shall indemnify as a matter of right an Indemnitee who is wholly successful, on the merits or otherwise, in the defense of any such proceeding against reasonable expenses incurred by the person in connection with the proceeding without the requirement of a determination as set forth in the first sentence of this paragraph.

Upon demand by a person for indemnification or advancement of expenses, as the case may be, the Corporation shall expeditiously determine whether the person is entitled thereto in accordance with this Article and the procedures specified in the Act.

The indemnification provided under this Article shall be applicable to any proceeding arising from acts or omissions occurring before or after the adoption of this Article.

Section 10.2. Other Rights Not Affected. It is the intent of this Article to provide indemnification to directors and officers to the fullest extent now or hereafter permitted by law consistent with the terms and conditions of this Article. Nothing contained in this Article shall limit or preclude the exercise of, or be deemed exclusive of, any right under the law, by contract or otherwise, relating to indemnification of or advancement of expenses to any person who is or was a director, officer, employee or agent of the Corporation, or the ability of the Corporation to otherwise indemnify or advance expenses to any such individual.

Notwithstanding any other provision of this Article, there shall be no indemnification with respect to matters as to which indemnification would result in inurement of net earnings of the Corporation "to the benefit of any private shareholder or individual," or an "excess benefit transaction" within the meaning of Sections 501(c)(3) or 4958 of the Internal Revenue Code of 1986, as amended, or similar provisions of any subsequent Federal tax laws.

Section 10.3. Definitions. For purposes of this Article:

(a) A person is considered to be serving an employee benefit plan at the Corporation's request if the person's duties to the Corporation also impose duties on, or otherwise involve services by, the person to the plan or to participants in or beneficiaries of the plan.

(b) The estate or personal representative of a person entitled to indemnification or advancement of expenses shall be entitled hereunder to indemnification and advancement of expenses to the same extent as the person.

(c) The term "expenses" includes all direct and indirect costs (including, without limitation, counsel fees, retainers, court costs, transcripts, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or out-of-pocket expenses) actually incurred in connection with the investigation, defense, settlement or appeal of a proceeding or establishing or enforcing a right to indemnification under this Article, applicable law or otherwise.

(d) The term "liability" means the obligation to pay a judgment, settlement, penalty, fine, excise tax (including an excise tax assessed with respect to an employee benefit plan) or reasonable expenses incurred with respect to a proceeding.

(e) The term "party" includes an individual who was, is or is threatened to be made a named defendant or respondent in a proceeding.

(f) The term "proceeding" means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal.

BYLAWS

OF

INDIANA PASSPORT ACADEMIES, INC.

ARTICLE I

Board of Directors

Section 1.1. Duties and Qualifications. The business and affairs of Indiana Passport Academies, Inc. (the "Corporation") shall be managed by the Board of Directors.

Section 1.2. Number, Term, and Election. The Board of Directors shall consist of a minimum of three (3) directors and a maximum of seven (7) directors, with the exact number of directors specified from time to time by resolution of the Board of Directors. The term of office of directors shall be staggered by dividing the total number of directors into three (3) groups, with each director serving a term of three (3) years. The groups shall be as near equal in size as possible. One group of directors shall be elected at each annual meeting of directors.

Other than the initial directors, the directors shall be elected at the annual meeting of the directors by a plurality of the votes cast by the directors. Despite the expiration of a director's term, the director continues to serve until a successor is elected and qualifies, or until there is a decrease in the number of directors.

Section 1.3. Vacancies. Any vacancy among the directors caused by death, resignation, removal, increase in the number of directors or otherwise may be filled by a majority vote of the remaining members of the Board of Directors. The term of office of a director chosen to fill a vacancy shall expire at the later of the expiration of the unexpired term which the director was chosen to fill, or at such time as a successor shall be duly elected and qualified.

Section 1.4. Resignation and Removal. A Director of the Corporation may resign at any time by tendering his or her resignation in writing to the Corporation, which resignation shall become effective upon the date specified therein, or if no date is specified, upon receipt by the Corporation at its principal place of business. A Director may be removed, with or without cause, by a majority of the remaining Directors whenever the number of votes cast to remove the Director would be sufficient to elect the Director at a meeting to elect Directors.

Section 1.5. Annual Meetings. Unless the Board of Directors determines otherwise, the Board of Directors shall meet at a time and place to be determined by the Board of Directors each year, for the purpose of election of directors and officers of the Corporation and consideration of any other business which may be brought before the meeting. No notice shall be necessary for the holding of an annual meeting.

Section 1.6. Regular and Special Meetings. Regular meetings of the Board of Directors shall be held at least four (4) times each year, once during each calendar quarter.

Special meetings of the Board of Directors may be held upon the call of the President or a majority of the Directors then in office.

Section 1.7. Notice of Meetings. Notice of annual meetings, regular meetings, special meetings, committee meetings, or any other meeting of the Board of Directors shall comply with the requirements of the Indiana Open Door Law (Indiana Code § 5-14-1.5 or any successor statute).

Section 1.8. Open Door Law and Access to Public Records Act. The Corporation is subject to the Indiana Open Door Law and the Indiana Access to Public Records Act (Indiana Code § 5-14-3 or any successor statute).

Section 1.9. Participation. A Director may participate in an annual, a regular or a special meeting of the Board of Directors by or through the use of any means of communication by which all directors participating may simultaneously hear each other during the meeting. Participation by these means constitutes presence in person at the meeting for purposes of the Indiana Nonprofit Corporation Act of 1991, as amended (the "Act"). However, for purposes of the Indiana Open Door Law, a Director participating by this means is not considered to be present and may not participate in final action

Section 1.10. Quorum; Voting. A majority of the Directors in office when action is taken, but in no event fewer than two (2) directors, shall be necessary to constitute a quorum for the transaction of any business at a meeting of the Board of Directors. If a quorum is present when a vote is taken, the affirmative vote of a majority of the Directors present when the act is taken shall be the act of the Board of Directors, unless the act of a greater number is required by law, the Articles of Incorporation or these Bylaws.

Section 1.11. Committees. The Board of Directors may from time to time create and appoint standing, special or other committees to undertake studies, make recommendations and carry on functions for the purpose of efficiently accomplishing the purposes of the Corporation. The purpose, duties, number of members and reporting requirements of each committee shall be specified in the resolution creating the committee. Unless otherwise specified by resolution of the Board or these Bylaws, the President shall annually appoint the members and the chairpersons of the each committee and shall fill vacancies on any committee; however, all committee appointments and chairperson appointments must be approved by a vote of the Board. A committee, to the extent specified by the Board of Directors, may exercise the powers, functions or authority of the Board of Directors, except where prohibited by law; provided, however, that if a committee is to exercise board powers, functions, or authority: (a) all the persons serving on the committee must be directors, and (b) there must be at least two (2) persons on the committee. Meetings of any committee may be called by the chairperson of such committee or upon the written request of one-third (1/3) of the committee members. Notice of committee meetings shall comply with the requirements of the Indiana Open Door Law.

Committee members shall continue in office until a successor is appointed at the next annual meeting of the Board, unless the committee is sooner terminated by resolution of the

Board or such committee member dies, resigns or is removed. A member of any committee may resign at any time by tendering his or her resignation in writing to the President. The Board, by a vote, may remove, with or without cause, any member from a committee and specifically, but not by way of limitation, may remove any member from a committee for failing to attend three (3) consecutive meetings of the committee. Committee meetings shall be governed by the rules contained in the latest edition of Robert's Rules of Order in all cases in which such rules are applicable and in which they are not inconsistent with the Articles of Incorporation, these Bylaws or any special rules of order of the Corporation.

ARTICLE II

Officers

Section 2.1. Officers and Qualifications Therefor. The officers of the Corporation shall consist of a President, a Vice President, a Secretary and a Treasurer. The officers shall be chosen by the Board of Directors. Any two (2) or more offices may be held by the same person.

Section 2.2. Terms of Office. Each officer of the Corporation shall be elected by the Board of Directors at its annual meeting and shall hold office for a term of one (1) year and until a successor shall be duly elected and qualified, or until resignation, removal or death.

Section 2.3. Vacancies. Whenever any vacancies shall occur in any of the offices of the Corporation for any reason, the same may be filled by the Board of Directors, and any officer so elected shall hold office until the expiration of the term of the officer causing the vacancy and until the officer's successor shall be duly elected and qualified.

Section 2.4. Resignation or Removal. An officer of the Corporation may resign at any time by tendering his or her resignation in writing to the President or the Secretary. Resignations shall become effective upon the date specified therein or, if no date is specified, upon receipt by the Corporation. Any officer of the Corporation may be removed, with or without cause, at any time by a majority vote of the Board of Directors.

Section 2.5. Compensation. The officers of the Corporation shall receive no compensation for their services in such offices.

ARTICLE III

Powers and Duties of Officers

Section 3.1. President. The President shall be the principal executive officer of the Corporation and, subject to the control of the Board, shall in general supervise and control all of the business and affairs of the Corporation. The President shall act as a duly authorized representative of the Board and the Corporation in all matters in which the Board has not formally designated some other person to act. The President shall preside at all meetings of the Board of Directors and shall report as directed to the Board at each meeting. The President may sign, with the Secretary or any other proper officer of the Corporation authorized by the Board, deeds, mortgages, bonds, contracts or other instruments which the Board has authority to execute, except in cases where the signing and execution thereof shall be expressly delegated by the Board or by these Bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general, shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board from time to time.

Section 3.2. Vice-President. Subject to the general control of the Board of Directors, if the President is not present, the Vice President shall discharge all the usual functions of the President and shall have such other powers and duties as these Bylaws, the Board of Directors or an officer authorized by the Board may prescribe.

Section 3.3. Secretary. The Secretary shall attend all meetings of the Board of Directors, and prepare, keep, or cause to be kept, a true and complete record and minutes of the proceedings of such meetings, and shall perform a like duty, when required, for all committees appointed by the Board of Directors. If required, the Secretary shall attest the execution by the Corporation of deeds, leases, agreements and other official documents. The Secretary shall attend to the giving and serving of all notices of the Corporation required by these Bylaws, shall have custody of the books (except books of account) and records of the Corporation, shall be responsible for authenticating records of the Corporation, and in general shall perform all duties pertaining to the office of Secretary and such other duties as these Bylaws, the Board of Directors, or an officer authorized by the Board may prescribe.

Section 3.4. Treasurer. The Treasurer shall keep correct and complete records of account, showing accurately at all times the financial condition of the Corporation. The Treasurer shall have charge and custody of, and be responsible for, all funds, notes, securities and other valuables which may from time to time come into the possession of the Corporation and shall deposit, or cause to be deposited, all funds of the Corporation with such depositories as the Board of Directors shall designate. At each annual meeting of the directors, the Treasurer, or the Treasurer's designee, shall report on the financial condition of the Corporation. The Treasurer, or the Treasurer's designee, shall furnish, at meetings of the Board of Directors or whenever requested, a statement of the financial condition of the Corporation, and in general shall perform all duties pertaining to the office of Treasurer. The Treasurer may be bonded by an indemnity bonding company for such amount as the Board of Directors may require.

Section 3.5. Assistant Officers. The Board of Directors may from time to time designate and elect assistant officers who shall have such powers and duties as the officers whom they are elected to assist shall specify and delegate to them, and such other powers and duties as these Bylaws or the Board of Directors may prescribe. An Assistant Secretary may, in the absence or disability of the Secretary, attest the execution of all documents by the Corporation.

ARTICLE IV

Nondiscrimination

No school owned or operated by the Corporation shall discriminate against any student, teacher or employee on the basis of race, religion, gender or national origin. Furthermore, with respect to students, such school shall admit students of any race, religion, gender, color, national and ethnic origin, and disability to all the rights, privileges, programs and activities generally accorded or made available to students at such school. Any such school shall not discriminate on the basis of race, religion, gender, color national or ethnic origin, or disability in the administration of its educational policies, admissions policies, scholarship and loan programs or athletic or other school-administered programs.

ARTICLE V

Miscellaneous

Section 5.1. Corporate Seal. The Corporation may, but need not, have a corporate seal. The form of any such corporate seal may be specified in a resolution of the Board of Directors. A corporate seal, however, shall not be required for any purpose, and its absence shall not invalidate any document or action.

Section 5.2. Execution of Contracts and Other Documents. Unless otherwise ordered by the Board of Directors, all written contracts and other documents entered into by the Corporation shall be executed on behalf of the Corporation by the President or Vice President and, if required, attested by the Secretary or an assistant secretary.

Section 5.3. Fiscal Year. The fiscal year of the Corporation shall begin on January 1 of each year and end on the immediately following December 31.

ARTICLE VI

Amendments

Subject to law and the Articles of Incorporation, the power to make, alter, amend or repeal all or any part of these Bylaws is vested in the Board of Directors. The Corporation must provide notice to the directors of any meeting at which an amendment to the Bylaws is to be considered and voted upon.

____
Secretary's Initials

Date: ____________________

INDIANA CHARTER SCHOOL BOARD: CHARTER SCHOOL APPLICANT
Statement of Assurances

The charter school agrees to comply with all of the following provisions: (*Read and check*)

☒ 1. A resolution or motion has been adopted by the charter school applicant's governing body that authorizes the submission of this application, including all understanding and assurances contained herein, directing and authorizing the applicant's designated representative to act in connection with the application and to provide such additional information as required.

☒ 2. Recipients operate (or will operate if not yet open) a charter school in compliance with all federal and state laws, including Indiana Charter Schools Law as described in all relevant sections of IC § 20-24.

☒ 3. Recipients will, for the life of the charter, participate in all data reporting and evaluation activities as required by the Indiana Charter School Board (ICSB) and the Indiana Department of Education. See in particular IC § 20-20-8-3 and relevant sections of IC § 20-24.

☒ 4. Recipients will comply with all relevant federal laws including, but not limited to, the *Age Discrimination in Employment Act* of 1975, Title VI of the *Civil Rights Act* of 1964, Title IX of the *Education Amendments of 1972*, section 504 of the *Rehabilitation Act* of 1973, Part B of the *Individuals with Disabilities Education Act*, and section 427 of the *General Education Provision Act*.

☒ 5. Recipients will comply with all provisions of the Non regulatory Guidance—Public Charter Schools Program of the U.S. Department of Education, which includes the use of a lottery for enrollment if the charter school is oversubscribed, as well as with applicable Indiana law. See also relevant sections of IC § 20-24.

☒ 6. Recipients shall ensure that a student's records, and, if applicable, a student's individualized education program as defined at 20 U.S.C. § 1401(14) of the *Individuals with Disabilities Education Act*, will follow the student, in accordance with applicable federal and state law.

☒ 7. Recipients will comply with all provisions of the *No Child Left Behind Act*, including but not limited to, provisions on school prayer, the Boy Scouts of America Equal Access Act, the Armed Forces Recruiter Access to Students and Student Recruiting Information, the Unsafe School Choice Option, the Family Educational Rights and Privacy Act (FERPA) and assessments.

☒ 8. Recipients will operate with the organizer serving in the capacity of fiscal agent for the charter school and in compliance with generally accepted accounting principles.

☒ 9. Recipients will at all times maintain all necessary and appropriate insurance coverage.

☒ 10. Recipients will indemnify and hold harmless the ICSB, the Indiana Department of Education, the State of Indiana, all school corporations providing funds to the charter school (if applicable), and their officers, directors, agents and employees, and any successors and assigns from any and all liability, cause of action, or other injury or damage in any way relating to the charter school or its operation.

☒ 11. Recipients understand that the ICSB may revoke the charter if the ICSB deems that the recipient is not fulfilling the academic goals and/or fiscal management responsibilities outlined in the charter.	
Signature from Authorized Representative of the Charter School Applicant	
I, the undersigned, am an authorized representative of the charter school applicant and do hereby certify that the information submitted in this application is accurate and true to the best of my knowledge and belief. In addition, I do hereby certify to the assurances contained above.	
PRINT NAME & TITLE Dr. Jerry Woodbridge, President **SIGN NAME** Jerry L Woodbridge	**DATE** 3-28-12

CHARTER SCHOOL BOARD MEMBER INFORMATION
(To be completed individually by each proposed board member for the charter holder)

Serving on a public charter school board is a position of public trust and fiduciary responsibility. As a board member of a public school, you are responsible for ensuring the quality of the school program, competent stewardship of public funds, and the school's fulfillment of its public obligations and all terms of its charter.

As part of the application for a new charter school, the Indiana Charter School Board requests that each prospective board member respond individually to this questionnaire. Where narrative responses are required, brief responses are sufficient.

The purpose of this questionnaire is twofold: 1) to give application reviewers a clearer introduction to the founding group behind each school proposal in advance of the applicant interview, in order to be better prepared for the interview; and 2) to encourage board members to reflect individually as well as collectively on their common mission, purposes, and obligations at the earliest stage of school development.

Background

1. Name of charter school on whose Board of Directors you intend to serve: Indiana Urban Education Solutions, Inc.

2. Your full name: Dr. Jerry Woodbridge

3. Brief educational and employment history. (No narrative response is required if resume is attached.)
   [X] Resume is attached.

4. Describe any of your previous experiences that are relevant to serving on the charter school's board (including other board experience, or any experience overseeing start-up or entrepreneurial ventures). If you have not had previous experience of this nature, explain why you have the capability to be an effective board member.
   I assisted the opening of school in Jacksonville, FL. Millennial Christian School.

5. Do you understand the obligations of a charter school's Board of Directors to comply with Indiana's Public Access laws, including the Open Door Law for Board meetings?
   [X] Yes [ ] Don't Know/ Unsure

Disclosures

1. Indicate whether you or your spouse knows the other prospective board members for the proposed school. If so, please indicate the precise nature of your relationship.
   [X] I / we do not know any such trustees. [ ] Yes

2. Indicate whether you or your spouse knows any person who is, or has been in the last two years, a school employee. If so, indicate the precise nature of your relationship.
   [X] I / we do not know any such employees. [ ] Yes

3. Indicate whether you or your spouse knows anyone who is doing, or plans to do, business with the charter school (whether as an individual or as a director, officer, employee or agent of an entity). If so, indicate and

describe the precise nature of your relationship and the nature of the business that such person or entity is transacting or will be transacting with the school.

☒ I / we do not know any such persons. ☐ Yes

4. Indicate if you, your spouse or other immediate family members anticipate conducting, or are conducting, any business with the school. If so, indicate the precise nature of the business that is being or will be conducted.

   ☒ I / we do not anticipate conducting any such business. ☐ Yes

5. If the school intends to contract with an Education Service Provider or management organization, indicate whether you or your spouse knows any employees, officers, owners, directors or agents of that provider. If the answer is in the affirmative, please describe any such relationship.

   ☐ Not applicable because the school does not intend to contact with an education service provider or school management organization.

   ☒ I / we do not know any such persons. ☐ Yes

6. If the school contracts with an education service provider, please indicate whether you, your spouse or other immediate family members have a direct or indirect ownership, employment, contractual or management interest in the provider. For any interest indicated, provide a detailed description.

   ☐ N/A. ☒ I / we have no such interest. ☐ Yes

7. If the school plans to contract with an Education Service Provider, indicate if you, your spouse or other immediate family member anticipate conducting, or are conducting, any business with the provider. If so, indicate the precise nature of the business that is being or will be conducted.

   ☐ N/A. ☒ I / we or my family do not anticipate conducting any such business. ☐ Yes

8. Indicate whether you, your spouse or other immediate family members are a director, officer, employee, partner or member of, or are otherwise associated with, any organization that is partnering with the charter school. To the extent you have provided this information in response to prior items, you may so indicate.

   ☒ Does not apply to me, my spouse or family. ☐ Yes

6. Indicate any potential ethical or legal conflicts of interests that would, or are likely to, exist should you serve on the school's board. ☒ None. ☐ Yes

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Certification

I, Jerry L. Woodbridge, certify to the best of my knowledge and ability that the information I am providing to the Indiana Charter School Board as a prospective board member for Charter School is true and correct in every respect.

Jerry L Woodbridge
Signature

3-28-12
Date

CHARTER SCHOOL BOARD MEMBER INFORMATION

(To be completed individually by each proposed board member for the charter holder)

Serving on a public charter school board is a position of public trust and fiduciary responsibility. As a board member of a public school, you are responsible for ensuring the quality of the school program, competent stewardship of public funds, and the school's fulfillment of its public obligations and all terms of its charter.

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The purpose of this questionnaire is twofold: 1) to give application reviewers a clearer introduction to the founding group behind each school proposal in advance of the applicant interview, in order to be better prepared for the interview; and 2) to encourage board members to reflect individually as well as collectively on their common mission, purposes, and obligations at the earliest stage of school development.

Background

1. Name of charter school on whose Board of Directors you intend to serve:
   Indiana Urban Education Solutions, Inc.
2. Your full name: Gary Sailes
3. Brief educational and employment history. (No narrative response is required if resume is attached.)
   ☑ Resume is attached.
4. Describe any of your previous experiences that are relevant to serving on the charter school's board (including other board experience, or any experience overseeing start-up or entrepreneurial ventures). If you have not had previous experience of this nature, explain why you have the capability to be an effective board member.
   See resume!
5. Do you understand the obligations of a charter school's Board of Directors to comply with Indiana's Public Access laws, including the Open Door Law for Board meetings?
   ☑ Yes ☐ Don't Know/ Unsure

Disclosures

1. Indicate whether you or your spouse knows the other prospective board members for the proposed school. If so, please indicate the precise nature of your relationship.
   ☑ I / we do not know any such trustees. ☐ Yes
2. Indicate whether you or your spouse knows any person who is, or has been in the last two years, a school employee. If so, indicate the precise nature of your relationship.
   ☑ I / we do not know any such employees. ☐ Yes
3. Indicate whether you or your spouse knows anyone who is doing, or plans to do, business with the charter school (whether as an individual or as a director, officer, employee or agent of an entity). If so, indicate and

describe the precise nature of your relationship and the nature of the business that such person or entity is transacting or will be transacting with the school.
☑ I / we do not know any such persons. ☐ Yes

4. Indicate if you, your spouse or other immediate family members anticipate conducting, or are conducting, any business with the school. If so, indicate the precise nature of the business that is being or will be conducted.
☑ I / we do not anticipate conducting any such business. ☐ Yes

5. If the school intends to contract with an Education Service Provider or management organization, indicate whether you or your spouse knows any employees, officers, owners, directors or agents of that provider. If the answer is in the affirmative, please describe any such relationship.
☐ Not applicable because the school does not intend to contact with an education service provider or school management organization.
☑ I / we do not know any such persons. ☐ Yes

6. If the school contracts with an education service provider, please indicate whether you, your spouse or other immediate family members have a direct or indirect ownership, employment, contractual or management interest in the provider. For any interest indicated, provide a detailed description.
☐ N/A. ☑ I / we have no such interest. ☐ Yes

7. If the school plans to contract with an Education Service Provider, indicate if you, your spouse or other immediate family member anticipate conducting, or are conducting, any business with the provider. If so, indicate the precise nature of the business that is being or will be conducted.
☐ N/A. ☑ I / we or my family do not anticipate conducting any such business. ☐ Yes

8. Indicate whether you, your spouse or other immediate family members are a director, officer, employee, partner or member of, or are otherwise associated with, any organization that is partnering with the charter school. To the extent you have provided this information in response to prior items, you may so indicate.
☑ Does not apply to me, my spouse or family. ☐ Yes

6. Indicate any potential ethical or legal conflicts of interests that would, or are likely to, exist should you serve on the school's board. ☑ None. ☐ Yes

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Certification

I, Gary Sailes, certify to the best of my knowledge and ability that the information I am providing to the Indiana Charter School Board as a prospective board member for Charter School is true and correct in every respect.

Gary Sailes
Signature

3/27/12
Date

CHARTER SCHOOL BOARD MEMBER INFORMATION

(To be completed individually by each proposed board member for the charter holder)

Serving on a public charter school board is a position of public trust and fiduciary responsibility. As a board member of a public school, you are responsible for ensuring the quality of the school program, competent stewardship of public funds, and the school's fulfillment of its public obligations and all terms of its charter.

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Background

1. Name of charter school on whose Board of Directors you intend to serve:
   Indiana Urban Education Solutions, Inc.

2. Your full name: James R. Betley

3. Brief educational and employment history. (No narrative response is required if resume is attached.)
   ☒ Resume is attached.

4. Describe any of your previous experiences that are relevant to serving on the charter school's board (including other board experience, or any experience overseeing start-up or entrepreneurial ventures). If you have not had previous experience of this nature, explain why you have the capability to be an effective board member.
   See Attached.

5. Do you understand the obligations of a charter school's Board of Directors to comply with Indiana's Public Access laws, including the Open Door Law for Board meetings?
   ☒ Yes ☐ Don't Know/ Unsure

Disclosures

1. Indicate whether you or your spouse knows the other prospective board members for the proposed school. If so, please indicate the precise nature of your relationship.
   ☒ I / we do not know any such trustees. ☐ Yes

2. Indicate whether you or your spouse knows any person who is, or has been in the last two years, a school employee. If so, indicate the precise nature of your relationship.
   ☒ I / we do not know any such employees. ☐ Yes

3. Indicate whether you or your spouse knows anyone who is doing, or plans to do, business with the charter school (whether as an individual or as a director, officer, employee or agent of an entity). If so, indicate and

describe the precise nature of your relationship and the nature of the business that such person or entity is transacting or will be transacting with the school.

☒ I / we do not know any such persons. ☐ Yes

4. Indicate if you, your spouse or other immediate family members anticipate conducting, or are conducting, any business with the school. If so, indicate the precise nature of the business that is being or will be conducted.

   ☒ I / we do not anticipate conducting any such business. ☐ Yes

5. If the school intends to contract with an Education Service Provider or management organization, indicate whether you or your spouse knows any employees, officers, owners, directors or agents of that provider. If the answer is in the affirmative, please describe any such relationship.

   ☐ Not applicable because the school does not intend to contact with an education service provider or school management organization.

   ☐ I / we do not know any such persons. ☒ Yes

6. If the school contracts with an education service provider, please indicate whether you, your spouse or other immediate family members have a direct or indirect ownership, employment, contractual or management interest in the provider. For any interest indicated, provide a detailed description.

   ☒ N/A. ☐ I / we have no such interest. ☐ Yes

7. If the school plans to contract with an Education Service Provider, indicate if you, your spouse or other immediate family member anticipate conducting, or are conducting, any business with the provider. If so, indicate the precise nature of the business that is being or will be conducted.

   ☒ N/A. ☐ I / we or my family do not anticipate conducting any such business. ☐ Yes

8. Indicate whether you, your spouse or other immediate family members are a director, officer, employee, partner or member of, or are otherwise associated with, any organization that is partnering with the charter school. To the extent you have provided this information in response to prior items, you may so indicate.

   ☒ Does not apply to me, my spouse or family. ☐ Yes

6. Indicate any potential ethical or legal conflicts of interests that would, or are likely to, exist should you serve on the school's board. ☒ None. ☐ Yes

---

Certification

I, James R. Betley , certify to the best of my knowledge and ability that the information I am providing to the Indiana Charter School Board as a prospective board member for Indiana Urban Education Solutions, Inc. Charter School is true and correct in every respect.

Signature

04/03/12

Date

Attachment to Charter School Board Member Information
For
James R. Betley
One American Square, Suite 2900
Indianapolis, IN 46282
(317) 236-2358

3 & 4. Brief educational and employment history and relevant experience.

PROFESSIONAL HISTORY

Year	Professional Experience
March 2008 – Present	Of Counsel, Tax Ice Miller LLP
June 2001 – March 2008	Self-Employed Professional Photographer
June 1998 – Nov. 1999	Associate, Corporate Gray Cary Ware & Freidenrich (now a part of DLA Piper)

Related Publications/Presentations

- Indiana Charter School Handbook, 2011
- Practical Things You Should Know When Serving on an Indiana Nonprofit Board Handbook, 2012
- "Practical Things You Should Know About Operating a Nonprofit Organization," last presented March 6, 2012
- "Legal Issues in Forming an Indiana Charter School," last presented October 7, 2011

Professional Assignments and Activities

- Board Member, Westside Economic Development Corporation (2010 – present).
- Member, Professional Development Committee, Ice Miller LLP (2010 – present).
- Member, Indiana State Bar Association

EDUCATIONAL HISTORY

Degree	Institution	Year	Studies
n/a	Art Center College of Design	2000-2002	Photography
J.D.	University of Michigan	1995-1998	Law

B.A.	Northwestern University	1989-1993	English

RELEVANT EXPERIENCE

- Represents a number of tax-exempt entities (including charter schools, charter school management organizations and education reform organizations) on a broad range of issues including corporate formation and governance, achieving tax-exemption, tax compliance, lobbying and political activities, unrelated business income and other business matters, including joint ventures, mergers, taxable subsidiaries, limited liability companies, and other affiliates to minimize tax liability and protect nonprofit status.

- Provides advice and counseling regarding the federal and state taxation of various governmental and quasi-governmental entities including compliance with Indiana's Open Door and Open Access Laws.

- Represents clients before the Internal Revenue Service, the Indiana Department of Revenue, and the Indiana Department of Local Government Finance on a variety of matters, ranging from obtaining favorable IRS Private Letter Rulings, Determination Letters and Department of Revenue Letters of Findings.

- Managed a career as a professional photographer for seven years in Los Angeles, Chicago, New York and Indianapolis, including all aspects of running a business as a sole proprietor.

5. Disclosures

IUES is considering contracting with K12, Inc. for management services. Tamara Carpenter is Vice President of School Development for K12, Inc. I have had contact with Ms. Carpenter in the context of exploring this relationship with K12, Inc.

I/2796101.1

ATTACHMENT 7

CODE OF CONDUCT AND ETHICS
INDIANA URBAN EDUCATION SOLUTIONS, INC.

Adopted by the Board of Directors
April 6, 2012

I. INTRODUCTION

Indiana Urban Education Solutions, Inc. (the “Corporation”) Code of Conduct and Ethics (“***Code of Ethics***”) will be adhered to by all directors, officers and employees of the Corporation because maintaining the public trust is essential to the mission of the Corporation. Adherence to the law is the minimum standard of expected behavior for all who represent the Corporation. More important, transparency, openness and ongoing responsible behavior must drive the daily activities of the Corporation.

The Corporation is required to conduct activities that are consistent with those conducted by Indiana nonprofit corporations and organizations determined to be exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, this Code of Ethics will resolve issues in a manner consistent with the Corporation's duties as a public charity.

The Corporation is committed to continuously reviewing and updating its policies and procedures. Therefore, this Code of Ethics is subject to modification.

II. COMPLIANCE IS EVERYONE’S BUSINESS

It is the policy of the Corporation to comply with and require its directors, officers and employees to comply with this Code of Ethics, including all applicable legal and regulatory requirements relating to the matters contained in this Code of Ethics, including but not limited to, the following issues and activities:

- Antitrust
- Campaign Intervention
- Legislative Activities
- Conflicts of Interest
- Accounting Internal Controls and Procedures
- Auditing Matters
- Dishonest or Unethical Conduct

III. YOUR RESPONSIBILITIES TO THE CORPORATION

A. **General Standards of Conduct**.

1. Act with Personal and Professional Integrity. All directors, officers, employees, contractors and volunteers of the Corporation shall act with honesty, integrity and openness in all their dealings when they represent the Corporation.

2. Comply with Applicable Laws. All directors, officers and employees of the Corporation shall comply with all laws, rules and regulations to which they are subject. This means that, in addition to complying with laws, rules, and regulations applicable to their role with the Corporation, directors, officers and employees shall comply with laws, rules and regulations specific to their activities, including, but not limited to activities governed by the Indiana Charter Schools Act, as amended.

B. **Specific Standards of Conduct**.

1. Serve the Mission of the Corporation. All directors, officers and employees shall understand, support and serve the mission of the Corporation and all who work for or on behalf of the mission of the Corporation.

2. Comply with Applicable Duty of Conduct. All directors, officers and employees are expected to act in good faith and with reasonable care when acting on behalf of the Corporation. In particular, directors of the Corporation are expected to act in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner the director reasonably believes to be in the best interests of the Corporation.

3. Comply with Applicable Duty of Loyalty. All directors, officers and key employees are expected to place their loyalty to the Corporation above any competing personal interests. When engaging in activities or transactions that may involve a conflict of interest or the appearance thereof, a director, officer or employee shall refer to the Corporation's Conflict of Interest Policy and conform his or her behavior accordingly.

4. Comply with Applicable Laws.

   a. Legislative Activities. Under the Internal Revenue Code of 1986, as amended, the Corporation is subject to complex and specific limitations with respect to activities and expenses undertaken to influence legislation. Directors, officers and employees shall not engage in legislative activity on behalf of the Corporation without express approval from the President of the Corporation.

   b. Campaign Intervention. The Corporation is precluded from participating in or intervening in any political campaign on behalf of, or in opposition to, any candidate for public office, whether by publishing or distributing statements or otherwise. Accordingly, directors, officers and employees shall not engage in any such activity on behalf of the Corporation.

Further, directors, officers and employees shall ensure that any political activity in which he or she engages is clearly personal in nature and not conducted in or from the Corporation's offices or with use of any of its equipment or facilities.

c. Conflicts of Interest. All directors, officers and key employees shall read, understand, and abide by the Corporation's Conflict of Interest Policy which is available upon request.

d. Loans, Private Inurement, Excess Benefit Transactions, Etc. Under Indiana law and the Internal Revenue Code of 1986, as amended, certain financial relationships or transactions between "insiders" or "disqualified persons" as such are known or defined for purposes of applicable law, are limited or prohibited. Directors, officers and key employees, in addition to disclosing such actual or proposed relationships pursuant to the Corporation's Conflict of Interest Policy, shall conform their activities so as to not jeopardize the Corporation's status as an Indiana nonprofit corporation and an organization determined to be exempt under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

e. Other Applicable Laws. All directors, officers and employees shall, at all times, comply with all other applicable laws, rules and regulations to which they are subject.

IV. THE RESPONSIBILITIES OF THE CORPORATION TO YOU

A. **Clear Mission and Activities**. The Corporation will provide a clear mission and a clear direction regarding its current and proposed activities. The Corporation will provide appropriate staff or volunteer support for all activities undertaken by the Corporation.

B. **Concise and Timely Communications**. In advance of board and committee meetings, directors will receive packets that include an agenda, minutes and appropriate updates. Key strategic planning materials and reports should also be distributed prior to any meeting at which they will be discussed. The Corporation will update its broader constituencies through timely accurate reporting within the public realm, such as its required annual Form 990 filings, and through newsletters and other forms of communication.

C. **Clear and Accurate Financial Reporting**. The Corporation will maintain accurate financial records, obtain an annual audit of its financial statements from an independent accounting firm, and accurately report all key financial information in its required annual Form 990 filing.

D. **Enforcement of Governing Documents and this Code of Ethics.** The Corporation will enforce its governing documents, including this Code of Ethics, consistently in order to maintain the credibility and sustainability of the Corporation.

V. REPORTING AND CORRECTIVE ACTION.

A. **Reporting Alleged Violations or Concerns**. If a director, officer or employee reasonably believes that the Corporation or any its employees or others, acting on behalf of the Corporation, have violated this Code of Ethics, the director, officer or employee should immediately report or cause to be reported any such potential violation to the President of the Corporation's Board of Directors.

If the complaint relates to the President or there is a potential conflict of interest, the complaint should be submitted to the Corporation's Vice-President.

A complaint describing an alleged violation or concern should be candid and set forth all of the information that the director, officer or employee knows regarding the allegation or concern. In addition, all complaints must contain sufficient corroborating information to support the commencement of an investigation. The President may, in his or her reasonable discretion, determine not to commence an investigation if a complaint contains only unspecified or broad allegations of wrongdoing without appropriate informational support.

B. **Investigation of Complaints**. Upon receipt of the complaint by the President, he or she shall make a determination, in his or her judgment, whether a reasonable basis exists for commencing an investigation. To assist in making this determination, the President may conduct an initial, informal inquiry. Other parties may become involved in the inquiry based on their oversight responsibility or expertise.

To the extent possible, all complaints will be handled in a confidential manner. In no event will information concerning the complaint be released to persons without specific need to know about it. Investigation of complaints will be conducted promptly by the Corporation's Board of Directors upon referral by the President. The determination by the President will be communicated to the person who brought the complaint (unless anonymous).

C. **Corrective Action**. In accordance with the Corporation's Conflict of Interest Policy, the Board of Directors, with the input of Corporation staff, if requested, will determine the validity of a complaint and any corrective action, as appropriate.

D. **No Retaliation**. Neither the Corporation nor any director, officer or employee will retaliate or discriminate against a director, officer or employee who: (a) lawfully provides information regarding any conduct which the director, officer or employee reasonably believes constitutes a violation of this Code of Ethics to a federal regulatory or law enforcement agency, to any member or committee of Congress, or to any person with supervisory authority over an employee of the Corporation or the authority to investigate misconduct relating to potential violations by the Corporation or its employees; (b) participates in or otherwise assists with a proceeding relating to potential violations by the Corporation or its employees; or (c) submits a complaint pursuant to this Code of Ethics regarding any conduct which the director, officer or employee reasonably believes constitutes a violation of this Code of Ethics, even if after investigation the Corporation determines that there has not been a violation.

E. **Retention of Complaints and Documents**. Corporation records shall not be destroyed in a manner inconsistent with the Corporation's document retention and destruction policy and existing law, including laws prohibiting destruction of documents that may be subject to or related to an investigation by the Corporation or any federal, state or regulatory body.

VII. ACKNOWLEDGMENT OF RECEIPT OF CODE OF ETHICS.

I have received, read and understand the Corporation's Code of Ethics. I further agree to comply with the Corporation's Code of Ethics. The Code of Ethics does not create a contract of employment; nor does it replace policies and procedures to which employees of the Corporation may be subject.

NOTE: CONSENT AGREEMENT AVAILABLE UPON REQUEST

____

Name

____

Signature

____

Date

I/2798049.1

CONFLICT OF INTEREST POLICY
OF
INDIANA PASSPORT ACADEMIES, INC.

Section 1. Purposes. The proper governance of Indiana Passport Academies, Inc. (the "Corporation") dep ends upon directors who give of their time for the benefit of their community. The giving of this service, because of the varied interests and backgrounds of the directors, may result in situations involving a dual interest that might be interpreted as a conflict of interest. This service should not be rendered impossible solely by reason of duality of interest or possible conflicts of interest. This service nevertheless carries with it a requirement of loyalty and fidelity to the Corporation, it being the responsibility of the directors to govern the Corporation's affairs honestly and economically, exercising their best care, skill, and judgment for the benefit of the Corporation. Based on the foregoing, the purpose of this conflict of interest policy is to protect the interest of the Corporation when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Corporation while recognizing that it would disadvantage the Corporation to deprive it of the involvement of interested colleagues.

Section 2. Definitions.

(a) Interested Person. Any director, principal officer, key employee, or member of a committee with board delegated powers who has a financial interest or conflict of loyalty, each as defined below, is an interested person.

(b) Financial Interest. A person has a financial interest if the person has, or as a result of the transaction at issue will have, a compensation or other financial arrangement with the Corporation, including but not limited to, a sale, exchange or leasing of property; the lending of money or other extension of credit; the furnishing of goods, services or facilities, including specifically the provision of services as a vendor; the payment of compensation (or payment or reimbursement of expenses); or the receipt of, or use of, the income or assets of the Corporation.

In identifying and disclosing a Financial Interest, an Interested Person shall consider and disclose all personal Financial Interests, together with any Financial Interest involving:

i. His or her family members, including but not limited to, his spouse, ancestors, children, grandchildren, great grandchildren, and the spouses of children, grandchildren, and great grandchildren; or

ii. Any corporation, partnership or other legal entity in which the Interested Person (together with all family members described in 2(b)(i) above or other Interested Persons):

A. Holds a position of influence or control, such as but not limited to, as trustee, director, president, chief executive officer, chief operating officer, chief financial officer, or treasurer; or

B. Owns greater than 2% of the total combined voting power.

Section 3. Procedures.

(a) Duty to Disclose. In connection with any actual or possible conflict of interest, an Interested Person must disclose the existence and nature of his or her Financial Interest or conflict of loyalty to the directors and members of committees with board delegated powers considering the proposed transaction or arrangement.

(b) Determining Whether a Conflict of Interest Exists.

i. Upon disclosure of a Financial Interest, the Interested Person shall leave the board or committee meeting while the Financial Interest is discussed and voted upon. The remaining board or committee members shall decide if a conflict of interest exists by a two-thirds vote.

ii. If it is determined that a conflict of interest exists, the board or committee shall proceed as provided in Section 3(c).

(c) Addressing the Conflict of Interest.

i. The President or committee may, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

ii. After exercising due diligence, the board or committee shall determine whether the Corporation can obtain a more advantageous transaction or arrangement with reasonable efforts from a person or entity that would not give rise to a conflict of interest.

iii. If a more advantageous transaction or arrangement is not reasonably attainable under circumstances that would not give rise to a conflict of interest, the board or committee shall determine by a majority vote of the directors (excluding an Interested Person who has a Financial Interest) whether the transaction or arrangement is in the Corporation's best interest and for its own benefit and whether the transaction is fair and reasonable to the Corporation and shall make its decision as to whether to enter into the transaction or arrangement in conformity with such determination.

iv. In determining whether to enter into the transaction or arrangement under

Section 3(c)iii., the board or committee may request that the Interested Person provide additional information to the board or committee. The Interested Person shall not be present or participate in the vote on whether to enter into such transaction, but may be counted for purposes of determining the existence of a quorum. If the Interested Person is counted for quorum purposes, the action must be approved by a sufficient number of votes based upon that quorum. For example, if a majority vote of the quorum is required to approve an action, and eight (8) directors constitute a quorum, the action must be approved by five (5) of the seven (7) disinterested directors voting on the transaction or arrangement.

(d) Violations of the Conflict of Interest Policy.

i. If the board or committee has reasonable cause to believe that an Interested Person has failed to disclose actual or possible conflicts of interest, it shall inform the Interested Person of the basis for such belief and afford the Interested Person an opportunity to explain the alleged failure to disclose.

ii. If, after hearing the response of the Interested Person and making such further investigation as may be warranted in the circumstances, the board or committee determines that the Interested Person has in fact failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

Section 4. Records of Proceedings. The minutes of the board and all committees with board delegated powers shall contain:

(a) the names of the persons who disclosed or otherwise were found to have a Financial Interest or conflict of loyalty in connection with an actual or possible conflict of interest, the nature of the Financial Interest or conflict of loyalty, any action taken to determine whether a conflict of interest was present, and the board's or committee's decision as to whether a conflict of interest in fact existed; and

(b) the names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection therewith.

Section 5. Annual Statements. Each director, principal officer and member of a committee with board delegated powers shall annually sign a statement similar to that attached as Exhibit A which affirms that such person:

(a) has received a copy of the conflict of interest policy;

(b) has read and understands the policy;

(c) has agreed to comply with the policy; and

(d) understands that the Corporation is a charitable organization and that in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

Section 6. Periodic Reviews. To ensure that the Corporation operates in a manner consistent with its charitable purposes and that it does not engage in activities that could jeopardize its status as an organization exempt from federal income tax, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, assess whether compensation arrangements and benefits are reasonable and are the result of arm's-length bargaining.

Section 7. Use of Outside Experts. In conducting the periodic reviews provided for in Section 7, the Corporation may, but need not, use outside advisors. If outside advisors are used, their use shall not relieve the Board of its responsibility for ensuring that periodic reviews are conducted.

NON-BINDING CONFIDENTIAL TERM SHEET

PROPOSED EDUCATIONAL PRODUCTS AND ADMINISTRATIVE AND TECHNOLOGY SERVICES AGREEMENT BETWEEN
K12 CLASSROOM L.L.C.
AND
INDIANA URBAN EDUCATION SOLUTIONS, INC.
April 5, 2012

* * *

THIS TERM SHEET SUMMARIZES THE PRINCIPAL TERMS OF THE AGREEMENT. THIS TERM SHEET IS FOR DISCUSSION PURPOSES ONLY; THERE IS NO OBLIGATION ON THE PART OF ANY NEGOTIATING PARTY UNTIL A DEFINITIVE AGREEMENT IS SIGNED BY ALL PARTIES. THIS TERM SHEET DOES NOT CONSTITUTE AN OFFER. THIS DOCUMENT IS INTENDED TO SET FORTH THE INTENT OF THE PARTIES AND IS NOT INTENDED TO BE BINDING UPON ANY PERSON.

This Term Sheet summarizes the principal terms and conditions of a proposed agreement between K12 Classroom L.L.C. and the Indiana Urban Education Solutions, Inc. Neither party may divulge the contents to third parties, except as required by law.

Parties	K12 CLASSROOM L.L.C. ("K12"); and Indiana Urban Education Solutions, Inc ("IUES").
Agreement	Educational Products and Administrative and Technology Services Agreement (the "Agreement") to be carried out in accordance with the federal, state and local laws and statutes of Indiana ("State") that are applicable to the Program ("Applicable Law") as defined below. The Agreement shall be subject to, and shall incorporate by reference, the terms and conditions of the Charter. No provision of the Agreement shall interfere with IUES' ability to perform its obligations under the Charter. IUES shall at all times remain legally responsible to the Indiana Charter School Board for the operations and management of its charter schools and for ensuring that the terms and conditions of the Charter are satisfied. The terms of the Agreement will be reached by IUES and K12 through arm's length negotiations in which IUES will be represented by independent legal counsel.
Term	The term of the Agreement will commence upon execution of the Agreement and run for a term that is consistent with applicable law and the Charter Agreement (the "Term").

Background

IUES is applying for multiple charters from the Indiana Charter School Board to operate several charter schools, referred to as a Passport Academy ("Academy" or "Academies") in multiple districts in Indiana. The Academies will focus upon the provision of drop-out recovery services at grades 9 through 12. IUES is governed by a Board of Directors ("Board").

K12

K12 was established, among other things, to promote and encourage new methods of effective education, implementing innovative and effective instructional, technology and administrative systems in elementary and secondary education.

Responsibilities

Once IUES receives proper authorization to operate its charter schools, the Board shall set and approve board school policies, such as the budget, curriculum, student conduct, school calendars and dispute resolution procedures. K12 will present policies, proposed budgets, forecasts, compliance reports and process recommendations for discussion, deliberations, and ultimate approval by the Sponsor. K12 will be responsible for implementing the Board's decisions in accordance with the Agreement and for providing the Products and Services described below.

Products and Services

K12 will license and deliver educational products, and administrative and technology services ("Products and Services") to IUES, according to the terms of the Agreement and as represented in the charter application document submitted to the Indiana Charter School Board. The Products and Services include:

- Educational products which generally include, but are not limited to, online courses, materials, books, career counseling and social networking, pupil recruitment and enrollment assistance, in addition to supplemental curriculum and tools ("Educational Products").

- Administrative services which generally include, but are not limited to, personnel services, teacher training, administration of specified school services, financial services and reporting, policy and procedure recommendations, development of operation manuals and other administrative functions, as necessary ("Administrative Services").

- Technology services which generally include, but are not limited to, ongoing monitoring of production services such as the student account management system and on-line school, website design, maintenance and hosting of the Program's website and providing customer support and technology support ("Technology Services").

Facilities	K12 will maintain an administrative office within the State of Indiana. K12 will assist the Board in locating and securing appropriate educational space for the operation of each Academy.
Employment	K12 will employ the Head of School and other administrative staff as necessary. IUES shall employ the teachers, special education teachers, and non-teaching academic support staff.
K12 Fees	As compensation for the Products and Services K12 delivers to the Program, IUES shall pay to K12 a mutually agreed upon fee (represented as a percentage of the applicable revenues received by the school) for: (i) the Educational Products and Services; (ii) Administrative Services; and (iii) Technology Services. All fees shall be determined by and paid in accordance with the Agreement, the Charter, and applicable law.
Oversight Fee	The Indiana Charter School Board shall retain an administrative oversight fee of 2% (hereinafter "Administrative Oversight Fee") of the total amount IUES receives during the calendar year for basic tuition support to be used by to cover administrative and oversight expenses associated with overseeing the charter agreements.
Balanced Budget Guarantee	K12 is willing to make a guarantee that the IUES maintains a balanced budget during the Term provided that, at a minimum, each of the following "Conditions" are met: (i) K12 is the exclusive provider of the Educational Products and Services unless otherwise expressly agreed to in writing by K12, (ii) the Board does not adopt a budget requiring K12 to issue financial credits above those proposed by K12, (iii) the Board does not adopt subsequent modifications to the approved budget that would require K12 to increase the level of services required, or to materially increase the financial risk to K12, and (iv) the Board does not cause the Program to run a deficit two percent (2%) above the then current mutually agreed upon budget.

Termination Events	The Agreement shall be terminable (i) at any time by the mutual written agreement of IUES and K12; (ii) by IUES upon any material breach of the Agreement by K12; (iii) by IUES if the Agreement or its implementation would serve as grounds for revocation under the Charter, would jeopardize the tax exempt or not-for-profit status of IUES, would create adverse tax consequences for IUES, or would cause IUES to be in violation of applicable law; or (iv) by failure of K12 to meet the performance criteria outlined in the Accountability Plan. K12 will have the right to terminate the Agreement: (i) in the event there is a material reduction in revenues or material increase in K12 costs or responsibilities; (ii) in the event that the Board adopts or amends a policy or fails to comply with the conditions related to the balanced budget guarantee (including the approval by the Board of a deficit school budget), without the prior written approval of K12, and the effect of such adoption, amendment, or non-compliance could reasonably be determined to require K12 to increase materially the level of services required under the Agreement or to increase materially the financial risk to K12 arising from its performance of its obligations under the Agreement.
Dispute Resolution	The Board and K12 agree to try to resolve any disputes between them in good faith through a process of escalation between the parties, and, if necessary, mediation. In the event that this does not resolve the differences, disputes will be resolved by arbitration, except for any injunctive relief that may be necessary to protect intellectual property or non-solicitation rights.
Other Schools	The Board understands that this arrangement is not exclusive for K12 and that K12 and its affiliates will have the right to render similar services to other persons or entities including other public or private schools, customers, districts or institutions within and outside of the State.
License	K12 and its affiliates shall provide a limited license to IUES to use the K12® curricula, materials, designs and other proprietary materials and marks solely for the Academies during the Term and in accordance with the terms and conditions of the Agreement, however, K12 and its affiliates (and its licensors as applicable) shall maintain sole ownership of all such intellectual property including any names, domain names, websites and marks, designs and logos and any and all derivatives.

Assignment	Unless otherwise prohibited by Applicable Law, K12 may assign all of its rights and obligations under the Agreement to any person or entity that controls K12, is controlled by K12, or is under common control with K12 or to any successor in interest that acquires all or substantially all of the assets of K12. With Board approval, K12 may delegate the performance of its duties hereunder to any person or entity but K12 shall be responsible for the performance, in accordance with the terms of this Agreement, of any services performed by its delegates.
Additional Provisions	The Agreement shall contain such other provisions, including agreement on budgets, deficits, teacher hires, payment provisions, effects of termination, representations and warranties, insurance, indemnities and limitations of liability which are customary for these types of agreements.

K12 VIRTUAL SCHOOLS L.L.C., a Delaware Limited Liability Company	INDIANA URBAN EDUCATION SOLUTIONS, INC.,
Date: ______________________________	Date: ______________________________
By: ________________________________	By: ________________________________
Its: ________________________________	Its: ________________________________

DRAFT

EDUCATIONAL PRODUCTS AND SERVICES AGREEMENT

Between

INDIANA URBAN EDUCATION SOLUTIONS, INC

And

K12 CLASSROOM LLC

TABLE OF CONTENTS – EDUCATIONAL PRODUCTS AND SERVICES AGREEMENT

EDUCATIONAL PRODUCTS AND SERVICES AGREEMENT

Between the
INDIANA URBAN EDUCATION SOLUTIONS, INC
And
K12 VIRTUAL SCHOOLS LLC

This EDUCATIONAL PRODUCTS AND SERVICES AGREEMENT ("**Agreement**") is made and entered into, by and between the INDIANA URBAN EDUCATION SOLUTIONS, INC an Indiana nonprofit public benefit company (hereinafter the "**School**") and K12 Virtual Schools LLC, a Delaware limited liability company (hereinafter "**K12**"), each a "**Party**" together the "**Parties**", as of the date signed by both Parties, and includes the following exhibits:

a. Exhibit A (Products and Services)
b. Exhibit B (K12 Proprietary Marks)

RECITALS

A. **WHEREAS,** the mission of the School is to utilize research-based learning and technology applications, combined with teacher/student/parent involvement, to provide a new, innovative model of public charter school education adapted to the needs of elementary, middle and high school students throughout the State of Indiana.

WHEREAS, INDIANA URBAN EDUCATION SOLUTIONS, INC was granted a charter from the Indiana Charter School Board , pursuant to Indiana's Charter School Laws on (, to operate multiple charter schools to be called that will utilize K12 products and services in accordance with this Agreement.

B. **WHEREAS,** K12 and its Affiliates were established, among other things, for the following purposes:

- promoting and encouraging new methods of effective education;
- implementing innovative and effective instructional systems in elementary and secondary education.

C. **WHEREAS,** K12 will provide the School with a variety of educational products and services in furtherance of the School's mission. These educational products and services include providing the highly regarded K12® Curriculum, online school and learning management systems; teacher training, recruitment and management; financial and school administration services; technology services for a student account management system and other administrative and technology support services specified in this Agreement and the Charter as applicable to the Program.

D. **WHEREAS,** it is the intention of both Parties to enter into a long-term relationship in which INDIANA URBAN EDUCATION SOLUTIONS, INC governs the Program while K12 provides comprehensive educational products and services, including turnkey management services, and in which K12 will assure the financial solvency of the Program in accordance with the terms of this Agreement.

NOW, THEREFORE, the Parties mutually agree as follows:

1. <u>DEFINITIONS</u>. For the purposes of this Agreement, capitalized terms used herein but not otherwise defined shall have the meaning ascribed to them in this Section 1 as follows:

1.1. <u>Affiliates</u>. An "Affiliate" of K12 is an entity that controls, is controlled by, or under common control with K12, where "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of an entity, whether through the ownership of securities, by contract or otherwise.

1.2. <u>Applicable Law</u>. Applicable Law is defined herein as the Constitution of the State, the State education laws and/or code, the federal Elementary and Secondary Education Act, the federal Individuals with Disabilities in Education Act, other applicable federal, state or local statutes, ordinances and regulations, any amendments to or recodification of the aforementioned laws, and other binding rulings applicable to public charter schools in the State.

1.3. <u>Board</u>. The Board is The Board of Trustees of INDIANA URBAN EDUCATION SOLUTIONS, INC that governs the School.

1.4. <u>Charter</u>. The Charter is defined as the authorization provided to the School by the Charter Authorizer pursuant to Applicable Law, permitting the School to operate as a public charter school and entitled to receive public funds, appropriations and other revenues.

1.5. <u>Charter Authorizer</u>. The Charter Authorizer is the entity which has been granted the authority by law to permit the School to operate in accordance with the Charter and Applicable Law. The Charter Authorizer is currently the Indiana Charter School Board.

1.6. <u>Change in Net Assets</u>. A Change in Net Assets is the difference in a given Fiscal Year between the Program Revenues and Program Expenses as certified by an independent audit in accordance with Generally Accepted Accounting Principles (GAAP).

1.6.1. A "Positive Change in Net Assets" means Program Revenues exceeded Program Expenses in a given Fiscal Year.

1.6.2. A "Negative Change in Net Assets" means Program Expenses exceeded Program Revenues in a given Fiscal Year.

1.7. <u>Facility</u>. Facility means the real property leased by INDIANA URBAN EDUCATION SOLUTIONS, INC for the School's administrative offices and educational facilities.

1.8. <u>Fiscal Year</u>. The Fiscal Year shall run July 1 through June 30.

1.9. <u>Net Asset Position</u>. Net Asset Position means the difference between total assets and liabilities of the Program at the end of a given Fiscal Year as certified by an independent audit in accordance with GAAP.

1.9.1. A "Positive Net Asset Position" means that total assets of the Program exceed total liabilities of the Program.

1.9.2. A "Negative Net Asset Position" means that total liabilities of the Program exceed total assets of the Program.

1.10. <u>Program</u>. The Program is Indiana Urban Education Solutions Inc.'s public educational offering pursuant the Charter.

1.11. Program Revenues. Program Revenues are all revenues and income generated or appropriated for and received by or on behalf of the School as attributed to any Student, the School or the Program which includes, but is not limited to, the following sources as applicable: state and local per-pupil basic education funds and other public school state and local funding; federal funds specific to the Program and/or its students; other funding including, but not limited to, Title I of the Elementary and Secondary Education Act of 1965, as amended (20 U.S.C. §6301 et seq., as amended); State provided facility funding and other income or revenue sources provided by law and obtained by the School and/or K12 which are not specifically excluded herein and all contributions and grants (including but not limited to Charter School Block Grants and other grants as applicable) received by or on behalf of the School and granted as a matter of right and/or practice or through competitive and non-competitive grant processes, which are to assist in the improvement of the Facility, the implementation or maintenance of the Program, and/or School operations. Program Revenues shall not include: (i) income generated by Students individually or collectively via student fundraisers (whether not such fund raiser is School-sponsored), and (ii) private charitable donations made to the School's general fund; all to the extent K12 is not required to manage, track, report on or otherwise assist with the generation, disbursement or collection of such income or donations.

1.12. Shareholder. A Shareholder is a holder of greater than one percent (1%) of K12's outstanding shares of common stock.

1.13. State. The State is Indiana.

1.14. Student. A Student is any student enrolled and/or otherwise taking course(s) in the Program or previously enrolled, including those pupils who have withdrawn.

2. K12 RESPONSIBILITIES, EDUCATIONAL PRODUCTS AND SERVICES.

2.1. Description of Educational Products. During the Term, K12 and Affiliates shall license to the School solely for use in the Program, on a non-exclusive, non-assignable, non-sublicensable basis the products and offerings, as described in Exhibit A, to include the K12® curriculum, access to its online school and designated learning management system(s) and/or available third party curriculum, instructional tools and other products and offerings (collectively the "**Educational Products**"). During the Term, the Parties may agree upon K12 and Affiliates licensing additional products (e.g., new curriculum, supplementary curriculum, and/or educational programs) beyond those listed in Exhibit A. Provision of additional products will be mutually agreed upon and shall be governed by the terms of this Agreement unless otherwise agreed in writing.

2.2. Description of Administrative and Technology Services. During the Term, K12 and Affiliates shall provide to the School solely for the Program "**Administrative Services**", including financial and school administration services, teacher recruiting, training and management, and "**Technology Services**" to include a student information system, hosting of an online platform, a student account management system and related technical support and other educational services as described in Exhibit A. The Administrative Services and Technology Services shall collectively be referred to as the "**Services**". During the Term, the Parties may agree upon K12 and Affiliates providing the School with additional services beyond those listed in Exhibit A. Provision of additional services shall be governed by the terms of this Agreement unless otherwise agreed in writing.

2.3. Special Education Services. K12 shall assist with the provision of special education and/or related special needs services including but not limited to recruiting teachers and procuring related service providers, to Students with special education needs or any Students who have, will have or require an Individualized Education Program ("**IEP**"). All special education-related funding from any source for the Special Education Students shall be included within Program Revenues.

2.4. Place of Performance. Performance of Services is not required to be rendered at the Facility, unless specifically stated in Exhibit A or for compliance with Applicable Law or the Charter.

2.5. Standards of K12 Performance.

2.5.1. K12 Compliance. K12 will provide the Educational Products and Services set forth in this Agreement and any amendments hereto in accordance with Applicable Law, the Charter, and Board policies made known to K12 in writing and relating to the Program. Subject to Section 11, K12 shall also comply with changes in Board policies within thirty (30) days of receipt of written notice and a copy thereof; however, Program Policies (as defined in section 3.2) shall be adopted in accordance with Section 3.2.

2.5.2. Confidentiality of Records. K12 will maintain the confidentiality of Program personnel, student and other records in accordance with the requirements of Applicable Law. The School recognizes and agrees that for purposes of the Family Educational Rights and Privacy Act of 1974, 20 U.S.C. § 1232g; 34 CFR Part 99 ("**FERPA**") and the State open records act, K12 has a legitimate educational interest for purposes of the School disclosing a student's educational records to K12. The School shall define "school officials" and "legitimate educational interest" as permitted by FERPA, broadly enough to permit the provision of the Educational Products and Services hereunder.

2.5.3. Licensure or Other State Requirements. Except as otherwise provided in this Agreement, K12 will comply with all applicable licensure or other requirements of the State and any regulations promulgated thereunder.

2.5.4. Non-Discrimination. K12 prohibits discrimination in all its programs and activities on the basis of race, color, religion, sex, national origin, age, disability, and where applicable, marital status, familial status, and sexual orientation.

3. SCHOOL RESPONSIBILITIES.

3.1. Oversight of K12. The School shall be responsible for monitoring K12's performance under, and compliance with, the terms of this Agreement in accordance with Applicable Law. The School shall also be responsible for overseeing the Program's quality, operational and financial performance. K12 shall reasonably cooperate with such monitoring and oversight.

3.2. Adoption of Policies. The Parties acknowledge and agree that in providing the Services, it shall be the responsibility of K12 to recommend various policies for the operation of the Program ("Program Policies"). K12 will implement procedures consistent with such policies, but the School retains ultimate responsibility for adopting policies and for overseeing K12's implementation. K12 will cooperate with such oversight and policy implementation subject to Section 11. K12 and the School will work collaboratively and in a timely manner on the creation of Program policies that may include, but are not limited to, policies relating to the budget, authorization of expenditures, curriculum, admissions procedures, student conduct at the Facility and online, Facility regulations, school calendars, procedures for resolution of parent or student complaints and disputes between School employees, and the responsible use of computer equipment and other instructional property. Until the foregoing collaborative policies are in effect, the Parties agree that K12's standard policies and best practices applicable to the Program shall be used to avoid a lack of any policy. The School shall promptly provide K12 written copies of all policies adopted and must promptly notify K12 in writing of any changes to such policies.

3.3. School Compliance. The School will perform its obligations under this Agreement and shall comply with, and govern itself in a manner consistent with, the requirements of Applicable Law, the Charter and the Charter Authorizer's policies.

3.4. Lease Compliance. The School agrees to comply fully and completely with the terms and conditions of the Lease (defined in Section 4.3.5 below) and shall be responsible for any monetary obligations incurred thereunder in accordance with this Agreement.

4. FINANCIAL MATTERS.

4.1. Financial Risks Assumed by K12. K12 assumes the risks, except as otherwise set forth in this Agreement that its fees may not allow it: i) to operate profitably, and/or ii) to fully recover the amounts invoiced by K12 to the School in accordance with this Agreement. In addition, the Parties agree that the Program will not conclude a Fiscal Year during the Term in a Negative Net Asset Position. Accordingly, the Parties further agree that each of them shall take all reasonable steps and approaches necessary to avoid a negative change in Net Assets or conclude a Fiscal Year in a Negative Net Asset Position during the Term. For each year of the Agreement, provided that there has been no material breach of the Agreement by the School, if the School ends a fiscal year in a Negative Net Asset Position, the Parties agree that K12 will provide sufficient credits ("**Balanced Budget Credits**") to be applied to K12 invoices to ensure that the Program does not experience a Negative Net Asset Position at the end of said Fiscal Year.

4.2. Balanced Budget Credit Remittances. Should the Program end a Fiscal Year in a Positive Net Asset Position, as evidenced by its audited financial statements conducted in accordance with GAAP for such Fiscal Year, and K12 has issued Balanced Budget Credits in prior years for which a balance remains, the School will reimburse K12 up to the cumulative amount of previously issued Balanced Budget Credits, as detailed below:

a. The total amount of Balance Budgets Credits remitted over the Term will not exceed the amount of Balance Budgets Credits issued during the Term.
b. Balanced Budget Credits will not be due until the School is in a Positive Net Asset Position, if ever.
c. In no single Fiscal Year will the amount of any remittance exceed 50% of the then current Fiscal Year Positive Net Asset Position, as determined by an independent audit before the payment of Balanced Budget Credits.
d. If the Program ends the year in a Positive Net Asset Position the amount due K12 will be determined as follows:
    i. Of the first $100,000 or less of the Positive Net Asset Position, the amount due K12 will be 25% of such amount, not to exceed $25,000.
    ii. Of the second $100,000 or less of the Positive Net Asset Position, if any, the amount due K12 will be 50% of such $100,000 or $50,000. The amount due K12 will not exceed $75,000, for the first $200,000 of Positive Net Assets.
    iii. If the Positive Net Asset Position exceeds $200,000 the amount due K12 will be 75% of the amount over $200,000 plus the $75,000 noted in the point immediately above.
e. The payments described above and the 50% limit on the Positive Net Asset Position of the School, is to ensure that the school is will not be put into a Negative Net Asset Position.
f. Finally, at the end of the Term if there is a balance of Balance Budgets Credits which have not been remitted such credits will be forgiven by K12, subject to the termination provisions of this Agreement.

4.3. Financial Risk Mitigation. As an inducement for entering into this Agreement and issuing Balanced Budget Credits, the School and K12 agree that K12 is willing to assume the financial risks set forth herein, subject to both the Balanced Budget Credit remittance (Section 4.2) above and all of the risk mitigation efforts set forth below, each of which are material terms of this Agreement:

4.3.1. Exclusivity. K12 shall be the sole provider of the Educational Products and Services for the Program unless otherwise waived in writing by an authorized officer of K12. Nothing within this provision, however, shall be construed to preclude the Board in the exercise of its fiduciary obligations to the School. Moreover, the School shall be permitted to procure goods and services from a third party to the extent required by law, solely provided such goods and services are not otherwise included in the Educational Products and Services. Prior to any third party procurements, the Board shall give K12 a thirty (30) day right of first refusal to provide such services or goods not enumerated herein or in the future, and if K12 is able and willing to provide such services or goods the School shall procure them from K12.

4.3.2. Final Program Budgets. The School will adopt an annual Program budget for each Fiscal Year during the Term and the Parties agree that K12 will present to the Board (or its authorized delegees or subcommittee) a proposed Program budget for each such Fiscal Year. The proposed Program budget will include assumptions provided by K12. The Parties will work in good faith to agree in writing on a final Program budget for the initial year of the Agreement on or before September 1, provided that the Board shall consider the budget proposed by K12 and will act to approve a final Program budget not later than September 30 of the initial school year. In subsequent years, K12 will present a proposed budget for the succeeding Fiscal Year by May 1 and the Board shall consider the budget proposed by K12 and will act to approve a final Program budget not later than thirty (30) days prior to the start of the Fiscal Year. In the event the Parties cannot agree in writing upon a final budget (or any budget modification), K12 shall only be obligated to issue Balanced Budget Credits, if any, up to the amount proposed and reflected in the original budget submission or any proposed modifications to such budget by K12.

4.3.3. Budget Modifications. K12 may submit to the Board proposed modifications to the Program budget to take into account the actual Program student enrollment for such school year, other changes in key assumptions or other changes deemed necessary or appropriate. The Parties will work in good faith to agree in writing on modifications to the final Program budget but, in any event, the Board shall act on any modifications proposed by K12 within thirty (30) days of the proposal thereof.

4.3.4. Variances from Budgets. In the event that the School causes (or its employees or designees cause) the Program to experience a Negative Net Asset Position within the Fiscal Year of more than two percent (2%) above the agreed to amount in writing by K12, if any, then K12 reserves the right to limit the Balanced Budget Credits up to such 2% variance.

4.3.5. Lease Terms and Compliance. Within ____(To be Determined) months of the Effective Date, the School shall enter into a mutually agreed upon lease agreement or other arrangement ("**Lease**") for the Facility, which shall be located within the geographic boundaries specified in the Charter. All Facility costs shall be a Program Expense. The School agrees that it will not amend, modify, terminate or extend the Lease or enter into a new lease for any facility or location other than the Facility without the prior written consent of K12. Additionally, the School agrees that it will not exercise any rights under the Lease which will have the effect of increasing its obligations, including payment obligations, or decreasing its rights under the Lease. For the avoidance of doubt, in the event the School violates this Section or otherwise breaches the Lease, K12 reserves the right to suspend the issuance of Balanced Budget Credits effective immediately beginning with the Fiscal Year that such breach occurred.

4.4. Advances Made by K12 on Behalf of the School. If the available cash receipts of the Program are, from time to time, insufficient to cover payment of Program Expenses on a timely basis, and the School is unable to seek funding from other sources to cover such deficiency, K12 may advance the School such amounts to allow payment of such Program Expenses on a timely basis (collectively hereinafter referred to as "**Advances**") provided that, K12 will have no obligation to make any Advances in any Fiscal Year for expenditures: (i) for any items that are in excess of the lesser of the amount proposed by K12 for the budget or the approved budgeted amount except to the extent that such excess amounts are beyond the Board's control and due to events beyond the Board's control; (ii) for amounts payable to K12 pursuant to this Agreement or any other agreement between K12 or its Affiliates and the School; or (iii) for any matters as to which K12 or any other person or entity is entitled to indemnification under this Agreement. The Advances will be due and owing to K12 by the School thirty (30) days after K12 invoices the School for such funds.

4.5. Start Up Costs. "**Start Up Costs**" are those project management, insurance, legal, recruiting and hiring fees, computers, phones and other administrative costs that have been incurred on behalf of the Program, together with advances made to the School by K12, prior to and subsequent to the execution of this Agreement in order to obtain Program approval by the applicable Charter Authorizer(s) or to open the School. In order to sufficiently verify the Start Up Costs are valid and applicable to the Program, the School agrees to provide a detailed breakdown with the appropriate receipts for all such costs which will be subject to audit by K12. To the extent the Start Up Costs were paid to or on behalf of the School by K12 and/or Advances were made to the School for Start Up Costs, K12 shall invoice the Program for reimbursement of such Start Up Costs and Advances in accordance with Sections 4.4 and 8.3 herein. Payment will be due within thirty (30) days of receipt of such invoice unless sufficient cash is not on hand to do so at which time such invoices will accrue interest per the Agreement.

4.6. Financial Reports. The Board may request that K12: (i) prepare and submit reports on the Program's finances as often as on a monthly basis in addition to those financial reports required by Applicable Law or the Charter; or (ii) provide the Board with such other information as reasonably necessary and appropriate to enable the Board to monitor performance under the Charter and related agreements, including the effectiveness and efficiency of the Program's operations. All such requests shall be made in writing.

4.7. Program Audit. K12, in collaboration with the School, will arrange for an independent audit of the Program's financial statements. The cost of such audit shall be a Program Expense.

4.8. Program Expenses. The School will be responsible for all debts, liabilities, and obligations incurred on behalf of the Program by or on behalf of the Parties (collectively, "**Program Expenses**") during the Term of the Agreement. Program Expenses shall be determined in accordance with the budget process set forth herein, will be paid out of the Program Revenues and shall include, but are not limited to, the following Program-related costs:

4.8.1. teacher related expenses;
4.8.2. teacher training related expenses;
4.8.3. offices for administrative staff and related expenses;
4.8.4. Student Support Staff (defined in Section 7.4 below) related expenses;
4.8.5. related services expense for Students with special education needs (as applicable);
4.8.6. state test related expenses;
4.8.7. school community building;
4.8.8. direct mail, printing and related expenses for enrolled Students;
4.8.9. amounts due to K12 and its Affiliates, including interest on Advances and past due amounts;
4.8.10. supplemental curriculum and other academic services as agreed to by K12 in writing;
4.8.11. reasonable legal fees for representation of the Board as it pertains directly to the Program and not for legal representation or related expenses adverse to K12;
4.8.12. insurance including directors' and officers' liability insurance, general liability insurance and other Program insurance coverage, as appropriate;
4.8.13. accounting and reporting not comprehended in K12's Services to be provided, payroll processing, audit, and/or tax preparation fees directly associated with the Program;

4.8.14. use, sales, income, property or other taxes, if any;
4.8.15. fees for required background investigations of School employees;
4.8.16. Office Facility and infrastructure related expenses; and

all other Program related expenses approved in the budget, however, if any total Program Expenses are, as reasonably known, going to be incurred at a variance of two percent (2%) or more above the budgeted amount, they must be pre-approved in writing by K12.

5. TERM OF AGREEMENT.

5.1. Term. This Agreement will become effective upon the date of full execution by the Parties, for commencement on July 1, 2012 ("**Effective Date**") and will terminate on June 30, 2022 ("**Initial Term**") unless sooner terminated under the Section 11 of this Agreement. In the event the Charter Authorizer and/or the Charter changes, this Agreement shall automatically survive and be performed in accordance with the new Charter, these terms and conditions and Applicable Law, unless this Agreement is otherwise terminated in accordance with Section 11 herein.

5.2. Renewal. Following the Initial Term, this Agreement will automatically extend for successive additional periods of seven (7) year(s) (each such period a "**Renewal Term**"), unless (a) either Party provides the other with written notice of non-renewal at least two (2) years before the expiration of the then-current Initial Term or Renewal Term (as applicable); or (b) the Agreement is sooner terminated under Section 11. The Initial Term and any Renewal Terms will be referred to collectively as the "**Term**". Except and unless the Agreement is terminated by the School pursuant to Section 12.1 of this Agreement, in the event that the Term does not equal at least ten (10) years, the Board shall not enter into any agreement or arrangement with any other entity, or offer any similar services or products to students for a period of eighteen (18) months from the last date on which this Agreement was in full force and effect.

6. PRICING, FEES AND PAYMENT.

6.1. Administrative Oversight Compensation. From the Program Revenues from State revenues, the School shall pay up to three percent (3%) of such revenues to the Indiana Charter School Board (hereinafter "**Administrative Oversight Fee**") to cover all administrative expenses, and other costs incurred that are associated with the Charter Authorizer's responsibility of supervising, reporting and overseeing the Program's quality, compliance, operational and financial performance in accordance with Applicable Law and the Charter.

6.2. Educational Product Prices. In consideration of the value of the Educational Products provided by K12 (including teaching support) as specified in detail in Exhibit A, the School will pay K12 and its Affiliates for the Educational Products based on the then current national K12 Managed Virtual School Pricing for similarly situated schools ("**Product Price List**"). Notwithstanding anything in this Agreement to the contrary, for each Educational Product set forth in the Product Price List, the School agrees that the fees for such Educational Products will be subject to change, no more than once per calendar year, at K12's reasonable discretion and communicated to the School during the annual budget process. Payment for the Educational Products shall be made in accordance with Section 8 below.

6.3. Administrative Services Fee. In consideration of the value of the Administrative Services provided by K12, as specified in detail in Exhibit A, the School agrees to pay K12 and its Affiliates fifteen percent (15%) of the Program Revenues (the "**Administrative Services Fee**") for each Fiscal Year of the Agreement. Payment for the Administrative Services Fee shall be made in accordance with Section 8 below.

6.4. Technology Services Fee. In consideration of the value of the Technology Services provided by K12 as specified in detail in Exhibit A, the School agrees to pay K12 and its Affiliates seven percent (7%) of the Program Revenues for the Technology Services (the "**Technology Services Fee**") for the each Fiscal Year of the Agreement. Payment for the Technology Service Fee shall be made in accordance with Section 8 below.

6.5. Priority of Payments. Payments from the Program Revenues shall be paid in the following order of priority: (1) Administrative Oversight Fee, (2) Teacher salaries, including applicable payroll taxes, (3) Program Expenses identified in Section 4.8 above to include Advances and fees for Educational Products; (4) Administrative and Technology Service Fees payable to K12 and its Affiliates, including any fees for administrative or technology products and services purchased by the School in addition to those enumerated in Exhibit A; and (5) Balanced Budget Credits, if any.

6.6. Business Judgment. The School hereby agrees, in the exercise of its business judgment, that the economic arrangement included herein, including the Balanced Budget Credits and fees payable to K12 hereunder are reasonable, necessary, and fair compensation for the Educational Products and Services provided for the Term, particularly in light of the Agreement's provision requiring K12 to provide assurance of the School's financial solvency to the extent set forth in Section 4 of this Agreement.

7. PERSONNEL SUPPORTING THE PROGRAM.

7.1. K12 Staff Assigned to the Program. K12 will employ and determine the employment terms for administrative personnel who may include a Head of School ("**HOS**") or equivalent administrative staff position, and such other staff, including teaching staff, as K12 deems necessary to deliver the Educational Products and Services described in this Agreement. The responsibilities and performance of K12's staff will be consistent with Applicable Law. Such administrative personnel may be assigned to the Program on a full- or part-time basis. K12 will have the sole authority to select, supervise, compensate and determine compensation, evaluate, transfer, promote, discipline and dismiss its staff members.

7.2. Complaints About K12 Staff. If the Board is dissatisfied or concerned about the job performance of a K12 staff member assigned to the Program, the Board shall discuss the matter first with the HOS or its equivalent. In the event the Board has a concern or is not satisfied with the HOS' job performance, the Board will provide K12 official written notice pursuant to this Agreement and set forth the specific issues and requested action with supporting documentation and K12 shall review such request and respond in a timely manner.

7.3. School-Student Support Staff. The School shall employ and be ultimately responsible for "**Student Support Staff**" (defined below) for the Program, except in limited circumstances where K12 deems it reasonably necessary to employ such staff to deliver the Educational Products and Services hereunder. K12, however, will take the lead to help recruit, set the terms of employment, hire, supervise, discipline and terminate Student Support Staff and such activities will be performed in consultation with the Board (or its designees). In accordance with Section 4.8, the School will be responsible for all costs associated with the employment of such staff (including, without limitation, salaries, benefits, travel and other Program related expenses). "**Student Support Staff**" is defined as any position that provides direct services to the Program and its Students which may include Teachers (master and lead), Special Education Coordinators, Registrar, Guidance Counselor, Nurse, Community Relations Coordinator, Truancy Officer, Related Services Coordinator, or similar positions. For the avoidance of Doubt, any Head of School (Principal) for the Program shall be an employee of K12 or its Affiliates. To the extent required by law, all Student Support Staff personnel shall be State certified or possess the necessary credentials, qualifications, background and conduct checks as required by Applicable Law and/or the Charter.

7.4. Complaints About School-Student Support Staff. If K12 is dissatisfied or concerned about the job performance of a Student Support Staff member assigned to the Program, K12 will recommend the addition or elimination of specific Student Support Staff positions for prompt action by the Board, approval of which will not be unreasonably withheld.

7.5. Determination of Employer Entity. The Parties anticipate that, except as otherwise required by Applicable Law or to the extent necessary for the School to maintain its status as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986 as amended ("**IRC**"), the HOS, Student Support Staff (including teachers) and other administrative personnel will be provided by K12. In the event that K12 determines that it is necessary or desirable that any of the K12 staff members providing services under this Agreement become an employee of the School, K12 shall notify the Board of such determination in writing and upon the written agreement of the Board, such K12 staff member shall become an employee of the School; such change shall become effective on the date specified by K12 in such notice. In the event that at any time or from time to time K12 determines that it is necessary or desirable that any of the School's staff members to become an employee of K12, K12 shall notify the Board of such determination in writing and upon the written agreement of the Board such School employee shall become an employee of K12; such change shall become effective on the date specified by K12 in such notice.

7.6. Background Investigations on K12 Employees. As part of its Administrative Services, K12 will be responsible for arranging for criminal background checks to be conducted on its employees assigned to the Program and to the School's employees to the extent required under Applicable Law and will maintain documentary evidence that it has done so. Upon the School's request, K12 will provide the School with documentary evidence of its compliance, subject to any confidentiality requirements imposed by Applicable Law.

7.7. Background Investigations on School Employees. As part of its Administrative Services, K12 will help ensure that the School fulfills its responsibilities to: a) conduct criminal background checks required by Applicable Law; and b) maintain evidence that it has performed such actions.

8. PAYMENT OF PRODUCT AND SERVICE FEES.

8.1. Invoicing and Payment of Fees. K12 will submit to the School, a detailed invoice for the Educational Products and Services delivered for the prior calendar month. For any fees calculated as a percentage of Program Revenue, such fees will be calculated based upon the approved budget or subsequent updates in effect for the applicable calendar month and will be billed for services rendered on a monthly basis during the Term, even though Program Revenue may be received by the School beyond the expiration of the Term.

8.2. Location of Payment. All payments made hereunder will be made to K12 (or its designated Affiliate) and at the address set forth above, or such other address provided by K12 in writing.

8.3. Payment Date and Interest. All invoices payable to K12 and its Affiliates are due within thirty (30) days from the invoice date. Advances will be due thirty (30) days from the date the advance is made by K12. School agrees to pay interest on overdue Advances at a rate of prime plus two percent (2%), not to exceed fifteen percent (15%) per annum. All other amounts past due and owing by the School to K12 will accrue interest at one and one-quarter percent (1¼ %) per month but not to exceed fifteen percent (15%) per annum on each overdue amount. The School shall not intentionally withhold payments due to K12. In the event the School intentionally withholds payments due hereunder, no Balanced Budget Credits shall be issued by K12 to cover any late fees due hereunder.

8.4. Taxes. Except as otherwise stated herein, K12 is not responsible for any taxes or third-party charges related to the activities, or the ownership or operation of the Program. Without limiting the foregoing, the

School agrees to pay any sales, use, property, excise, value-added, or other similar taxes, if any, imposed by Applicable Law, except for taxes based on K12's income. For the avoidance of doubt, all fees for the Educational Products and Services set forth herein are exclusive of such taxes.

8.5. Year-End Adjustments. Within thirty (30) days after completion of the School's audited financial statements for each Fiscal Year, K12 will prepare and submit to the Board a statement of the total amounts of the Administrative Services and Technology Services Fees or other Service fees set forth in this Agreement (collectively "**Service Fees**") payable with respect to such Fiscal Year, including the calculation of such amounts (which calculations will be based upon the School's audited financial statements for such Fiscal Year). If the total amount of the Service Fees calculated in accordance with the foregoing sentence exceeds the total amount invoiced by K12 pursuant to Section 8.1, then the excess amount will be payable to K12; if such total amount is less than the total amount invoiced by K12 pursuant to Section 8.1, then the shortfall amount will be payable to the School. Payment of any excess Service Fees payable to K12 will be due thirty (30) days after the submission of the statement thereof. Reimbursement to the Board of any overpayment of Service Fees will be due thirty (30) days after the submission of the statement thereof, provided, that K12 may elect in its discretion to set-off the amount any such overpayment against any outstanding obligations of the School to K12 or any Affiliate of K12.

8.6. Payment Out of School Funds Managed by K12 Only. K12 is authorized by the Board to pay itself, subject to School's expenditure authorization policy (as approved by the Board), out of the School's funds managed by K12, the fees set forth in this Agreement.

8.7. Disputed Amounts. If the School disputes any charge invoiced by K12 ("**Disputed Amounts**"), the Board (or its authorized designee) must submit a good faith claim in writing regarding the Disputed Amount with documentation reasonably necessary to support the claim no later than ninety (90) days beyond the then-current Fiscal Year audit regarding the Disputed Amount. If the Board (or its authorized designee) does not submit a documented claim to K12 within such time frame regarding such Disputed Amount, then notwithstanding anything in this Agreement to the contrary, the Board waives all rights to dispute and file any claim thereafter regarding such Disputed Amount (and the School also waives all rights to otherwise claim that it does not owe such Disputed Amount or to seek any credits or reimbursements or other amounts of any kind based upon or relating to such Disputed Amount).

9. RELATIONSHIP OF THE PARTIES.

9.1. Status of the Parties. K12 is not a division or any part of the School. The School is a body corporate authorized under State law, governed independently by its Board and is not a division or a part of K12. The relationship between the Parties was developed and entered into through arms-length negotiations and is based solely on the terms of this Agreement. The Parties are independent contractors. Nothing herein will be construed to create a partnership or joint venture by or between the School and K12. Neither Party will be the agent of another except to the extent otherwise specifically provided by this Agreement where K12 is authorized to take action on behalf of the School. The School, the Board and their employees will in no case represent to third parties, and will whenever needed disclaim to such parties, any ability to bind K12 to any duty imposed by contract, other than this Agreement or as otherwise agreed in writing by K12.

9.2. Relationship Between the Board and the School. The School is a non-profit corporation organized under the laws of the State and governed by its Board. Although many provisions in this Agreement refer to the Program and grant rights or impose obligations on the School, it is the Board that has the final legal responsibility under this Agreement to K12 and the Charter Authorizer.

9.3. No Related Parties or Common Control; Certain Permitted Participations. Except as contemplated by this Agreement or any agreement between the Board and any Affiliate with respect to the provision of services described hereunder, K12 will not have any role or relationship with the Board that, in effect, substantially limits the Board's ability to exercise its rights, including termination rights, under this Agreement. None of the Board's voting power shall be vested in K12 or its directors, trustees, members, managers, officers, Shareholders, or employees, and none of the voting power of K12's board of directors or Shareholders of K12 shall be vested in the Board's or its Charter Authorizer's directors, trustees, members, managers, officers, shareholders, or employees. Each Party agrees that it will not take any action that would cause the Board and K12 to be members of the same control group, as defined in Section 1.150 et seq. of the regulations under the IRC, or related persons, as defined in Section 144(a)(3) of the IRC. The Board agrees to take such action as is necessary to permit employees or agents of K12 to have a nonvoting presence at the Board meetings, including executive sessions, during the Term of this Agreement, provided that, the inclusion of employees or agents of K12 in executive sessions will be at Board's discretion and is not inconsistent with Applicable Law.

10. OTHER SCHOOLS. The Parties acknowledge that K12 and its Affiliates will have the right to render similar services to other persons or entities including other public or private schools or institutions within and outside of the State ("**Other Schools**").

11. TERMINATION. Events of termination are as follows:

11.1. Termination for Cause. The Parties shall use good faith efforts to resolve all disputes relating to this Agreement as set forth in Section 21; however, either Party may terminate this Agreement at any time with ninety (90) days' prior written notice to the other Party for cause. Termination for cause shall mean the breach of any material term or failure to fulfill any material condition, term, provision, representation, warranty, covenant or obligation contained in this Agreement, and a failure to cure such a breach within forty-five (45) days after receiving written notification from the terminating Party. Upon termination of this Agreement, the non-breaching Party shall be entitled to seek any remedies for which it would be entitled at law or in equity. Additionally, in the event Customer does not cure the material breach of this Agreement as set forth in this provision K12's, in its sole discretion, may suspend the issuance of Balanced Budget Credits detailed in Section 4 in lieu of terminating this Agreement.

11.2. Termination for Material Reduction in Program Revenue. K12 may terminate this Agreement in the event there is a material reduction in Program Revenue below the amount for the prior Fiscal Year or such reduction will materially increase the financial risk to K12 in providing the Educational Products and Services. K12 shall notify the Board of its intent to terminate under this provision and provide the Board thirty (30) days notice so that the Parties may work together to find alternative funding or other means to offset the reduction in Program Revenue. If the Parties are unable to find additional revenue or other means in the thirty (30) day time-frame, K12 may terminate this Agreement and such termination shall be effective: (i) immediately upon written notice by K12 to the Board, if notice or publication of such reduction is given at least ninety days (90) prior to the commencement of the school year to which such reduction is applicable; or (ii) at the end of the school year upon written notice to the Board if notice or publication of such reduction is given during the school year to which such reduction is applicable. In the event K12 elects not to terminate this Agreement in accordance with this provision, K12 may reasonably revise and determine the level of products and services to be provided in accordance with Applicable Law, considering any such funding reduction.

11.3. Termination Upon Loss of Program Approval, Charter or Non-Profit Status. This Agreement may be terminated immediately by either Party upon written notice to the other Party: (i) if the Charter Authorizer provides written notice that it has terminated, revoked, or non-renewed the Charter, or (ii) upon a final determination by the Internal Revenue Service that the Program is not eligible for 501(c)(3) status, or (iii) upon a final adverse determination by the highest court in the State that the Program is no longer valid under law or its ruling has the effect of terminating the Program.

11.4. Termination for Failure to Approve Budget. In the event that the Board does not approve a budget or reasonable modifications to a budget within thirty (30) days following the submission of a proposal therefore by K12, K12 may terminate this Agreement effective at the end of the then-current school year in which the budget or reasonable modification is not approved, or if the lack of approval is for an upcoming school year that has not commenced, K12 may terminate this Agreement upon written notice prior to the commencement of the upcoming school year.

11.5. Termination in the Event of Certain Changes in the Charter or School Policies. K12 may terminate this Agreement effective immediately upon written notice to the School in the event that the Charter is amended or the Board or the Charter Authorizer adopts or amends a policy, in each case without the prior written approval of K12, and the effect of such amendment or policy could reasonably be determined to require K12 to increase materially the level of services required to be provided hereunder or to increase materially the financial risk to K12 arising from its performance of its obligations hereunder, thus rendering K12's performance economically unviable as determined by K12. In the event the Board or Charter Authorizer adopts such an adverse policy in the middle of a school year, K12 agrees to use its best efforts to complete the then current school year without waiving any rights and remedies hereunder**.**

11.6. Change in Applicable Law. If any change in Applicable Law enacted after the date hereof could reasonably be expected to have a material adverse effect on the ability of any Party to carry out its obligations under this Agreement, such Party, upon written notice to the other Party (which notice may be given at any time following enactment of such change in Applicable Law, whether or not such change is effective on the date of such enactment or is effective at a later date), may request renegotiation of this Agreement. Such renegotiation will be undertaken in good faith. If the Parties are unable to renegotiate and agree upon revised terms within one hundred twenty (120) days after such notice of renegotiation, then this Agreement will be terminated effective at the end of the school year in which such notice was given, unless earlier termination is necessary to protect the health, welfare, or safety of students.

12. TERMINATION EFECTS. Effects of termination are as follows:

12.1. Outstanding Payments Due. Except as otherwise agreed by the Parties in writing, termination does not relieve the School of any obligations for payments outstanding to K12 as of the date of termination or other obligations that continue upon termination as provided in this Agreement.

12.2. Return of Equipment. Return of K12-provided equipment is mandatory. As such, all K12 assets including, but not limited to, computers, printers, related equipment and non-consumable materials that may be provided by or on behalf of K12 are to be returned upon the expiration or termination of this Agreement, in accordance with the policies governing the use and reclamation of such materials. Nonetheless, any damages to such equipment and materials or unreturned equipment and materials will be invoiced to the School at the Replacement Value. The Replacement Value is the cost to replace the equipment anew, without regard to depreciation.

12.3. Balanced Budget Credits Outstanding. In the event this Agreement expires or is terminated pursuant to Section 11, to the extent there are outstanding Balanced Budget Credits remaining, the School shall fully exhaust its Net Assets to pay off the outstanding balance of Balanced Budget Credits, provided however, if any Balanced Budget Credits remain after the Net Assets are fully exhausted, the remaining Balanced Budget Credits shall be fully forgiven.

12.4. Fees Owed. In the event this Agreement terminates as provided for herein, or it expires pursuant to its terms, and unless otherwise agreed by the Parties in writing, the School shall owe for all products and services rendered to include the Administrative and Technology Services Fees, Educational Products and Services in accordance with this Agreement for the period up to and including then current Fiscal Year of the termination or expiration. All such fees will be determined on an accrual basis per the School's audited financial statement up to and including the year in which this Agreement terminates or expires.

12.5. Loss of Value. The Board acknowledges and agrees that the subject matter of this Agreement is unique and that it would not be possible for K12 to resell the Educational Products or the Services that are the subject of this Agreement. In view of the difficulty in estimating K12's damages incurred, the Parties agree to the extent not precluded by Applicable Law, for the purposes hereof that K12's damages (in addition to those entitled under law or equity) shall be fifteen percent (15%) of the Program Revenues in the Fiscal Year in which the Agreement is being terminated, due within thirty (30) days following date of such termination, if the Agreement is terminated as set forth in Section 11 because of the Board's actions or omissions unless said action or omission is in response to state or federal law or direction which is not caused by the negligent action or omission or the willful misconduct of the Board, and except as action is taken by the School to terminate this Agreement in accordance with Section 11.1.

13. INTELLECTUAL PROPERTY RIGHTS.

13.1. Proprietary Materials. The School acknowledges and agrees that K12 has the right to license (or sublicense as the case may be) certain intellectual property rights and interests in and to K12 and its Affiliate's (and respective licensor's) intellectual property, including but not limited to curriculum, trade secrets, know-how, proprietary data, documents and written materials in any format, artwork, graphics, charts, software, licenses, marketing materials, Program name, website design and domain numbers and names including those registered by K12 and/or for K12, its Affiliates and the Program and other materials created for the Program, and curricular materials and any and all customizations and derivative works thereof (collectively, "**K12 Proprietary Materials**"). The School further acknowledges and agrees that: (i) it has no intellectual property interest or claims in the K12 Proprietary Materials or any customizations and derivative works thereof or any other materials created for use in connection with the K12 Proprietary Materials, (ii) it has no right to use the K12 Proprietary Materials unless expressly agreed to herein by K12, and (iii) K12 and its Affiliates (and respective licensors as the case may be) own all intellectual property rights in and to the K12 Proprietary Materials.

13.2. Sub-License of K12 Proprietary Materials. K12 hereby grants the School a royalty-free, non-exclusive, non-transferable sub-license, during the Term and for a period of thirty (30) days following the expiration or earlier termination of this Agreement, to use and distribute the K12 Proprietary Materials solely in connection with the Program operations as contemplated in this Agreement. Notwithstanding the foregoing, the School shall not: (i) modify or otherwise create, or permit third parties to modify or otherwise create, derivative works from or using the K12 Proprietary Materials, (ii) sublicense any rights under this Agreement without the advance written approval of K12, which approval may be withheld by K12 in its sole discretion, or (iii) frame any website owned by K12. Upon the termination of such license, the School will cease use of the K12 Proprietary Materials, and will return all K12 Proprietary Materials to K12 promptly, including those in the possession of the Board, any teachers and School employees participating in the Program, and students participating in the Program.

13.3. Rights of K12 in K12 Proprietary Marks. The School acknowledges and agrees that, as between the School and K12, K12 (and its applicable Affiliates) owns and shall maintain all intellectual property rights, title and interest, including any goodwill, in and to K12 and its Affiliate's trademarks, service marks, trade dress and trade names including the Program name(s), Program logo(s) and related marks and trade dress and the K12 mark, K12 (& Design) and as may be featured in Exhibit B (collectively, "**K12 Proprietary Marks**"). The School further acknowledges and agrees that it has no intellectual property interest or claims in the K12 Proprietary Marks any customizations and derivative works thereof or any other materials created for use in connection with the K12 Proprietary Marks and has no right to use the K12 Proprietary Marks except in the limited capacity as set forth in Section 13.4 or unless expressly agreed to in writing in advance by K12, which agreement K12 may withhold in its sole discretion.

13.4. Sub-License of K12 Proprietary Marks. K12 hereby grants the School a royalty-free, non-exclusive, non-transferable sublicense, during the Term and for a period of thirty (30) days following the expiration or earlier termination of this Agreement, to use the K12 Proprietary Marks relating to the Program solely in connection with the operations of Program as contemplated in this Agreement. Notwithstanding the foregoing, the School will not be permitted to sublicense any rights under this Agreement without the advance written approval of K12, which approval may be withheld by K12 in its sole discretion. Upon the termination of such license, the School will cease use of the K12 Proprietary Marks.

13.5. Limitations on Use of K12 Proprietary Materials and K12 Proprietary Marks by School. The School will use the K12 Proprietary Materials and the K12 Proprietary Marks only as provided in this Agreement. Notwithstanding the foregoing license rights, the School also agrees not to not alter, copy, disassemble, reverse engineer or modify the K12 Proprietary Materials and/or the K12 Proprietary Marks in any way, nor will the School act or permit action in any way that would impair the rights of K12 in them. The School's authorized use will not create any right, title, or interest in or to the K12 Proprietary Materials or the K12 Proprietary Marks any customizations and derivative works thereof or any other materials created for use in connection with the foregoing. K12 will have the right to monitor the quality of the School's use of the K12 Proprietary Materials and the K12 Proprietary Marks, and the School will notify K12 promptly in writing of any known infringement thereof and of any use of K12's Intellectual Property (including the K12 Proprietary Materials, and/or the K12 Proprietary Marks) by an unauthorized party, other than set forth or contemplated by this Agreement, of which the School becomes aware. K12 and the School agree to reasonably assist each other in pursuing measures to prevent further use of K12's Intellectual Property by said unauthorized party. Any references to or use of the K12 Proprietary Materials or the K12 Proprietary Marks by the School will contain the appropriate trademark, copyright or other legal notice provided from time to time by K12 and will be subject to additional trademark usage standards developed by K12 and modified from time to time by K12 with advance notice in writing. Moreover, to the extent the School has established any rights, title or interest in the K12 Proprietary Materials or K12 Proprietary Marks, the School hereby assigns and transfers to K12, its successors and assigns, all of the School's right, title and interest in and to such intellectual property, together with the goodwill of the business symbolized by any of the K12 Proprietary Marks and the right to sue and collect damages and/or profits for past infringements of the such marks.

13.6. Publicity/Press Release. K12 may use the School’s name and Program references in a listing of new, representative or continuing schools in press releases, on its website, or in other marketing materials or dissemination of information. The Parties may agree to cooperate in joint marketing activities or in issuing a joint press release at the request of either of them, subject to prior written consent and approval of the form and substance of both the School and K12.

14. LIMITS ON LIABILITY AND DAMAGES.

14.1. LIMIT OF LIABILITY. K12’S MAXIMUM LIABILITY AND OBLIGATION TO THE SCHOOL AND THE SCHOOL’S EXCLUSIVE REMEDY FOR ANY CAUSE WHATSOEVER, REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT OR IN TORT, INCLUDING NEGLIGENCE, RELATING TO THIS AGREEMENT SHALL BE LIMITED TO THE RECOVERY OF ACTUAL DIRECT DAMAGES UP TO THE AMOUNT OF THE AMOUNT OF FEES PAID UNDER THIS AGREEMENT IN THE PRIOR SIX (6) MONTHS.

14.2. CONSEQUENTIAL DAMAGES. EXCEPT IN CONNECTION WITH ITS INDEMNITY OBLIGATIONS EXPRESSLY SET FORTH HEREIN, NEITHER PARTY SHALL BE LIABLE FOR ANY INDIRECT, EXEMPLARY, PUNITIVE, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING, WITHOUT LIMITATION, ANY LOST SAVINGS, LOST PROFITS, LOST SALES, BUSINESS INTERRUPTIONS, DELAY DAMAGES, DAMAGES FOR THIRD PARTY CLAIMS, LOST

OR DESTROYED DATA, EVEN IF THAT PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. NEITHER OCCASIONAL SHORT-TERM INTERRUPTIONS OF SERVICE OR PRODUCTS, WHICH ARE NOT UNREASONABLE UNDER COMPARABLE INDUSTRY STANDARDS NOR INTERRUPTIONS OF SERVICE OR PRODUCTS RESULTING FROM EVENTS OR CIRCUMSTANCES BEYOND K12'S REASONABLE CONTROL SHALL BE CAUSE FOR ANY LIABILITY OR CLAIM AGAINST K12 HEREUNDER, NOR SHALL ANY SUCH OCCASION RENDER K12 IN BREACH OF THIS AGREEMENT.

15. ASSIGNMENT. Except as otherwise provided in this Agreement, neither Party may assign or delegate any rights or obligations under this Agreement without the prior written consent of the other Party. Except as prohibited by Applicable Law, K12 may assign all of its rights and obligations under this Agreement to any Affiliate. K12 may delegate the performance of its duties hereunder to any person or entity but K12 shall be responsible for the performance, in accordance with the terms of this Agreement, of any services performed by its delegees.

16. INDEMNITY. The Party charged with indemnifying and/or defending under this provision (the "**Indemnifying Party**") shall conduct the defense in any such third party action arising as described herein and the Party claiming the benefits of this Section 16 (the "**Indemnified Party**") promises to cooperate with such defense, provided the Indemnifying Party reasonably consults with the Indemnified Party on any settlement (subject to the consent requirement in the last sentence of this paragraph). Notwithstanding the foregoing, the Indemnified Party may, at its own expense, assist in such defense if it so chooses, provided that the Indemnifying Party shall be entitled to control such defense and all negotiations relative to the settlement of any such claim. Any settlement that would admit any liability on the part of the Indemnified Party shall require such Indemnified Party's prior written consent.

16.1. Indemnification of the School. K12 will indemnify, defend, and save and hold the School and all of its employees, officers, directors, trustees, subcontractors, and agents, their respective successors and permitted assigns, harmless against any and all claims, demands, suits, or other forms of liability including without limitation costs and reasonable attorneys' fees (each a "Claim") that may arise out of, or by reason of, any (a) breach of any expressed representation or warranty, covenant or agreement made or to be performed by K12 pursuant to this Agreement, (b) noncompliance by K12 with any Applicable Law in connection with the School's operations, but excluding any Claims that arise from conduct undertaken in accordance with the Charter Authorizer's, the School's or the Board's instructions, procedures or written policies, except where such instructions arise from and are in accordance with specific advice or explicit recommendations formally provided by K12, and (c) act or omission of K12 or any of its employees, officers, directors, trustees, subcontractors or agents in connection with School's operations that results in injury, death, or loss to person or property except to the extent any Claims arise out of actions or omissions of the School or the Board. K12 and its Affiliates shall not be liable for any Claims related to the enrollment, placement and provision of services to any Students with special education needs.

16.2. Indemnification of K12. The School will indemnify, defend, and save and hold K12 and each other Affiliate of K12 and all of their respective employees, officers, directors, trustees, subcontractors, and agents, their respective successors and permitted assigns, harmless against any and all Claims that may arise out of, or by reason of, any (a) breach of any expressed representation or warranty, covenant or agreement made or to be performed by the School pursuant to this Agreement, (b) noncompliance by or on behalf of the School or Board with any Applicable Law in connection with School's operations, (c) act or omission of the School or Board or any of its employees, officers, directors, trustees, subcontractors or agents in connection with the School's operations that results in injury, death, or loss to person or property except to the extent any Claims arise out of actions or omissions of K12, and (d) for any Claims that are related to the School's or Board's action or inaction with respect to the enrollment, placement and provision of services to any Students with special education needs.

16.3. Indemnification Procedures.

16.3.1. Notice Requirement. Each Indemnified Party must give written notice to the other of the existence of a Claim promptly after such Indemnified Party first receives notice of the existence of the potential Claim, provided that such Indemnified Party will not be foreclosed from seeking indemnification hereunder by any failure to provide such prompt notice except and only to the extent the Indemnified Party actually incurs an incremental expense or otherwise has been materially prejudiced as a result of such delay.

16.3.2. Defense and Settlement of Claims. Each Indemnified Party seeking indemnification hereunder will permit the Indemnifying Party (at the expense of the Indemnifying Party) to assume the defense of such Claim, provided, that (i) counsel for the Indemnifying Party who will conduct the defense of such Claim must be reasonably satisfactory to such Indemnified Party and (ii) such Indemnified Party may participate in such defense at such Indemnified Party's expense. Except with the prior written consent of the Indemnified Party seeking indemnification hereunder, the Indemnifying Party, in the defense of any Claim, will not consent to entry of any judgment or enter into any settlement. In the event that any Indemnified Party seeking indemnification hereunder has been advised by counsel for the Indemnifying Party that such Indemnified Party may have available to it one or more defenses or counterclaims that are different from or in addition to one or more of those that may be available to the Indemnifying Party in respect of such Claim and, in such counsel's reasonable opinion, such counsel could not assert such defenses or counterclaims without creating a conflict of interest, such Indemnified Party will have the right to take over and assume control over the defense of such claim at the sole cost of the Indemnifying Party, provided that if such Indemnified Party does so take over and assume control, such Indemnified Party will not settle such claim without the written consent of the Indemnifying Party. In the event that the Indemnifying Party does not accept the defense of any matter as above provided, the Indemnified Party seeking indemnification hereunder will have the right to defend against such Claim, provided that such Indemnified Party will not settle such Claim without the written consent of the Indemnifying Party. In any event, any Indemnified Party seeking indemnification hereunder and the Indemnifying Party will cooperate in the defense of any claim subject to this Section entitled "Indemnification".

17. INSURANCE.

17.1. Liability Coverage. Each Party will initiate and maintain for a period of two (2) years after the expiration or termination of this Agreement, at its own expense, comprehensive professional and general liability insurance, including product liability, contractual liability (applicable to the indemnification obligations of the said Party set forth herein), and advertising injury insurance, with reputable and financially secure insurance carriers to cover the operations of the said Party, for not less than $5,000,000 (combined single limit for bodily injury and property damage per occurrence and in the aggregate). Such insurance required by the School (excluding D&O and E&O insurance) will include K12 and its Affiliates and their respective trustees, directors, officers, employees, contractors and agents as additional insureds within thirty (30) days after the date of this Agreement. Such insurance required by K12 (excluding D & O and E & O insurance) will include the School and its respective trustees, directors, officers, employees, contractors and agents as additional insureds within thirty (30) days after the date of this Agreement. Each Party's insurance will be written to cover claims incurred, discovered, manifested, or made during or after the Term.

17.2. Evidence of Insurance. Each Party will furnish a certificate of insurance evidencing such coverage to the other Party within thirty (30) days after the effective date of this Agreement. Thereafter, the Parties will endeavor to provide thirty (30) days' advance written notice to the other Party of any cancellation or material adverse change to such insurance.

17.3. Insurance Coverage No Limitation on K12's Rights. The School's insurance will be primary coverage and any insurance K12 may purchase shall be excess and non-contributory for all clams directly related to actions or omissions of the School. K12's insurance will be primary coverage and any insurance the School may purchase shall be excess and non-contributory for all claims directly related to actions or omissions of K12. The minimum amounts of insurance coverage required herein will not be construed to impose any limitation on the School's indemnification obligations expressly set forth herein.

17.4. Workers' Compensation Insurance. Both Parties will initiate and maintain workers' compensation insurance for its respective employees working at or for the Program, as required by Applicable Law.

17.5. Cooperation. All Parties will comply with any information or reporting requirements required by the other Party's insurer(s), to the extent reasonably practicable.

18. REPRESENTATIONS AND WARRANTIES.

18.1. Representations and Warranties of K12. K12 hereby represents and warrants to the School:

18.1.1. Organization and Good Standing. K12 is a company duly organized, validly existing, and in good standing under the laws of the State of Delaware and is a wholly owned subsidiary of K12 Inc.

18.1.2. Power and Authority; Authorization; Binding and Enforceable Agreement. K12 has full limited liability company power and authority to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement has been duly authorized and executed by K12 and constitutes the valid and legally binding obligation of K12, enforceable against K12 in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other laws of general applicability relating to or affecting creditors' rights and by general principles of equity.

18.1.3. Pending Claims. K12 warrants that there are currently no pending actions, claims, suits, or proceedings, to its knowledge, threatened against it, which if adversely determined, would have a material adverse effect on its ability to perform its obligations under this Agreement.

18.1.4. Professional Services. K12 warrants that the Services will be performed in a professional and workmanlike manner in accordance with commercially reasonable industry standards, and deliverables, if any, will materially comply with the agreed upon functional specification set forth in the applicable Exhibit A, if used in a manner consistent with the conditions for which it was designed. THE FOREGOING WARRANTIES MADE BY K12 IN THIS SECTION (AND ITS SUBSECTIONS) ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE AND K12 AND ITS AFFILIATES MAKE NO GUARATEES AS TO THE RESULTS OR ACHIEVEMENTS OF THE STUDENTS. WITHOUT LIMITING THE FOREGOING, K12 MAKES NO GUARANTEES AND SHALL NOT BE LIABLE FOR NON-ACCESSIBILITY OF THE K12 WEBSITE, END-USER CONNECTION SPEED OR CONNECTIVITY PROBLEMS REGARDLESS OF THE REASON.

18.1.5. Non-Conformities. The foregoing warranties shall not apply to defects or non-conformities: (a) resulting from software, hardware or interfacing not supplied by K12, its Affiliates or authorized contractors; (b) resulting from inadequate or improper maintenance, modification or usage by the School, its employees or Students; or (c) where there has been improper site preparation or site environment by the School, its employees or Students. In addition, the foregoing warranty shall not apply to requirements not expressly included in this Agreement.

18.2. Representations and Warranties of the School. The School hereby represents and warrants to K12:

18.2.1. Organization and Good Standing. The School is a non-profit corporation duly organized, validly existing, and in good standing under the laws of the State.

18.2.2. Power and Authority; Authorization; Binding and Enforceable Agreement. The School has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement has been duly authorized and executed by the School and constitutes the valid and legally binding obligation of the School, enforceable against it in accordance with its terms and conditions, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other laws of general applicability relating to or affecting creditors' rights and by general principles of equity.

18.2.3. Authority Under Applicable Law. The School has the authority under Applicable Law to: (i) contract with a management company to obtain the Services, Administrative Services and/or Technological Services and all other programs and services under this Agreement; (ii) to execute, deliver, and perform this Agreement; and (iii) to incur the obligations provided for under this Agreement.

18.2.4. Non-Contravention. The execution, delivery and performance of this Agreement by the School will not constitute, under any other agreement, note, lease, or other instrument to which the Board is a party or by which it or any of its assets is bound, any violation, breach or event of default by the School or any other party thereto.

18.2.5. Provision of Authority to K12. The School has provided and will provide K12 with all authority and power necessary and proper for K12 to undertake its responsibilities, duties, and obligations provided for in this Agreement.

18.2.6. Charter Enforceability and Renewal. The Charter is in full force and effect and constitutes a valid and binding obligation of each party thereto, enforceable in accordance with its terms. The Board has delivered a true and complete copy of the Charter (and the School-Charter Authorizer agreement(s), if any) to K12. The Board will use best efforts to maintain the Charter in full force and effect during the Term and to renew the Charter upon its expiration with assistance from K12.

18.2.7. Certain Provisions of the Charter. The Charter will, when approved, authorize the School to operate and receive the federal, state and local education funds identified in this Agreement, as well as other revenues, and otherwise vests the Board with all powers necessary and desirable for carrying out the Program and other activities contemplated in this Agreement.

18.2.8. Pending Claims. The School warrants that there are currently no pending actions, claims, suits, or proceedings, to its knowledge, threatened against it, which if adversely determined, would have a material adverse effect on its ability to perform its obligations under this Agreement.

19. OFFICIAL NOTICES. All notices and other communications required by the terms of this Agreement will be in writing and sent to the Parties hereto at the addresses set forth below (and such addresses may be changed upon proper notice to such addressees). Notice may be given by: (i) certified or registered mail, postage prepaid, return receipt requested, (ii) reputable overnight carrier, postage prepaid, (iii) facsimile (with confirmation of transmission by sender's facsimile machine), or (iv) personal delivery (with written receipt confirming such delivery). Notice will be deemed to have been given (i) three business days after mailing as described in clauses (i) or (ii) of the foregoing sentence, (ii) on the date of personal delivery or (iii) on the date of transmission of a facsimile if on a business day during normal business hours (or, if not, the next succeeding business day). Electronic mail does not constitute official notice under this

Agreement. The addresses of the Parties are:

For K12:	With Copy To:
K12	K12
ATTN: EVP of School Services	ATTN: General Counsel
2300 Corporate Park Drive, Suite 200	2300 Corporate Park Drive, Suite 200
Herndon, Virginia 20171	Herndon, Virginia 20171
Fax: (703) 483-7330	Fax: (703) 483-7496
For School:	With Copy To:
Fax:	Fax:

20. NON-SOLICITATION/NON-HIRING.

20.1. Non-Solicitation. Each Party agrees that during the Term of this Agreement and for a period ending twelve (12) months after the expiration or termination of this Agreement for any reason, unless mutually agreed by the Parties in writing, one Party will not directly solicit, recruit for employment, offer employment to, offer subcontracting opportunities to, or otherwise employ or use the services of any employees of the other Party or their related companies if that employee or former employee had been assigned to or worked under this Agreement.

20.2. Unpermitted Solicitation/Hiring Remedies. In the event of such unpermitted use or engagement by a Party or its related company of such consultant or employee whether directly or indirectly, in contravention of the clause immediately above, the other Party, at its option, may seek receipt of a sum equivalent to one hundred percent (100%) of that employee's base starting salary with the new employer, or seek any legal or equitable relief against such actions including, but not be limited to, immediate injunctive relief in any court of competent jurisdiction. The School acknowledges and agrees that no Balanced Budget Credits shall be issued by K12 to cover any penalty, damages or other relief owed by the School upon a violation of this provision.

20.3. Solicitation Exceptions. For the avoidance of doubt, newspaper, periodical or Internet-based listings of employment opportunities by a Party shall not be considered direct or indirect solicitation of an employee of the other Party; however, such Party shall continue to be precluded from engaging or otherwise using a Party's employee, former employee or consultant as provided for in Section 20.2.

21. DISPUTE RESOLUTION, VENUE AND GOVERNING LAW.

21.1. Dispute Resolution Procedure. The Parties agree that they will attempt in good faith to settle any and all disputes arising in connection with this Agreement amicably in the ordinary course of business. If a dispute is not resolved in the ordinary course of business, the aggrieved Party will submit its dispute in writing to the School's ___________ or its authorized designee and to the direct manager of the Head of School (currently the Regional Vice President) of K12. If the dispute is not resolved after ten (10) calendar days from the receipt of such written notice, then the Parties shall escalate the matter to the Board's authorized designee for the School and the EVP of School Services for K12. If the dispute is not resolved after five (5) business days thereafter, then the Parties shall escalate the effort to resolve to the Board president for the School and the CEO for K12 who shall have five (5) days to seek resolution of the matter.

The dispute resolution procedures described herein will be deemed complete upon the earlier to occur of the following: (i) the Parties mutually agree in writing to discontinue the dispute resolution procedures; and (ii) the relevant dispute is not resolved within the time periods provided under.

21.2. Mediation and Arbitration. If the Parties are unable to resolve the dispute pursuant to the Section immediately above, the Parties agree that they will attempt in good faith to settle any and all disputes arising out of this agreement, including those disputes relating to the enforceability or validity of this Agreement, through a process of mediation in the state of Indiana, under the supervision of a mutually agreed upon mediator. In the event that mediation fails to settle any such dispute(s), the Parties hereby agree to proceed to mandatory binding arbitration in the state of Indiana, pursuant to the then existing rules of the American Arbitration Association. Except as may be required by law, neither a Party nor an arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both Parties. Judgment upon the award rendered shall be final and binding and may be enforced by any state or federal court with competent jurisdiction over the arbitrated matter. Each Party will bear its own costs and expenses associated with the dispute resolution procedures set forth in this Section except that the Parties will share equally any fees payable to a professional mediator and/or arbitrator.

21.3. Injunctive Relief. Notwithstanding the foregoing dispute resolution procedures, the School acknowledges that in the event it breaches any provision contained in the Section entitled “Intellectual Property Rights”, K12 may suffer irreparable harm in which the full extent of damages may be impossible to ascertain and monetary damages may not be an adequate remedy. As such, in its sole discretion, K12 may seek immediate judicial relief as available in law or equity, and the initiation of any judicial proceeding will suspend the dispute resolution procedures set forth above. K12 will be entitled to enforce this Agreement by an injunction or other equitable relief without the necessity of posting bond or security, in addition to its right to seek monetary damages or any other remedy. The decision by K12 not to seek judicial relief during the above described dispute resolution procedures, will not create any inference regarding the presence or absence of irreparable harm.

21.4. Governing Law. The laws of the Commonwealth of Virginia without regard to its conflict of laws provisions will govern this Agreement, its construction, and the determination of any rights, duties, and remedies of the Parties arising out of or relating to this Agreement.

22. MISCELLANEOUS.

22.1. Coordination; Exercise of Approval or Consent Rights:

22.1.1. Coordination and Consultation. The Parties will coordinate the performance of their respective activities hereunder and will establish such procedures as they shall mutually agree to be effective for achieving the purposes of this Agreement and allowing each of them to perform its obligations and exercise its rights under this Agreement. Without limiting the generality of the foregoing, K12’s legal counsel and the School’s legal counsel will consult from time to time with respect to the requirements of Applicable Law, the Charter, and the School’s and the Charter Authorizer’s policies as they relate to the Program’s operations.

22.1.2. Approval or Consent Rights. In performing services and its other obligations under this Agreement, or in exercising its rights under this Agreement, including granting or withholding any consents or approvals or making any requests of the other Party, each Party must act reasonably (including as to the timing of its actions) except to the extent that this Agreement provides that it may act as it determines “in its sole judgment” or “its sole discretion,” or words to that effect, in the applicable provision. Whenever it is provided in this Agreement that the Parties will or may agree as to a certain matter, each Party will have the right to agree or disagree in its sole discretion following good faith discussions.

22.2. Force Majeure. Notwithstanding any other sections of this Agreement, no Party will be liable for any delay in performance or inability to perform (except for payments due hereunder) due to acts of God or due to war, riot, terrorism, civil war, embargo, fire, flood, explosion, sabotage, accident, labor strike, Internet outage or other acts beyond its reasonable control and unrelated to its fault or negligence.

22.3. Entire Agreement. This Agreement including its attachments hereto constitutes the entire agreement of the Parties with respect to the subject matter hereof, and supersedes all previous and contemporaneous oral and written negotiations, commitments, agreements, warranties, representations and understandings. This Agreement will not be altered, amended, modified, or supplemented except in a written document executed by the Parties.

22.4. Counterparts, Facsimile or PDF Transmissions. This Agreement may be executed in counterparts, each of which will be deemed an original, but both of which will constitute one and the same instrument. Each Party may rely on facsimile or PDF signature pages as if such facsimile or PDF pages were originals.

22.5. License Audit. Upon forty-five (45) days written notice, K12 may audit the Program's use of the Educational Products and the School agrees to cooperate and provide reasonable assistance with such audit. The School agrees to pay within thirty (30) days of written notification any fees applicable to the School's use of the Educational Products in excess of the license rights granted herein or K12 may revoke the related technical support and license(s).

22.6. Amendment. This Agreement will not be altered, amended, modified, or supplemented except in a written document executed by the Parties.

22.7. Waiver. No waiver of any provision of this Agreement will be effective unless in writing, nor will such waiver constitute a waiver of any other provision of this Agreement, nor will such waiver constitute a continuing waiver unless otherwise expressly stated.

22.8. Interpretation. The Parties hereto acknowledge and agree that the terms and provisions of this Agreement, will be construed fairly as to all Parties hereto and not in favor of or against a Party, regardless of which Party was generally responsible for the preparation of this Agreement.

22.9. Severability. In the event any term, provision or restriction is held to be illegal, invalid or unenforceable in any respect, such finding shall in no way affect the legality, validity or enforceability of all other provisions of this Agreement. To the extent that any of the services to be provided by K12 are found to be overbroad or an invalid delegation of authority by the Board, such services will be construed to be limited to the extent necessary to make the services valid and binding.

22.10. Successors and Assigns. This Agreement will be binding upon, and inure to the benefit of, the Parties and their respective successors and permitted assigns.

22.11. No Third-Party Rights. This Agreement is made for the sole benefit of the School and K12 and their respective successors and permitted assigns. Except as set forth in Sections 13 and 16 and except for each Affiliate of K12, which shall be a third party beneficiary of this Agreement, nothing in this Agreement will create or be deemed to create a relationship between the Parties to this Agreement, or any of them, and any third person, including a relationship in the nature of a third-party beneficiary or fiduciary.

22.12. Survival of Termination. All representations, warranties, and indemnities expressly made in this Agreement will survive termination of this Agreement.

22.13. Headings and Captions. The headings and captions appearing in this Agreement have been included only for convenience and shall not affect or be taken into account in the interpretation of this Agreement.

* * * * * * * * *

IN WITNESS WHEREOF the Parties have entered into this Agreement as of the date set forth below.

For and on behalf of		**For and on behalf of**	
INDIANA URBAN EDUCATION SOLUTIONS, INC		**K12 Virtual Schools LLC**	
Signed:	______________________	**Signed:**	______________________
Name:	______________________	**Name:**	______________________
Position:	______________________	**Position:**	______________________
Date:	______________________	**Date:**	______________________

EXHIBIT A
Curriculum and Services

I. Educational Products, Pupil Recruiting and Product Related Services: During the Term, K12 and its Affiliates will provide or cause to be provided to the School, its Students and its personnel the following Educational Products and related services in accordance with the fees published on the Product Price List provided to the Board:

1. Online School: For each school year during the Term, K12 will provide a license for and access to: (i) the K12® Curriculum and associated learning management system for grades K through 8, for those core subject areas required by the State (Language Arts, Math, Science, History) as well as other courses offered or required for these grades (Art, Music and foreign language); (ii) K12® Curriculum and associated learning management system for grades 9 through 12, in each case in Language Arts, Math, Science and History in addition to electives per the K12 course catalogue; and (iii) any third party curriculum K12 generally offers its managed virtual schools, in each case for such courses required by Applicable Law.

2. Instructional Tools and Materials. Such instructional tools and supplies, including without limitation textbooks and multi-media teaching tools, as K12 determines in its discretion to be necessary to deliver the Educational Program. K12 shall identify which of such materials are durable shall be reclaimed. These materials will be returned in accordance with Section 12.2.

3. Product Related Services. Pupil Recruitment and related services are included in the cost of the curriculum and materials in the Product Price List:

   a. Additional Instructional Support. K12 will make available the necessary instructional support and teachers as mutually agreed upon in accordance with the Product Price List as the Program may require for the Educational Products and related offerings.

   b. Pupil Recruitment. Recruitment of students in K12's and its Affiliates discretion, including creation, design and preparation of recruitment materials and advertisements; assist with information sessions and other events via mail, e-mail, print, radio, television, and outdoor advertising. Additionally recruitment includes designing school recruitment materials, letterhead, business cards, and logos to create school identity and developing, designing, and maintaining the School website. Recruiting campaigns undertaken may be general awareness or combined campaigns, launched to inform potential students about the School and/or K12 and its Affiliate's programs (including K12 partner schools and programs) in the local area.

   c. Admissions. Implementation of the Program's admissions policy and the Student enrollment process. Communicating with potential students and their families and conducting a random lottery if required.

   d. Family Services. Plan and arrange school orientation sessions. Assist with the design and implementation of parent orientation sessions. Field and respond to incoming calls, letters, faxes, and e-mails received by K12 about the Program, its curriculum, the application/enrollment process, instructional materials, etc. Help facilitate the creation of a parent manual and/or student handbook.

   e. Program Feedback. Obtain feedback on how to improve the Program and curriculum, as appropriate. Create methods for Students, their parents, and teachers to submit comments and suggestions; implement improvements where K12 deems them to be valuable.

f. Computers. K12 may provide or cause to be provided computers, monitors, software and other hardware as K12 determines in its discretion to be necessary to deliver the Program and as agreed to in writing by K12 during the budgeting process. All such equipment shall be promptly returned to K12 upon a Student's withdrawal or upon expiration or termination of this Agreement.

g. High School Services: As requested and as available, K12 may offer the following for High School students:

i. Social Networking – Access to a monitored, private, virtual social community for students, parents and teachers to communicate and connect. Students benefit from exchanging ideas and information with students around the country using the K12 program and gaining a sense of connectedness within the boundaries of a contained but national community. Each K12 sponsored school will also have its own sub-community to generate school pride as well as provide its own content and clubs, a school calendar, announcements, and information on upcoming activities and outings.

ii. Counseling Tools - Counseling tool(s) to support college, career planning and exploration.

II. Administrative Services: During the Term, K12 and its Affiliates will provide or cause to be provided to School the administrative services (the "Administrative Services") set forth below. K12 will provide the Administrative Services at School's Facility and from K12's offices in Herndon, Virginia and elsewhere, as deemed necessary in K12's discretion.

1. Educational Program Consulting. Propose educational goals, curriculum, methods of pupil assessment, admissions policy, student recruitment policy, school calendar, school day schedule, and age and grade range of pupils to be enrolled in the Program. K12's recommendations for the Program will be consistent with Applicable Law and the Charter.

2. Personnel Assistance. Supervision of all personnel providing Educational Products, Administrative Services, and Technology Services. Management of all Program employees including recruiting; hiring recommendations; reference, certification and background checks (excluding performing payroll functions or securing of payroll services; negotiation, securing and management of health, retirement and other benefits which shall be School's responsibility). Recommend human resources policies, bonus plans, and strategic plans for staffing, development, and growth. Provide teacher performance evaluation models to School and recommend and, if approved, carry out effective ways to measure teacher performance in a virtual setting.

3. Insurance. Assist the School with obtaining general liability insurance or other insurance required with a reputable carrier for the School in accordance with this Agreement, the Charter, (the Lease if applicable) and Applicable Law.

4. Facility Management. Identify location of the School's initial or supplemental facility(ies) for the Program. Together with School's attorney and designees, assist with negotiating and approving leases, leasehold improvements and lease amendments.

5. Business Administration. Administration of all business aspects and day-to-day management of the Program. These services shall include:

a. Consultation, and services as liaison for School with the Charter Authorizer, and other governmental offices and agencies;

b. Consultation and advice regarding special education programs, processes, support services and reimbursements;

c. Consistent with other provisions of the Agreement, provide school administrative staff as appropriate;

d. Work with School's counsel, if any, on legal matters affecting the Program;

e. Preparation of forms, operations manuals, handbooks, guides, and policies and procedures as necessary or required by the Charter or Charter Authorizer;

f. Consultation with respect to, and monitoring and oversight of, state reporting systems;

g. Assist School in identifying and applying for grants and other funding opportunities;

h. Assist with the administration of federal entitlement programs (e.g., Title I, I.D.E.A.);

i. Arrange contracts with school districts, education services centers, and professional service providers for special education, testing and other support services on School's behalf;

j. Establish and implement policies and procedures to maintain proper internal controls; and

k. Provision of such other administrative and consulting services as agreed in writing by the Parties from time to time.

l. Provision of regulatory compliance services, including responses to audits.

6. Budgeting and Financial Reporting.

a. Preparation of a proposed annual budget for the Program, including projected revenues, expenses and capital expenditures. The Parties agree that the last budget approved by School and agreed to by K12 prior to the effective date of this Agreement will serve as the approved annual budget of the Program for the first Fiscal Year. The proposed budget for subsequent years will be submitted by K12 to School on or before May 15th preceding the start of the applicable school year covered by such proposed budget. On or about October 31 of each school year during the Term, K12 will submit to School any proposed modifications to the annual budget for that school year to take into account the actual student enrollment for such school year and other changes in key assumptions. K12 shall also submit to School from time to time any other proposed modifications to the annual budget as K12 shall deem to be necessary or desirable, to be acted upon by School consistent with Applicable Law and this Agreement.

b. As practical and as possible, provide to School on a periodic basis, but no more frequently than monthly, detailed statements of all revenues received, from whatever source by the Program, and detailed statements of all direct expenditures for services rendered to the Program.

c. Provide to School all financial reports required under Applicable Law and by the Charter Authorizer.

d. Subject to any confidentiality obligations imposed on K12 by third parties, provide to School such other information either required by the Charter Authorizer to be made available to School or the Charter Authorizer requested by School, in each case within a reasonable time following such written request therefore, and in all cases consistent with Applicable Law.

e. To the extent applicable, assist in the preparation of required non-profit filings, including form 990 tax returns. Notwithstanding the foregoing, K12 will not be responsible for filing School's form 1023, but will work with School's counsel and/or accountant to prepare the application for tax-exempt status, as necessary.

7. Financial Management.

a. In accordance with School's expenditure authorization policy, K12 will, within commercially reasonable periods of time or as required by any agreement governing same, make payment for all Program Expenses, out of the Program funds managed by K12.

b. All Program funds will be maintained in an account(s) belonging to School over which designated representatives of K12 will have signature authority as approved by School. School will immediately transfer to such account(s) all funds received by the Program from any source, including but not limited to per pupil payments or reimbursements received from the local school district, state, federal and/or any other source, as well as any and all contributions received by the Program.

c. Perform necessary planning, forecasting, accounting and reporting functions as appropriate.

d. Assist and coordinate in any third-party audit(s) of the Program.

8. Maintenance of Financial and Student Records.

a. K12 will maintain and keep the records and books of the Program at the Facility. K12 may maintain electronic or paper copies of records and provide other services elsewhere, unless prohibited by Applicable Law. The School recognizes and agrees that for purposes of the Family Educational Rights and Privacy Act and the State open records act, K12 has a legitimate educational interest for purposes of School disclosing to K12 the Program student's educational records.

b. K12 will maintain accurate financial records pertaining to the operation of the Program and will retain all such records for a period of seven (7) years (or longer if required by Applicable Law) from the close of the Fiscal Year to which such books, accounts, and records relate.

c. K12 will maintain accurate student records pertaining to students enrolled in the Program in the manner required by Applicable Law, and retain such records on behalf of School at the Facility until this Agreement is terminated, at which time such records will be retained by and become the sole responsibility of School.

d. Ensure accessibility of Program records to School, its independent auditor and the State for completion of audits required by Applicable Law. The Parties understand that all financial, educational and other records, regardless of source of origin, are the property of School. The Parties agree to maintain, retain, disclose, and withhold Program records as may be required and in the manner required by Applicable Law.

9. Student Discipline. Provide necessary information and cooperate with School on the handling of all student disciplinary matters, including without limitation attendance and truancy matters. K12 will recommend policy and procedures for School adoption consistent with Applicable Law.

10. Annual Reports to Charter Authorizer. Create, design, and arrange for publication and dissemination of an annual report regarding the Program.

11. Teacher Effectiveness and Training. Develop new teacher training and ongoing professional development for teachers. Develop and maintain the K12 Teacher Handbook. Host ongoing teacher professional development sessions throughout the school year for new and returning teachers.

12. Charter Authorizer Policies and Charter Renewal. Assist School in complying with all applicable Charter Authorizer policies as reasonably interpreted to apply to the Program. Assist School with drafting the Program's Charter renewal application, including working with School to develop any necessary budgetary and curriculum information. Prepare Board members to present and defend School's Charter renewal application before the Charter Authorizer.

13. Instructional Property Management. Prepare and submit to School proposed policies and procedures regarding the responsible use of equipment and other instructional property. Arrange for the distribution and re-shipment or return (as necessary) of equipment for families, administrators, and teachers, to the extent provided by or on behalf of K12 as agreed in writing during the budget process.

14. Grants and Donations. On behalf of the Program, K12 may solicit and receive grants and donations from public funds through competitive or non-competitive processes, and private sources consistent with the Program's objectives; provided, however, that any solicitation of such grants and donations by K12 will be subject to the approval of the School and such fund shall be used as designated.

15. Additional Administrative Services. Any other services as agreed to in writing by the Parties from time to time.

III. Technology Services: During the Term, K12 and its Affiliates will provide or cause to be provided to School the technology services (the "Technology Services") described below. K12 will provide the Technology Services at School's Facility (defined below) and from K12's offices, as deemed necessary and in K12's discretion.

1. 24-7 monitoring of production services, i.e., SAMS and the on-line learning management system;
2. Monitor and analyze system data, to fix production issues as they may arise;
3. Generate reports on pupil academic performance, attendance and progress;
4. Seek and secure competitive pricing and centralized purchase discounts for computers, monitors, printers, software and other peripherals for the Charter School;
5. Train school staff, as deemed appropriate and necessary, on technology systems;
6. Develop, design, publish, and maintain the Program's interactive website;
7. Install and maintain the Program's computer network;
8. Generate reports;
9. Develop community tools on the school's website and K12 platform (including password protected threaded discussion and message boards, moderation functionality, directories, etc.);
10. Determine hardware configurations (including software and operating systems) for the school's technology needs;
11. Provide onsite and telephone support for the Program administration in troubleshooting system errors, and telephone support for students;
12. Propose for the School adoption policies and procedures regarding the responsible use of computer equipment and other school property;
13. Support teachers and School care associates in answering technology-related questions from students, parents, teachers, and administrators;
14. Install software to generate master image of computer configurations for teachers, administrators, and students in order to standardize the user experience and lower costs and turn-around time for implementation and troubleshooting;
15. Ensure electronic security of student records (through the use of encryption, firewalls, etc.);
16. Provide a Web-filtering device to ensure that students do not have access to inappropriate materials on the Internet;
17. Prepare for, supervise, and implement all system roll-overs at the end of each academic year;
18. Design and implement inventory management systems with the school's distribution and hardware vendors, as well as reclamation programs, as needed;
19. Support and design the Program's accounting system;
20. Provide online enrollment, registration and placement services;
21. Provide school email accounts for school employees;
22. Provide School care and technology support services on the learning management system, computer and software issues;
23. Oversee changes to the Program website to maintain quality assurance and make sure that there are not "version control" problems;
24. Coordinate security, creative, and content issues pertaining to the website;
25. Coordinate Web hosting contracts and relationships with vendors across the State as needed;
26. Handle troubleshooting issues for the school's website and send issues to the appropriate person or division for resolution; and
27. Additional Technology Services in K12's discretion and any other services as agreed to in writing by the Parties from time to time.

EXHIBIT B

K12 Proprietary Marks

State of Indiana
Office of the Secretary of State

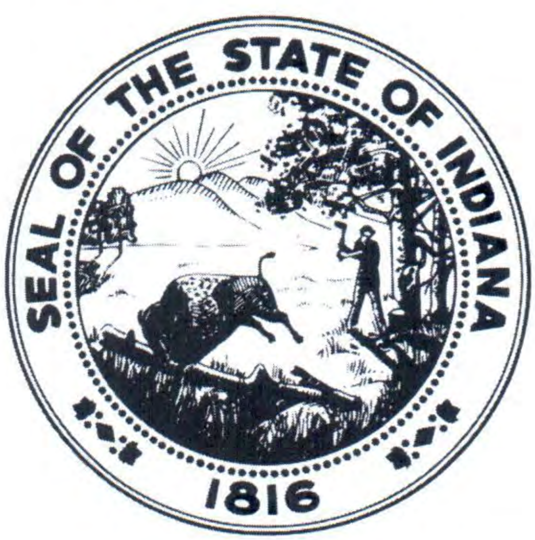
CERTIFICATE OF AUTHORITY

of

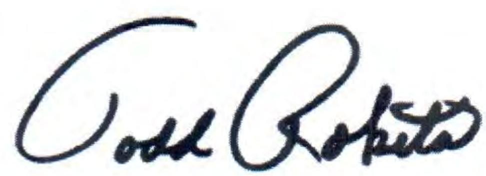
K12 CLASSROOM LLC

I, TODD ROKITA, Secretary of State of Indiana, hereby certify that Application for Certificate of Authority of the above Delaware Foreign Limited Liability Company (LLC) has been presented to me at my office, accompanied by the fees prescribed by law and that the documentation presented conforms to law as prescribed by the provisions of the Indiana Business Flexibility Act.

NOW, THEREFORE, with this document I certify that said transaction will become effective Monday, November 03, 2008.



In Witness Whereof, I have caused to be affixed my signature and the seal of the State of Indiana, at the City of Indianapolis, November 3, 2008.



TODD ROKITA,
SECRETARY OF STATE

2008110500149 / 2008110566380

APPLICATION FOR CERTIFICATE OF AUTHORITY OF A FOREIGN LIMITED LIABILITY COMPANY

State Form 49464 (R / 1-03)
Approved By State Board Of Accounts 1999

TODD ROKITA
SECRETARY OF STATE
CORPORATIONS DIVISION
302 W. Washington St., Rm. E018
Indianapolis, IN 46204
Telephone: (317) 232-6576

Indiana Code 23-18-11-4 *et seq.*

FILING FEE: $90.00

INSTRUCTIONS: *Use 8 1/2" x 11" white paper for attachments.*
Present original and one (1) copy to the address in upper right corner of this form.
Please TYPE or PRINT.
Please visit our office on the web at www.sos.in.gov.

APPROVED AND FILED
IND. SECRETARY OF STATE

This application cannot be accepted without an original certificate of existence duly authenticated by the proper authority from the LLC's domicilary state within the last sixty (60) days.

This application cannot be accepted unless a registered agent with an Indiana street address is listed in ARTICLE II.

APPLICATION FOR CERTIFICATE OF AUTHORITY
OF

K12 Classroom LLC

A FOREIGN LLC
TO TRANSACT BUSINESS IN THE STATE OF INDIANA

2008 NOV -3 AM 11:32

The undersigned manager or member of the above Delaware LLC
(State of Domicile)
desiring to effectuate the admittance of the LLC to transact business in the State of Indiana, under the name of
K12 Classroom LLC certifies the following facts:
(if using an assumed business name specify name above)

ARTICLE I: Name and Principal Office

Name of LLC (*Must be identical to name shown in Articles of Organization and Amendments thereto*)
K12 Classroom LLC

Address of the principal office of LLC *(Number and street, city, state and ZIP code)*
2300 Corporate Park Drive, Herndon, VA 20171

ARTICLE II: Registered Office and Registered Agent

Name of the registered agent of the LLC
C T Corporation System

Indiana address of the registered office of LLC *(Number and street, city, state and Zip code)*
251 E. Ohio Street, Suite 1100, Indianapolis, IN 46204

ARTICLE III: Date of Organization and Duration of Existence

Date of organization in domicilary state
06/16/2004

Expected period of duration listed in the Articles of Organization
Perpetual

ARTICLE IV: Management

- [x] The Articles of Organization state that the LLC is to be managed by its members.
- [ ] The Articles of Organization provide for a manager or managers.

In witness whereof, the undersigned being the Authorized Person of said LLC executes this
(Manager or member)
Application For Certificate Of Authority, and verifies subject to penalties of perjury, that the facts contained herein are true this
October day of 31st, 20 08.

Signature: Howard Polsky
Printed name: Howard D. Polsky

IN054 - 04/12/2007 C T Filing Manager Online

Delaware

PAGE 1

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "K12 CLASSROOM L.L.C." IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE THIRTY-FIRST DAY OF OCTOBER, A.D. 2008.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE BEEN PAID TO DATE.

2008 NOV -3 AM 11:32

3817790 8300

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You may verify this certificate online at corp.delaware.gov/authver.shtml

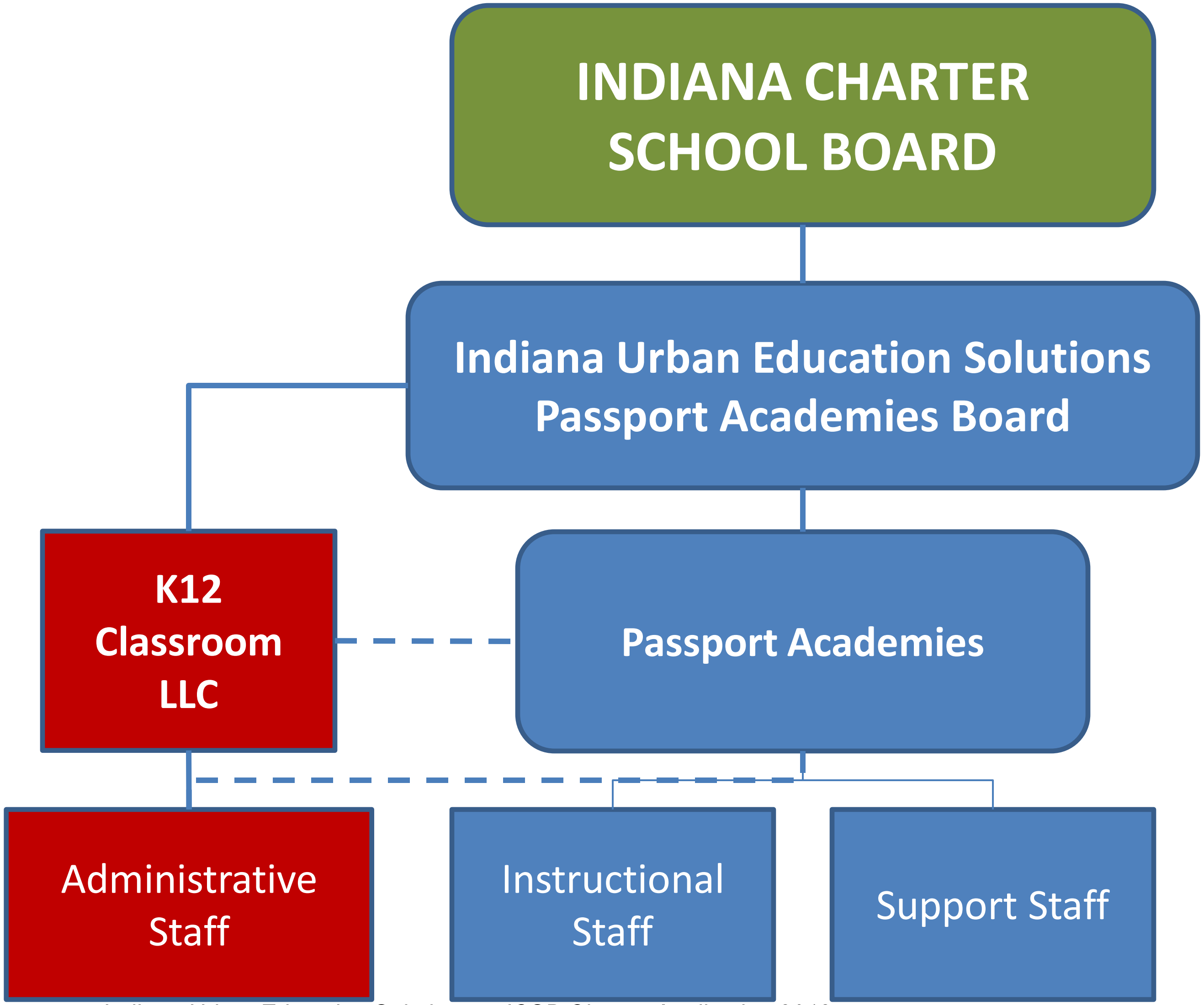
Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 6944699

DATE: 10-31-08

INDIANA URBAN EDUCATION SOLUTIONS PASSPORT ACADEMY HIERARCHY CHART



INDIANA URBAN EDUCATION SOLUTIONS PASSPORT ACADEMY NETWORK STAFFING BUILD OUT
5 YR ALIGNMENT

INDIANA CHARTER SCHOOL BOARD

Indiana Urban Education Solutions
Passport Academies Board

K12 Classroom LLC

Indianapolis Passport Academy Fall 2013

Gary Passport Academy Fall 2013

Indianapolis Passport Academy II Fall 2014

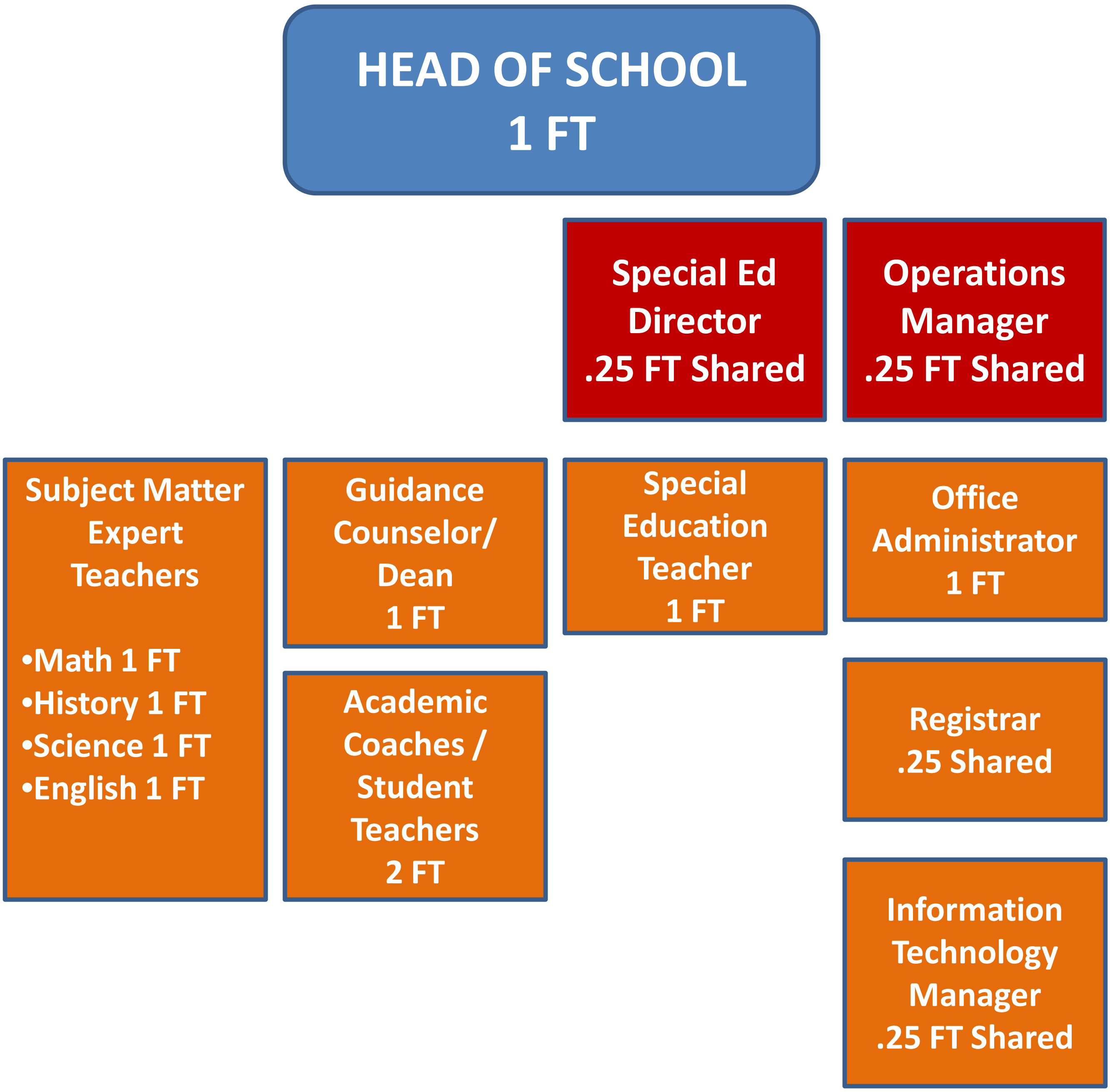
Lake County Passport Academy Fall 2014

Administrative Staff
- 2 FT HOS Year 0
- 2 FT HOS Year 1
- 1 FT Operations Manager Year 1
- 1 FT Special Ed Director Regional Years 1-2; Local Year 3
- 1 FT IT Manager Year 1
- 1 FT Registrar Year 1
- 2 FT Office Manager Year 0
- 2 FT Office Manager Year 1

Instructional Staff
- 2 FT Special Ed Year 1
- 2 FT Special Ed Year 2
- 8 FT Subject Matter Expert Teachers Year 1
- 8 FT Subject Matter Expert Teachers Year 2

Support Staff
- 4 FT Academic Coaches Hired Year 2
- 4 FT Academic Coaches Hired Year 3
- 2FT Guidance Counselor/Dean Hired Year 1
- 2 FT Guidance Counselor/Dean Hired Year 2

INDIANA URBAN EDUCATION SOLUTIONS
PASSPORT ACADEMY LEVEL ORG CHART
AT CAPACITY



Alignment of K[12] Courses to iNACOL Standards for Quality Online Courses, Version 2

iNACOL standards were revised in late summer 2011. Notably, K[12]'s courses have been so widely recognized for embodying best practices for online learning that K[12]'s curriculum department was invited to join the committee for revising the standards. Version 2, published in October 2011, includes reformulated standards that are more easily applicable and verifiable in the growing landscape of different online scenarios K[12] conducts continuous and systemic internal audits of its courses to assess effectiveness. Currently, a K[12] evaluation of its courses against the iNACOL standards reveals high marks for compliance. Documentation for alignment with the 2011 standards is available for review.

AdvancED Accreditation

K12 Inc. is accredited through AdvancED, the world's largest education community, including such members as North Central Association Commission on Accreditation and School Improvement (NCA CASI), Southern Association of Colleges and Schools Council on Accreditation and School Improvement (SACS CASI), and Commission on International and Transregional Accreditation (CITA).

Leading Sources Standards

K[12] has developed courses that incorporate standards, parameters, and characteristics outlined by a host of leading sources including: the National Academy of Science; American Council on the Teaching of Foreign Languages; Chinese Language Teachers' Association; National Art Education Association; International Association for K–12 Online Learning; National Association for Sport and Physical Education; National Council on Economic Education; National Council for History Education; National Council of Teachers of English; National Council of Teachers of Mathematics; National Institute of Child Health and Human Development; and Partnership for 21st Century Skills. The quality of the K[12] courses and learning management system along with a track record of academic success has been documented.

Additional Resources

K[12] also has several supplemental courses and resources to better enhance the curriculum and further support individual student needs.

Aventa Courses offer students online credit recovery options to help them earn course credit toward high school graduation. Specifically, credit recovery courses were designed and created for students who have attempted yet failed to pass particular courses. Course content is designed to aid student's learning and mastery of material. The delivery and structure include simpler, more accessible reading levels, pre-teaching of unit vocabulary, availability of text to speech audio, ELL support, adaptive technology, and pre-unit diagnostics that allow students who prove mastery to move ahead.

A+ Courses are highly-effective individualized K-12 remediation solutions. They integrate assessment and targeted content solutions to address individual learning needs. They offer customized learning paths for each student through a proven assessment, prescription, instruction, and reporting framework aligned to state and national standards. Lesson content is presented through a direct instruction approach to mastery that uses study guides, quizzes, mastery tests and essays.

Study Island is a web-based state assessment preparation program that helps students master state assessments, while giving them access to sample lessons with thorough examples, worksheets, practice quizzes and tests, and a variety of online games. Study Island provides students with practice in an assessment-like environment where they can receive immediate feedback with explanations to various problems on different topics at grade level. Students should be encouraged to spend at least thirty minutes a day on Study Island for practice on grade-level standards.

Subject Area	Course	# of credits	Overview	IN Standards addressed	CCSS Standards addressed
ELA	ENG102: Literary Analysis and Composition I	2	Students read and analyze classic and modern literature in a variety of genres. They enhance their written and oral communication skills with lessons in composition, grammar, usage, mechanics, and vocabulary.	9.1.1-9.1.3; 9.2.2-9.2.5; 9.2.8; 9.2.7; 9.3.1-9.3.7; 9.3.9-9.3.10; 9.3.12-9.3.13; 9.4.2-9.4.13; 9.5.1-9.5.5; 9.5.7-9.5.9; 9.6.1-9.6.4; 9.7.1-9.7.3; 9.7.5-9.7.7; 9.7.9-9.7.12	LIT: RL 9-10 1-6, RL 9-10 9-10; INFO: RL 9-10 1-6, 8,10; W: 9-10 1-10; SL 9-10 1a-1d, 4; L 9-10 1-6
	ENG202: Literary Analysis and Composition II	2	Students continue to work on their comprehension and analysis of classic and modern literature, write increasingly complex compositions, present oral and creative works, and enhance their language skills.	10.1.1-10.1.4; 10.2.2-10.2.5; 10.3.1; 10.3.3-10.3.11; 10.3.13; 10.4.2-10.4.3; 10.4.13; 10.4.5-10.4.11; 10.5.1-10.5.5; 10.5.7-10.5.9; 10.6.1-10.6.4; 10.7.1-10.7.3; 10.7.6; 10.7.10-10.7.13; 10.7.15; 10.7.18	LIT: RL 9-10 1-7, 9, 10; INFO: RL 9-10 1-8, 10; W: RL 1-10; SL: 9-10 1a-1d, 4-6; L: RL 9-10 1-6
	ENG302: American Literature	2	Students sharpen comprehension and analysis with a wide range of American literature. They write extensively in a variety of formats and refine language skills needed for standardized tests.	11.1.1-11.1.3; 11.2.1-11.2.6; 11.3.1-11.3.8; 11.4.1-11.4.13; 11.5.1-11.5.3; 11.5.6-11.5.7; 11.5.10; 11.6.1-11.6.4; 11.7.1-11.7.7; 11.7.12-11.7.14; 11.7.16	LIT: RL 11-12 1-6, 9, 10; INFO: RL 11-12 1-6, 8-10; W: RL 11-12 1-10; SL: RL 11-12 1a-1d, 3, 4, 6; L: RL 11-12 1a, 1b, 2b, 3a-6
	ENG402: British and World Literature	2	Students read selections from British and World literature from ancient through modern times. They practice analytical and creative writing and presentations and refine skills needed for standardized tests.	12.1.1-12.1.3; 12.2.2-12.2.6; 12.3.1-12.3.10; 12.4.1-12.4.13; 12.5.2; 12.5.5-12.5.10; 12.6.1-12.6.4; 12.7.1; 12.7.2; 12.7.6; 12.7.8; 12.7.12; 12.7.18-12.7.19	LIT: RL 11-12 1-7, 10; INFO: RL 11-12 1-3, 5-7, 10; W: RL 11-12 1-10; SL: RL 11-12 1-6; L: RL 11-12 1a-1b, 2b, 3a-6
Math	MTH122: Algebra	2	Students learn the tools of algebra and the rules and strategies for solving problems. They also learn to express and explain their work.	A1.1.1-A1.1.3; A1.2.1-A1.2.6; A1.3.1-A1.3.4; A1.4.1-A1.4.6; A1.5.1-A1.5.6; A1.6.1-A1.6.8; A1.7.1-A1.7.2; A1.8.1-A1.8.9; A1.9.1-A1.9.3; A1.9.5-A1.9.8	N-Q 2; A-SSE 1a-3b, 3C, 4; A-APR 1, 3, 7; A-CED 1-4; A-REI 1-6, 10, 12; F-IF 1-2, 4-6, 7a, 7b, 8a; F-LE 1b, 2; G-SRT 8; G-GPE 5; S-ID 7
	MTH202: Geometry	2	Students learn core geometric concepts; develop sound inductive and deductive reasoning; and come away with a solid understanding of mathematical structure, methods, and applications.	G.1.1-G.1.4; G.2.1-G.2.6; G.3.1-G.3.4; G.4.1-G.4.9; G.5.1-G.5.6; G.6.1-G.6.8; G.7.1-G.7.7; G.8.1-G.8.9	N-Q 2, 3; F-TF 8; G-CO 1-13; G-SRT 1-8, 10, 11; G-C 1-3, 5; G-GPE 1, 4-7; G-GMD 1-3; G-MG 1
	MTH302: Algebra II	2	Students build on algebraic concepts, solving open-ended problems and learning to think critically. They refine their ability to express and explain their work.	A2.1.1-A2.1.8; A2.2.1-A2.2.3; A2.3.1-A2.3.2; A2.3.4-A2.3.6; A2.4.1-A2.4.2; A2.5.1-A2.5.3; A2.5.5; A2.5.7; A2.6.1-A2.6.4; A2.6.6; A2.7.1-A2.7.4; A2.7.6; A2.7.8; A2.8.1-A2.8.4; A2.9.1-A2.9.2; A2.10.1-A2.10.5	N-RN 1, 2; N-Q 2; N-CN 1, 2, 4, 6; N-VM 1, 6-9, 11, 12; A-SSE 1-4; A-APR 1-3, 6, 7; A-CED 1-4; A-REI 1-6, 10-12; F-IF 1-5, 7a-8b; F-BF 1-4b, 5; F-LE 1a, 1c, 2, 4, 5; F-GPE 1-3, 5; G-GMD 4; S-ID 1-4, 6a, 6c, 7; S-IC 1-3; S-CP 1-3, 5-9
	MTH403: Pre-Calculus/Trigonometry	2	Students weave together algebra, geometry, and functions into a prep course for calculus, focusing on critical skills needed for success. The second semester covers trigonometric functions and applications. Cross-curricular connections are made to calculus, art, history, and other fields.	PC 1.1-PC 3.2, PC 4.1-PC 4.9, PC 4.11, PC 5.1-PC 7.6, PC 8.3, PC 9.1-9.2, PC 9.4-9.5	N-RN 1-2; N-Q 2; N-CN 1-7, 9; N-VM 1-5b; A-SSE 1a-3a, 3c-4; A-APR 2, 3, 6; A-CED 2-3; A-REI 4b; A-REI 5-12; F-IF 1-5; F-IF 7a-8b; F-BF 1a-4a; 4c, 5; F-LE 1a, 2, 4, 5; F-TF 1-9; G-CO 1; G-SRT 6, 8, 11; G-GPE 1-3; G-GMD 4
	SCI202: Biology	2	Students investigate the structure and function of living things. Topics include genetics, evolution, and ecology. Instruction is supported by animations, a reference book, and hands-on labs.	(2010) SCI.B.1.1-1.3, SCI.B.2.1-2.6, SCI.B.3.1-3.5, SCI.B.4.1-4.4, SCI.B.5.1-5.6, SCI.B.6.1-6.5, SCI.B.7.1-7.5, SCI.B.8.1-8.7	9-10.RT. 2-5, 9-10.RT.7, 9-10.RT.9, 9-10.RT.10, 9-10.WT.1-4, 9-10.WT.6-10

Science	SCI302: Chemistry	2	Students learn all key areas of chemistry, including atomic structure, chemical bonding and reactions, solutions, thermochemistry, and nuclear chemistry. Instruction is supported by animations, a reference book, and hands-on labs.	(2010) SCI.C.1.1-1.7, SCI.C.2.1-2.9, SCI.C.3.1-3.5, SCI.C.4.1-4.7, SCI.C.5.1-5.3, SCI.C.6.1-6.4, SCI.C.7.1-7.6, SCI.C.8.1-8.5, SCI.C.9.1, SCI.C.9.2	11-12.RT.2-5, 11-12.RT.7, 11-12.RT.9, 11-12.RT.10, 11-12.WT.1-7, 11-12.WT.9, 11-12.WT.10
	SCI102: Physical Science	2	Students explore force and motion, the structure and properties of atoms and matter, chemical reactions, and the interactions of energy and matter. Focusing on inquiry learning, students develop skills in measuring, solving problems, and adhering to experimental and safety procedures.	(2010) ICP.1.1-1.4, ICP.2.1-2.4, ICP.3.1-3.4, ICP.4.1-4.5, ICP.5.1-5.7, ICP.6.1-6.7, ICP.7.1-7.8, ICP.8.1-8.7	9-10.RT.2-5, 9-10.RT.7, 9-10.RT.9, 9-10.RT.10, 9-10.WT.1-3, 9-10.WT.7, 9-10.WT.9, 9-10.WT.10
Social Studies	HST302: US History	2	Students learn American history from early migrations to recent events with K12's ebook The American Odyssey; online lessons; primary sources, maps, and timelines; independent research; written assignments; and projects.	USH.1.1-USH.1.4; USH.2.1-USH.2.7; USH.3.1-USH.3.8; USH.4.3-USH.4.6; USH.4.8; USH.5.1-USH.5.6; USH.6.1-USH.6.4; USH.7.1-USH.7.8; USH.8.1-USH.8.6; USH.9.1-USH.9.6	11-12.RT.1-10, 11-12.WT.1-10
	HST402: US Government and Politics	1	Students explore the history, organization, and functions of US government from the Declaration of Independence to the present day. They look at political parties, interest groups, and the media, and learn to evaluate past events.	USG.1.1-USG.1.11; USG.2.1-USG.2.7; USG.3.1-USG.3.15; USG.3.17-USG.3.20; USG.4.1-USG.4.7; USG.4.9-USG.4.10; USG.5.1-USG.5.12	11-12.RT. 2-9, 11-12.WT.2
	HST412: US and Global Economics	1	Students learn about economic principles, exploring issues faced by producers, consumers, investors, and taxpayers, and review current issues in American and global markets.	E.1.1-E.1.9; E.2.1-E.2.11; E.3.1-E.3.11; E.4.1-E.4.2; E.4.4-E.4.10; E.5.1-E.5.9; E.5.11; E.6.1-E.6.10; E.7.1-E.7.9; E.8.1-E.8.4; E.8.6-E.8.10	
	HST102: World History	2	Through online instruction, K12's ebook World History: Our Human Story, and study of a variety of resources, students learn how civilization was shaped from prehistoric to modern times. They practice skills in geography, historical thinking, writing, and analysis of broad themes.	WH.1.1-WH.1.3; WH.2.2-WH.2.13; WH.3.1-WH.3.16; WH.4.2-WH.4.5; WH.4.7-WH.4.13; WH.5.1-WH.5.4; WH.6.1-WH.6.6; WH.7.1-WH.7.3; WH.8.1.-WH.8.11; WH.9.2	9-10.RT.2-5, 9-10.RT.8-10, 9-10.WT.1, 9-10.WT.2, 9-10.WT.9, 9-10.WT.10
PE and Health	OTH020: Physical Education	2	Students receive online instruction and participate in weekly cardiovascular, aerobic, muscle-toning, and other activities, keeping weekly logs.	HW.1.1-HW.1.5; HW.1.7-HW.1.9; HW.2.1; HW.2.3; HW.2.5; HW.2.9; HW.3.1; HW.3.2; HW.3.4; HW.3.5; HW.4.1-HW.4.4; HW.5.2; HW.5.4-HW.5.6; HW.6.1; HW.6.2; HW.7.1-HW.7.3; HW.8.1; HW.8.2; HW.8.4	9-12.RT.1-9-12.RT.4; 9-12.WT.1.a; 9-12.WT.1.b; 9-12.WT.2.a; 9-12.WT.2.d; 9-12.WT.4; 9-12.WT.5; 9-12.WT.7; 9-12.WT.9; 9-12.WT.10
	OTH010: Skills for Health	1	Students learn about nutrition; physical activity; the dangers of substance use and abuse; injury prevention and safety; growth and development; and personal health, environmental conservation, and community health resources.	9.1.2; 9.2.1; 9.2.2; 9.3.2-9.3.4; 9.4.1-9.4.3; 9.5.1-9.5.3; 9.5.5; 9.6.1; 9.6.3	9-12.RT.4; 9-12.WT.2(b)
	ART010: Fine Art	2	This course combines art history, appreciation, and analysis, and hands-on creative projects in the study of major periods, movements, and masterworks in art history. Studio lessons provide opportunities for drawing, painting, sculpting, and other creative endeavors.	H.1.1-3, H.1.6, H.1.7, H.2.1-3, H.3.1, H.3.2, H.4.1, H.4.2, H.4.4, H.5.1-3, H.6.1, H.6.2, H.6.4-6, H.7.1-3, H.8.1, H.8.2	9-12.RT.4 , 9-12.WT.1.a, 9-12.WT.1.b, 9-12.WT.1.d, 9-12.WT.7, 9-12.WT.8, 9-12.WT.10
	WLG100: Spanish I	2	Students build the fundamentals in four key areas of world language study: listening comprehension, speaking, reading, and writing embedded in authentic language, plus culture of major Spanish-speaking countries.	WL.MH9.1.1-WL.MH9.1.8; WL.MH9.2.1-2.4; WL.MH9.3.1-WL.MH9.3.5; WL.MH9.4.1-WL.MH9.4.3; WL.MH9.5.1; WL.MH9.5.2; WL.MH9.6.1; WL.MH9.6.2; WL.MH9.7.1-WL.MH9.7.7; WL.MH9.8.1-WL.MH9.8.4	

Electives	WLG200: Spanish II	2	Students deepen their skills in listening comprehension, speaking, reading, and writing with new vocabulary, activities to analyze meaning from context, and oral expression. Additional verb tenses and idiomatic expressions are also introduced.	WL.MH10.1.1-WL.MH10.1.8; WL.MH10.2.1-2.3; WL.MH10.3.1-WL.MH10.3.5; WL.MH10.4.1-WL.MH10.4.5; WL.MH10.5.1; WL.MH10.5.2; WL.MH10.6.1; WL.MH10.6.2; WL.MH10.7.1-WL.MH10.7.6; WL.MH10.8.1-WL.MH10.8.4	
	WLG110: French I	2	Students build the fundamentals of listening comprehension, speaking, reading, and writing through vocabulary and grammar topics embedded in authentic language. Cultural topics are also discussed.	WL.MH9.1.1-WL.MH9.1.8; WL.MH9.2.1-2.4; WL.MH9.3.1-WL.MH9.3.5; WL.MH9.4.1-WL.MH9.4.3; WL.MH9.5.1; WL.MH9.5.2; WL.MH9.6.1; WL.MH9.6.2; WL.MH9.7.1-WL.MH9.7.7; WL.MH9.8.1-WL.MH9.8.4	
	WLG210: French II	2	Students enhance their skills in listening comprehension, speaking, reading, and writing with new vocabulary, activities that challenge them to analyze meaning from context, assignments in oral expression.	WL.MH10.1.1-WL.MH10.1.8; WL.MH10.2.1-2.3; WL.MH10.3.1-WL.MH10.3.5; WL.MH10.4.1-WL.MH10.4.5; WL.MH10.5.1; WL.MH10.5.2; WL.MH10.6.1; WL.MH10.6.2; WL.MH10.7.1-WL.MH10.7.6; WL.MH10.8.1-WL.MH10.8.4	
	WLG140: Chinese I	2	Stories, online activities, and multimedia experiences introduce students to Mandarin Chinese through lessons that give a base of conversational ability and listening comprehension. Students build a foundation for reading and writing through an adaptive technology that lets them choose an approach that works best for them.	WL.EAH9.1.1-WL.EAH9.1.8; WL.EAH9.2.1-2.4; WL.EAH9.3.1-WL.EAH9.3.5; WL.EAH9.4.1-WL.EAH9.4.3; WL.EAH9.5.1; WL.EAH9.5.2; WL.EAH9.6.1; WL.EAH9.6.2; WL.EAH9.7.1-WL.EAH9.7.9; WL.EAH9.8.1-WL.EAH9.8.4	
	WLG240: Chinese II	2	Students further their understanding of Mandarin Chinese grammar and pronunciation and refine conversational and listening comprehension skills. Adaptive technology allows students to learn in the way that is best for them.	WL.EAH10.1.1-WL.EAH10.1.8; WL.EAH10.2.1-2.4; WL.EAH10.3.1-WL.EAH10.3.5; WL.EAH10.4.1-WL.EAH10.4.5; WL.EAH10.5.1; WL.EAH10.5.2; WL.EAH10.6.1; WL.EAH10.6.2; WL.EAH10.7.1-WL.EAH10.7.8; WL.EAH10.8.1-WL.EAH10.8.4	
	ENG020: Public Speaking	1	Students develop skills as fair and critical listeners, study types of speeches, read and listen to models, and prepare and present their own speeches to diverse audiences. They learn to choose topics, research and support their ideas, incorporate visual and multimedia aids, benefit from feedback, and manage communication anxiety.	SPC.1.1, SPC.1.2, SPC.1.5-1.8, SPC.1.9-1.15, SPC.1.16-1.20	9-10.RT.1, 9-10.WT.1-6
	BUS030: Personal Finance	1	Students learn basic principles of economics and best practices for managing their own finances, the core skills to create budgets, develop long-term financial plans, and make responsible choices.	PFR-1.1.1, PFR-1.2.1, PFR-1.4.1-4.3, PFR-2.1.1, PFR-3.1.1-1.4, PFR-3.1-3.3, PFR-3.4.2, PFR-3.4.3, PFR-4.1.1-1.3, PFR-4.2.1, PFR-4.2.2, PFR-4.3.1, PFR-4.3.2, PFR-4.1.1-1.3 PFR-4.2.1, PFR-4.2.2, PFR-5.1.1, PFR-5.2.1-2.3, PFR-6.1.2, PFR-6.2.1-2.3, PFR-6.3.2	9-10.RT.1-5, 9-10.RT.7, 9-10.RT.10, 9-10.WT.1-4, 9-10.WT.6-9
	BUS060: Introduction to Marketing I	1	Students learn the fundamentals of marketing using real-world business examples. They learn about buyer behavior, marketing research principles, demand analysis, distribution, financing, pricing, and product management.	MF 1.1.1-1.1.4, MF 2.1.1; 2.1.2, 2.1.7, 2.1.12; MF 2.2.1, 2.2.7, 2.2.9; MF 2.3.1, 2.3.2; MF 3.1.1.-3.1.6; MF 4.1.1.-4.1.7; MF 4.2.1-4.2.6; MF 5.2.5, 5.2.7, 5.2.11; MF 5.3.2; MF 5.4.3; MF 6.1.1-6.1.6; MF 7.1.1, 7.1.2; MF 7.2.1, 7.2.2.; MF 7.3.1; MF 10.1.1.-10.1.4; MF 11.1.2, 11.1.5.; 12.1.1-12.1.4.; 13.2.1	9-10.RT.10

	BUS070: Introduction to Marketing II	1	Students build on the skills and concepts learned in Introduction to Marketing I and develop their own comprehensive marketing plan for a new business.	MF 1.1.2, 1.1.3, 1.1.5; MF 2.1.1, 2.1.4, 2.1.6, 2.1.10, 2.1.12; MF 2.2.1, 2.2.7, 2.2.9; MF 2.3.1, 2.3.2; MF 3.1.3-3.1.6; MF 4.1.6; MF 5.1.1, 5.1.4; MF 5.2.1.-5.2.7; MF 5.3.2-5.3.4; MF 5.4.1-5.4.3, 5.4.5; MF 7.2.1; MF 7.3.1-7.3.5; MF 9.1.1, 9.1.2; MF 11.1.3; MF 11.2.1-11.2.3, 11.2.5, 11.2.6; MF 13.1.1, 13.1.2; MF 13.2.1; MF 13.3.1, 13.3.2, 13.3.7, 13.3.8	9-10.WT.4-WT.6, 9-10.WT.8, 9-10.WT.10
	MTH112: Pre-Algebra	2	Students learn computational and problem-solving skills through instruction, demonstration, interactive and written practice, and contextual feedback.	8.1.1-8.1.7, 8.2.1-8.2.4, 8.3.1, 8.3.3-8.3.8, 8.4.1-8.4.5, 8.5.1, 8.5.3-8.5.5, 8.6.1-8.6.7, 8.7.1-8.7.4, 8.7.6-8.7.12, A1.1.1-A1.1.4, A1.2.1-A1.2.6, A1.3.1-A1.3.4, A1.4.1-A1.4.4, A1.5.1, A1.5.3-A1.5.5, A1.6.8, A1.7.1, A1.7.2, A1.9.1-A1.9.4	N-Q.3, A-SSE.1a, A-CED.4, A-REI.1, A-REI.3, A-REI.10, F-IF.1, F-IF.2, F-IF.7a, G-CO.1, G-CO.4, G-CO.5, G-CO.9, G-CO.10, G-SRT.2, G-SRT.8, G-GPE.7, G-GMD.3, S-ID.1, S-ID.3, S-ID.6a, S-IC.1-3, S-CP.7
	OTH050: Achieving Your Career and College Goals	1	Students explore their options for life after high school. They investigate the training and education required for the career of their choice, create a plan, and gain practical experience in searching and applying for college, securing financial aid, writing a resume and cover letter, and interviewing for a job.	PCC-1.1-1.4, PCC-2.1-2.4, PCC-3.1-3.4, PCC-4.1-4.3, PCC-5.1-5.4, PCC-6.1-6.5, PCC.7.1-7.5	9-10.WT.4-WT.6, 9-10.WT.10

IUES PASSPORT ACADEMY EXIT STANDARDS

The following criteria must be met by each IUES Passport Academies student in order to be eligible for a high school diploma:

I. Grade Point Average:

Students must finish their last semester with a minimum cumulative 2.0 GPA. This Grade Point Average refers to grades received only while in attendance at IUES Passport Academies. Previous GPAs from other institutions are not factored into this requirement.

II. Service Learning Hours:

Students must complete a minimum of 40 Service Learning Hours. These may be transferred over from their previous schools. Furthermore, a student can earn up to ten Service Learning Hours by assisting in the IUES Passport Academies office. Further hours may be obtained by students in good academic standing by assisting and tutoring other students.

III. ISTEP+ End-of-Course Assessments: Algebra I and English 10

Students must demonstrate mastery of the standards that are tested on End-of-Course Assessments (ECAs) for Algebra I and English 10. Students can show mastery in one of three ways:

1. Achieve passing scores on the Algebra I and English 10 ECAs. Note: To eligible for a Core 40 high school diploma, students must pass the ECAs for Algebra I and English 10.
2. Student who does not achieve a passing score on the ECAs may be eligible to graduate if all of the following occur:
   a) Takes the graduation examination in each subject area (the Algebra I and/or English 10 ECA) in which the student did not achieve a passing score at least one time every school year after the school year in which the student first takes the graduation examination.
   b) Completes remediation opportunities provided to the student by IUES Passport Academies.
   c) Maintains a school attendance rate of at least ninety-five percent (95%) with excused absences not counting against the student's attendance.
   d) Maintains at least a C-- average or the equivalent in the courses comprising the credits specifically required for graduation by rule of the State Board.
   e) Otherwise satisfies all state and local graduation requirements.
   f) Either:
      1) Completes:
         i. the course and credit requirements for a general diploma, including the career academic sequence;
         ii. a workforce readiness assessment; and
         iii. at least one career exploration internship, cooperative education, or workforce credential recommended by the student's school; *or*

2) Obtains a written recommendation from a teacher of the student in each subject area in which the student has not achieved a passing score on the graduation examination (the Algebra I and/or English 10 ECA). The written recommendation must be concurred in by the Head of School and be supported by documentation that the student has attained the academic standard in the subject area based on:
   i. tests other than the graduation examination; or
   ii. classroom work.

3. In the case of a student with a disability (as defined in IC 20-35-1-2, *Appendix D*), the student's case conference committee may determine that the student is eligible to graduate if it determines that all of the following have occurred:
   a) The student's teacher of record, in consultation with a teacher in each subject area in which the student has not achieved a passing score, makes a written recommendation to the case conference committee. The recommendation must be supported by the Head of School, as well as by documentation that the student has attained the academic standard in the subject area based upon tests other than the ECAs or classroom work.
   b) The student meets all of the following requirements:
      1)) Retakes the ECAs in each subject area (Algebra I and/or English 10) in which the student did not achieve a passing score as often as required by the student's Individualized Education Program.
      2) Completes remediation opportunities provided to the student by the student's school to the extent required by the student's Individualized Education Program.
      3) Maintains a school attendance rate of at least ninety-five percent (95%) to the extent required by the student's Individualized Education Program with excused absences not counting against the student's attendance.

IV. K[12] Coursework Hours:

Students are required to log into K[12] coursework a total of six hours daily. This translates to 3 to 3.5 hours of coursework while at school and an additional 2.5 to 3 hours on their own time. Therefore, it is a requirement that students complete 360 minutes on a daily basis.

V. Test of Adult Basic Skills (TABE):

Students are required to take an entrance and exit TABE test. Students who have been enrolled in the fall semester will also take a "mid-year progress" TABE test. Students will not receive his/her report card or diploma until the exit TABE is completed. Furthermore, every student must test out at a 10.0 level in the TABE Reading section. For the Math section, students must show a growth of one month for every month they were enrolled in IUES Passport Academies. For example, a student who has attended IUES Passport Academies for one semester must show 0.4 gains between his/her entrance and exit TABE Math score. A student who has been enrolled for two semesters must show a 0.8 growth in his/her TABE Math score.

VI. Senior Portfolio:

Students must complete their Senior Portfolios in order to be eligible for a diploma. The Portfolio is designed for students to use as a tool in planning their post-secondary path and

VII. Course Requirements:

Students must show mastery and receive credit in the following subjects in order to be eligible for a high school diploma:

Core 40 Diploma – To earn a Core 40 HS Diploma, a student will need to accumulate a minimum of 40 credits with the following distribution requirements:

- ELA – 8 Credits
- Math – 6 Credits*
- Science – 6 Credits
- Social Studies – 6 Credits
- Directed Electives – 5 Credits
- Physical Education – 2
- Health – 1 Credits
- Electives – 6 Credits

** Students must take a math or quantitative reasoning course each year in high school*

General Diploma – To graduate with less than Core 40, the following formal opt-out process must be completed:

- The student, the student's parent/guardian, and the student's counselor (or another staff member who assists students in course selection) must meet to discuss the student's progress.
- The student's Graduation Plan (including four year course plan) is reviewed.
- The student's parent/guardian determines whether the student will achieve greater educational benefits by completing the general curriculum or the Core 40 curriculum.

If the decision is made to opt-out of Core 40, the student is required to complete the following course and credit requirements:

- ELA – 8 Credits
- Math – 4 Credits
- Science – 4 Credits
- Social Studies – 4 Credits
- College and Career Courses – 6 Credits
- Flex Credits – 5 Credits
- Electives – 6 Credits
- Physical Education – 2 Credits
- Health – 1 Credits

A total of 40 minimum credits are required in order to earn a Core 40 or General Diploma.

IUES PASSPORT ACADEMY GRADUATES…

What They've Experienced	What They Will Know	What They Will be Able To Do
Have experienced a student-centric blended learning curriculum that prepares our students for high school and post-high school success	Demonstrate mastery in all core academic areas including the arts, a second language and career readiness	Are well positioned to pursue and secure a two or four year college degree, trade or technical certification, and employment in a high growth field of his/her choice.
Have completed AP or dual credit college courses, gained job skills through certification, internship or work study programs and have had multiple exposures to college environments.	Possess the direction, motivation, and credentials necessary to pursue his/her dreams.	Have a well informed plan for their future that reflects purposeful academic and professional choices.
Have worked individually, as part of teams, and alongside mentors on projects that emphasize higher order (College Knowledge) skills.	Are critical thinkers, compelling communicators, strategic problem-solvers, and team players.	Use their unique skills to make positive contributions to their workplace, household and community.
Have modeled exemplary behavior in cooperative classroom environments, through a character education Advisory program, and through service to the school and broader community.	Have a strong sense of self and of community, values service and kindness to others.	Are active citizens who fully participate in their communities.

ATTACHMENT 13

IUES PASSPORT ACADEMIES

Proposed SY2013-2014 School Calendar

July 2013

Su	Mo	Tu	We	Th	Fr	Sa
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

August 2013

Su	Mo	Tu	We	Th	Fr	Sa
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

September 2013

Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

October 2013

Su	Mo	Tu	We	Th	Fr	Sa
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

November 2013

Su	Mo	Tu	We	Th	Fr	Sa
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

December 2013

Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

January 2014

Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

February 2014

Su	Mo	Tu	We	Th	Fr	Sa
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	

March 2014

Su	Mo	Tu	We	Th	Fr	Sa
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

April 2014

Su	Mo	Tu	We	Th	Fr	Sa
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

May 2014

Su	Mo	Tu	We	Th	Fr	Sa
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

June 2014

Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

CALENDAR LEGEND

	First Day of Student Attendance		Holidays
	Teacher Professional Development		School in Session
	Intersessions		Last Day of School for Students
	No School		

August 1 and 2: Teachers' Meetings and Work Days
August 5: First Day of Student Attendance
September 2: Labor Day
September 18: Parents' Day
October 7-18: Fall Intersession (Remediation/Catch Up/Enrichment/Fall Break)

November 25-29: Thanksgiving Vacation
December 23-January 3: Winter Break
January 20: Martin Luther King Day
February 17: President's Day
March 24-April 4: Spring Intersession (Remediation/Catch Up/Enrichment/Spring Break)
May 23 + 26: Memorial Day Holiday
June 12: Last Day of School for Students

Weekly Schedule of Classes

Morning Session	Afternoon Session
Daily Onsite at School	**Daily Onsite at School**
9:00 – 9:25 a.m. Advisory	**1:00 – 1:25 a.m. Advisory**
9:30-12:30 Onsite Direct Instruction, Independent Coursework, Assessments, Enrichment	**1:30-4:30 Onsite Direct Instruction, Independent Coursework, Assessments, Enrichment**
Daily Offsite	**Daily Offsite**
2.5 hr. minimum- Scheduled by Student	**2.5 hr. minimum- Scheduled by Student**

ATTACHMENT 14

IUES ENROLLMENT POLICY

Admission Requirements and Pre-Admission Activities

IUES Passport Academies will enroll any eligible student who resides in Indiana who submits a timely application for enrollment. The admissions process will ensure that all enrolling students and their families understand the mission and unique nature of IUES Passport Academies. A series of open information sessions will be held throughout the district. These events will be free, open to the public, and advertised in various print and electronic media. The information sessions will give interested families the chance to view the curriculum in action, closely inspect the books and materials, meet teachers and staff, and address any questions or concerns. IUES Passport Academies will maintain school websites and a toll-free call center to answer families' questions.

IUES Passport Academies will be inclusive and open to all eligible students. There will be no discrimination in the admission of students to the school on the basis of disability, race, color, gender, national origin, religion, and ancestry and, upon admission of any student with a disability, IUES Passport Academies will comply with all federal and state laws regarding the education of students with disabilities.

Tentative dates for the application period, including enrollment deadlines and procedures, and an explanation of how the school will receive and process Intent to Enroll forms.

In Year 1 of school operations, beginning in October 2012, IUES Passport Academies will make the community aware of the charter schools opening in August 2013. January 2013 to April 2013 will be the open enrollment period. IUES Passport Academies will accept applications on an ongoing basis and enroll students. Students enrolling must reapply every year by completing an Intent to Enroll (IEF) Form. The Intent to Enroll Form must be submitted on or before the given due date to be guaranteed enrollment for the following school year. IEF's not returned by the due date will be subject to either 1) space available or 2) lottery regulations, depending upon public demand. Students not admitted during open enrollment shall be placed on a waiting list and admitted via lottery as space becomes available.

Tentative lottery dates and procedures.

If the number of applications for the school's programs, class, grade level, or building exceeds the capacity of the program, class, grade, or building, IUES Passport Academies will give each timely applicant an equal chance of admission. IUES Passport Academies will determine which of the applicants will be admitted to the charter school or program, class, grade level, or building by random drawing in a public meeting. The lottery will be blind to race, color, gender, national origin, religion, and ancestry. The lottery will be held once each year. Only applications received at the location designated on the application form and by the lottery deadline will be eligible to participate in the lottery.

As provided for in IC 20-24-5-5, IEUS Passport Academies may limit new admissions to:

- Ensure that a student who attends the charter school during a school year may continue to attend the charter school in subsequent years*; and
- Allow the siblings of a student who attends a charter school to attend the charter school.

**This assumes students attending the school the previous year who reregister on time.*

Completed enrollment packets for applicants selected in the lottery must be received no later than the enrollment deadline. Those not responding by the enrollment deadline will be required to resubmit an application.

Policies and procedures for student waiting lists, withdrawals, re-enrollment, and transfers.

After the space allotted in the school is filled in the order determined by the lottery, the remaining applications in rank order will be placed on a waiting list. Any applications received after the application deadline will be added to the end of the waiting list after the lottery in the order they were received. As students withdraw from, transfer out of, or graduate from a IUES Passport Academy, that space will be given to the next person on the list. Students attending the charter school during a school year may re-enroll in subsequent years assuming the students reregister on time. IUES Passport Academies will accept transfer students during the school year if space is available at appropriate grade levels. The School's transfer policy will be to adhere to the policy requirements established by the school corporation in which the IUES Passport Academy is located.

DRAFT

The following is the Code of Conducted being recommended for adoption by the IUES Board. A Code of Conduct including a progressive discipline policy will be adopted by the IUES Board at the next Board meeting in compliance with all IUES Passport Academies policies.

IUES Passport Academy Code of Conduct

IUES Passport Academies will work to ensure that each of its schools is a place where all students can learn and all staff can teach in a safe, secure and orderly environment. To ensure that an environment is created where teaching and learning can flourish, IUES Passport Academies has developed a series of rules that address proper student behavior, maintenance of order within the school and while people are engaged in school activities (Code of Conduct), and a statement of student rights and responsibilities. IUES Passport Academies' staff will ensure that parents and students are well informed of these policies both before enrollment and at the time students enroll in IUES Passport Academies. The Code of Conduct will be signed by families and/or students to show that they have read and understand the rules, in order to hold them accountable for their actions. As such, students will know what type of behavior is expected of them, and parents will be reassured about the type of classroom and campus environment maintained at IUES Passport Academies.

The Code of Conduct sets forth the policy of IUES Passport Academies regarding how students are expected to behave when participating in school activities, on and off school grounds, including public transportation, and how IUES Passport Academies will respond when students fail to behave in accordance with these rules. Where appropriate, school officials also will contact law enforcement agencies.

The first step taken in any disciplinary action is to restore a sense of safety. Should the severity of an infraction require a more formal response, or should the teacher have experienced and documented multiple and/or frequent unacceptable behaviors, the student will be subjected to one of the formal consequences outlined in the table below and discussed at greater length following our provisions for students with disabilities and for all disciplinary actions. The decision as to which consequence is chosen will be in accordance with guidelines established by State law, which will ensure both consistency and equitable treatment for all students and enables schools to exercise discretion and educational judgment.

Discipline:	Implementation:
Detention	Given by a teacher on the approval of the Head of School; held after school.
Exclusion	Determined by the staff member running the extracurricular activity.
Short-term suspension	Determined by the Head of School; a student may be removed from school for a period of up to five days.
Long-term suspension	Determined by the Head of School and the Board of Trustees; a student may be removed from school for a period of more than five days.
Expulsion	Determined by the Head of School and the Board of Trustees; a student may be removed from the school permanently.

Provisions for Students with Disabilities: The Head of School will have the authority to suspend or remove a student as a disciplinary action, upon conferring with the Special Education Teacher and/or Director, Guidance Counselor, and the Board of Trustees. IUES Passport Academies will adhere to all Code of Federal Regulations on discipline provisions for students with disabilities that pertain to sections 300.530, 300.532(a), 300.532 (b), 300.533, 300.534, and 300.536. IUES Passport Academies will ensure record keeping on the number of days a student with a disability has been suspended or removed for discipline reasons. Alternative instruction will be provided for students of compulsory school age who are suspended or expelled. IUES Passport Academies will also ensure that parents and students with disabilities receive appropriate notification regarding suspensions or removals for disciplinary reasons. When a suspension or removal of a student with a disability constitutes a disciplinary change of placement, the Head of School, Special Education Teacher and/or Director and Guidance Counselor will follow the Federal Regulations and ensure that the student is provided with a free appropriate public education (FAPE) as defined in the federal regulations. The School will also ensure that the student is referred for a manifestation determination and that the student's parent/guardian is provided with a copy of procedural due process rights.

Provisions for All Disciplinary Actions:
Due process procedures shall be followed for all disciplinary actions consistent with federal case law pursuant to Goss v. Lopez (419 U.S. 565). The Head of School shall provide notice to inform the student of the charges against him or her, and if the student denies the charges, an explanation of the evidence against the student. The student will be provided with an opportunity, in person, to present his/her version of events to the Head of School. Before imposing a long-term suspension, the Principal shall immediately notify the parents or guardian in writing that the student may be suspended from school.

Short-Term Suspension: The Head of School determines short-term suspension on a case-by-case basis. Any student that has committed any of the infractions listed below shall be subjected minimally to a short-term suspension enforced by the Head of School:

- Attempt to assault any student or staff member.
- Vandalize school property causing minor damage.
- Endanger the physical safety of another by the use of force or threats of force, which reasonably places the victim in fear of imminent bodily injury.
- Use forged notes or excuses
- Cheat on exams or quizzes.
- Steal, attempt to steal, or possess property known by the student to be stolen.
- Trespass on school property.
- Abuse school property or equipment.
- Engage in acts of sexual harassment, including but not limited to physical contact or offensive sexual comments.
- Make a false bomb threat or pull a false emergency alarm.
- Possess tobacco or alcohol.
- Repeatedly commit minor behavioral infractions, which, in the aggregate, may be considered an infraction subject to formal disciplinary action.
- Commit any other act that school officials reasonably conclude warrants a disciplinary response.
- Any of the above actions that take place on or off campus

Long-Term Suspensions and Expulsion: Any student that has committed any of the infractions listed below shall be subjected minimally to a long-term suspension determined by the Head of School and the Board of Trustees:

- Possess, use, attempt to use, or transfer any firearm, knife, razor blade, explosive, mace, tear gas, or other dangerous object of no reasonable use to the student at school.
- Commit or attempt to commit arson on school property.
- Possess, sell, distribute or use any alcoholic beverage, controlled substance, imitation, or marijuana on school property or at a school-sponsored event.
- Assault any other student or staff member.
- Intentionally cause physical injury to another person, except when the student's actions are reasonably necessary to protect him/her from injury.
- Vandalize school property causing major damage.
- Commit an act which school officials reasonably conclude warrants a long-term suspension.
- Make false bomb threats or pull a false emergency alarm.

If the Head of School initiates the suspension proceeding, he or she shall personally hear and determine the proceeding or may, in his discretion, designate a hearing officer to conduct the hearing. The hearing officer's report shall be advisory only and the Head of School may accept or reject all or part of it. The Head of School's decision to impose a long-term suspension or expulsion may be challenged by the parent or guardian in accordance with the charter school's complaint process.

Students Right to Appeal:
Students have the right to appeal both short and long term suspensions. In the event of a short term suspension, students, or their legal guardian, will have the option to speak to the Head of School directly to contest their argument. There is to be at least one additional person at this meeting to serve as witness and potential arbitrator. Students or their guardians have 24 hours to protest a short term suspension.

If a student earns a long term suspension or is engaged in due process of removal from the school, that student, or the student's legal guardian, may exercise the right to contest an argument before the IUES Passport Academies Board of Trustees and in accordance with IUES Passport Academies' formal complaint process.

IUES Passport Academy Grievance

1. All concerns and issues should first be directed to the student's teacher. If a Passport Academy teacher cannot resolve the issue, he or she will direct the parent to the appropriate contact for assistance. The Passport Academy teacher will monitor the concern to ensure resolution.
2. If the concern is not resolved by the teacher, or if the issue or concern is about the Passport Academy teacher, students and parent(s)/responsible adults, custodian(s), or legal guardian(s) should address any concern or grievance in writing to the Head of School. The Head of School will respond within ten (10) working days.
3. If the concern or grievance is not resolved by the Head of School, the student and/or parent(s)/responsible adults, custodian(s), or legal guardian(s) may, within ten (10) working days of the Head of School's response, request a meeting (via phone or in person) with the Head of School to discuss the concern or grievance. The meeting request must be in writing. The Head of School shall investigate and respond within ten (10) working days.
4. If the student or family's concern is not resolved at the meeting with the HOS, the family may file a written complaint with the Indiana Urban Education Solutions, Inc. Board of Directors.

Ohio Valley District
700 West 16th Street
Indianapolis, IN 46202
317.532.3201 Tel
317.532.3200 Fax

March 30, 2012

Clair Fiddian-Green
Executive Indiana Charter School Board
Indiana Department of Education
151 West Ohio Street
Indianapolis, IN 46204

Dear Clair,

I am writing in support of Indiana Urban Education Solutions' (IUES) application to develop a network of drop out recovery high schools that is being considered by the Indiana Charter School Board.

One of the most powerful things about education is its ability to enable people to make real choices about their life and future. Education affords its possessor with more options for meaningful work through which a person can earn a decent living. This in turn leads to greater access to better health care, housing and transportation. The benefit to the individual and to society is in many ways immeasurable. However, data shows that if we graduated even 1000 of the State's drop outs we would increase the gross state product by $12 million. As President of the Ohio Valley District for UPS and Chair of the Greater Indianapolis Chamber of Commerce Workforce Development Committee, I understand how imperative it is for Indianapolis to continue to address its drop out epidemic. With much of our forecasted economic growth coming from jobs that will require at least some postsecondary education, we have to work harder to develop a prepared workforce. Initiatives like the network of drop out recovery schools being proposed by Indiana Urban Education Solutions are exactly what we need in our city to ensure its continued economic viability. I look forward to joining their efforts to increase educational outcomes and prepare a more competitive workforce for Indianapolis.

Sincerely,

Zachary Scott
President
Ohio Valley District

shepherd
community center

Claire Fiddian-Green
Indiana Charter School Board
151 West Ohio Street
Indianapolis, Indiana 46204

Dear Ms. Fiddian-Green,

The Indiana Urban Education Solutions network of blended learning high schools that will serve individuals who have previously dropped out of high school will provide a greatly needed resource for our community. Far too many youth and young adults are stuck in cycles of poverty and disconnection from community. Education is one of the most effective means of overcoming socioeconomic hardship. IUES Passport Academies will eventually serve over 1200 students per year setting thousands of our community residents on their pathway to freedom.

As the Executive Director of Shepherd Community Center, a faith-based, inner city ministry on the near Eastside of Indianapolis offering comprehensive youth and family services for over 25 years, I fully support Indiana Urban Education Solutions' effort to reach the nearly 25,000 youth and young adults in Marion County who do not have a high school diploma.

I am excited about the schools that are being proposed because I have seen through our work at Shepherd Community Center how the addition of a caring adult and strong academic support can get a student back on track. We look forward to our children and families having access to the high quality schools being proposed by IUES Passport Academies – schools that will allow them to pursue successful, fulfilling and productive lives.

Sincerely,

JH

Jay Height
Executive Director

cc: Andrew Green, Director of Strategic Initiatives
Eric Weidman, Director of Programs

4107 E. Washington St. Indianapolis, IN 46201 317.375.0203
www.shepherdcommunity.org

Forest Manor
MULTI-SERVICE CENTER

5603 East 38th Street
Indianapolis, IN 46218
P: 317.545.1204
F: 317.545.3096
www.fmmsc.org

April 2, 2012

Claire Fiddian-Green
Indiana Charter School Board
151 West Ohio Street
Indianapolis, Indiana 46204

Dear Ms. Fiddian-Green,

I am writing to pronounce my support of the Indiana Urban Education Solutions Passport Academies application that is being considered by the Indiana Charter School Board for a fall 2013 opening in Indianapolis. As the Executive Director of Forest Manor Multi-Service Center, a (description of program), I believe that IUES Passport Academies will provide the community with another means of reconnecting our youth who have not been served by traditional high school another chance for successful, fulfilling and productive lives.

Forest Manor Multi-Service Center's vision is to strive to improve the quality of life of individuals and families in our neighborhood. Our programs, services and advocacy will result in a more vibrant community by increasing employment opportunities; improving high school graduation rates; reducing poverty and crime; and empowering families to thrive.

I am excited about the school that is being proposed because I have seen firsthand how the right kind of intervention can make all the difference in a child's chances for success in life. I am looking forward to working with IUES Passport Academies as a Community Partner to create viable and sustainable youth development programming for our community.

It is with great enthusiasm that I support IUES Passport Academies and its school application. Thank you for your diligence in helping Indiana students acquire the necessary tools to succeed.

Peace & Blessings,

Regina Marsh
Chief Executive Officer

OF THE
WORLD
CHRISTIAN CHURCH

To Whom It May Concern:

I am writing to express my enthusiastic support for Indiana Urban Education Solutions' network of drop out recovery high schools. The Founding Group has been working with parents, faith-based and community leaders and businesses to establish its first schools for the fall of 2013. Indianapolis is a community replete with resources and rich in history, however, there is paucity within the educational process in which those suffering the most are low-income and African-American students. When the largest school district in Marion County serving the greatest number of African American and low-income students has a 47.3% graduation rate, it is apparent that there exists an achievement gap which must be closed. The outlook for students who leave high school without earning a diploma is bleak. The cost to the student and to society is simply too high. These young people are more likely to remain in poverty and to be involved with the criminal justice system.

As the Senior Pastor of Light of the World Christian Church, I know the critical role that education plays in the development and cultivation of residents in our community. As a leader in the faith-based community, I look forward to my congregants having access to this critical resource, many of whom I know need the opportunity that IUES will be providing. High quality schools that will serve the drop out population here in Indianapolis will improve the lives of students and the quality of life of our community.

Again, please accept this letter as evidence of my support for Indiana Urban Education Solutions' application to the Indiana Charter School Board.

David H. Hampton, D.Min.

ATTACHMENT 17

IUES PASSPORT ACADEMIES' STARTUP PLAN
FOR SCHOOLS OPENING FALL 2013

Date Due	Task	Responsible Parties
May 21, 2012	ICSB makes qualification decision on IUES Passport Academies charter application	ICSB
June 2012	IUES Passport Academies charter agreement is negotiated and executed	ICSB/IUES Passport Academies, Inc.
June-July 2012	Educational Services Agreement is negotiated and executed	IUES Passport Academies, Inc./K^{12} Classroom LLC
August 1, 2013	First day of school operation	IUES/K^{12} Classroom LLC
August 5, 2013	First day of student attendance	IUES/K^{12} Classroom LLC
Human Resources / Professional Development		
July 2012	Place ads for Head of School and Office Administrator	K^{12} Classroom LLC
September 2012	Begin development of employee handbook	IUES Board/K^{12} Classroom LLC
October 2012-March 2013	Interview for Head of School position	K^{12} Classroom LLC with IUES interview/input about finalists
January 2013	Place ads for remaining administrative and instructional staff positions	K^{12} Classroom LLC • Operations Manager • Information Technology Manager • Registrar IUES Board • Teachers (Subject Matter Expert teachers and Special Education Teacher) • Guidance Counselor/Dean
January 2013-June 2013	Make offers for remaining administrative and instructional staff positions	IUES Board and K^{12} Classroom LLC
February 2013+	Interview for Office Administrator	K^{12} Classroom LLC
March 2013	Hire Head of School	K^{12} Classroom LLC
March 2013	Employee start date for HOS and Office Administrator	K^{12} Classroom LLC
March – September 2013	Implement Head of School and Staff Onboarding	IUES and K^{12} Classroom LLC
March 2013	Enroll teachers in National Virtual Teacher Training	K^{12} Classroom LLC
March 2013	Coordinate K^{12} Departmental Training Sessions • Teacher effectiveness • Media Relations • Human Resources • Academic Services • Operations, etc.	K^{12} Classroom LLC
July 2013	Remaining administrator and staff positions start date	IUES and K^{12} Classroom LLC
July-August 2013	New teacher and administrator training	K^{12} Classroom LLC

Facilities		
November 2012-January 2013	Conduct facilities search based on needs assessment	IUES/K^{12} Classroom LLC/Realtors
January 2013-February 2013	Locate and acquire temporary office space to house key staff	IUES/K^{12} Classroom LLC/Realtors/Landlords
January 2013-April 2013	Negotiate and sign lease on permanent facilities; order furniture, school technology	IUES/K^{12} Classroom LLC/Realtors/Landlords
March 2013 – May 2013	Develop plans for any needed remodeling / submit plans to local authority for approval as needed / approval received	K^{12} Classroom LLC/Contractors/Local Authorities
June 2013 - July 2013	Build-out of facility; contract with custodial service	K^{12} Classroom LLC/Contractors
July 2013	Begin necessary processes for inspection and permitting of facilities; install technology infrastructure; set-up classrooms	K^{12} Classroom LLC/Local Authorities
August 1, 2013	Facility ready for occupancy	IUES/K^{12} Classroom LLC
Instructional Program		
June 2012	Begin researching and evaluating curriculum for non-core subjects (not available through K^{12} curriculum)	K^{12} Classroom LLC
September 2012	Select curriculum for non-core subjects	IUES/K^{12} Classroom LLC
April 2013	Place curriculum orders for non-core textbooks and materials	IUES/K^{12} Classroom LLC
June 2012-June 2013	Further develop and document instructional program; finalize parent/student handbook; finalize teacher evaluation model	IUES/K^{12} Classroom LLC
Student Recruitment and Enrollment		
September 2012	Develop marketing collateral and develop marketing plan	IUES/K^{12} Classroom LLC
October 2012	Begin student recruitment	IUES/K^{12} Classroom LLC
January 2013	Begin accepting enrollments for lottery	IUES/K^{12} Classroom LLC
April 2013	Conduct enrollment lottery, if needed; notify lottery winners; create waitlist	IUES/K^{12} Classroom LLC
May 2013+	Collect enrollment documents and finalize fall enrollment	IUES/K^{12} Classroom LLC
Finance		
June 2012	Fine tune and continue to develop detailed budgets	IUES/K^{12} Classroom LLC
June 2012-ongoing	Apply for start-up grants and other sources of funding	IUES/K^{12} Classroom LLC
June 2012-June 2013	Develop school finance policies to include internal controls, segregation of duties, etc.	IUES/K^{12} Classroom LLC
January 2013	Obtain necessary insurance policies	IUES/K^{12} Classroom LLC
May 2013	Install accounting software and open school bank account	IUES/K^{12} Classroom LLC

March 30, 2012

To Whom It May Concern:

RE: Insurance Coverage for Indianapolis Passport Academy Broker of Record – Arthur J. Gallagher Insurance Brokers Inc.

We are pleased to provide insurance services for Indianapolis Passport Academy. Our division specializes in Charter Schools throughout the country. We currently work in many states helping schools secure insurance and are licensed to work in The State of IN as required by law. Our program utilizes the following carriers which are admitted in the State of Indiana: The Hartford, Chartis, Arch Insurance, Scottsdale Insurance, and Philadelphia Insurance Company.

On behalf of Indianapolis Passport Academy, the following coverages will be secured to meet all requirements by the authorizing agency and/or additional insureds as appropriate:

Coverage	Limit
General Liability (include corporal punishment and Athletic Liability)	$1,000,000 occurrence $3,000,000 aggregate
Workers Compensation	As specified by IN Statutes
Employee Benefits Liability	$1,000,000
Automobile/Bus Liability including underinsured and uninsured as needed	$1,000,000
Umbrella / Excess Liability above primary program	$10,000,000
Employment Practices Liability	$1,000,000
Educators Legal Liability E & O	$1,000,000
Directors & Officers	$1,000,000
Sexual Abuse and Misconduct Liability	$1,000,000 $2,000,000 aggregate
Crime / Employee Dishonesty / Fidelity Coverage (Surety Bond for the CFO as required)	$500,000 - $1,000,000 limits as needed
Property/Lease and Boiler Machinery Coverage	Blanket Limits as needed by School, on an all risk of direct physical basis (replacement cost)
Student Accident Coverage (Athletics)	Primary $25,000 limits and CAT option at $5,000,000

Additional Insureds:

As requested, all required additional insureds and loss payees can be added upon review to these policies. This will include the Indiana Charter School Board, The Indiana Department of Education, and their respective members, officers, employees, officials and agents. We will only place this school with at least an "A" rated insurance carrier as determined by AM Best rating guidelines.

Estimated Premiums:

The estimate below has been prepared based on current market rates, anticipated student population, number of fulltime employees and building dimensions.

Coverage	Annual Premium Indication	
General Liability/Abuse/Crime/Auto/Employee Benefits/Educators E&O	$	3,645
Directors & Officers / Employment Practices	$	4,300
Property (Assuming leasing only $100k contents)	$	500
Excess $10 million Limits (follow form over all underlying)	$	1,512
Workers Compensation	$	3,749
Total Annual Premium	**$**	**13,706**
Exposures: Based on 1st year projections of 180 students, 11 employees, $576,875 payroll, $100k Contents		

Tentative Timeline for Insurance Coverages

As part of your planning process, we have prepared a timeline for buying the insurance package before start of the school year. See below for each coverage:

Coverage	**Timeline**
Directors and Officers /Educators Legal Liability	As soon as board is formed and making school based decisions (contracts)
Employment Practices Liability	Before first employee is hired
Workers Compensation	When first employee is hired or board is formed.
General Liability, Excess, Crime, Sexual Abuse, Auto Liability, Student Accident (please ask for this separately if you would like the coverage).	When lease agreement is signed or property is purchased (landlord will require General Liability coverage).
Property/Flood	As soon as you acquire contents/school equipment

Please let me know if you have any questions, (949) 349-9871.

Sincerely,

Tom Boobar, MS, MBA, REHS, CSP
Area Vice President Arthur J. Gallagher Insurance
License #0726293

March 30, 2012

To Whom It May Concern:

RE: Insurance Coverage for Gary Passport Academy
Broker of Record – Arthur J. Gallagher Insurance Brokers Inc.

We are pleased to provide insurance services for Gary Passport Academy. Our division specializes in Charter Schools throughout the country. We currently work in many states helping schools secure insurance and are licensed to work in The State of IN as required by law. Our program utilizes the following carriers which are admitted in the State of Indiana: The Hartford, Chartis, Arch Insurance, Scottsdale Insurance, and Philadelphia Insurance Company.

On behalf of Gary Passport Academy, the following coverages will be secured to meet all requirements by the authorizing agency and/or additional insureds as appropriate:

Coverage	Limit
General Liability (include corporal punishment and Athletic Liability)	$1,000,000 occurrence $3,000,000 aggregate
Workers Compensation	As specified by IN Statutes
Employee Benefits Liability	$1,000,000
Automobile/Bus Liability including underinsured and uninsured as needed	$1,000,000
Umbrella / Excess Liability above primary program	$10,000,000
Employment Practices Liability	$1,000,000
Educators Legal Liability E & O	$1,000,000
Directors & Officers	$1,000,000
Sexual Abuse and Misconduct Liability	$1,000,000 $2,000,000 aggregate
Crime / Employee Dishonesty / Fidelity Coverage (Surety Bond for the CFO as required)	$500,000 - $1,000,000 limits as needed
Property/Lease and Boiler Machinery Coverage	Blanket Limits as needed by School, on an all risk of direct physical basis (replacement cost)
Student Accident Coverage (Athletics)	Primary $25,000 limits and CAT option at $5,000,000

Additional Insureds:

As requested, all required additional insureds and loss payees can be added upon review to these policies. This will include the Indiana Charter School Board, The Indiana Department of Education, and their respective members, officers, employees, officials and agents. We will only place this school with at least an "A" rated insurance carrier as determined by AM Best rating guidelines.

Estimated Premiums:
The estimate below has been prepared based on current market rates, anticipated student population, number of fulltime employees and building dimensions.

Coverage	Annual Premium Indication	
General Liability/Abuse/Crime/Auto/Employee Benefits/Educators E&O	$	3,645
Directors & Officers / Employment Practices	$	4,300
Property (Assuming leasing only $100k contents)	$	500
Excess $10 million Limits (follow form over all underlying)	$	1,512
Workers Compensation	$	3,749
Total Annual Premium	**$**	**13,706**
Exposures: Based on 1st year projections of 180 students, 11 employees, $576,875 payroll, $100k Contents		

Tentative Timeline for Insurance Coverages
As part of your planning process, we have prepared a timeline for buying the insurance package before start of the school year. See below for each coverage:

Coverage	**Timeline**
Directors and Officers /Educators Legal Liability	As soon as board is formed and making school based decisions (contracts)
Employment Practices Liability	Before first employee is hired
Workers Compensation	When first employee is hired or board is formed.
General Liability, Excess, Crime, Sexual Abuse, Auto Liability, Student Accident (please ask for this separately if you would like the coverage).	When lease agreement is signed or property is purchased (landlord will require General Liability coverage).
Property/Flood	As soon as you acquire contents/school equipment

Please let me know if you have any questions, (949) 349-9871.

Sincerely,

Tom Boobar, MS, MBA, REHS, CSP
Area Vice President Arthur J. Gallagher Insurance
License #0726293

Arthur J. Gallagher & Co.
culture driven success

CharterSafe

March 30, 2012

To Whom It May Concern:

RE: Insurance Coverage for Indianapolis Passport Academy II
Broker of Record – Arthur J. Gallagher Insurance Brokers Inc.

We are pleased to provide insurance services for Indianapolis Passport Academy II. Our division specializes in Charter Schools throughout the country. We currently work in many states helping schools secure insurance and are licensed to work in The State of IN as required by law. Our program utilizes the following carriers which are admitted in the State of Indiana: The Hartford, Chartis, Arch Insurance, Scottsdale Insurance, and Philadelphia Insurance Company.

On behalf of Indianapolis Passport Academy II, the following coverages will be secured to meet all requirements by the authorizing agency and/or additional insureds as appropriate:

Coverage	Limit
General Liability (include corporal punishment and Athletic Liability)	$1,000,000 occurrence $3,000,000 aggregate
Workers Compensation	As specified by IN Statutes
Employee Benefits Liability	$1,000,000
Automobile/Bus Liability including underinsured and uninsured as needed	$1,000,000
Umbrella / Excess Liability above primary program	$10,000,000
Employment Practices Liability	$1,000,000
Educators Legal Liability E & O	$1,000,000
Directors & Officers	$1,000,000
Sexual Abuse and Misconduct Liability	$1,000,000 $2,000,000 aggregate
Crime / Employee Dishonesty / Fidelity Coverage (Surety Bond for the CFO as required)	$500,000 - $1,000,000 limits as needed
Property/Lease and Boiler Machinery Coverage	Blanket Limits as needed by School, on an all risk of direct physical basis (replacement cost)
Student Accident Coverage (Athletics)	Primary $25,000 limits and CAT option at $5,000,000

Additional Insureds:

As requested, all required additional insureds and loss payees can be added upon review to these policies. This will include the Indiana Charter School Board, The Indiana Department of Education, and their respective members, officers, employees, officials and agents. We will only place this school with at least an "A" rated insurance carrier as determined by AM Best rating guidelines.

Estimated Premiums:
The estimate below has been prepared based on current market rates, anticipated student population, number of fulltime employees and building dimensions.

Coverage	Annual Premium Indication	
General Liability/Abuse/Crime/Auto/Employee Benefits/Educators E&O	$	3,645
Directors & Officers / Employment Practices	$	4,300
Property (Assuming leasing only $100k contents)	$	500
Excess $10 million Limits (follow form over all underlying)	$	1,512
Workers Compensation	$	3,749
Total Annual Premium	**$**	**13,706**
Exposures: Based on 1st year projections of 180 students, 11 employees, $576,875 payroll, $100k Contents		

Tentative Timeline for Insurance Coverages
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Property/Flood	As soon as you acquire contents/school equipment

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Area Vice President Arthur J. Gallagher Insurance
License #0726293

Arthur J. Gallagher & Co.
culture driven success

CharterSafe

March 30, 2012

To Whom It May Concern:

RE: Insurance Coverage for Lake County Passport Academy
Broker of Record – Arthur J. Gallagher Insurance Brokers Inc.

We are pleased to provide insurance services for Lake County Passport Academy. Our division specializes in Charter Schools throughout the country. We currently work in many states helping schools secure insurance and are licensed to work in The State of IN as required by law. Our program utilizes the following carriers which are admitted in the State of Indiana: The Hartford, Chartis, Arch Insurance, Scottsdale Insurance, and Philadelphia Insurance Company.

On behalf of Lake County Passport Academy, the following coverages will be secured to meet all requirements by the authorizing agency and/or additional insureds as appropriate:

Coverage	Limit
General Liability (include corporal punishment and Athletic Liability)	$1,000,000 occurrence $3,000,000 aggregate
Workers Compensation	As specified by IN Statutes
Employee Benefits Liability	$1,000,000
Automobile/Bus Liability including underinsured and uninsured as needed	$1,000,000
Umbrella / Excess Liability above primary program	$10,000,000
Employment Practices Liability	$1,000,000
Educators Legal Liability E & O	$1,000,000
Directors & Officers	$1,000,000
Sexual Abuse and Misconduct Liability	$1,000,000 $2,000,000 aggregate
Crime / Employee Dishonesty / Fidelity Coverage (Surety Bond for the CFO as required)	$500,000 - $1,000,000 limits as needed
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Exposures: Based on 1st year projections of 180 students, 11 employees, $576,875 payroll, $100k Contents		

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Property/Flood	As soon as you acquire contents/school equipment

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Sincerely,

Tom Boobar, MS, MBA, REHS, CSP
Area Vice President Arthur J. Gallagher Insurance
License #0726293

INDIANA CHARTER SCHOOL BOARD

General Instructions for New School Applicants

- Complete the School Enrollment Projection tab in ORANGE
- Complete the Year 0 - Budget and Cash Flow tab in PURPLE
- Complete ALL FIVE annual budget tabs in BLUE
- Complete ALL FIVE staffing tabs in GREEN
- Enter information into the WHITE cells
- Do not enter information into the GREY cells

School Name: _____ Indianapolis Passport Academy

SCHOOL ENROLLMENT PROJECTIONS

Planned Number of Students																	
ACADEMIC YEAR	**K**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**TOTAL**	**% ELL**	**% SPED**	**% FRL**
Year 1: 2013-2014										19	34	41	56	150	12%	18%	76%
Year 2: 2014-2015										25	45	55	75	200	12%	18%	76%
Year 3: 2015-2016										31	56	69	94	250	12%	18%	76%
Year 4: 2016-2017										38	63	63	88	250	12%	18%	76%
Year 5: 2017-2018										25	63	75	88	250	12%	18%	76%

Planned Number of Classes														
ACADEMIC YEAR	**K**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12***	**TOTAL**
Year 1: 2013-2014													30	30
Year 2: 2014-2015													30	30
Year 3: 2015-2016													30	30
Year 4: 2016-2017													30	30
Year 5: 2017-2018													30	30

*Note - our students will be enrolling with varying levels of accumulation. We will analyze credits earned and other factors like TABE test results to determine, for administrative reporting purposes, what grade level designation the student will be given. However, within the context of our educational programming, students will not be placed in a particular grade level. Rather, we will work with each student to develop an ILP which will map out courses, credits, testing, and other activities needed to graduate. The Scope and Sequence we've appended to our application as Attachment 11includes 30 courses that would enable any IUES Passport Academy student to fulfill the requirements for a Core 40 Diploma. IUES Passport Academies' full roster of courses will be available to all students within any given academic year. K12 does have a catalogue of over 150 courses. We will consider offering additional courses based upon student demand and course alignment with Indiana Academic Standards and the Common Core.

School Name: __Indianapolis Passport Academy____________________________						
	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
REVENUE						
State Revenue						
Basic Grant		$ 947,590	$ 1,363,566	$ 1,704,458	$ 1,704,458	$ 1,704,458
Common School Loan		$ -	$ -	$ -	$ -	$ -
Charter School Start-Up Grant		$ -				
State Matching Funds for School Lunch Program		$ -	$ -	$ -	$ -	$ -
Professional Development		$ -	$ -	$ -	$ -	$ -
Remediation Program		$ -	$ -	$ -	$ -	$ -
Full-Day Kindergarten		$ -	$ -	$ -	$ -	$ -
Gifted and Talented Program		$ -	$ -	$ -	$ -	$ -
Textbook Reimbursement		$ -	$ -	$ -	$ -	$ -
Summer School		$ -	$ -	$ -	$ -	$ -
Other State Revenue (please describe)		$ -	$ -	$ -	$ -	$ -
Other State Revenue (please describe)		$ -	$ -	$ -	$ -	$ -
Federal Revenue						
Public Charter School Program (PCSP) Grant	$ -	$ -	$ -			
Facilities Assistance Program Grant		$ -	$ -			
Title I		$ 53,026	$ 70,560	$ 88,200	$ 88,200	$ 88,200
Title II		$ -	$ -	$ -	$ -	$ -
Federal Lunch Program		$ -	$ -	$ -	$ -	$ -
Federal Breakfast Reimbursement		$ -	$ -	$ -	$ -	$ -
US DOE Planning and Implementation	$ -	$ 100,000	$ 100,000	$ 100,000	$ -	$ -
Facilities		$ 21,192	$ 28,200	$ 35,250	$ 35,250	$ 35,250
Other Revenues						
Committed Philanthropic Donations	$ -	$ -	$ -	$ -	$ -	$ -
Before and After Care Fees		$ -	$ -	$ -	$ -	$ -
Interest Income		$ -	$ -	$ -	$ -	$ -
Walton Family Foundation Public Charter Startup Grant Program	$ -	$ 100,000	$ 100,000	$ 100,000	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Revenue	$ -	**$ 1,221,809**	**$ 1,662,326**	**$ 2,027,908**	**$ 1,827,908**	**$ 1,827,908**
EXPENDITURES						
Personnel Expenses						
Wages, Benefits and Payroll Taxes	$ -	$ 361,400	$ 452,582	$ 466,159	$ 480,144	$ 494,549
Substitutes		$ -	$ -	$ -	$ -	$ -
Professional Development	$ -	$ 1,800	$ 2,467	$ 3,176	$ 3,272	$ 3,370
Bonuses		$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Personnel Expenses	$ -	$ 363,200	$ 455,049	$ 469,336	$ 483,416	$ 497,918
Instructional Supplies and Resources						
Textbooks	$ -	$ -	$ -	$ -	$ -	$ -
Library, periodicals, etc	$ -	$ -	$ -	$ -	$ -	$ -
Technology	$ -	$ 39,635	$ 73,348	$ 104,130	$ 73,531	$ 72,036
Assessment materials	$ -	$ 5,914	$ 8,106	$ 10,437	$ 10,750	$ 11,072
Computers	$ -	$ 27,237	$ 31,892	$ 44,064	$ 45,921	$ 35,819
Software	$ -	$ -	$ -	$ -	$ -	$ -
Other classroom supplies	$ -	$ 2,125	$ 2,858	$ 3,611	$ 3,650	$ 3,691
Field trips, other unclassified items	$ -	$ 8,000	$ 10,965	$ 14,117	$ 14,541	$ 14,977
Co-curricular & Athletics	$ -	$ -	$ -	$ -	$ -	$ -
Instructional Materials	$ -	$ 101,017	$ 182,782	$ 265,960	$ 208,327	$ 204,155
Curriculum Delivery	$ -	$ 125,525	$ 227,197	$ 330,491	$ 258,911	$ 253,652
Educational Services	$ -	$ 84,932	$ 157,175	$ 223,131	$ 157,565	$ 154,364
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Instructional Supplies and Resources	$ -	$ 394,385	$ 694,322	$ 995,940	$ 773,195	$ 749,765

Support Supplies and Resources						
Administrative Computers	$ 1,375	$ 5,500	$ 5,665	$ 5,835	$ 6,010	$ 6,190
Administrative Software	$ -	$ -	$ -	$ -	$ -	$ -
Administration Dues, fees, misc expenses	$ -	$ -	$ -	$ -	$ -	$ -
Office supplies	$ 2,500	$ 10,000	$ 10,300	$ 10,609	$ 10,927	$ 11,255
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Support Supplies and Resources	$ 3,875	$ 15,500	$ 15,965	$ 16,444	$ 16,937	$ 17,445
Board Expenses						
Charter Board Services, including Board Training, retreats	$ -	$ 5,000	$ 5,150	$ 5,305	$ 5,464	$ 5,628
Charter Board Supplies & Equipment	$ -	$ -	$ -	$ -	$ -	$ -
Charter Board Dues, fees, etc	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Board Expenses	$ -	$ 5,000	$ 5,150	$ 5,305	$ 5,464	$ 5,628
Professional Purchased or Contracted Services						
Legal Services	$ -	$ 10,000	$ 10,300	$ 10,609	$ 10,927	$ 11,255
Audit Services	$ -	$ 15,000	$ 15,450	$ 15,914	$ 16,391	$ 16,883
Payroll Services	$ -	$ 5,000	$ 5,150	$ 5,305	$ 5,464	$ 5,628
Accounting Services	$ -	$ -	$ -	$ -	$ -	$ -
Printing/Newsletter/Annual Report Services	$ 750	$ 5,000	$ 5,831	$ 6,712	$ 6,913	$ 7,121
Consultants	$ -	$ -	$ -	$ -	$ -	$ -
Internet Services	$ -	$ 22,091	$ 29,256	$ 36,871	$ 37,977	$ 39,116
Telephone/Telecommunication Services	$ 1,000	$ 5,800	$ 6,587	$ 7,420	$ 7,643	$ 7,872
Total Insurance Costs (per ICSB requirements detailed in charter school application)	$ -	$ -	$ -	$ -	$ -	$ -
Travel	$ -	$ 2,160	$ 2,960	$ 3,812	$ 3,926	$ 4,044
Postage	$ 1,250	$ 5,341	$ 5,619	$ 5,904	$ 6,082	$ 6,265
Special Education Services	$ -	$ 75,150	$ 103,000	$ 132,613	$ 136,591	$ 140,689
Student Information Services	$ -	$ -	$ -	$ -	$ -	$ -
Food service	$ -	$ -	$ -	$ -	$ -	$ -
Transportation	$ -	$ 5,000	$ 5,150	$ 5,305	$ 5,464	$ 5,628
Insurance	$ 5,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Professional Purchased or Contracted Services	$ 8,000	$ 170,541	$ 209,303	$ 250,463	$ 257,377	$ 264,499
Facilities						
Rent, mortgage, or other facility cost	$ 39,819	$ 159,274	$ 159,274	$ 159,274	$ 159,274	$ 159,274
Furniture	$ -	$ -	$ -	$ -	$ -	$ -
Gas/electric	$ -	$ -	$ -	$ -	$ -	$ -
Water/Sewer	$ 1,125	$ 4,500	$ 4,635	$ 4,774	$ 4,917	$ 5,065
Grounds Keeping	$ -	$ -	$ -	$ -	$ -	$ -
Maintenance Services	$ 7,500	$ 30,000	$ 30,900	$ 31,827	$ 32,782	$ 33,765
Custodial	$ -	$ -	$ -	$ -	$ -	$ -
Waste disposal	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ 10,076	$ 60,456	$ 60,456	$ 60,456	$ 60,456	$ 60,456
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Facilities	$ 58,520	$ 254,230	$ 255,265	$ 256,331	$ 257,429	$ 258,560
Other						
Contingency	$ -	$ -	$ -	$ -	$ -	$ -
Indiana Charter School Board Administrative Fee	$ -	$ 18,952	$ 27,271	$ 34,089	$ 34,089	$ 34,089
CMO/EMO Fee	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -

Total Other	$ -	$ 18,952	$ 27,271	$ 34,089	$ 34,089	$ 34,089
Total Expenditures	$ 70,395	$ 1,221,808	$ 1,662,326	$ 2,027,907	$ 1,827,907	$ 1,827,905
Carryover/Deficit	$ (70,395)	$ 0	$ (0)	$ 0	$ 0	$ 2
Cumulative Carryover/(Deficit)	$ (70,395)	$ (70,394)	$ (70,394)	$ (70,394)	$ (70,393)	$ (70,391)

Expected New School Annual Operating Budget and Cash Flow Projections -- YEAR 0 -- Pre-Opening Period															
	Jun-12	**Jul-12**	**Aug-12**	**Sep-12**	**Oct-12**	**Nov-12**	**Dec-12**	**TOTAL 2012**	**Jan-13**	**Feb-13**	**Mar-13**	**Apr-13**	**May-13**	**Jun-13**	**TOTAL 2013**
REVENUE															
Federal Revenue															
Public Charter School Program (PCSP) Grant (competitive)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenue Federal sources (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenue Federal sources (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenues															
Committed Philanthropic Donations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EXPENDITURES															
Personnel Expenses															
Wages, Benefits and Payroll Taxes (TOTAL must match "Staffing Year 0")	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Personnel Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Instructional Supplies and Resources															
Textbooks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library, periodicals, etc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Assessment materials	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Computers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other classroom supplies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Field trips, other unclassified items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Co-curricular & Athletics	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Instructional Supplies and Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Support Supplies and Resources															
Administrative Computers	-	-	-	-	-	-	-	-	-	-	-	458.33	458.33	458.33	1,375.00
Administrative Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administration Dues, fees, misc expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office supplies	-	-	-	-	-	-	-	-	-	-	-	833.33	833.33	833.33	2,500.00
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Support Supplies and Resources	-	-	-	-	-	-	-	-	-	-	-	1,291.67	1,291.67	1,291.67	3,875.00
Board Expenses															
Charter Board Services, including Board Training, retreats	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charter Board Supplies & Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charter Board Dues, fees, etc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Board Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	TOTAL 2012	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	TOTAL 2013
Professional Purchased or Contracted Services															
Legal Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Audit Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payroll Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounting Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Printing/Newsletter/Annual Report Services	-	-	-	-	-	-	-	-	-	-	-	250.00	250.00	250.00	750.00
Consultants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Internet Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Telephone/Telecommunication Services	-	-	-	-	-	-	-	-	-	-	-	333.33	333.33	333.33	1,000.00
Total Insurance Costs (per ICSB requirements detailed in charter school application)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-	-	-	-	-	416.67	416.67	416.67	1,250.00
Special Education Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Student Information Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Food service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-	1,666.67	1,666.67	1,666.67	5,000.00
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Professional Purchased or Contracted Services	-	-	-	-	-	-	-	-	-	-	-	2,666.67	2,666.67	2,666.67	8,000.00
Facilities															
Rent, mortgage, or other facility cost	-	-	-	-	-	-	-	-	-	-	-	13,272.84	13,272.84	13,272.84	39,818.52
Furniture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas/electric	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water/ Sewer	-	-	-	-	-	-	-	-	-	-	-	375.00	375.00	375.00	1,125.00
Grounds Keeping	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance Services	-	-	-	-	-	-	-	-	-	-	-	2,500.00	2,500.00	2,500.00	7,500.00
Custodial	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	5,038.00	5,038.00	10,076.00
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Facilities	-	-	-	-	-	-	-	-	-	-	-	16,147.84	21,185.84	21,185.84	58,519.52
Other															
Contingency	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Indiana Charter School Board Administrative Fee (0% in Year 0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CMO/EMO Fee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 20,106	$ 25,144	$ 25,144	$ 70,395
Net Income (Pre-Cash Flow Adjustments)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (20,106)	$ (25,144)	$ (25,144)	$ (70,395)
CASH FLOW ADJUSTMENTS															
OPERATING ACTIVITIES															
Example - Add Back Depreciation	-	-	-	-	-	-	-		-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-		-	-	-	-	-	-	-
Total Operating Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INVESTMENT ACTIVITIES															
Example - Subtract Property and Equipment Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Investment Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FINANCING ACTIVITIES															
Example - Add Expected Proceeds from a Loan or Line of Credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Financing Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	TOTAL 2012	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	TOTAL 2013
Total Cash Flow Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NET INCOME	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (20,106.17)	$ (25,144.17)	$ (25,144.17)	$ (70,394.52)
Beginning Cash Balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ENDING CASH BALANCE	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (20,106.17)**	**$ (25,144.17)**	**$ (25,144.17)**	**$ (70,394.52)**

Expected Charter School Staffing Needs -- Year 0 -- Pre-Opening Period

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1	-	-	-	-
Office Administrator	1	-	-	-	-
IT Manager	0	-	-	-	-
Registrar	0	-	-	-	-
Operations Manager	0	-	-	-	-
Special Ed Director	0	-	-	-	-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher			-		-
Special Ed Teacher			-		-
Academic Coach/Student Teacher			-		-
Guidance Counselor/Dean			-		-
			-		-
			-		-
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			-		-
			-		-
			-		-
TOTAL			-	-	-

Expected New School Annual Operating Budget -- YEAR 1 -- Fiscal Year July 1-June 30		
REVENUE	**Amount**	**Notes**
State Revenue		
Basic Grant	$ 947,590	Represents a per student rate of $6,317, which is approximately 86% ADA of the Gary Community School Corp. rate of $7,331 obtained from the 2012 Tuition Support Per ADM report.
Common School Loan		
Charter School Start-Up Grant		**One-third of first year's ADM funding**
State Matching Funds for School Lunch Program		
Professional Development		
Remediation Program		
Full-Day Kindergarten		
Gifted and Talented Program		
Textbook Reimbursement		
Summer School		
Other State Revenue (please describe)		
Other State Revenue (please describe)		
Federal Revenue		
Public Charter School Program (PCSP) Grant		**Competitive grant for planning & implementation**
Charter School Facilities Assistance Program Grant		
Title I	$ 53,026	
Title II		
Federal Lunch Program		
Federal Breakfast Reimbursement		
US DOE Planning and Implementation	$ 100,000	
Facilities	$ 21,192	
Other Revenues		
Committed Philanthropic Donations		
Before and After Care Fees		
Interest Income		
Walton Family Foundation Public Charter Startup Grant Program	$ 100,000	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Revenue	$ 1,221,809	
EXPENDITURES		
Personnel Expenses		
Wages, Benefits and Payroll Taxes	$ 361,400	Use staffing workbook
Substitutes		
Professional Development	$ 1,800	Tuition reimb.
Bonuses		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Personnel Expenses	$ 363,200	
Instructional Supplies and Resources		
Textbooks		
Library, periodicals, etc		
Technology	$ 39,635	K12 techology fees reduced by the deficit credit. The actual rate of is 3.2% verse the contracted rate of 7%
Assessment materials	$ 5,914	Proctored Exams & Test Administration
Computers	$ 27,237	Laptop costs for all teachers and 35% of the enrolled students
Software		
Other classroom supplies	$ 2,125	Miscellaneous teacher and facilities supplies
Field trips, other unclassified items	$ 8,000	Field Trip and Other School Events
Co-curricular & Athletics		
Instructional Materials	$ 101,017	K12 provided services reduced by the deficit credit.
Curriculum Delivery	$ 125,525	K12 provided services reduced by the deficit credit.
Educational Services	$ 84,932	K12 provided services reduced by the deficit credit. The actual rate of is 7.0% verse the contracted rate of 15%
Other (please describe)		
Other (please describe)		
Total Instructional Supplies and Resources	$ 394,385	
Support Supplies and Resources		
Administrative Computers	$ 5,500	
Administrative Software		
Administration Dues, fees, misc expenses		
Office supplies	$ 10,000	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Support Supplies and Resources	$ 15,500	
Board Expenses		
Charter Board Services, including Board Training, retreats	$ 5,000	
Charter Board Supplies & Equipment		
Charter Board Dues, fees, etc		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		

Other (please describe)		
Total Board Expenses	$ 5,000	

Professional Purchased or Contracted Services		
Legal Services	$ 10,000	
Audit Services	$ 15,000	
Payroll Services	$ 5,000	
Accounting Services		
Printing/Newsletter/Annual Report Services	$ 5,000	
Consultants		
Internet Services	$ 22,091	ISP charges for the facilities and the ISP reimbursement charges for teachers and students
Telephone/Telecommunication Services	$ 5,800	Telephone charges for facilites and teachers
Total Insurance Costs (per ICSB requirements detailed in charter school application)		
Travel	$ 2,160	
Postage	$ 5,341	
Special Education Services	$ 75,150	Special Ed Contracted Svcs & Other Related Exp.
Student Information Services		
Food service		
Transportation	$ 5,000	
Insurance	$ 20,000	General Liability Insurance
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Professional Purchased or Contracted Services	$ 170,541	
Facilities		
Rent, mortgage, or other facility cost	$ 159,274	Rent for 10,000 sq ft at approximately $15 per sq ft, which escalates 3% each year. The model averages the escalation over the 5 year year period to give an actual rate of 15.93 per sq ft per year
Furniture		
Gas/electric		
Water/ Sewer	$ 4,500	
Grounds Keeping		
Maintenance Services	$ 30,000	
Custodial		
Waste disposal		
Depreciation	$ 60,456	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Facilities	$ 254,230	
Other		
Contingency		
Indiana Charter School Board Administrative Fee	$ 18,952	**Assume 2% of Basic Grant (Row 6) - is the 2% Oversight/Sponsor Fee**
CMO/EMO Fee		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Other	$ 18,952	
Total Expenditures	$ 1,221,808	
Carryover/Deficit	$ 0	

Cumulative Carryover/(Deficit)

Expected Charter School Staffing Needs -- Year 1

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1		-		-
Office Administrator	1		-		-
IT Manager	0.5		-		-
Registrar	0.5		-		-
Operations Manager	0.5		-		-
Special Ed Director	0.5		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher	4.0	45,000	180,000	54,000	234,000
Special Ed Teacher	1.0	48,000	48,000	14,400	62,400
Academic Coach/Student Teacher	-	30,000	-	-	-
Guidance Counselor/Dean	1.0	50,000	50,000	15,000	65,000
			-		-
			-		-
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			-		-
TOTAL			278,000	83,400	361,400

Expected New School Annual Operating Budget -- YEAR 2 -- Fiscal Year July 1-June 30			
REVENUE	**Amount**		**Notes**
State Revenue			
Basic Grant	$	1,363,566	Represents a per student rate of $6,818, which is approximately 93% ADA of the Gary Community School Corp. rate of $7,331 obtained from the 2012 Tuition Support Per ADM report.
Common School Loan			
State Matching Funds for School Lunch Program			
Professional Development			
Remediation Program			
Full-Day Kindergarten			
Gifted and Talented Program			
Textbook Reimbursement			
Summer School			
Other State Revenue (please describe)			
Other State Revenue (please describe)			
Federal Revenue			
Public Charter School Program (PCSP) Grant			**Competitive grant for planning & implementation**
Charter School Facilities Assistance Program Grant			
Title I	$	70,560	
Title II			
Federal Lunch Program			
Federal Breakfast Reimbursement			
US DOE Planning and Implementation	$	100,000	
Facilities	$	28,200	
Other Revenues			
Committed Philanthropic Donations			
Before and After Care Fees			
Interest Income			
Walton Family Foundation Public Charter Startup Grant Program	$	100,000	
Other (please describe)			
Other (please describe)			
Other (please describe)			
Total Revenue	$	1,662,326	
EXPENDITURES			
Personnel Expenses			
Wages, Benefits and Payroll Taxes	$	452,582	Use staffing workbook
Substitutes			
Professional Development	$	2,467	Tuition reimb.
Bonuses			
Other (please describe)			
Other (please describe)			
Other (please describe)			
Other (please describe)			
Other (please describe)			
Total Personnel Expenses	$	455,049	
Instructional Supplies and Resources			
Textbooks			
Library, periodicals, etc			
Technology	$	73,348	K12 techology fees reduced by the deficit credit. The actual rate of is 4.4% verse the contracted rate of 7%
Assessment materials	$	8,106	Proctored Exams & Test Administration
Computers	$	31,892	Laptop costs for all teachers and 35% of the enrolled students
Software			
Other classroom supplies	$	2,858	Miscellaneous teacher and facilities supplies
Field trips, other unclassified items	$	10,965	Field Trip and Other School Events
Co-curricular & Athletics			
Instructional Materials	$	182,782	K12 provided services reduced by the deficit credit.
Curriculum Delivery	$	227,197	K12 provided services reduced by the deficit credit.
Educational Services	$	157,175	K12 provided services reduced by the deficit credit. The actual rate of is 9.5% verse the contracted rate of 15%
Other (please describe)			
Other (please describe)			
Total Instructional Supplies and Resources	$	694,322	

Support Supplies and Resources		
Administrative Computers	$ 5,665	
Administrative Software		
Administration Dues, fees, misc expenses		
Office supplies	$ 10,300	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Support Supplies and Resources	$ 15,965	
Board Expenses		
Charter Board Services, including Board Training, retreats	$ 5,150	
Charter Board Supplies & Equipment		
Charter Board Dues, fees, etc		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Board Expenses	$ 5,150	
Professional Purchased or Contracted Services		
Legal Services	$ 10,300	
Audit Services	$ 15,450	
Payroll Services	$ 5,150	
Accounting Services		
Printing/Newsletter/Annual Report Services	$ 5,831	
Consultants		
Internet Services	$ 29,256	ISP charges for the facilities and the ISP reimbursement charges for teachers and students
Telephone/Telecommunication Services	$ 6,587	Telephone charges for facilites and teachers
Total Insurance Costs (per ICSB requirements detailed in charter school application)		
Travel	$ 2,960	
Postage	$ 5,619	
Special Education Services	$ 103,000	Special Ed Contracted Svcs & Other Related Exp.
Student Information Services		
Food service		
Transportation	$ 5,150	
Insurance	$ 20,000	General Liability Insurance
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Professional Purchased or Contracted Services	$ 209,303	
Facilities		
Rent, mortgage, or other facility cost	$ 159,274	Rent for 10,000 sq ft at approximately $15 per sq ft, which escalates 3% each year. The model averages the escalation over the 5 year year period to give an actual rate of 15.93 per sq ft per year
Furniture		
Gas/electric		
Water/ Sewer	$ 4,635	
Grounds Keeping		
Maintenance Services	$ 30,900	
Custodial		
Waste disposal		
Depreciation	$ 60,456	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Facilities	$ 255,265	
Other		
Contingency		
Indiana Charter School Board Administrative Fee	$ 27,271	**Assume 2% of Basic Grant (Row 6) - is the 2% Oversight/Sponsor Fee**
CMO/EMO Fee		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Other	$ 27,271	
Total Expenditures	$ 1,662,326	
Carryover/Deficit	$ (0)	

Cumulative Carryover/(Deficit)

Expected Charter School Staffing Needs -- Year 2

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1		-		-
Office Administrator	1		-		-
IT Manager	0.25		-		-
Registrar	0.25		-		-
Operations Manager	0.25		-		-
Special Ed Director	0.25		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher	4.0	46,350	185,400	55,620	241,020
Special Ed Teacher	1.0	49,440	49,440	14,832	64,272
Academic Coach/Student Teacher	2.0	30,900	61,800	18,540	80,340
Guidance Counselor/Dean	1.0	51,500	51,500	15,450	66,950
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TOTAL			348,140	104,442	452,582

Expected New School Annual Operating Budget -- YEAR 3 -- Fiscal Year July 1-June 30		
REVENUE	**Amount**	**Notes**
State Revenue		
Basic Grant	$ 1,704,458	Represents a per student rate of $6,818, which is approximately 93% ADA of the Gary Community School Corp. rate of $7,331 obtained from the 2012 Tuition Support Per ADM report.
Common School Loan		
State Matching Funds for School Lunch Program		
Professional Development		
Remediation Program		
Full-Day Kindergarten		
Gifted and Talented Program		
Textbook Reimbursement		
Summer School		
Other State Revenue (please describe)		
Other State Revenue (please describe)		
Federal Revenue		
Title I	$ 88,200	
Title II		
Federal Lunch Program		
Federal Breakfast Reimbursement		
US DOE Planning and Implementation	$ 100,000	
Facilities	$ 35,250	
Other Revenues		
Committed Philanthropic Donations		
Before and After Care Fees		
Interest Income		
Walton Family Foundation Public Charter Startup Grant Program	$ 100,000	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Revenue	$ 2,027,908	
EXPENDITURES		
Personnel Expenses		
Wages, Benefits and Payroll Taxes	$ 466,159	Use staffing workbook
Substitutes		
Professional Development	$ 3,176	Tuition reimb.
Bonuses		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Personnel Expenses	$ 469,336	
Instructional Supplies and Resources		
Textbooks		
Library, periodicals, etc		
Technology	$ 104,130	K12 techology fees reduced by the deficit credit. The actual rate of is 5.1% verse the contracted rate of 7%
Assessment materials	$ 10,437	Proctored Exams & Test Administration
Computers	$ 44,064	Laptop costs for all teachers and 35% of the enrolled students
Software		
Other classroom supplies	$ 3,611	Miscellaneous teacher and facilities supplies
Field trips, other unclassified items	$ 14,117	Field Trip and Other School Events
Co-curricular & Athletics		
Instructional Materials	$ 265,960	K12 provided services reduced by the deficit credit.
Curriculum Delivery	$ 330,491	K12 provided services reduced by the deficit credit.
Educational Services	$ 223,131	K12 provided services reduced by the deficit credit. The actual rate of is 11.0% verse the contracted rate of 15%
Other (please describe)		
Other (please describe)		
Total Instructional Supplies and Resources	$ 995,940	

Support Supplies and Resources		
Administrative Computers	$ 5,835	
Administrative Software		
Administration Dues, fees, misc expenses		
Office supplies	$ 10,609	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Support Supplies and Resources	$ 16,444	
Board Expenses		
Charter Board Services, including Board Training, retreats	$ 5,305	
Charter Board Supplies & Equipment		
Charter Board Dues, fees, etc		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Board Expenses	$ 5,305	
Professional Purchased or Contracted Services		
Legal Services	$ 10,609	
Audit Services	$ 15,914	
Payroll Services	$ 5,305	
Accounting Services		
Printing/Newsletter/Annual Report Services	$ 6,712	
Consultants		
Internet Services	$ 36,871	ISP charges for the facilities and the ISP reimbursement charges for teachers and students
Telephone/Telecommunication Services	$ 7,420	Telephone charges for facilites and teachers
Total Insurance Costs (per ICSB requirements detailed in charter school application)		
Travel	$ 3,812	
Postage	$ 5,904	
Special Education Services	$ 132,613	Special Ed Contracted Svcs & Other Related Exp.
Student Information Services		
Food service		
Transportation	$ 5,305	
Insurance	$ 20,000	General Liability Insurance
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Professional Purchased or Contracted Services	$ 250,463	
Facilities		
Rent, mortgage, or other facility cost	$ 159,274	Rent for 10,000 sq ft at approximately $15 per sq ft, which escalates 3% each year. The model averages the escalation over the 5 year year period to give an actual rate of 15.93 per sq ft per year
Furniture		
Gas/electric		
Water/ Sewer	$ 4,774	
Grounds Keeping		
Maintenance Services	$ 31,827	
Custodial		
Waste disposal		
Depreciation	$ 60,456	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Facilities	$ 256,331	
Other		
Contingency		
Indiana Charter School Board Administrative Fee	$ 34,089	**Assume 2% of Basic Grant (Row 6) - is the 2% Oversight/Sponsor Fee**
CMO/EMO Fee		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Other	$ 34,089	
Total Expenditures	$ 2,027,907	
Carryover/Deficit	$ 0	

Cumulative Carryover/(Deficit)

Expected Charter School Staffing Needs -- Year 3

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1		-		-
Office Administrator	1		-		-
IT Manager	0.25		-		-
Registrar	0.25		-		-
Operations Manager	0.25		-		-
	0.25		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher	4.0	47,741	190,962	57,289	248,251
Special Ed Teacher	1.0	50,923	50,923	15,277	66,200
Academic Coach/Student Teacher	2.0	31,827	63,654	19,096	82,750
Guidance Counselor/Dean	1.0	53,045	53,045	15,914	68,959
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TOTAL			358,584	107,575	466,159

Expected New School Annual Operating Budget -- YEAR 4 -- Fiscal Year July 1-June 30		
REVENUE	**Amount**	**Notes**
State Revenue		
Basic Grant	$ 1,704,458	Represents a per student rate of $6,818, which is approximately 93% ADA of the Gary Community School Corp. rate of $7,331 obtained from the 2012 Tuition Support Per ADM report.
Common School Loan		
State Matching Funds for School Lunch Program		
Professional Development		
Remediation Program		
Full-Day Kindergarten		
Gifted and Talented Program		
Textbook Reimbursement		
Summer School		
Other State Revenue (please describe)		
Other State Revenue (please describe)		
Federal Revenue		
Title I	$ 88,200	
Title II		
Federal Lunch Program		
Federal Breakfast Reimbursement		
Walton	$ -	
US DOE Planning and Implementation	$ -	
Facilities	$ 35,250	
Other Revenues		
Committed Philanthropic Donations		
Before and After Care Fees		
Interest Income		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Revenue	$ 1,827,908	
EXPENDITURES		
Personnel Expenses		
Wages, Benefits and Payroll Taxes	$ 480,144	Use staffing workbook
Substitutes		
Professional Development	$ 3,272	Tuition reimb.
Bonuses		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Personnel Expenses	$ 483,416	
Instructional Supplies and Resources		
Textbooks		
Library, periodicals, etc		
Technology	$ 73,531	K12 techology fees reduced by the deficit credit. The actual rate of is 4.0% versus the contracted rate of 7%
Assessment materials	$ 10,750	Proctored Exams & Test Administration
Computers	$ 45,921	Laptop costs for all teachers and 35% of the enrolled students
Software		
Other classroom supplies	$ 3,650	Miscellaneous teacher and facilities supplies
Field trips, other unclassified items	$ 14,541	Field Trip and Other School Events
Co-curricular & Athletics		
Instructional Materials	$ 208,327	K12 provided services reduced by the deficit credit.
Curriculum Delivery	$ 258,911	K12 provided services reduced by the deficit credit.
Educational Services	$ 157,565	K12 provided services reduced by the deficit credit. The actual rate of is 8.6% verse the contracted rate of 15%
Other (please describe)		
Other (please describe)		
Total Instructional Supplies and Resources	$ 773,195	

Support Supplies and Resources		
Administrative Computers	$ 6,010	
Administrative Software		
Administration Dues, fees, misc expenses		
Office supplies	$ 10,927	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Support Supplies and Resources	$ 16,937	
Board Expenses		
Charter Board Services, including Board Training, retreats	$ 5,464	
Charter Board Supplies & Equipment		
Charter Board Dues, fees, etc		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Board Expenses	$ 5,464	
Professional Purchased or Contracted Services		
Legal Services	$ 10,927	
Audit Services	$ 16,391	
Payroll Services	$ 5,464	
Accounting Services		
Printing/Newsletter/Annual Report Services	$ 6,913	
Consultants		
Internet Services	$ 37,977	ISP charges for the facilities and the ISP reimbursement charges for teachers and students
Telephone/Telecommunication Services	$ 7,643	Telephone charges for facilites and teachers
Total Insurance Costs (per ICSB requirements detailed in charter school application)		
Travel	$ 3,926	
Postage	$ 6,082	
Special Education Services	$ 136,591	Special Ed Contracted Svcs & Other Related Exp.
Student Information Services		
Food service		
Transportation	$ 5,464	
Insurance	$ 20,000	General Liability Insurance
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Professional Purchased or Contracted Services	$ 257,377	
Facilities		
Rent, mortgage, or other facility cost	$ 159,274	Rent for 10,000 sq ft at approximately $15 per sq ft, which escalates 3% each year. The model averages the escalation over the 5 year year period to give an actual rate of 15.93 per sq ft per year
Furniture		
Gas/electric		
Water/ Sewer	$ 4,917	
Grounds Keeping		
Maintenance Services	$ 32,782	
Custodial		
Waste disposal		
Depreciation	$ 60,456	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Facilities	$ 257,429	
Other		
Contingency		
Indiana Charter School Board Administrative Fee	$ 34,089	**Assume 2% of Basic Grant (Row 6) - is the 2% Oversight/Sponsor Fee**
CMO/EMO Fee		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Other	$ 34,089	

Total Expenditures	$ 1,827,907	
Carryover/Deficit	$ 0	

Cumulative Carryover/(Deficit)

Expected Charter School Staffing Needs -- Year 4

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1		-		-
Office Administrator	1		-		-
IT Manager	0.25		-		-
Registrar	0.25		-		-
Operations Manager	0.25		-		-
	0.25		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher	4.0	49,173	196,691	59,007	255,698
Special Ed Teacher	1.0	52,451	52,451	15,735	68,186
Academic Coach/Student Teacher	2.0	32,782	65,564	19,669	85,233
Guidance Counselor/Dean	1.0	54,636	54,636	16,391	71,027
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TOTAL			369,342	110,803	480,144

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Expected New School Annual Operating Budget -- YEAR 5 -- Fiscal Year July 1-June 30		
REVENUE	**Amount**	**Notes**
State Revenue		
Basic Grant	$ 1,704,458	Represents a per student rate of $6,818, which is approximately 93% ADA of the Gary Community School Corp. rate of $7,331 obtained from the 2012 Tuition Support Per ADM report.
Common School Loan		
State Matching Funds for School Lunch Program		
Professional Development		
Remediation Program		
Full-Day Kindergarten		
Gifted and Talented Program		
Textbook Reimbursement		
Summer School		
Other State Revenue (please describe)		
Other State Revenue (please describe)		
Federal Revenue		
Title I	$ 88,200	
Title II		
Federal Lunch Program		
Federal Breakfast Reimbursement		
Walton	$ -	
US DOE Planning and Implementation	$ -	
Facilities	$ 35,250	
Other Revenues		
Committed Philanthropic Donations		
Before and After Care Fees		
Interest Income		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Revenue	$ 1,827,908	
EXPENDITURES		
Personnel Expenses		
Wages, Benefits and Payroll Taxes	$ 494,549	Use staffing workbook
Substitutes		
Professional Development	$ 3,370	Tuition reimb.
Bonuses		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Personnel Expenses	$ 497,918	
Instructional Supplies and Resources		
Textbooks		
Library, periodicals, etc		
Technology	$ 72,036	K12 techology fees reduced by the deficit credit. The actual rate of is 3.9% verse the contracted rate of 7%
Assessment materials	$ 11,072	Proctored Exams & Test Administration
Computers	$ 35,819	Laptop costs for all teachers and 35% of the enrolled students
Software		
Other classroom supplies	$ 3,691	Miscellaneous teacher and facilities supplies
Field trips, other unclassified items	$ 14,977	Field Trip and Other School Events
Co-curricular & Athletics		
Instructional Materials	$ 204,155	K12 provided services reduced by the deficit credit.
Curriculum Delivery	$ 253,652	K12 provided services reduced by the deficit credit.
Educational Services	$ 154,364	K12 provided services reduced by the deficit credit. The actual rate of is 8.4% verse the contracted rate of 15%
Other (please describe)		
Other (please describe)		
Total Instructional Supplies and Resources	$ 749,765	

Support Supplies and Resources		
Administrative Computers	$ 6,190	
Administrative Software		
Administration Dues, fees, misc expenses		
Office supplies	$ 11,255	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Support Supplies and Resources	$ 17,445	
Board Expenses		
Charter Board Services, including Board Training, retreats	$ 5,628	
Charter Board Supplies & Equipment		
Charter Board Dues, fees, etc		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Board Expenses	$ 5,628	
Professional Purchased or Contracted Services		
Legal Services	$ 11,255	
Audit Services	$ 16,883	
Payroll Services	$ 5,628	
Accounting Services		
Printing/Newsletter/Annual Report Services	$ 7,121	
Consultants		
Internet Services	$ 39,116	ISP charges for the facilities and the ISP reimbursement charges for teachers and students
Telephone/Telecommunication Services	$ 7,872	Telephone charges for facilites and teachers
Total Insurance Costs (per ICSB requirements detailed in charter school application)		
Travel	$ 4,044	
Postage	$ 6,265	
Special Education Services	$ 140,689	Special Ed Contracted Svcs & Other Related Exp.
Student Information Services		
Food service		
Transportation	$ 5,628	
Insurance	$ 20,000	General Liability Insurance
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Professional Purchased or Contracted Services	$ 264,499	
Facilities		
Rent, mortgage, or other facility cost	$ 159,274	Rent for 10,000 sq ft at approximately $15 per sq ft, which escalates 3% each year. The model averages the escalation over the 5 year year period to give an actual rate of 15.93 per sq ft per year
Furniture		
Gas/electric		
Water/ Sewer	$ 5,065	
Grounds Keeping		
Maintenance Services	$ 33,765	
Custodial		
Waste disposal		
Depreciation	$ 60,456	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Facilities	$ 258,560	
Other		
Contingency		
Indiana Charter School Board Administrative Fee	$ 34,089	**Assume 2% of Basic Grant (Row 6) - is the 2% Oversight/Sponsor Fee**
CMO/EMO Fee		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Other	$ 34,089	

Total Expenditures	$ 1,827,905	
Carryover/Deficit	$ 2	

Cumulative Carryover/(Deficit)

Expected Charter School Staffing Needs -- Year 5

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	**Number of Staff Per Position**	**Average Salary for the Position**	**Total Salary**	**Benefits and Payroll Taxes**	**TOTAL Salary and Benefits**
Head of School	1		-		-
Office Administrator	1		-		-
IT Manager	0.25		-		-
Registrar	0.25		-		-
Operations Manager	0.25		-		-
	0.25		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher	4.0	50,648	202,592	60,777	263,369
Special Ed Teacher	1.0	54,024	54,024	16,207	70,232
Academic Coach/Student Teacher	2.0	33,765	67,531	20,259	87,790
Guidance Counselor/Dean	1.0	56,275	56,275	16,883	73,158
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TOTAL			380,422	114,127	494,549

School Name: __Gary Passport Academy_______________________________

SCHOOL ENROLLMENT PROJECTIONS

Planned Number of Students																	
ACADEMIC YEAR	**K**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**TOTAL**	**% ELL**	**% SPED**	**% FRL**
Year 1: 2013-2014										19	34	41	56	150	2%	16%	78%
Year 2: 2014-2015										25	45	55	75	200	2%	16%	78%
Year 3: 2015-2016										31	56	69	94	250	2%	16%	78%
Year 4: 2016-2017										38	63	63	88	250	2%	16%	78%
Year 5: 2017-2018										25	63	75	88	250	2%	16%	78%

Planned Number of Classes														
ACADEMIC YEAR	**K**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12***	**TOTAL**
Year 1: 2013-2014													30	30
Year 2: 2014-2015													30	30
Year 3: 2015-2016													30	30
Year 4: 2016-2017													30	30
Year 5: 2017-2018													30	30

*Note - our students will be enrolling with varying levels of accumulation. We will analyze credits earned and other factors like TABE test results to determine, for administrative reporting purposes, what grade level designation the student will be given. However, within the context of our educational programming, students will not be placed in a particular grade level. Rather, we will work with each student to develop an ILP which will map out courses, credits, testing, and other activities needed to graduate. The Scope and Sequence we've appended to our application as Attachment 11includes 30 courses that would enable any IUES Passport Academy student to fulfill the requirements for a Core 40 Diploma. IUES Passport Academies' full roster of courses will be available to all students within any given academic year. K12 does have a catalogue of over 150 courses. We will consider offering additional courses based upon student demand and course alignment with Indiana Academic Standards and the Common Core.

School Name: ____Gary Passport Academy____________________________						
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
REVENUE						
State Revenue						
Basic Grant		$ 993,477	$ 1,429,596	$ 1,786,995	$ 1,786,995	$ 1,786,995
Common School Loan		$ -	$ -	$ -	$ -	$ -
Charter School Start-Up Grant		$ -				
State Matching Funds for School Lunch Program		$ -	$ -	$ -	$ -	$ -
Professional Development		$ -	$ -	$ -	$ -	$ -
Remediation Program		$ -	$ -	$ -	$ -	$ -
Full-Day Kindergarten		$ -	$ -	$ -	$ -	$ -
Gifted and Talented Program		$ -	$ -	$ -	$ -	$ -
Textbook Reimbursement		$ -	$ -	$ -	$ -	$ -
Summer School		$ -	$ -	$ -	$ -	$ -
Other State Revenue (please describe)		$ -	$ -	$ -	$ -	$ -
Other State Revenue (please describe)		$ -	$ -	$ -	$ -	$ -
Federal Revenue						
Public Charter School Program (PCSP) Grant	$ -	$ -	$ -			
Facilities Assistance Program Grant		$ -	$ -			
Title I		$ 53,026	$ 70,560	$ 88,200	$ 88,200	$ 88,200
Title II		$ -	$ -	$ -	$ -	$ -
Federal Lunch Program		$ -	$ -	$ -	$ -	$ -
Federal Breakfast Reimbursement		$ -	$ -	$ -	$ -	$ -
US DOE Planning and Implementation	$ -	$ 100,000	$ 100,000	$ 100,000	$ -	$ -
Facilities	$ -	$ 21,192	$ 28,200	$ 35,250	$ 35,250	$ 35,250
Other Revenue Federal sources (please describe)		$ -	$ -	$ -	$ -	$ -
Other Revenues						
Committed Philanthropic Donations	$ -	$ -	$ -	$ -	$ -	$ -
Before and After Care Fees		$ -	$ -	$ -	$ -	$ -
Interest Income		$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Revenue	$ -	**$ 1,167,695**	**$ 1,628,356**	**$ 2,010,445**	**$ 1,910,445**	**$ 1,910,445**
EXPENDITURES						
Personnel Expenses						
Wages, Benefits and Payroll Taxes	$ -	$ 361,400	$ 452,582	$ 466,159	$ 480,144	$ 494,549
Substitutes		$ -	$ -	$ -	$ -	$ -
Professional Development	$ -	$ 1,800	$ 2,467	$ 3,176	$ 3,272	$ 3,370
Bonuses		$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Personnel Expenses	$ -	$ 363,200	$ 455,049	$ 469,336	$ 483,416	$ 497,918
Instructional Supplies and Resources						
Textbooks	$ -	$ -	$ -	$ -	$ -	$ -
Library, periodicals, etc	$ -	$ -	$ -	$ -	$ -	$ -
Technology	$ -	$ 36,033	$ 71,988	$ 104,895	$ 87,428	$ 85,889
Assessment materials	$ -	$ 5,914	$ 8,106	$ 10,437	$ 10,750	$ 11,072
Computers	$ -	$ 26,421	$ 31,950	$ 44,775	$ 50,672	$ 40,580
Software	$ -	$ -	$ -	$ -	$ -	$ -
Other classroom supplies	$ -	$ 2,125	$ 2,858	$ 3,610	$ 3,650	$ 3,691
Field trips, other unclassified items	$ -	$ 8,000	$ 10,965	$ 14,117	$ 14,541	$ 14,977
Co-curricular & Athletics	$ -	$ -	$ -	$ -	$ -	$ -
Instructional Materials	$ -	$ 96,093	$ 183,132	$ 270,249	$ 237,002	$ 232,895
Curriculum Delivery	$ -	$ 119,408	$ 227,632	$ 335,819	$ 294,548	$ 289,360
Educational Services	$ -	$ 77,214	$ 154,257	$ 224,777	$ 187,346	$ 184,046
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Instructional Supplies and Resources	$ -	$ 371,208	$ 690,888	$ 1,008,678	$ 885,936	$ 862,510

Support Supplies and Resources						
Administrative Computers	$ 1,375	$ 5,500	$ 5,665	$ 5,835	$ 6,010	$ 6,190
Administrative Software	$ -	$ -	$ -	$ -	$ -	$ -
Administration Dues, fees, misc expenses	$ -	$ -	$ -	$ -	$ -	$ -
Office supplies	$ 2,500	$ 10,000	$ 10,300	$ 10,609	$ 10,927	$ 11,255
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Support Supplies and Resources	$ 3,875	$ 15,500	$ 15,965	$ 16,444	$ 16,937	$ 17,445
Board Expenses						
Charter Board Services, including Board Training, retreats	$ -	$ 5,000	$ 5,150	$ 5,305	$ 5,464	$ 5,628
Charter Board Supplies & Equipment	$ -	$ -	$ -	$ -	$ -	$ -
Charter Board Dues, fees, etc	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Board Expenses	$ -	$ 5,000	$ 5,150	$ 5,305	$ 5,464	$ 5,628
Professional Purchased or Contracted Services						
Legal Services	$ -	$ 10,000	$ 10,300	$ 10,609	$ 10,927	$ 11,255
Audit Services	$ -	$ 15,000	$ 15,450	$ 15,914	$ 16,391	$ 16,883
Payroll Services	$ -	$ 5,000	$ 5,150	$ 5,305	$ 5,464	$ 5,628
Accounting Services	$ -	$ -	$ -	$ -	$ -	$ -
Printing/Newsletter/Annual Report Services	$ 750	$ 5,000	$ 5,831	$ 6,712	$ 6,913	$ 7,121
Consultants	$ -	$ -	$ -	$ -	$ -	$ -
Internet Services	$ -	$ 22,091	$ 29,256	$ 36,871	$ 37,977	$ 39,116
Telephone/Telecommunication Services	$ 1,000	$ 5,800	$ 6,587	$ 7,420	$ 7,643	$ 7,872
Total Insurance Costs (per ICSB requirements detailed in charter school application)	$ -	$ -	$ -	$ -	$ -	$ -
Travel	$ -	$ 2,160	$ 2,960	$ 3,812	$ 3,926	$ 4,044
Postage	$ 1,250	$ 5,342	$ 5,619	$ 5,908	$ 6,084	$ 6,263
Special Education Services	$ -	$ 75,150	$ 103,000	$ 132,613	$ 136,591	$ 140,689
Student Information Services	$ -	$ -	$ -	$ -	$ -	$ -
Food service	$ -	$ -	$ -	$ -	$ -	$ -
Transportation	$ -	$ 5,000	$ 5,150	$ 5,305	$ 5,464	$ 5,628
Insurance	$ 5,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Professional Purchased or Contracted Services	$ 8,000	$ 170,542	$ 209,303	$ 250,467	$ 257,379	$ 264,497
Facilities						
Rent, mortgage, or other facility cost	$ 31,855	$ 127,419	$ 127,419	$ 127,419	$ 127,419	$ 127,419
Furniture	$ -	$ -	$ -	$ -	$ -	$ -
Gas/electric	$ -	$ -	$ -	$ -	$ -	$ -
Water/Sewer	$ 1,125	$ 4,500	$ 4,635	$ 4,774	$ 4,917	$ 5,065
Grounds Keeping	$ -	$ -	$ -	$ -	$ -	$ -
Maintenance Services	$ 7,500	$ 30,000	$ 30,900	$ 31,827	$ 32,782	$ 33,765
Custodial	$ -	$ -	$ -	$ -	$ -	$ -
Waste disposal	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ 10,076	$ 60,456	$ 60,456	$ 60,456	$ 60,456	$ 60,456
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Facilities	$ 50,556	$ 222,375	$ 223,410	$ 224,476	$ 225,574	$ 226,705
Other						
Contingency	$ -	$ -	$ -	$ -	$ -	$ -
Indiana Charter School Board Administrative Fee	$ -	$ 19,870	$ 28,591	$ 35,739	$ 35,739	$ 35,742
CMO/EMO Fee	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Other (please describe)	$ -	$ -	$ -	$ -	$ -	$ -
Total Other	$ -	$ 19,870	$ 28,591	$ 35,739	$ 35,739	$ 35,742
Total Expenditures	$ 62,431	$ 1,167,695	$ 1,628,356	$ 2,010,445	$ 1,910,445	$ 1,910,445

Carryover/Deficit	$ (62,431)	$ 0	$ (0)	$ (0)	$ (0)	$ (0)
Cumulative Carryover/(Deficit)	$ (62,431)	$ (62,431)	$ (62,431)	$ (62,432)	$ (62,432)	$ (62,432)

Expected New School Annual Operating Budget and Cash Flow Projections -- YEAR 0 -- Pre-Opening Period

	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	TOTAL 2012	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	TOTAL 2013
REVENUE															
Federal Revenue															
Public Charter School Program (PCSP) Grant (competitive)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenue Federal sources (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenue Federal sources (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenues															
Committed Philanthropic Donations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EXPENDITURES															
Personnel Expenses															
Wages, Benefits and Payroll Taxes (TOTAL must match "Staffing Year 0")	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Personnel Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Instructional Supplies and Resources															
Textbooks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library, periodicals, etc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Assessment materials	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Computers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other classroom supplies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Field trips, other unclassified items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Co-curricular & Athletics	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Instructional Supplies and Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Support Supplies and Resources															
Administrative Computers	-	-	-	-	-	-	-	-	-	-	-	458.33	458.33	458.33	1,375.00
Administrative Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administration Dues, fees, misc expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office supplies	-	-	-	-	-	-	-	-	-	-	-	833.33	833.33	833.33	2,500.00
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Support Supplies and Resources	-	-	-	-	-	-	-	-	-	-	-	1,291.67	1,291.67	1,291.67	3,875.00
Board Expenses															
Charter Board Services, including Board Training, retreats	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charter Board Supplies & Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charter Board Dues, fees, etc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Board Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Purchased or Contracted Services															
Legal Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	TOTAL 2012	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	TOTAL 2013
Audit Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payroll Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounting Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Printing/Newsletter/Annual Report Services	-	-	-	-	-	-	-	-	-	-	-	250.00	250.00	250.00	750.00
Consultants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Internet Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Telephone/Telecommunication Services	-	-	-	-	-	-	-	-	-	-	-	333.33	333.33	333.33	1,000.00
Total Insurance Costs (per ICSB requirements detailed in charter school application)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-	-	-	-	-	416.67	416.67	416.67	1,250.00
Special Education Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Student Information Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Food service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-	1,666.67	1,666.67	1,666.67	5,000.00
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Professional Purchased or Contracted Services	-	-	-	-	-	-	-	-	-	-	-	2,666.67	2,666.67	2,666.67	8,000.00
Facilities															
Rent, mortgage, or other facility cost	-	-	-	-	-	-	-	-	-	-	-	10,618.27	10,618.27	10,618.27	31,854.81
Furniture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas/electric	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water/ Sewer	-	-	-	-	-	-	-	-	-	-	-	375.00	375.00	375.00	1,125.00
Grounds Keeping	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance Services	-	-	-	-	-	-	-	-	-	-	-	2,500.00	2,500.00	2,500.00	7,500.00
Custodial	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	5,038.00	5,038.00	10,076.00
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Facilities	-	-	-	-	-	-	-	-	-	-	-	13,493.27	18,531.27	18,531.27	50,555.81
Other															
Contingency	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Indiana Charter School Board Administrative Fee (0% in Year 0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CMO/EMO Fee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (please describe)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 17,452	$ 22,490	$ 22,490	$ 62,431
Net Income (Pre-Cash Flow Adjustments)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (17,452)	$ (22,490)	$ (22,490)	$ (62,431)
CASH FLOW ADJUSTMENTS															
OPERATING ACTIVITIES															
Example - Add Back Depreciation	-	-	-	-	-	-	-		-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-		-	-	-	-	-	-	-
Total Operating Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INVESTMENT ACTIVITIES															
Example - Subtract Property and Equipment Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Investment Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FINANCING ACTIVITIES															
Example - Add Expected Proceeds from a Loan or Line of Credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Financing Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Flow Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NET INCOME	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (17,451.60)	$ (22,489.60)	$ (22,489.60)	$ (62,430.81)

		Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	TOTAL 2012		Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	TOTAL 2013
Beginning Cash Balance		-	-	-	-	-	-	-	-		-	-	-	-	-	-	-
ENDING CASH BALANCE		**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**		**$ -**	**$ -**	**$ -**	**$ (17,451.60)**	**$ (22,489.60)**	**$ (22,489.60)**	**$ (62,430.81)**

Expected Charter School Staffing Needs -- Year 0 -- Pre-Opening Period

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1	-	-	-	-
Office Administrator	1	-	-	-	-
IT Manager	0	-	-	-	-
Registrar	0	-	-	-	-
Operations Manager	0	-	-	-	-
Special Ed Director	0		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher			-		-
Special Ed Teacher			-		-
Academic Coach/Dean			-		-
Guidance Counselor/Dean			-		-
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			-		-
TOTAL			-	-	-

Expected New School Annual Operating Budget -- YEAR 1 -- Fiscal Year July 1-June 30		
REVENUE	**Amount**	**Notes**
State Revenue		
Basic Grant	$ 993,477	Represents a per student rate of $6,623, which is approximately 86% ADA of the Gary Community School Corp. rate of $7,686 obtained from the 2012 Tuition Support Per ADM report.
Common School Loan		
Charter School Start-Up Grant		**One-third of first year's ADM funding**
State Matching Funds for School Lunch Program		
Professional Development		
Remediation Program		
Full-Day Kindergarten		
Gifted and Talented Program		
Textbook Reimbursement		
Summer School		
Other State Revenue (please describe)		
Other State Revenue (please describe)		
Federal Revenue		
Public Charter School Program (PCSP) Grant		**Competitive grant for planning & implementation**
Charter School Facilities Assistance Program Grant		
Title I	$ 53,026	
Title II		
Federal Lunch Program		
Federal Breakfast Reimbursement		
US DOE Planning and Implementation	$ 100,000	
Facilities	$ 21,192	
Other (please describe)		
Other Revenues		
Committed Philanthropic Donations		
Before and After Care Fees		
Interest Income		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Revenue	$ 1,167,695	
EXPENDITURES		
Personnel Expenses		
Wages, Benefits and Payroll Taxes	$ 361,400	Use staffing workbook
Substitutes		
Professional Development	$ 1,800	Tuition reimb.
Bonuses		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Personnel Expenses	$ 363,200	
Instructional Supplies and Resources		
Textbooks		
Library, periodicals, etc		
Technology	$ 36,033	K12 techology fees reduced by the deficit credit. The actual rate of is 3.1% verse the contracted rate of 7%
Assessment materials	$ 5,914	Proctored Exams & Test Administration
Computers	$ 26,421	Laptop costs for all teachers and 35% of the enrolled students
Software		
Other classroom supplies	$ 2,125	Miscellaneous teacher and facilities supplies
Field trips, other unclassified items	$ 8,000	Field Trip and Other School Events
Co-curricular & Athletics		
Instructional Materials	$ 96,093	K12 provided services reduced by the deficit credit.
Curriculum Delivery	$ 119,408	K12 provided services reduced by the deficit credit.
Educational Services	$ 77,214	K12 provided services reduced by the deficit credit. The actual rate of is 6.6% verse the contracted rate of 15%
Other (please describe)		
Other (please describe)		
Total Instructional Supplies and Resources	$ 371,208	

Support Supplies and Resources		
Administrative Computers	$ 5,500	
Administrative Software		
Administration Dues, fees, misc expenses		
Office supplies	$ 10,000	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Support Supplies and Resources	$ 15,500	
Board Expenses		
Charter Board Services, including Board Training, retreats	$ 5,000	
Charter Board Supplies & Equipment		
Charter Board Dues, fees, etc		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Board Expenses	$ 5,000	
Professional Purchased or Contracted Services		
Legal Services	$ 10,000	
Audit Services	$ 15,000	
Payroll Services	$ 5,000	
Accounting Services		
Printing/Newsletter/Annual Report Services	$ 5,000	
Consultants		
Internet Services	$ 22,091	ISP charges for the facilities and the ISP reimbursement charges for teachers and students
Telephone/Telecommunication Services	$ 5,800	Telephone charges for facilites and teachers
Total Insurance Costs (per ICSB requirements detailed in charter school application)		
Travel	$ 2,160	
Postage	$ 5,342	
Special Education Services	$ 75,150	Special Ed Contracted Svcs & Other Related Exp.
Student Information Services		
Food service		
Transportation	$ 5,000	
Insurance	$ 20,000	General Liability Insurance
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Professional Purchased or Contracted Services	$ 170,542	
Facilities		
Rent, mortgage, or other facility cost	$ 127,419	Rent for 10,000 sq ft at approximately $12 per sq ft, which escalates 3% each year. The model averages the escalation over the 5 year year period to give an actual rate of 12.74 per sq ft per year
Furniture		
Gas/electric		
Water/ Sewer	$ 4,500	
Grounds Keeping		
Maintenance Services	$ 30,000	
Custodial		
Waste disposal		
Depreciation	$ 60,456	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Facilities	$ 222,375	
Other		
Contingency		
Indiana Charter School Board Administrative Fee	$ 19,870	**Assume 2% of Basic Grant (Row 6) - is the 2% Oversight/Sponsor Fee**
CMO/EMO Fee		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Other	$ 19,870	
Total Expenditures	$ 1,167,695	
Carryover/Deficit	$ 0	

Cumulative Carryover/(Deficit)

Expected Charter School Staffing Needs -- Year 1

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1		-		-
Office Administrator	1		-		-
IT Manager	0.5		-		-
Registrar	0.5		-		-
Operations Manager	0.5		-		-
Special Ed Director	0.5		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher	4.0	45,000	180,000	54,000	234,000
Special Ed Teacher	1.0	48,000	48,000	14,400	62,400
Academic Coach/Dean	-	30,000	-	-	-
Guidance Counselor/Dean	1.0	50,000	50,000	15,000	65,000
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TOTAL			278,000	83,400	361,400

Expected New School Annual Operating Budget -- YEAR 2 -- Fiscal Year July 1-June 30		
REVENUE	**Amount**	**Notes**
State Revenue		
Basic Grant	$ 1,429,596	Represents a per student rate of $7,148, which is approximately 93% ADA of the Gary Community School Corp. rate of $7,686 obtained from the 2012 Tuition Support Per ADM report.
Common School Loan		
State Matching Funds for School Lunch Program		
Professional Development		
Remediation Program		
Full-Day Kindergarten		
Gifted and Talented Program		
Textbook Reimbursement		
Summer School		
Other State Revenue (please describe)		
Other State Revenue (please describe)		
Federal Revenue		
Public Charter School Program (PCSP) Grant		**Competitive grant for planning & implementation**
Charter School Facilities Assistance Program Grant		
Title I	$ 70,560	
Title II		
Federal Lunch Program		
Federal Breakfast Reimbursement		
US DOE Planning and Implementation	$ 100,000	
Facilities	$ 28,200	
Other (please describe)		
Other Revenues		
Committed Philanthropic Donations		
Before and After Care Fees		
Interest Income		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Revenue	$ 1,628,356	
EXPENDITURES		
Personnel Expenses		
Wages, Benefits and Payroll Taxes	$ 452,582	Use staffing workbook
Substitutes		
Professional Development	$ 2,467	Tuition reimb.
Bonuses		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Personnel Expenses	$ 455,049	
Instructional Supplies and Resources		
Textbooks		
Library, periodicals, etc		
Technology	$ 71,988	K12 techology fees reduced by the deficit credit. The actual rate of is 4.4% verse the contracted rate of 7%
Assessment materials	$ 8,106	Proctored Exams & Test Administration
Computers	$ 31,950	Laptop costs for all teachers and 35% of the enrolled students
Software		
Other classroom supplies	$ 2,858	Miscellaneous teacher and facilities supplies
Field trips, other unclassified items	$ 10,965	Field Trip and Other School Events
Co-curricular & Athletics		
Instructional Materials	$ 183,132	K12 provided services reduced by the deficit credit.
Curriculum Delivery	$ 227,632	K12 provided services reduced by the deficit credit.
Educational Services	$ 154,257	K12 provided services reduced by the deficit credit. The actual rate of is 9.5% verse the contracted rate of 15%
Other (please describe)		
Other (please describe)		
Total Instructional Supplies and Resources	$ 690,888	

Support Supplies and Resources		
Administrative Computers	$ 5,665	
Administrative Software		
Administration Dues, fees, misc expenses		
Office supplies	$ 10,300	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Support Supplies and Resources	$ 15,965	
Board Expenses		
Charter Board Services, including Board Training, retreats	$ 5,150	
Charter Board Supplies & Equipment		
Charter Board Dues, fees, etc		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Board Expenses	$ 5,150	
Professional Purchased or Contracted Services		
Legal Services	$ 10,300	
Audit Services	$ 15,450	
Payroll Services	$ 5,150	
Accounting Services		
Printing/Newsletter/Annual Report Services	$ 5,831	
Consultants		
Internet Services	$ 29,256	ISP charges for the facilities and the ISP reimbursement charges for teachers and students
Telephone/Telecommunication Services	$ 6,587	Telephone charges for facilites and teachers
Total Insurance Costs (per ICSB requirements detailed in charter school application)		
Travel	$ 2,960	
Postage	$ 5,619	
Special Education Services	$ 103,000	Special Ed Contracted Svcs & Other Related Exp.
Student Information Services		
Food service		
Transportation	$ 5,150	
Insurance	$ 20,000	General Liability Insurance
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Professional Purchased or Contracted Services	$ 209,303	
Facilities		
Rent, mortgage, or other facility cost	$ 127,419	Rent for 10,000 sq ft at approximately $12 per sq ft, which escalates 3% each year. The model averages the escalation over the 5 year year period to give an actual rate of 12.74 per sq ft per year
Furniture		
Gas/electric		
Water/ Sewer	$ 4,635	
Grounds Keeping		
Maintenance Services	$ 30,900	
Custodial		
Waste disposal		
Depreciation	$ 60,456	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Facilities	$ 223,410	
Other		
Contingency		
Indiana Charter School Board Administrative Fee	$ 28,591	**Assume 2% of Basic Grant (Row 6) - is the 2% Oversight/Sponsor Fee**
CMO/EMO Fee		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Other	$ 28,591	
Total Expenditures	$ 1,628,356	

Carryover/Deficit	$	(0)

Cumulative Carryover/(Deficit)

Expected Charter School Staffing Needs -- Year 2

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1		-		-
Office Administrator	1		-		-
IT Manager	0.25		-		-
Registrar	0.25		-		-
Operations Manager	0.25		-		-
	0.25		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher	4.0	46,350	185,400	55,620	241,020
Special Ed Teacher	1.0	49,440	49,440	14,832	64,272
Academic Coach/Dean	2.0	30,900	61,800	18,540	80,340
Guidance Counselor/Dean	1.0	51,500	51,500	15,450	66,950
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TOTAL			348,140	104,442	452,582

Expected New School Annual Operating Budget -- YEAR 3 -- Fiscal Year July 1-June 30		
REVENUE	**Amount**	**Notes**
State Revenue		
Basic Grant	$ 1,786,995	Represents a per student rate of $7,148, which is approximately 93% ADA of the Gary Community School Corp. rate of $7,686 obtained from the 2012 Tuition Support Per ADM report.
Common School Loan		
State Matching Funds for School Lunch Program		
Professional Development		
Remediation Program		
Full-Day Kindergarten		
Gifted and Talented Program		
Textbook Reimbursement		
Summer School		
Other State Revenue (please describe)		
Other State Revenue (please describe)		
Federal Revenue		
Title I	$ 88,200	
Title II		
Federal Lunch Program		
Federal Breakfast Reimbursement		
US DOE Planning and Implementation	$ 100,000	
Facilities	$ 35,250	
Other (please describe)		
Other Revenues		
Committed Philanthropic Donations		
Before and After Care Fees		
Interest Income		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Revenue	$ 2,010,445	
EXPENDITURES		
Personnel Expenses		
Wages, Benefits and Payroll Taxes	$ 466,159	Use staffing workbook
Substitutes		
Professional Development	$ 3,176	Tuition reimb.
Bonuses		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Personnel Expenses	$ 469,336	
Instructional Supplies and Resources		
Textbooks		
Library, periodicals, etc		
Technology	$ 104,895	K12 techology fees reduced by the deficit credit. The actual rate of is 5.2% verse the contracted rate of 7%
Assessment materials	$ 10,437	Proctored Exams & Test Administration
Computers	$ 44,775	Laptop costs for all teachers and 35% of the enrolled students
Software		
Other classroom supplies	$ 3,610	Miscellaneous teacher and facilities supplies
Field trips, other unclassified items	$ 14,117	Field Trip and Other School Events
Co-curricular & Athletics		
Instructional Materials	$ 270,249	K12 provided services reduced by the deficit credit.
Curriculum Delivery	$ 335,819	K12 provided services reduced by the deficit credit.
Educational Services	$ 224,777	K12 provided services reduced by the deficit credit. The actual rate of is 11.2% verse the contracted rate of 15%
Other (please describe)		
Other (please describe)		
Total Instructional Supplies and Resources	$ 1,008,678	

Support Supplies and Resources		
Administrative Computers	$ 5,835	
Administrative Software		
Administration Dues, fees, misc expenses		
Office supplies	$ 10,609	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Support Supplies and Resources	$ 16,444	
Board Expenses		
Charter Board Services, including Board Training, retreats	$ 5,305	
Charter Board Supplies & Equipment		
Charter Board Dues, fees, etc		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Board Expenses	$ 5,305	
Professional Purchased or Contracted Services		
Legal Services	$ 10,609	
Audit Services	$ 15,914	
Payroll Services	$ 5,305	
Accounting Services		
Printing/Newsletter/Annual Report Services	$ 6,712	
Consultants		
Internet Services	$ 36,871	ISP charges for the facilities and the ISP reimbursement charges for teachers and students
Telephone/Telecommunication Services	$ 7,420	Telephone charges for facilites and teachers
Total Insurance Costs (per ICSB requirements detailed in charter school application)		
Travel	$ 3,812	
Postage	$ 5,908	
Special Education Services	$ 132,613	Special Ed Contracted Svcs & Other Related Exp.
Student Information Services		
Food service		
Transportation	$ 5,305	
Insurance	$ 20,000	General Liability Insurance
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Professional Purchased or Contracted Services	$ 250,467	
Facilities		
Rent, mortgage, or other facility cost	$ 127,419	Rent for 10,000 sq ft at approximately $12 per sq ft, which escalates 3% each year. The model averages the escalation over the 5 year year period to give an actual rate of 12.74 per sq ft per year
Furniture		
Gas/electric		
Water/ Sewer	$ 4,774	
Grounds Keeping		
Maintenance Services	$ 31,827	
Custodial		
Waste disposal		
Depreciation	$ 60,456	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Facilities	$ 224,476	
Other		
Contingency		
Indiana Charter School Board Administrative Fee	$ 35,739	**Assume 2% of Basic Grant (Row 6) - is the 2% Oversight/Sponsor Fee**
CMO/EMO Fee		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Other	$ 35,739	

Total Expenditures	$ 2,010,445	
Carryover/Deficit	$ (0)	

Cumulative Carryover/(Deficit)

Expected Charter School Staffing Needs -- Year 3

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1		-		-
Office Administrator	1		-		-
IT Manager	0.25		-		-
Registrar	0.25		-		-
Operations Manager	0.25		-		-
	0.25		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher	4.0	47,741	190,962	57,289	248,251
Special Ed Teacher	1.0	50,923	50,923	15,277	66,200
Academic Coach/Dean	2.0	31,827	63,654	19,096	82,750
Guidance Counselor/Dean	1.0	53,045	53,045	15,914	68,959
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TOTAL			358,584	107,575	466,159

Expected New School Annual Operating Budget -- YEAR 4 -- Fiscal Year July 1-June 30		
REVENUE	**Amount**	**Notes**
State Revenue		
Basic Grant	$ 1,786,995	Represents a per student rate of $7,148, which is approximately 93% ADA of the Gary Community School Corp. rate of $7,686 obtained from the 2012 Tuition Support Per ADM report.
Common School Loan		
State Matching Funds for School Lunch Program		
Professional Development		
Remediation Program		
Full-Day Kindergarten		
Gifted and Talented Program		
Textbook Reimbursement		
Summer School		
Other State Revenue (please describe)		
Other State Revenue (please describe)		
Federal Revenue		
Title I	$ 88,200	
Title II		
Federal Lunch Program		
Federal Breakfast Reimbursement		
US DOE Planning and Implementation	$ -	
Facilities	$ 35,250	
Other (please describe)		
Other Revenues		
Committed Philanthropic Donations		
Before and After Care Fees		
Interest Income		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Revenue	$ 1,910,445	
EXPENDITURES		
Personnel Expenses		
Wages, Benefits and Payroll Taxes	$ 480,144	Use staffing workbook
Substitutes		
Professional Development	$ 3,272	Tuition reimb.
Bonuses		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Personnel Expenses	$ 483,416	
Instructional Supplies and Resources		
Textbooks		
Library, periodicals, etc		
Technology	$ 87,428	K12 techology fees reduced by the deficit credit. The actual rate of is 4.6% verse the contracted rate of 7%
Assessment materials	$ 10,750	Proctored Exams & Test Administration
Computers	$ 50,672	Laptop costs for all teachers and 35% of the enrolled students
Software		
Other classroom supplies	$ 3,650	Miscellaneous teacher and facilities supplies
Field trips, other unclassified items	$ 14,541	Field Trip and Other School Events
Co-curricular & Athletics		
Instructional Materials	$ 237,002	K12 provided services reduced by the deficit credit.
Curriculum Delivery	$ 294,548	K12 provided services reduced by the deficit credit.
Educational Services	$ 187,346	K12 provided services reduced by the deficit credit. The actual rate of is 9.8% verse the contracted rate of 15%
Other (please describe)		
Other (please describe)		
Total Instructional Supplies and Resources	$ 885,936	

Support Supplies and Resources		
Administrative Computers	$ 6,010	
Administrative Software		
Administration Dues, fees, misc expenses		
Office supplies	$ 10,927	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Support Supplies and Resources	$ 16,937	
Board Expenses		
Charter Board Services, including Board Training, retreats	$ 5,464	
Charter Board Supplies & Equipment		
Charter Board Dues, fees, etc		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Board Expenses	$ 5,464	
Professional Purchased or Contracted Services		
Legal Services	$ 10,927	
Audit Services	$ 16,391	
Payroll Services	$ 5,464	
Accounting Services		
Printing/Newsletter/Annual Report Services	$ 6,913	
Consultants		
Internet Services	$ 37,977	ISP charges for the facilities and the ISP reimbursement charges for teachers and students
Telephone/Telecommunication Services	$ 7,643	Telephone charges for facilites and teachers
Total Insurance Costs (per ICSB requirements detailed in charter school application)		
Travel	$ 3,926	
Postage	$ 6,084	
Special Education Services	$ 136,591	Special Ed Contracted Svcs & Other Related Exp.
Student Information Services		
Food service		
Transportation	$ 5,464	
Insurance	$ 20,000	General Liability Insurance
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Professional Purchased or Contracted Services	$ 257,379	
Facilities		
Rent, mortgage, or other facility cost	$ 127,419	Rent for 10,000 sq ft at approximately $12 per sq ft, which escalates 3% each year. The model averages the escalation over the 5 year year period to give an actual rate of 12.74 per sq ft per year
Furniture		
Gas/electric		
Water/ Sewer	$ 4,917	
Grounds Keeping		
Maintenance Services	$ 32,782	
Custodial		
Waste disposal		
Depreciation	$ 60,456	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Facilities	$ 225,574	
Other		
Contingency		
Indiana Charter School Board Administrative Fee	$ 35,739	**Assume 2% of Basic Grant (Row 6) - is the 2% Oversight/Sponsor Fee**
CMO/EMO Fee		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Other	$ 35,739	

Total Expenditures	$ 1,910,445	
Carryover/Deficit	$ (0)	

Cumulative Carryover/(Deficit)

Expected Charter School Staffing Needs -- Year 4

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1		-		-
Office Administrator	1		-		-
IT Manager	0.25		-		-
Registrar	0.25		-		-
Operations Manager	0.25		-		-
	0.25		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher	4.0	49,173	196,691	59,007	255,698
Special Ed Teacher	1.0	52,451	52,451	15,735	68,186
Academic Coach/Dean	2.0	32,782	65,564	19,669	85,233
Guidance Counselor/Dean	1.0	54,636	54,636	16,391	71,027
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TOTAL			369,342	110,803	480,144

Expected New School Annual Operating Budget -- YEAR 5 -- Fiscal Year July 1-June 30			
REVENUE	**Amount**		**Notes**
State Revenue			
Basic Grant	$	1,786,995	Represents a per student rate of $7,148, which is approximately 93% ADA of the Gary Community School Corp. rate of $7,686 obtained from the 2012 Tuition Support Per ADM report.
Common School Loan			
State Matching Funds for School Lunch Program			
Professional Development			
Remediation Program			
Full-Day Kindergarten			
Gifted and Talented Program			
Textbook Reimbursement			
Summer School			
Other State Revenue (please describe)			
Other State Revenue (please describe)			
Federal Revenue			
Title I	$	88,200	
Title II			
Federal Lunch Program			
Federal Breakfast Reimbursement			
US DOE Planning and Implementation	$	-	
Facilities	$	35,250	
Other (please describe)			
Other Revenues			
Committed Philanthropic Donations			
Before and After Care Fees			
Interest Income			
Other (please describe)			
Other (please describe)			
Other (please describe)			
Other (please describe)			
Total Revenue	$	1,910,445	
EXPENDITURES			
Personnel Expenses			
Wages, Benefits and Payroll Taxes	$	494,549	Use staffing workbook
Substitutes			
Professional Development	$	3,370	Tuition reimb.
Bonuses			
Other (please describe)			
Other (please describe)			
Other (please describe)			
Other (please describe)			
Other (please describe)			
Total Personnel Expenses	$	497,918	
Instructional Supplies and Resources			
Textbooks			
Library, periodicals, etc			
Technology	$	85,889	K12 techology fees reduced by the deficit credit. The actual rate of is 4.5% verse the contracted rate of 7%
Assessment materials	$	11,072	Proctored Exams & Test Administration
Computers	$	40,580	Laptop costs for all teachers and 35% of the enrolled students
Software			
Other classroom supplies	$	3,691	Miscellaneous teacher and facilities supplies
Field trips, other unclassified items	$	14,977	Field Trip and Other School Events
Co-curricular & Athletics			
Instructional Materials	$	232,895	K12 provided services reduced by the deficit credit.
Curriculum Delivery	$	289,360	K12 provided services reduced by the deficit credit.
Educational Services	$	184,046	K12 provided services reduced by the deficit credit. The actual rate of is 9.6% verse the contracted rate of 15%
Other (please describe)			
Other (please describe)			
Total Instructional Supplies and Resources	$	862,510	

Support Supplies and Resources		
Administrative Computers	$ 6,190	
Administrative Software		
Administration Dues, fees, misc expenses		
Office supplies	$ 11,255	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Support Supplies and Resources	$ 17,445	
Board Expenses		
Charter Board Services, including Board Training, retreats	$ 5,628	
Charter Board Supplies & Equipment		
Charter Board Dues, fees, etc		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Board Expenses	$ 5,628	
Professional Purchased or Contracted Services		
Legal Services	$ 11,255	
Audit Services	$ 16,883	
Payroll Services	$ 5,628	
Accounting Services		
Printing/Newsletter/Annual Report Services	$ 7,121	
Consultants		
Internet Services	$ 39,116	ISP charges for the facilities and the ISP reimbursement charges for teachers and students
Telephone/Telecommunication Services	$ 7,872	Telephone charges for facilites and teachers
Total Insurance Costs (per ICSB requirements detailed in charter school application)		
Travel	$ 4,044	
Postage	$ 6,263	
Special Education Services	$ 140,689	Special Ed Contracted Svcs & Other Related Exp.
Student Information Services		
Food service		
Transportation	$ 5,628	
Insurance	$ 20,000	General Liability Insurance
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Professional Purchased or Contracted Services	$ 264,497	
Facilities		
Rent, mortgage, or other facility cost	$ 127,419	Rent for 10,000 sq ft at approximately $12 per sq ft, which escalates 3% each year. The model averages the escalation over the 5 year year period to give an actual rate of 12.74 per sq ft per year
Furniture		
Gas/electric		
Water/ Sewer	$ 5,065	
Grounds Keeping		
Maintenance Services	$ 33,765	
Custodial		
Waste disposal		
Depreciation	$ 60,456	
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Facilities	$ 226,705	
Other		
Contingency		
Indiana Charter School Board Administrative Fee	$ 35,742	**Assume 2% of Basic Grant (Row 6) - is the 2% Oversight/Sponsor Fee**
CMO/EMO Fee		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Other (please describe)		
Total Other	$ 35,742	

Total Expenditures	$ 1,910,445	
Carryover/Deficit	$ (0)	

Cumulative Carryover/(Deficit)

Expected Charter School Staffing Needs -- Year 5

Please fill in the expected positions along with salary and benefit estimates. Insert rows as needed.

Benefits Assumptions - Please describe how you calculated your benefits and what is included below

Position Description	Number of Staff Per Position	Average Salary for the Position	Total Salary	Benefits and Payroll Taxes	TOTAL Salary and Benefits
Head of School	1		-		-
Office Administrator	1		-		-
IT Manager	0.25		-		-
Registrar	0.25		-		-
Operations Manager	0.25		-		-
	0.25		-		-
NOTE - All staff above are K12 Employee. There costs are reflected in K12 fees			-		-
			-		-
Subject Matter Expert Teacher	4.0	50,648	202,592	60,777	263,369
Special Ed Teacher	1.0	54,024	54,024	16,207	70,232
Academic Coach/Dean	2.0	33,765	67,531	20,259	87,790
Guidance Counselor/Dean	1.0	56,275	56,275	16,883	73,158
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TOTAL			380,422	114,127	494,549

ATTACHMENT 20

INDIANA URBAN EDUCATION SOLUTIONS PASSPORT ACADEMIES' BUDGET NARRATIVE

IUES has provided two Budget and Staffing Workbooks as Attachment 19. Each of the four schools: two (2) located in Indianapolis Public Schools District; one (1) located in Gary Community School Corporation District; and one (1) to be located in Lake County, IN (with all program expenses and revenues aligned to the Gary Community Public Schools figures) will employ the same educational, operational and staffing models. Two Budget and Staffing Workbooks (Indianapolis and Gary) were provided to reflect variances in the estimated tuition support per ADM rates for Indianapolis Public Schools and Gary Community School Corporation as well as to account for the difference in estimated cost per square foot (ft^2) for the facilities that will be leased to house the schools. As such, this budget narrative is applicable to all four IUES Passport Academies.

Revenues

The budgets used conservative estimates for all revenues basing, general fund (ADM) estimates on the Indiana Department of Education 2012 Tuition Support per ADM Estimates. In terms of grants, the budgets assume low-end of the spectrum of grants from the Walton Family Foundation and the USDOE Public Charter School Program (PCSP) Planning and Implementation Grant. In Gary, we did not include the Walton Family Foundation grant as an option since this is city is not included in the foundation's priority giving areas. While realizing that the State Charter School Grant may provide funding equal to one –third of first year tuition support per ADM, we chose to budget revenues conservatively and not account for this funding.

Network Benefits

While many networks of blended schools need to build out their infrastructure, our board has selected K12, in part, because they already have a well-defined and robust Blended Schools team. From application development through school launch and on into daily operations, the fees paid to K12, according to the terms of the Service Agreement ultimately agreed upon by IUES and K12, will cover all services and products rendered by K12 to IUES at the local, regional, and national level.

In addition, K12 provides the Board (and each school) with a financial guarantee that (1) K12 will be last in the priority of payments for educational and technology services, and (2) when the school's budget cannot support the standard rates, K12 will reduce their fees to ensure the school breaks even. This financial guarantee, rare among service providers, is most important when it comes to the potential to miss enrollment projections. To put it bluntly, our partner, K12, is on the hook to ensure the school never ends a year in the red. Due to the strength of their current blended schools operations, the strength of their financial statements (viewable in real-time since they are listed on the NY Stock Exchange -- symbol LRN), and the tested value of their service agreements in over thirty states, we believe we have a partner that will invest in our success.

Major Line Items for Each School's Budget Include:

Wages, Benefits and Payroll Taxes (Line 40): Wages for Subject Matter Expert Teachers, Academic Coaches, Guidance Counselors and Special Education Teachers were based upon Indiana state averages. Benefits including retirement plans were set at 30% of salary. The amount budgeted for benefits is based upon figures from Hoosier Academy Indianapolis, another charter high school managed by K12 in Indianapolis.

Technology Support (Line 54): K12 will provide ongoing monitoring of production services such as the student account management system (SAMS) and Online School, website design, maintenance and hosting of the program's website and providing customer support and technology. Over the course of the 5-year budget K12 technology fees

are reduced by the deficit credit. The actual rate of is 3.2% versus the rate of 7% that is proposed in the Draft Services Agreement.
Computers (Line 56): Laptop costs for all teachers and 35% of the enrolled students. The 35% estimate is based upon the percentage of student population in need of laptops for off-campus use at enrolled at YCCS Virtual High School.

Software (Line 57): In addition to K^{12}'s courses, IUES has set aside funding for other academic software needed to complement or supplement the core curriculum. This will include Scantron's Achievement and Performance Series tools for all students, and may include A+, Study Island, Accuplacer, Achieve 3000 or other software recommended by teachers and staff to support the needs of individual students.

Instructional Materials (Line 61): This line reflects costs associated with all physical materials including science equipment, textbooks, workbooks, novels, manipulatives, and all other physical materials needed for the school's curriculum.

Curriculum Delivery (Line 62): This reflects fees associated with K^{12}'s Online Learning system. This includes an estimated 12 semester courses per year. Including core classes, students will be able to choose from among over 150 course options that are aligned to Indiana Academic Standards and Common Core State Standards. Electives can include everything from Mandarin and Latin in the study of a World Languages, to Microeconomics, to Web-Based Game Design, AP Physics, and more.

Educational Service Fees (line 63): Education Service fees, which are calculated as a percentage of IUES program revenue, cover the cost for K^{12}'s provision of a wide range of services. It is important to note that, in addition to services outlined in the Draft Term Sheet and Draft Service Agreement provided in Attachment 8, K^{12} Education service fees cover the wages, benefits, and payroll taxes for the Head of School, Office Administrator, Operations Manager, Special Education Director, IT Manager, and Registrar.

There will be some provider savings that K12 will achieve over time as a result of allocating several administrative staff as shared positions across the network:

- In Year 1, K^{12} will hire 1 IT manager, 1 Registrar and 1 Operations Manager that will be shared positions across two schools: Indianapolis Passport Academy and Gary Passport Academy. In Years 2 – 5, These positions will be shared across the network of four schools (each school has been allocated a 0.25 position)
- In Years 1 and 2, K^{12} will provide a Special Education Director from its regional staff. In Years 3-5, K^{12} will hire 1 FT Special Education Director that will be shared across the network of four schools (0.25 FT at each school)

While the fee structure proposed in the Draft Service Agreement is 15% of revenue, in reality, K^{12} because of its Financial Guarantee to IUES, will not receive anywhere near the full 15% in the early years of the school's operation. For example, in Year 1 of the Indianapolis Passport Academy, K^{12} will receive roughly 8% of ADM while providing the complete list of services referenced above along with the local, regional, and national staff required to meet the terms of its obligation. $81,000 will not even fully cover their cost for employing the Head of School. It is clear from the 5-year budget that K^{12} is making a significant investment in our schools.

Internet Services (Line 98): This item includes ISP charges for the facilities and the ISP reimbursement charges for teachers and students.

Telephone (Line 99): Telephone charges for facilities and teachers.

Special Education Services (Line 103): Our estimates for the cost of special education services were based on the percentage of special education students enrolled in Indianapolis Public School District and Gary Community School Corporation.
Transportation (Line 106): IUES Passport Academies will not provide transportation as a standard practice. However, we will offer transportation services for homeless students and students with disabilities: as required by the McKinney-Vento Homeless Assistance Act, 42 USC 11431, for homeless students, and as required for students with disabilities by the Individuals with Disabilities Education Act and 511 IAC 7-43-1(u), if and as applicable. We will also offer transportation assistance to low income students, based upon need. Our primary means of providing transportation assistance will be through the provision of bus passes for public transportation. Our intention is to house our schools in facilities that are accessible by public transportation.

Rent (Line 115): After meeting with corporate real estate agents, we estimated \$15 / ft^2 NNN in Indianapolis and \$12 / ft^2 NNN in Gary. Utilities and janitorial fees are included in the budget. It is important to note that since these schools will operate two shifts for some students, particularly those who are now parents and/or must work, we do not expect all students to be onsite at any one time. This allows the facility costs / student to be more reasonable. While it is more a guideline for healthy budgeting than a strict barrier, the schools will only exceed 15% of ADA on rent in Year 1.

Indiana Charter School Board Administrative Fee (Line 132): This is an administrative / oversight fee paid to the Indiana Charter School Board at the rate of 2% of ADM.

Many charter school budgets include a 2% or 3% reserve fund, or rely heavily on donations and grants. This budget assumes very little in terms of grants, only including the low-end estimates of standard grants awarded to new charters in Indiana, but it specifically does not include a contingency fund at all. We do not need to set aside contingency funds because of the terms of the Draft Service Agreement which, once we have negotiated with K^{12}, requires them to ensure that we end each year with a balanced budget. If enrollments are off by 2% or 22%, K^{12} ensures that the school will be able to operate as planned. We know of no better contingency planning option.

In return for this Balanced Budget Guarantee or Financial Guarantee, K^{12} is asking that IUES agrees to certain "Conditions." These "Condition" are commercially reasonable especially given the extent of risk and investment that K^{12} is willing to bear. The Conditions, in general terms as set out in the Draft Term Sheet included in Attachment 8, are as follows: (i) K^{12} is the exclusive provider of the Educational Products and Services unless otherwise expressly agreed to in writing by K^{12}, (ii) the Board does not adopt a budget requiring K^{12} to issue financial credits above those proposed by K^{12}, (iii) the Board does not adopt subsequent modifications to the approved budget that would require K^{12} to increase the level of services required, or to materially increase the financial risk to K^{12}, and (iv) the Board does not cause the Program to run a deficit more than two percent (2%) above the then current mutually agreed upon budget.

Given our conservative estimates for revenues, the realistic estimation of instruction related expenses including Special Education and Transportation costs, and K^{12}'s Balanced Budget Guarantee, we are confident that IUES is well positioned to ensure it has sufficient funds to cover all anticipated expenses.

PORTFOLIO SUMMARY

FULL TIME PUBLIC SCHOOLS MANAGED BY K12						
NAME OF SCHOOL	YEAR OPEN	AREA SERVED	SCHOOL CONTACT INFORMATION[1]		ENROLLMENT (as of 10.1.11)	GRADES (as of 10.1.11)
AGORA CYBER CHARTER SCHOOL	2006	Pennsylvania (statewide)	Sharon Williams	swilliams@k12.com	8278	Gr. K-12
ALASKA VIRTUAL ACADEMY	2009	Alaska (statewide)	John Gutman	jgutman@k12.com	202	Gr. K-12
ARIZONA VIRTUAL ACADEMY	2003	Arizona (statewide)	Megan B. Henry	mbhenry@k12.com	5055	Gr. K-12
ARKANSAS VIRTUAL ACADEMY	2007	Arkansas (statewide)	Scott Sides	ssides@k12.com	501	Gr. K-8
CALIFORNIA VIRTUAL ACADEMY Jamestown	2002	Tuoloume County, California and Contiguous Counties				Gr. K-12
CALIFORNIA VIRTUAL ACADEMY Kern	2002	Kern County, California and Contiguous Counties				Gr. K-12
CALIFORNIA VIRTUAL ACADEMY Kings	2006	Kings County, California and Contiguous Counties				Gr. K-12
CALIFORNIA VIRTUAL ACADEMY Los Angeles	2006	Los Angeles County, California and Contiguous Counties				Gr. K-12
CALIFORNIA VIRTUAL ACADEMY Los Angeles High School	2011	Los Angeles County, California and Contiguous Counties				Gr. 9-12
CALIFORNIA VIRTUAL ACADEMY San Diego	2002	San Diego County, California and Contiguous Counties				Gr. K-12
CALIFORNIA VIRTUAL ACADEMY San Joaquin	2009	San Joaquin County, California and Contiguous Counties				Gr. K-12
CALIFORNIA VIRTUAL ACADEMY San Mateo	2006	San Mateo County, California and Contiguous Counties				Gr. K-12
CALIFORNIA VIRTUAL ACADEMY Santa Ysabel	2011	Santa Ysabel County, California and Contiguous Counties				Gr. 9-12
CALIFORNIA VIRTUAL ACADEMY Sonoma	2004	Sonoma County, California and Contiguous Counties	All CAVA:			Gr. K-12
CALIFORNIA VIRTUAL ACADEMY Sutter	2006	Sutter County, California and Contiguous Counties	Katrina Abston	kabston@k12.com	CAVA Total: 13,760	Gr. K-12
CHICAGO VIRTUAL CHARTER SCHOOL	2006	Chicago Public Schools district	Craig Butz	cbutz@k12.com	593	Gr. K-12
COLORADO VIRTUAL ACADEMY	2001	Colorado (statewide)	Heidi Heineke-Magri	hmagri@k12.com	5015	Gr. K-12
COMMUNITY ACADEMY PUBLIC CHARTER SCHOOL ONLINE	2005	District of Columbia School District (statewide)	Tracey Sloane	jsloane@K12.com	115	Gr. K-8
GEORGIA CYBER ACADEMY	2007	Georgia (statewide)	Matthew D. Arkin	mdarkin@k12.com	10,117	Gr. K-10
HAWAII TECHNOLOGY ACADEMY	2008	Hawaii (statewide)	Todd Thorpe acting	tthorpe@k12.com	1159	Gr. K-12
HOOSIER ACADEMY INDIANAPOLIS	2008	Indiana (statewide)			688	Gr. K-12
HOOSIER ACADEMY MUNCIE	2008	Indiana (statewide)	All Hoosier Academies:		97	Gr. K-8
HOOSIER ACADEMY VIRTUAL SCHOOL	2011	Indiana (statewide)	Lynn A. Black	lblack@k12.com	1574	Gr. K-10
IDAHO VIRTUAL ACADEMY	2002	Idaho (statewide)	Desi Laughlin	dlaughlin@k12.com	3045	Gr. K-12
INSIGHT CALIFORNIA, LOS ANGELES	2011	Los Angeles County, California and Contiguous Counties	Sheila Shieber	sshiebler@k12.com	509	Gr. 9-12
INSIGHT CALIFORNIA, NORTH BAY	2011	Sonoma County, California and Contiguous Counties	Sheila Shieber	sshiebler@k12.com	188	Gr. 9-12
INSIGHT COLORADO	2011	Colorado (statewide)	Chuck Wolfe	cwolfe@k12.com	787	Gr. 7-12
INSIGHT KANSAS	2011	Kansas (statewide)	Sarah Berger	sberger@k12.com	898	Gr. 9-12
INSIGHT MINNESOTA	2011	Minnesota (statewide)	John Huber	jhuber@k12.com	347	Gr. 9-12
INSIGHT OREGON	2011	Oregon (statewide)	J. D. McMahan	jdmcmahan@k12.com	530	Gr. 6-12
INSIGHT WASHINGTON	2011	Washington (statewide)	Jeff Bush	jbush@k12.com	2225	Gr. 7-12
iSucceed (INSIGHT IDAHO)	2011	Idaho (statewide)	Monti Pittman	mpittman@k12.colm	844	Gr. 8-12
LAWRENCE VIRTUAL HIGH SCHOOL	2010	Kansas (statewide)	Sarah Berger	sberger@k12.com	219	Gr. 9-11
LOUISIANA VIRTUAL CHARTER ACADEMY	2011	Louisiana (statewide)	David Fuller	dfuller@k12.com	1320	K-10
MASSACHUSETTS VIRTUAL ACADEMY Greenfield	2010	Massachusetts (statewide)	Ryan Clepper	rclepper@k12.com	481	Gr. K-12
MICHIGAN VIRTUAL CHARTER ACADEMY	2010	Michigan (statewide)	Stephanie Hargens	shargens@k12.com	750	Gr. K-12
MINNESOTA VIRTUAL ACADEMY [2]	2002	Minnesota (statewide)	Justin Treptow	jtreptow@mnva.k12.mn.us	2064	Gr. K-12
MAURICE J. MOYER ACADEMY	2010	Delaware (New Castle County)	Keith T. Stephenson	kstephenson@k12.com	192	Gr. 6-12
NEVADA VIRTUAL ACADEMY	2007	Nevada (statewide)	Mike Kazek	mkazek@k12.com	3737	Gr. K-12
OHIO VIRTUAL ACADEMY	2002	Ohio (statewide)	Kris Stewart	kstewart@k12.com	12,104	Gr. K-12
OKLAHOMA VIRTUAL ACADEMY	2009	Oklahoma (statewide)			817	Gr. 1-8
OKLAHOMA VIRTUAL ACADEMY-HS	2010	Oklahoma (statewide)	All OVA/OVCA:		190	Gr. 9-11
OKLAHOMA VIRTUAL CHARTER ACADEMY	2011	Oklahoma (statewide)	Richard Mansheim	rmansheim@k12.com	836	Gr. K-11
OREGON VIRTUAL ACADEMY	2008	Oregon (statewide)	Jim Moyer	jmoyer@k12.com	1366	Gr. K-10
SAN FRANCISCO FLEX ACADEMY	2010	California (statewide permitted by charter)	Royce Conner	rconner@k12.com	218	Gr. 9-12
SILICON VALLEY FLEX ACADEMY	2011	California (statewide permitted by charter)	Jean Southland	jsouthland@k12.com	165	Gr. 6-12
SOUTH CAROLINA VIRTUAL CHARTER SCHOOL	2008	South Carolina (statewide)	Cherry Daniel	cdaniel@scvcs.org	3779	Gr. K-12
TENNESSEE VIRTUAL ACADEMY	2011	Tennessee (statewide)	Josh Williams	jwilliams@tnva.org	1814	Gr. K-8
TEXAS VIRTUAL ACADEMY	2007	Regions 1-14 and 20	Mary Gifford - acting	mgifford@k12.com	3940	Gr. 3-12
UTAH VIRTUAL ACADEMY	2008	Utah (statewide)	Stacey Hutchings	shutchings@k12.com	2015	Gr. K-12
VIRGINIA VIRTUAL ACADEMY@ Carroll County	2009	Virginia (statewide)	All VAVA:		332	Gr. K-8
VIRGINIA VIRTUAL ACADEMY@ King and Queen County	2012	Virginia (statewide)	Suzanne Sloane	ssloane@k12.com	170	Gr. K-4
WASHINGTON VIRTUAL ACADEMY Steilacoom	2003	Washington (statewide)				Gr. K-8
WASHINGTON VIRTUAL ACADEMY Monroe-HS	2007	Washington (statewide)	All WAVA:			Gr. 9-12

FULL TIME PUBLIC SCHOOLS MANAGED BY K12							
NAME OF SCHOOL	**YEAR OPEN**	**AREA SERVED**	**SCHOOL CONTACT INFORMATION[1]**		**ENROLLMENT (as of 10.1.11)**	**GRADES (as of 10.1.11)**
WASHINGTON VIRTUAL ACADEMY Omak	2010	Washington (statewide)	Mark Christiano	mchristiano@k12.com	**WAVA Total: 4,012**	Gr. K-12
WISCONSIN VIRTUAL ACADEMY	2009	Wisconsin (statewide)	Leslye Erickson	lerickson@k12.com	1050	Gr. K-12
WYOMING VIRTUAL ACADEMY	2009	Wyoming (statewide)	Ed Weber	eweber@k12.com	683	Gr. K-12
YOUTH CONNECTIONS CHARTER SCHOOL-VIRTUAL HIGH SCHOOL	2009	Chicago Public Schools District	Early King	eking@k12.com	169	Gr. 11-12

[1] School leader name and email address

[2] K[12] has managed MNVA in varying grade configurations since 2002 (2002-2004: K-8; 2008-2011: (9-12); 2011-2012: K-12).

FULL TIME PUBLIC SCHOOLS MANAGED BY K12 (as of 10.1.11)												
		RACE/ETHNICITY										
NAME OF SCHOOL	% F/R	Asian/ Pacific Islander	American Indian/ Native American	Black/ African American	Latino/ Hispanic	Other	White	Undefined	% SPECIAL NEEDS	% ELL	1ST CONTRACT YEAR WITH K12
AGORA CYBER CHARTER SCHOOL	60	1	1	26	8	3	59	2	19	0	2006
ALASKA VIRTUAL ACADEMY	26	2	3	3	2	5	29	56	5	0	2009
ARIZONA VIRTUAL ACADEMY	62	2	3	5	19	3	68	0	13	0	2003
ARKANSAS VIRTUAL ACADEMY	59	1	1	8	4	0	84	2	12	0	2007
CALIFORNIA VIRTUAL ACADEMY Jamestown											2002
CALIFORNIA VIRTUAL ACADEMY Kern											2002
CALIFORNIA VIRTUAL ACADEMY Kings											2006
CALIFORNIA VIRTUAL ACADEMY Los Angeles											2006
CALIFORNIA VIRTUAL ACADEMY Los Angeles High School											2011
CALIFORNIA VIRTUAL ACADEMY San Diego											2002
CALIFORNIA VIRTUAL ACADEMY San Joaquin											2009
CALIFORNIA VIRTUAL ACADEMY San Mateo											2006
CALIFORNIA VIRTUAL ACADEMY Santa Ysabel											2011
CALIFORNIA VIRTUAL ACADEMY Sonoma	**All CAVA:**										2004
CALIFORNIA VIRTUAL ACADEMY Sutter	**55**	3	1	13	17	7	51	8	9	1	2006
CHICAGO VIRTUAL CHARTER SCHOOL	12	12	0	48	10	6	17	7	8	1	2006
COLORADO VIRTUAL ACADEMY	33	2	2	4	13	1	78	0	12	3	2001
COMMUNITY ACADEMY PUBLIC CHARTER SCHOOL ONLINE	41	1	0	74	0	2	18	5	7	0	2005
GEORGIA CYBER ACADEMY	61	2	1	30	2	3	59	3	1	3	2007
HAWAII TECHNOLOGY ACADEMY	0	19	1	4	3	23	38	12	0	0	2008
HOOSIER ACADEMY INDIANAPOLIS	**All Hoosier**										2008
HOOSIER ACADEMY MUNCIE	**Acad.:**										2008
HOOSIER ACADEMY VIRTUAL SCHOOL	**27**	1	0	10	2	1	74	12	16	0	2011
IDAHO VIRTUAL ACADEMY	65	1	1	1	4	1	88	4	10	0	2002
INSIGHT CALIFORNIA, LOS ANGELES	**All Insight**										2011
INSIGHT CALIFORNIA, NORTH BAY	**CA: 30**	4	2	13	23	3	47	8	11	0	2011
INSIGHT COLORADO	4	1	1	4	9	1	57	27	6	0	2011
INSIGHT KANSAS	1	1	2	2	2	0	49	44	0	0	2011
INSIGHT MINNESOTA	0	2	2	5	3	2	48	38	11	0	2011
INSIGHT OREGON	13	1	2	0	3	4	63	27	5	0	2011
INSIGHT WASHINGTON	2	2	2	2	6	7	47	34	9	0	2011
iSucceed (INSIGHT IDAHO)	45	0	3	2	9	1	83	2	8	0	2011
LAWRENCE VIRTUAL HIGH SCHOOL	11	0	0	4	7	0	80	9	0	0	2010
LOUISIANA VIRTUAL CHARTER ACADEMY	60	1	0	17	2	2	77	1	13	0	2011
MASSACHUSETTS VIRTUAL ACADEMY Greenfield	45	2	1	10	6	4	71	6	4	0	2010
MICHIGAN VIRTUAL CHARTER ACADEMY	70	4	1	20	2	0	69	4	7	0	2010
MINNESOTA VIRTUAL ACADEMY[1]	3	1	1	5	3	2	79	9	9	0	2010

FULL TIME PUBLIC SCHOOLS MANAGED BY K12 (as of 10.1.11)											
		RACE/ETHNICITY									
NAME OF SCHOOL	% F/R	Asian/ Pacific Islander	American Indian/ Native American	Black/ African American	Latino/ Hispanic	Other	White	Undefined	% SPECIAL NEEDS	% ELL	1ST CONTRACT YEAR WITH K12
MAURICE J. MOYER ACADEMY	93	0	0	91	7	1	1	0	28	0.5	2010
NEVADA VIRTUAL ACADEMY	48	6	2	12	11	0	67	2	9	2	2007
OHIO VIRTUAL ACADEMY	77	1	0	11	2	2	79	5	13	7	2002
OKLAHOMA VIRTUAL ACADEMY	56	2	13	8	3	0	71	3	11	0	2009
OKLAHOMA VIRTUAL ACADEMY-HS	44	1	12	3	5	0	76	3	6	0	2010
OKLAHOMA VIRTUAL CHARTER ACADEMY	64	1	12	5	4	0	74	4	9	0	2011
OREGON VIRTUAL ACADEMY	60	2	2	1	5	3	86	1	13	1	2008
SAN FRANCISCO FLEX ACADEMY	37	4	2	23	20	16	28	7	8	0	2010
SILICON VALLEY FLEX ACADEMY	27	1	1	4	16	8	62	8	14	0	2011
SOUTH CAROLINA VIRTUAL CHARTER SCHOOL	48	1	0	16	2	1	77	3	10	1	2008
TENNESSEE VIRTUAL ACADEMY	61	2	1	11	1	3	81	1	10	0	2011
TEXAS VIRTUAL ACADEMY	42	6	1	13	18	0	53	9	10	1	2007
UTAH VIRTUAL ACADEMY	43	2	1	2	5	0	89	1	13	1	2008
VIRGINIA VIRTUAL ACADEMY@ Carroll County	All VAVA:										2009
VIRGINIA VIRTUAL ACADEMY@ King and Queen County	24	5	0	20	5	5	63	2	9	0	2012
WASHINGTON VIRTUAL ACADEMY Steilacoom											2003
WASHINGTON VIRTUAL ACADEMY Monroe-HS	All WAVA:										2007
WASHINGTON VIRTUAL ACADEMY Omak	14	5	1	5	5	3	76	5	9	0	2010
WISCONSIN VIRTUAL ACADEMY	12	2	1	6	2	0	83	6	9	0	2009
WYOMING VIRTUAL ACADEMY	18	1	2	2	6	0	84	5	11	0	2009
YOUTH CONNECTIONS CHARTER SCHOOL-VIRTUAL HIGH	1	2	1	53	10	0	16	18	5	0	2009

[1]K12 has managed MNVA in varying grade configurations since 2002 (2002-2004: K-8; 2008-2011: (9-12); 2011-2012: K-12).

FULL TIME PUBLIC SCHOOLS MANAGED BY K12										
NAME OF SCHOOL	% PROFICIENT IN MATH					% PROFICIENT IN READING				
	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
AGORA CYBER CHARTER SCHOOL	47	41	46	48	42	59	53	59	55	52
ALASKA VIRTUAL ACADEMY [1]					40					70
ARIZONA VIRTUAL ACADEMY	57	56	55	45	43	70	72	73	77	75
ARKANSAS VIRTUAL ACADEMY [1]		68	70	70	73		64	72	74	68
CALIFORNIA VIRTUAL ACADEMY Jamestown [1]		22	28	29	25		44	48	59	71
CALIFORNIA VIRTUAL ACADEMY Kern [1]		35	32	23	25		65	53	53	48
CALIFORNIA VIRTUAL ACADEMY Kings [1]		31	36	31	34		55	59	59	60
CALIFORNIA VIRTUAL ACADEMY Los Angeles [1]		39	37	32	31		60	57	60	59
CALIFORNIA VIRTUAL ACADEMY Los Angeles High School [1]										
CALIFORNIA VIRTUAL ACADEMY San Diego [1]		39	40	33	31		60	63	60	60
CALIFORNIA VIRTUAL ACADEMY San Joaquin [1]		23	23	18	18		47	51	48	45
CALIFORNIA VIRTUAL ACADEMY San Mateo [1]		41	43	33	33		52	60	63	58
CALIFORNIA VIRTUAL ACADEMY Santa Ysabel [1]										
CALIFORNIA VIRTUAL ACADEMY Sonoma [1]		41	33	26	27		50	55	58	55
CALIFORNIA VIRTUAL ACADEMY Sutter [1]		29	34	30	24		53	58	51	49
CHICAGO VIRTUAL CHARTER SCHOOL	65	66	72	71	71	72	72	70	75	75
COLORADO VIRTUAL ACADEMY	82	77	72	76	41	86	90	83	93	61
COMMUNITY ACADEMY PUBLIC CHARTER SCHOOL ONLINE [1]		43	61	51	59		71	78	63	67
GEORGIA CYBER ACADEMY [1]		53	72	71	71		64	89	92	93
HAWAII TECHNOLOGY ACADEMY [1]			No report; new school	47	55			No report; new school	89	81
HOOSIER ACADEMY INDIANAPOLIS [1]			68	70	81			71	72	87
HOOSIER ACADEMY MUNCIE [1]			60	54	49			73	60	51
HOOSIER ACADEMY VIRTUAL SCHOOL [1]										
IDAHO VIRTUAL ACADEMY	64	67	68	70	75	85	83	83	84	88
INSIGHT CALIFORNIA, LOS ANGELES [3]										
INSIGHT CALIFORNIA, NORTH BAY [3]										
INSIGHT COLORADO [3]										
INSIGHT KANSAS [3]										
INSIGHT MINNESOTA [3]										
INSIGHT OREGON [3]										
INSIGHT WASHINGTON [3]										
iSucceed (INSIGHT IDAHO)[3]										
LAWRENCE VIRTUAL HIGH SCHOOL[1,5]	[1]	[1]	[1]	[1]	[5]	[1]	[1]	[1]	[1]	[5]
LOUISIANA VIRTUAL CHARTER ACADEMY [1]										
MASSACHUSETTS VIRTUAL ACADEMY Greenfield [1]					64					29

FULL TIME PUBLIC SCHOOLS MANAGED BY K12										
NAME OF SCHOOL	% PROFICIENT IN MATH					% PROFICIENT IN READING				
	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
MICHIGAN VIRTUAL CHARTER ACADEMY [1]					81					87
MINNESOTA VIRTUAL ACADEMY [1, 3]				50	55				78	85
MAURICE J. MOYER ACADEMY [4]					4					4
NEVADA VIRTUAL ACADEMY		47	54	50	48		64	52	66	44
OHIO VIRTUAL ACADEMY	62	74	61	58	66	81	81	81	78	82
OKLAHOMA VIRTUAL ACADEMY [1]				48	48				64	61
OKLAHOMA VIRTUAL ACADEMY-HS [5]					78					75
OKLAHOMA VIRTUAL CHARTER ACADEMY										
OREGON VIRTUAL ACADEMY			No report; new school	63	43			No report; new school	78	69
SAN FRANCISCO FLEX ACADEMY [1, 2]					46					NA--Didn't meet min. # tested
SILICON VALLEY FLEX ACADEMY [1]										
SOUTH CAROLINA VIRTUAL CHARTER SCHOOL [1]			NA	59	63			NA	75	77
TENNESSEE VIRTUAL ACADEMY [1]										
TEXAS VIRTUAL ACADEMY	70	61	61	63	69	86	85	87	86	85
UTAH VIRTUAL ACADEMY [1]			50	50	53			80	76	74
VIRGINIA VIRTUAL ACADEMY@ Carroll County [1]				52	62				86	83
VIRGINIA VIRTUAL ACADEMY@ King and Queen County [1]										
WASHINGTON VIRTUAL ACADEMY Steilacoom	37	43	43	40	49	66	50	67	64	65
WASHINGTON VIRTUAL ACADEMY Monroe-HS	Incl. in WAVA Steilacoom			28	58	Incl. in WAVA Steilacoom			70	81
WASHINGTON VIRTUAL ACADEMY Omak					41					59
WISCONSIN VIRTUAL ACADEMY	n/a	78	78	77	69	92	n/a	87	91	86
WYOMING VIRTUAL ACADEMY [1, 6]	1	1	1	6	62	1	1	1	6	69
YOUTH CONNECTIONS CHARTER SCHOOL-VIRTUAL HIGH SCHOOL [1]				2.5	6				7.5	11

[1] School opened after testing years which are highlighted.

[2] K^{12} began management of Insight Schools in 2011-2012. No test data available yet during the time of K12 management.

[3] K^{12} has managed MNVA in varying grade configurations since 2002 (2002-2004: K-8; 2008-2011: (9-12); 2011-2012: K-12).

[4] K^{12} began management of Maurice J. Moyer Academy in 2010-2011. DCAS data reported by grade level (Math % Prof.: Gr. 6 (NA); Gr. 7 (3%); Gr. 8 (6%); Gr. 9 (5%); Gr. 10 (3%)) (Reading % Prof.: Gr. 6 (9%); Gr. 7 (3%); Gr. 8 (24%); Gr. 9 (6%); Gr. 10(10%))

[5] No state assessments for grades served by K^{12}

[6] Assessment results either included in district partner or resident district data depending on whether student enrolled with MOU or directly in partner district

FULL TIME PUBLIC SCHOOLS MANAGED BY K12	
NAME OF SCHOOL	**AUTHORIZER NAME AND CONTACT INFORMATION**
AGORA CYBER CHARTER SCHOOL	Pennsylvania Department of Education (333 Market Street, Harrisburg, PA 17126)
ALASKA VIRTUAL ACADEMY	Wrangell School District (P.O. Box 2319, Wrangell, AK 99929-2319)
ARIZONA VIRTUAL ACADEMY	Arizona State Board for Charter Schools (1616 West Adams Street, Suite 170, Phoenix, AZ 85007)
ARKANSAS VIRTUAL ACADEMY	Arkansas State Board of Education (#4 Capital Mall, Little Rock, AR 72201)
CALIFORNIA VIRTUAL ACADEMY Jamestown	Jamestown Elementary School District (18299 Fifth Ave, Jamestown, CA 95327)
CALIFORNIA VIRTUAL ACADEMY Kern	Marricopa Unified School District (955 Stanislaus Street, Maricopa, CA 93252)
CALIFORNIA VIRTUAL ACADEMY Kings	Armona Elementary School District (11115 C Street, Armona, CA 93202)
CALIFORNIA VIRTUAL ACADEMY Los Angeles	West Covina Unified School District (1717 W. Merced Ave., West Covina, CA 91790)
CALIFORNIA VIRTUAL ACADEMY Los Angeles High School	West Covina Unified School District (1717 W. Merced Ave., West Covina, CA 91790)
CALIFORNIA VIRTUAL ACADEMY San Diego	Spencer Valley School District (PO Box 159, Santa Ysabel, CA 92070)
CALIFORNIA VIRTUAL ACADEMY San Joaquin	Stockton Unified School District (701 N. Madison, Stockton, CA 95202)
CALIFORNIA VIRTUAL ACADEMY San Mateo	Jefferson Elementary School District (101 lincoln Ave., Daly City, CA 94015)
CALIFORNIA VIRTUAL ACADEMY Santa Ysabel	Spencer Valley School District (PO Box 159, Santa Ysabel, CA 92070)
CALIFORNIA VIRTUAL ACADEMY Sonoma	Liberty Elementary School District, 170 Liberty School Road, Petaluma, CA 94952
CALIFORNIA VIRTUAL ACADEMY Sutter	Nuestro Elemeantary School District (3934 Broadway Road, Live Oak, CA 95953)
CHICAGO VIRTUAL CHARTER SCHOOL	Illinois State Board of Education (100 N. 1st Street, Springfield, IL 62777)
COLORADO VIRTUAL ACADEMY	Adams 12 Five Star Schools (1500 E. 128th Avenue, Thornton, CO 80241-2602)
COMMUNITY ACADEMY PUBLIC CHARTER SCHOOL ONLINE	District of Columbia Public Charter School Board (3333 14th Street NW, Suite 210, Washington, D.C. 20010)
GEORGIA CYBER ACADEMY	Georgia State Board of Education (205 Jesse Hill Jr. Drive SE, Atlanta, GA 30334)
HAWAII TECHNOLOGY ACADEMY	State of Hawaii Charter School Review Panel (1111 Bishop Street Suite 516, Honolulu, HI 96813)
HOOSIER ACADEMY INDIANAPOLIS	Ball State University (2000 W University Ave, Muncie, IN 47306)
HOOSIER ACADEMY MUNCIE	Ball State University (2000 W University Ave, Muncie, IN 47306)
HOOSIER ACADEMY VIRTUAL SCHOOL	Ball State University (2000 W University Ave, Muncie, IN 47306)
IDAHO VIRTUAL ACADEMY	Idaho Public Charter School Commission (P.O. Box 83720, Boise, ID 83720-0037)
INSIGHT CALIFORNIA, LOS ANGELES	Antelope Valley Union High School District (44811 N. Sierra Hwy, Lancaster, CA)
INSIGHT CALIFORNIA, NORTH BAY	Windsor Unified School District (9291 Old Redwood Hwy, Windsor, CA 95492)
INSIGHT COLORADO	Program of Julseburg School District RE-1 (102 West Sixth Street, Julesburg, CO 80737)
INSIGHT KANSAS	Spring Hill School District (101 E. South Street, Spring Hill, KS 66083)
INSIGHT MINNESOTA	Brooklyn Center School District (6500 Humboldt Ave N, Brooklyn Ctr, MN 55430)
INSIGHT OREGON	Not a sponsored program. Contracts individually with districts to provide credit recovery services.
INSIGHT WASHINGTON	Quillayute Valley School District (411 South Spartan Ave., Forks, WA 98331)
iSuceed (INSIGHT IDAHO)	Idaho Public Charter School Commission (P.O. Box 83720, Boise, ID 83720-0037)
LAWRENCE VIRTUAL HIGH SCHOOL	Program of Lawrence Public Schools/Unified School District 497 (110 McDonald Drive, Lawrence, KS 66044)
LOUISIANA VIRTUAL CHARTER ACADEMY	Louisiana State Board of Education (1201 North Third Street, Baton Rouge, LA 70802-5243)
MASSACHUSETTS VIRTUAL ACADEMY Greenfield	Innovation Program of Greenfield School Committee (141 Davis Street, Greenfield, MA 01301)
MICHIGAN VIRTUAL CHARTER ACADEMY	Grand Valley State University Charter Schools Office (201 Front Street, Suite 310, Grand Rapids, MI 49504)
MINNESOTA VIRTUAL ACADEMY	Houston School District (306 E. Elm Street, Houston, MN 55943)
MAURICE J. MOYER ACADEMY	Delaware Department of Education (401 Federal Street, Suite 2, Dover, DE 19901)
NEVADA VIRTUAL ACADEMY	Nevada State Public Charter School Authority (1749 Stewart Street, Suite 40, Carson City, NV 89706)
OHIO VIRTUAL ACADEMY	Ohio Council of Community Schools (3131 Executive Parkway, Suite 306, Toledo, OH 43606)
OKLAHOMA VIRTUAL ACADEMY	Program of White Oak School District (27355 S. 4340 Road, Vinita, OK 74301)
OKLAHOMA VIRTUAL ACADEMY-HS	Program of Wynona Public Schools (3rd + Antwine, Box 700, Wynona, OK 74084)
OKLAHOMA VIRTUAL CHARTER ACADEMY	Choctaw-Nicoma Park Public Schools (12880 NE 10th Street, Choctaw, OK 73020)

FULL TIME PUBLIC SCHOOLS MANAGED BY K12	
NAME OF SCHOOL	AUTHORIZER NAME AND CONTACT INFORMATION
OREGON VIRTUAL ACADEMY	North Bend Oregon School District 13 (1913 Meade St., North Bend, OR 97459)
SAN FRANCISCO FLEX ACADEMY	California State Board of Education (1430 N Street, Suite #5111, Sacramento, CA 95814)
SILICON VALLEY FLEX ACADEMY	Santa Clara County Board of Education (1290 Ridder Park Drive, San Jose, CA 95131-2304
SOUTH CAROLINA VIRTUAL CHARTER SCHOOL	South Carolina Public Charter School District (3710 Landmark Drive, Suite 201, Columbia, SC 29204)
TENNESSEE VIRTUAL ACADEMY	Union County School District (P.O. Box 10, Maynardville, TN 37807)
TEXAS VIRTUAL ACADEMY	Program of Charter Network Responsive Education Solutions (1301 Waters Ridge Drive, Lewisville, TX 75057)
UTAH VIRTUAL ACADEMY	Utah State Charter School Board (250 East 500 South, P.O. Box 144200, Salt Lake City, UT 84114-4200)
VIRGINIA VIRTUAL ACADEMY@ Carroll County	Carrol County School District (605-9 Pine Street, Hillsville, VA 24343)
VIRGINIA VIRTUAL ACADEMY@ King and Queen County	King and Queen County School District (P.O. Box 97, 242 Allen’s Circle, Suite M, 2nd Floor, King and Queen Court House, VA 23085)
WASHINGTON VIRTUAL ACADEMY Steilacoom	SteilacoomHistorical School District (510 Chambers St., Steilacoom, WA 98388)
WASHINGTON VIRTUAL ACADEMY Monroe-HS	Monroe Public Schools (200 E. Fremont, Monroe, WA 98272)
WASHINGTON VIRTUAL ACADEMY Omak	Omak School District (619 W. Bartlett, PO Box 833, Omak, WA 98841)
WISCONSIN VIRTUAL ACADEMY	McFarland School District (5101 Farwell Street, McFarland, WI 53558)
WYOMING VIRTUAL ACADEMY	Program of Niobrara County School District #1 (619 West 5th Street, P.O. Box 629, Lusk, WY 82225)
YOUTH CONNECTIONS CHARTER SCHOOL-VIRTUAL HIGH SCHOOL	Program of Youth Connections Charter School which is authorized by Illinois State Board of Education (100 N. 1st Street, Springfield, IL 62777)

ATTACHMENT 22

B38738

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT

OF

HOOSIER ACADEMY - MUNCIE

DELAWARE COUNTY, INDIANA

July 1, 2008 to June 30, 2010

FILED
05/23/2011

TABLE OF CONTENTS

OFFICIALS

Office	Official	Term
Treasurer	Andrea Goldwater	07-01-08 to 06-30-11
Head of Schools	Lynn Black	07-01-08 to 06-30-11
President of the School Board	Ron Brumbarger	07-01-08 to 06-30-10
	Richard Crist	07-01-10 to 06-30-11

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
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Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF HOOSIER ACADEMY - MUNCIE, DELAWARE COUNTY, INDIANA

We have examined the financial statements presented herein of Hoosier Academy - Muncie (School Corporation), for the period of July 1, 2008 to June 30, 2010. The School Corporation's management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial statements of the School Corporation for the years ended June 30, 2009 and 2010, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Combining Schedules, Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules have been subjected to the examination procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the examination procedures applied to the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

March 28, 2011

HOOSIER ACADEMY - MUNCIE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2009

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants and Contributions	Net (Disbursement) Receipts and Changes in Net Assets: Totals
Governmental activities:				
Instruction	$ 405,891	$ -	$ -	$ (405,891)
Support services	227,550	1,959	7,745	(217,846)
Noninstructional services	9,985	-	-	(9,985)
Facilities acquisition and construction	342,044	-	-	(342,044)
Total governmental activities	$ 985,470	$ 1,959	$ 7,745	(975,766)
General receipts:				
Other local sources				6,111
State aid				209,729
Bonds and loans				572,412
Grants and contributions not restricted to specific programs				496,647
Total general receipts				1,284,899
Change in net assets				309,133
Net assets - beginning				-
Net assets - ending				$ 309,133

Assets

Cash and investments	$ 309,133

Net Assets

Unrestricted	$ 309,133

The notes to the financial statements are an integral part of this statement.

HOOSIER ACADEMY - MUNCIE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2010

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants and Contributions	Net (Disbursement) Receipts and Changes in Net Assets: Totals
Governmental activities:				
Instruction	$ 389,465	$ -	$ 2,484	$ (386,981)
Support services	245,071	1,415	-	(243,656)
Noninstructional services	25,369	-	-	(25,369)
Facilities acquisition and construction	196,143	-	-	(196,143)
Total governmental activities	$ 856,048	$ 1,415	$ 2,484	(852,149)
General receipts:				
Other local sources				4,557
State aid				589,845
Grants and contributions not restricted to specific programs				309,345
Total general receipts				903,747
Change in net assets				51,598
Net assets - beginning				309,133
Net assets - ending				$ 360,731

Assets

Cash and investments	$ 360,731

Net Assets

Unrestricted	$ 360,731

The notes to the financial statements are an integral part of this statement.

HOOSIER ACADEMY - MUNCIE
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	General	Public Charter School ESEA TIT	Other	Totals
Receipts:				
Local sources	$ 6,447	$ -	$ 1,624	$ 8,071
State sources	209,729	-	7,744	217,473
Federal sources	-	449,850	46,797	496,647
Temporary loans	572,412	-	-	572,412
Total receipts	788,588	449,850	56,165	1,294,603
Disbursements:				
Current:				
Instruction	340,898	41,277	23,716	405,891
Support services	184,528	29,696	13,326	227,550
Noninstructional services	8,006	-	1,979	9,985
Facilities acquisition and construction	110,230	223,188	8,626	342,044
Total disbursements	643,662	294,161	47,647	985,470
Excess of receipts over disbursements	144,926	155,689	8,518	309,133
Cash and investments - beginning	-	-	-	-
Cash and investments - ending	$ 144,926	$ 155,689	$ 8,518	$ 309,133
Cash and Investment Assets - Ending				
Cash and investments	$ 144,926	$ 155,689	$ 8,518	$ 309,133
Cash and Investment Fund Balance - Ending				
Unrestricted	$ 144,926	$ 155,689	$ 8,518	$ 309,133

The notes to the financial statements are an integral part of this statement.

HOOSIER ACADEMY - MUNCIE
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	General	Public Charter School ESEA TIT	Other	Totals
Receipts:				
Local sources	$ 3,437	$ 200	$ 2,335	$ 5,972
State sources	592,329	-	-	592,329
Federal sources	-	250,000	59,345	309,345
Total receipts	595,766	250,200	61,680	907,646
Disbursements:				
Current:				
Instruction	302,950	35,173	51,342	389,465
Support services	160,442	82,244	2,385	245,071
Noninstructional services	19,178	3,277	2,914	25,369
Facilities acquisition and construction	45,571	145,281	5,291	196,143
Total disbursements	528,141	265,975	61,932	856,048
Excess (deficiency) of receipts over disbursements	67,625	(15,775)	(252)	51,598
Cash and investments - beginning	144,926	155,689	8,518	309,133
Cash and investments - ending	$ 212,551	$ 139,914	$ 8,266	$ 360,731
Cash and Investment Assets - Ending				
Cash and investments	$ 212,551	$ 139,914	$ 8,266	$ 360,731
Cash and Investment Fund Balance - Ending				
Unrestricted	$ 212,551	$ 139,914	$ 8,266	$ 360,731

The notes to the financial statements are an integral part of this statement.

HOOSIER ACADEMY - MUNCIE
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2009

		Agency Funds
Cash and investment fund balance - ending	$	2,096
Net assets:		
Cash and investments	$	2,096
Total net assets - cash and investment basis held in trust	$	2,096

The notes to the financial statements are an integral part of this statement.

HOOSIER ACADEMY - MUNCIE
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2010

	Agency Funds
Cash and investment fund balance - ending	$ 1,062
Net assets:	
Cash and investments	$ 1,062
Total net assets - cash and investment basis held in trust	$ 1,062

The notes to the financial statements are an integral part of this statement.

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Hoosier Academy - Muncie

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Public Charter School ESEA TIT fund is used to account for the receipts and disbursements for the financial assistance in planning, program design and initial implementation of charter schools.

Additionally, the School Corporation reports the following fund type:

Agency funds account for assets held by the School Corporation as an agent for employee payroll withholdings and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

3. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

4. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as a liability in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

5. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

II. Detailed Notes on All Funds

Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. IC 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The School Corporation does not have a deposit policy for custodial credit risk. At June 30, 2010, the School Corporation had deposit balances in the amount of $369,147.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

III. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, and dependents; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, and dependents; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Pension Plans

1. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation's contributions to the plan during the period were $19,645.

2. 403b Retirement Plan

The School Corporation makes matching contributions of up to 7.0% of the employee's income to a 403(b) retirement plan. The 403(b) retirement plan allows employees to make contributions up to limits established by the Internal Revenue Service. The employee chooses the investment options provided by the plan administrator. All 403(b) Retirement Plan contributions to the plan, plus any earnings they generate, are vested 100%.

HOOSIER ACADEMY - MUNCIE
COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	School Lunch	Textbook Rental	School Administration	IDEA P.L. 101-476	Fiscal Stabilization	Totals
Receipts:						
Local sources	$ 1,591	$ -	$ 33	$ -	$ -	$ 1,624
State sources	-	7,744	-	-	-	7,744
Federal sources	-	-	-	4,235	42,562	46,797
Total receipts	1,591	7,744	33	4,235	42,562	56,165
Disbursements:						
Current:						
Instruction	-	-	-	3,639	20,077	23,716
Support services	43	-	-	-	13,283	13,326
Noninstructional services	1,380	-	23	-	576	1,979
Facilities acquistion and construction	-	-	-	-	8,626	8,626
Total disbursements	1,423	-	23	3,639	42,562	47,647
Excess of receipts over disbursements	168	7,744	10	596	-	8,518
Cash and investments - beginning	-	-	-	-	-	-
Cash and investments - ending	$ 168	$ 7,744	$ 10	$ 596	$ -	$ 8,518
Cash and Investment Assets - Ending						
Cash and investments	$ 168	$ 7,744	$ 10	$ 596	$ -	$ 8,518
Cash and Investment Fund Balance - Ending						
Unrestricted	$ 168	$ 7,744	$ 10	$ 596	$ -	$ 8,518

HOOSIER ACADEMY - MUNCIE
COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	School Lunch	Textbook Rental	School Administration	IDEA P.L. 101-476	Federal Special Ed 09-10	Improving Teacher Quality	Fiscal Stabilization	Special Education Part B (Stimulus)	Totals
Receipts:									
Local sources	$ 1,415	$ -	$ 920	$ -	$ -	$ -	$ -	$ -	$ 2,335
Federal sources	-	-	-	6,590	13,445	8,440	19,763	11,107	59,345
Total receipts	1,415	-	920	6,590	13,445	8,440	19,763	11,107	61,680
Disbursements:									
Current:									
Instruction	-	3,666	-	7,186	13,445	6,530	12,365	8,150	51,342
Support services	25	-	-	-	-	-	2,360	-	2,385
Noninstructional services	1,558	-	930	-	-	-	426	-	2,914
Facilities acquistion and construction	-	-	-	-	-	-	4,612	679	5,291
Total disbursements	1,583	3,666	930	7,186	13,445	6,530	19,763	8,829	61,932
Excess (deficiency) of receipts over disbursements	(168)	(3,666)	(10)	(596)	-	1,910	-	2,278	(252)
Cash and investments - beginning	168	7,744	10	596	-	-	-	-	8,518
Cash and investments - ending	$ -	$ 4,078	$ -	$ -	$ -	$ 1,910	$ -	$ 2,278	$ 8,266
Cash and Investment Assets - Ending									
Cash and investments	$ -	$ 4,078	$ -	$ -	$ -	$ 1,910	$ -	$ 2,278	$ 8,266
Cash and Investment Fund Balance - Ending									
Unrestricted	$ -	$ 4,078	$ -	$ -	$ -	$ 1,910	$ -	$ 2,278	$ 8,266

HOOSIER ACADEMY - MUNCIE
COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
AGENCY FUNDS
For the Year Ended June 30, 2009

	TRF Withholding	403B Withholding	Totals
Additions:			
Agency fund additions	$ 5,511	$ 820	$ 6,331
Deductions:			
Agency fund deductions	4,235	-	4,235
Excess (deficiency) of total additions over total deductions	1,276	820	2,096
Cash and investment fund balance - beginning	-	-	-
Cash and investment fund balance - ending	$ 1,276	$ 820	$ 2,096

HOOSIER ACADEMY - MUNCIE
COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
AGENCY FUNDS
For the Year Ended June 30, 2010

	TRF Withholding	403B Withholding	Totals
Additions:			
Agency fund additions	$ -	$ -	$ -
Deductions:			
Agency fund deductions	342	692	1,034
Excess (deficiency) of total additions over total deductions	(342)	(692)	(1,034)
Cash and investment fund balance - beginning	1,276	820	2,096
Cash and investment fund balance - ending	$ 934	$ 128	$ 1,062

HOOSIER ACADEMY - MUNCIE
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2010

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Primary Government	Ending Balance
Governmental activities:	
Capital assets, not being depreciated:	
Buildings	$ 32,736
Machinery and equipment	387,757
Total governmental activities, capital assets not being depreciated	$ 420,493

HOOSIER ACADEMY - MUNCIE
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
June 30, 2010

The School has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Notes and loans payable	$ 572,412	$ -

HOOSIER ACADEMY - MUNCIE
EXAMINATION RESULTS AND COMMENTS

AVERAGE DAILY MEMBERSHIP (ADM)

Records supporting the Average Daily Membership (ADM) reported to the Indiana Department of Education were not retained for examination for fiscal years 2008-2009 and 2009-2010.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

ERRORS ON CLAIMS

Many claims paid by the School Corporation were for reimbursements of employees of K12 Indiana L.L.C. The School Corporation has contracted with K12 Indiana L.L.C. to provide administrative services and curriculum materials.

The following deficiencies were noted on claims during the examination period:

(1) Claims were not adequately itemized. Claims included credit card slips only rather than actual invoices, copies of invoices, missing invoices and a hotel room charge for food with no supporting invoice. One claim for reimbursement had no documentation attached to the claim.

(2) Some claims did not have Board approval.

(3) Sales tax was paid on some purchases.

(4) Dry cleaning in the amount of $16 was reimbursed to an individual.

(5) One employee received $15 more reimbursement than was due.

(6) Disbursements were not properly posted. Food purchases were charged to the Other Food Services Food Purchases appropriation line item rather than a travel or promotion of business appropriation.

IC 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

(1) there is a fully itemized invoice or bill for the claim;

(2) the invoice or bill is approved by the officer or person receiving the goods and services;

(3) the invoice or bill is filed with the governmental entity's fiscal officer;

(4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and

(5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Disbursements should be paid from properly authorized line items. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

COMPENSATION AND BENEFITS

A review of payroll for November 2009 indicated that six of the employees did not have a supporting contract or letter of intent to support wages paid to employees.

No service records were presented for examination.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

HOOSIER ACADEMY - MUNCIE
EXIT CONFERENCE

The contents of this report were discussed on March 28, 2011, with Andrea Goldwater, Treasurer; Lynn Black, Head of Schools; and Richard Crist, President of the School Board. The official response has been made a part of this report and may be found on pages 24 through 27.

HOOSIER ACADEMIES℠

Muncie Learning Center
2801 E. 16th Street
Muncie, IN 47302
P 765 288 9633
F 765 288 9655
www.hoosieracademy.org

Indiana State Board of Accounts
Re: Hoosier Academy Muncie Audit, Formal Response
April 4, 2011

ADM:

- **Excel File lists of all STN's counted in 08-09 and 09-10 ADM attached**

ERRORS ON CLAIMS:

- **Hoosier Academy Muncie has promoted Angel Silvers to Operations Assistant to closely monitor claims for the school corporation. Procedures and Policies have been put in place beginning in school year 10-11 to minimize claim deficiencies.**

- **BK Plus, our off-site accounting firm, has been instructed on the proper posting of disbursements per audit results**

COMPENSATION AND BENEFITS:

- **Previous contracts, offer letters and other service records were to be maintained by Administaff, our PEO and co-employer. Copies of all contracts and offer letters are kept on-site as well beginning in school year 10-11.**

Regards,

Andrea Goldwater
Treasurer

School	STN	ADM Type	Corp of Legal Settlement	Instructional Days	Instructional Minutes	Grade	County
1427	142709001	1	1875			1	18
1427	142709022	1	1970			1	18
1427	142709024	1	1970			1	18
1427	142709200	1	5275			1	48
1427	149407018	1	1875			1	18
1427	A79508018	1	1875			1	18
1427	148508071	1	1875			2	18
1427	151707015	1	1970			2	18
1427	229507003	1	2815			2	27
1427	503307028	1	5275			2	48
1427	147006043	1	1970			3	18
1427	148508070	1	1875			3	18
1427	151705105	1	1970			3	18
1427	151706043	1	1970			3	18
1427	272105123	1	5245			3	48
1427	497706080	1	5275			3	48
1427	497706081	1	5275			3	48
1427	502101220	1	1910			3	18
1427	503306095	1	5275			3	48
1427	506906016	1	5265			3	48
1427	514602059	1	5275			3	48
1427	C21005025	1	5275			3	48
1427	136504025	1	1875			4	18
1427	142709009	1	5275			4	48
1427	142709010	1	1970			4	18
1427	150905052	1	1970			4	18
1427	151704034	1	1970			4	18
1427	151704077	1	1970			4	18
1427	230907051	1	2815			4	27
1427	136503041	1	1875			5	18
1427	142304006	1	5275			5	48
1427	142709006	1	1970			5	18
1427	142709011	1	1875			5	18
1427	148508069	1	1875			5	18
1427	149405031	1	1875			5	18
1427	495304153	1	5275			5	48
1427	516104093	1	5280			5	48
1427	C21004005	1	5275			5	48
1427	142303105	1	1970			6	18
1427	147003027	1	1900			6	18
1427	148203028	1	1970			6	18
1427	149503047	1	1970			6	18
1427	284702286	1	3445			6	34
1427	495307137	1	1895			6	18
1427	139502030	1	1875			7	18
1427	140902174	1	1970			7	18
1427	142709005	1	6820			7	68
1427	146902358	1	1970			7	18
1427	148204058	1	1875			7	18
1427	149602222	1	1970			7	18
1427	149603003	1	1970			7	18
1427	152002106	1	1875			7	18
1427	283202381	1	3445			7	34
1427	284702213	1	3445			7	34
1427	328701459	1	3945			7	38
1427	500904097	1	1970			7	18
1427	903702061	1	8305			7	89
1427	139505344	1	1910			8	18
1427	142709004	1	6820			8	68
1427	148202251	1	3445			8	18
1427	151706037	1	1970			8	18
1427	280302159	1	3405			8	34
1427	281502542	1	3435			8	34
1427	281502588	1	3435			8	34
1427	324702210	1	3945			8	38
1427	328904056	1	1875			8	18
1427	502101199	1	5275			8	48
1427	142709002	1	3005			KG	29
1427	142709012	1	1970			KG	18
1427	142709018	1	1875			KG	18
1427	142709019	1	1970			KG	18
1427	142709020	1	1875			KG	18
1427	147009045	1	1970			KG	18
1427	152709011	1	1970			KG	18
1427	286505075	1	3445			KG	34

School	STN	ADM Type	Corp of Legal Settlement	Instructional Days	Instructional Minutes	Grade	County
1427	142709019	1	1970			1	18
1427	142710011	1	1970			1	18
1427	151506245	1	1885			1	18
1427	139508047	1	1910			2	18
1427	139708039	1	1895			2	18
1427	142309029	1	1970			2	18
1427	142709011	1	1875			2	18
1427	142709022	1	1970			2	18
1427	142709200	1	5275			2	48
1427	142710003	1	1875			2	18
1427	142710005	1	2865			2	27
1427	142710007	1	1970			2	18
1427	142710009	1	1900			2	18
1427	146908003	1	1970			2	18
1427	146908007	1	1970			2	18
1427	146908102	1	1970			2	18
1427	149407018	1	1875			2	18
1427	149608034	1	1970			2	18
1427	151506175	1	1885			2	18
1427	151508063	1	1970			2	18
1427	280306084	1	3405			2	33
1427	280306149	1	3055			2	33
1427	514602059	1	5275			2	48
1427	142710004	1	2865			3	27
1427	142710015	1	5255			3	48
1427	142710020	1	5275			3	48
1427	147007177	1	1970			3	18
1427	148508071	1	1875			3	18
1427	149405214	1	1970			3	18
1427	151707015	1	1970			3	18
1427	240106030	1	2865			3	27
1427	283207037	1	1970			3	18
1427	503307028	1	5275			3	48
1427	510208100	1	3995			3	48
1427	C20506027	1	5275			3	48
1427	27508533	1	235			4	2
1427	27509510	1	235			4	2
1427	142307006	1	1970			4	18
1427	142710018	1	3445			4	33
1427	148506026	1	1970			4	18
1427	148508070	1	1875			4	18
1427	151705105	1	1970			4	18
1427	151706043	1	1970			4	18
1427	503306095	1	5275			4	18
1427	C25006145	1	5275			4	48
1427	C25006147	1	5275			4	48
1427	136504025	1	1875			5	18
1427	142709009	1	5275			5	48
1427	142709010	1	1970			5	18
1427	142710006	1	1970			5	18
1427	142710008	1	1900			5	18
1427	142710013	1	3405			5	33
1427	150905052	1	1970			5	18
1427	151504087	1	1970			5	18
1427	151704077	1	1970			5	18
1427	151709064	1	1970			5	18
1427	229404112	1	2865			5	27
1427	230907051	1	2815			5	27
1427	715206049	1	1895			5	18
1427	C22604277	1	2825			5	48
1427	136503041	1	1875			6	18
1427	142304006	1	5275			6	18
1427	142709006	1	1970			6	18
1427	142710019	1	6820			6	68
1427	148508069	1	1875			6	18
1427	149405031	1	1875			6	18
1427	240106020	1	2865			6	27
1427	280303054	1	3405			6	33
1427	280303056	1	3055			6	33
1427	499706003	1	1970			6	18
1427	505104145	1	5275			6	48
1427	711702305	1	6795			6	18
1427	A79504024	1	1970			6	18
1427	C20503014	1	5275			6	48
1427	142303031	1	1970			7	18
1427	142303105	1	1970			7	18
1427	142710017	1	2865			7	27
1427	142710023	1	3405			7	33
1427	148203028	1	1970			7	18
1427	148203032	1	1875			7	18
1427	149603003	1	1970			7	18

1427	229402125	1	2815	7	27
1427	229508057	1	2865	7	27
1427	240106021	1	2865	7	27
1427	303502182	1	3625	7	35
1427	500904097	1	1970	7	18
1427	711702077	1	6795	7	18
1427	136502038	1	1875	8	18
1427	139502030	1	1875	8	18
1427	142307015	1	1970	8	18
1427	142709005	1	6820	8	68
1427	142710016	1	1970	8	18
1427	146902318	1	1875	8	18
1427	146902358	1	1970	8	18
1427	147002423	1	1970	8	18
1427	150902248	1	1970	8	18
1427	150902348	1	1970	8	18
1427	152002106	1	1875	8	18
1427	284702213	1	3445	8	33
1427	495307137	1	1895	8	18
1427	506902476	1	1970	8	18
1427	31808734	1	255	KG	2
1427	142309315	1	1970	KG	18
1427	142710001	1	1970	KG	18
1427	142710002	1	1970	KG	18
1427	142710010	1	1970	KG	18
1427	142710012	1	1970	KG	18
1427	142710014	1	1970	KG	18
1427	142710022	1	1970	KG	18
1427	142710024	1	2855	KG	27
1427	146909043	1	1970	KG	18
1427	146910023	1	1970	KG	18

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

HOOSIER ACADEMY - INDIANAPOLIS

MARION COUNTY, INDIANA

July 1, 2008 to June 30, 2010

FILED
03/04/2011

TABLE OF CONTENTS

SCHEDULE OF OFFICIALS

Office	Official	Term
Treasurer	Andrea Goldwater	07-01-08 to 06-30-11
Head of Schools	Lynn Black	07-01-08 to 06-30-11
Chairperson of the Board of Directors	Ronald W. Brumbarger	07-01-08 to 01-19-09
	Stacie Porter-Bilger	01-20-09 to 06-30-11

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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Fax: (317) 232-4711
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE HOOSIER ACADEMY - INDIANAPOLIS, MARION COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hoosier Academy - Indianapolis (School Corporation), as of and for the years ended June 30, 2009 and 2010, which collectively comprise the School Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2009 and 2010, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated February 14, 2011, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The School Corporation has not presented Management's Discussion and Analysis, Schedules of Funding Progress, or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

February 14, 2011

STATE OF INDIANA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE HOOSIER ACADEMY - INDIANAPOLIS, MARION COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hoosier Academy - Indianapolis (School Corporation), as of and for the years ended June 30, 2009 and 2010, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated February 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 14, 2011

HOOSIER ACADEMY - INDIANAPOLIS
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2009

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants and Contributions	Net (Disbursement) Receipts and Changes in Net Assets: Totals
Governmental activities:				
Instruction	$ 1,334,193	$ -	$ -	$ (1,334,193)
Support services	706,060	672	8,868	(696,520)
Noninstructional services	20,115	-	-	(20,115)
Facilities acquisition and construction	1,118,010	-	-	(1,118,010)
Total governmental activities	$ 3,178,378	$ 672	$ 8,868	(3,168,838)
General receipts:				
Other local sources				84,501
State aid				736,736
Bonds and loans				2,124,618
Grants and contributions not restricted to specific programs				690,081
Total general receipts				3,635,936
Change in net assets				467,098
Net assets - beginning				-
Net assets - ending				$ 467,098
Assets				
Cash and investments				$ 467,098
Net Assets				
Unrestricted				$ 467,098

The notes to the financial statements are an integral part of this statement.

HOOSIER ACADEMY - INDIANAPOLIS
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2010

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants and Contributions	Net (Disbursement) Receipts and Changes in Net Assets: Totals
Governmental activities:				
Instruction	$ 1,306,776	$ -	$ 11,218	$ (1,295,558)
Support services	903,049	1,370	-	(901,679)
Noninstructional services	40,887	-	-	(40,887)
Facilities acquisition and construction	688,363	-	-	(688,363)
Total governmental activities	$ 2,939,075	$ 1,370	$ 11,218	(2,926,487)
General receipts:				
Other local sources				12,312
State aid				2,295,137
Grants and contributions not restricted to specific programs				465,504
Investment earnings				1,904
Total general receipts				2,774,857
Change in net assets				(151,630)
Net assets - beginning				467,098
Net assets - ending				$ 315,468
Assets				
Cash and investments				$ 315,468
Net Assets				
Unrestricted				$ 315,468

The notes to the financial statements are an integral part of this statement.

HOOSIER ACADEMY - INDIANAPOLIS
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	General	Public Charter School ESEA	Other	Totals
Receipts:				
Local sources	$ 5,300	$ 79,493	$ 380	$ 85,173
State sources	736,736	-	8,868	745,604
Federal sources	-	441,100	248,981	690,081
Bonds and loans	2,124,618	-	-	2,124,618
Total receipts	2,866,654	520,593	258,229	3,645,476
Disbursements:				
Current:				
Instruction	1,197,212	48,987	87,994	1,334,193
Support services	519,008	150,337	36,715	706,060
Noninstructional services	16,342	-	3,773	20,115
Facilities acquisition and construction	798,302	254,233	65,475	1,118,010
Total disbursements	2,530,864	453,557	193,957	3,178,378
Excess of receipts over disbursements	335,790	67,036	64,272	467,098
Excess of receipts and other financing sources over disbursements and other financing uses	335,790	67,036	64,272	467,098
Cash and investments - beginning	-	-	-	-
Cash and investments - ending	$ 335,790	$ 67,036	$ 64,272	$ 467,098
Cash and Investment Assets - Ending				
Cash and investments	$ 335,790	$ 67,036	$ 64,272	$ 467,098
Cash and Investment Fund Balance - Ending				
Unrestricted	$ 335,790	$ 67,036	$ 64,272	$ 467,098

The notes to the financial statements are an integral part of this statement.

HOOSIER ACADEMY - INDIANAPOLIS
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	General	Public Charter School ESEA	Other	Totals
Receipts:				
Local sources	$ 4,829	$ 3,573	$ 7,185	$ 15,587
State sources	2,306,354	-	-	2,306,354
Federal sources	-	99,500	366,004	465,504
Total receipts	2,311,183	103,073	373,189	2,787,445
Disbursements:				
Current:				
Instruction	1,171,902	16,291	118,583	1,306,776
Support services	752,178	74,585	76,286	903,049
Noninstructional services	29,531	6,698	4,658	40,887
Facilities acquisition and construction	409,506	72,535	206,322	688,363
Total disbursements	2,363,117	170,109	405,849	2,939,075
Deficiency of receipts over disbursements	(51,934)	(67,036)	(32,660)	(151,630)
Other financing sources (uses):				
Transfers in	-	-	10,491	10,491
Transfers out	-	-	(10,491)	(10,491)
Total other financing sources (uses)	-	-	-	-
Deficiency of receipts and other financing sources over disbursements and other financing uses	(51,934)	(67,036)	(32,660)	(151,630)
Cash and investments - beginning	335,790	67,036	64,272	467,098
Cash and investments - ending	$ 283,856	$ -	$ 31,612	$ 315,468
Cash and Investment Assets - Ending				
Cash and investments	$ 283,856	$ -	$ 31,612	$ 315,468
Cash and Investment Fund Balance - Ending				
Unrestricted	$ 283,856	$ -	$ 31,612	$ 315,468

The notes to the financial statements are an integral part of this statement.

HOOSIER ACADEMY - INDIANAPOLIS
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUND
For the Year Ended June 30, 2009

	Private-Purpose Trust Fund
Additions:	
Contributions:	
Other	$ 250,000
Deductions:	
Administrative and general	15,627
Excess of total additions over total deductions	234,373
Cash and investment fund balance - beginning	-
Cash and investment fund balance - ending	$ 234,373
Net assets:	
Cash and investments	$ 234,373

The notes to the financial statements are an integral part of this statement.

HOOSIER ACADEMY - INDIANAPOLIS
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2010

	Private-Purpose Trust Fund
Additions:	
Contributions:	
Other	$ 426
Deductions:	
Administrative and general	160,303
Deficiency of total additions over total deductions	(159,877)
Cash and investment fund balance - beginning	234,373
Cash and investment fund balance - ending	$ 74,496
Net assets:	
Cash and investments	$ 74,496

The notes to the financial statements are an integral part of this statement.

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Hoosier Academy - Indianapolis

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Related Organizations

The School Corporation's officials are also responsible for appointing the voting majority of the boards of other organizations, but the School Corporation's accountability for these organizations does not extend beyond making the appointments. The School Corporation appoints the voting majority of the Indiana Virtual Pilot Charter School.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The public charter school ESEA fund is used to account for the receipts and expenditures for the financial assistance in planning, program design, and initial implementation of charter schools.

Additionally, the School Corporation reports the following fund types:

The private-purpose trust funds report a trust arrangement under which principal and income benefit the administration of the school.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. Cash and Investments

   Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

3. Capital Assets

   Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

4. Long-Term Debt

   Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as a liability in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

5. Equity Classification

   Government-Wide Statements

   Equity is classified as net assets and displayed in two components:

   a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

   b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

   Fund Financial Statements

   Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Internal and Interfund Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.

2. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

3. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

Government-Wide Financial Statements

Interfund activity, if any, is eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund loans and services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

G. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. At June 30, 2010, the School Corporation had deposit balances in the amount of $805,825.

State statute (IC 5-13-9) authorizes the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental unit.

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2010, were as follows:

Transfer From	Transfer To	2009-10
Other Governmental Funds	Other Governmental Funds	$ 10,491
Total		$ 10,491

III. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, and dependents; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past two years. There were no significant reductions in insurance by major category of risk.

B. Pension Plans

1. Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation's contributions to the plan during the period were $47,275.

2. 403b Retirement Plan

The School Corporation makes matching contributions of up to 7.0% of the employee's income to a 403(b) retirement plan. The 403(b) retirement plan allows employees to make contributions up to limits established by the Internal Revenue Service. The employee chooses the investment options provided by the plan administrator. All 403(b) Retirement Plan contributions to the plan, plus any earnings they generate, are vested 100%.

HOOSIER ACADEMY - INDIANAPOLIS
COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	School Lunch	Textbook Rental	Title I 2008-09	Special Education 2008-09	Improving Teacher Quality	Fiscal Stabilization ARRA	Totals
Receipts:							
Local sources	$ 380	$ -	$ -	$ -	$ -	$ -	$ 380
State sources	-	8,868	-	-	-	-	8,868
Federal sources	-	-	37,530	33,149	29,339	148,963	248,981
Total receipts	380	8,868	37,530	33,149	29,339	148,963	258,229
Disbursements:							
Current:							
Instruction	-	-	2,140	26,385	9,582	49,887	87,994
Support services	-	-	-	4,030	-	32,685	36,715
Noninstructional services	123	-	-	-	-	3,650	3,773
Facilities acquisition and construction	-	-	-	2,734	-	62,741	65,475
Total disbursements	123	-	2,140	33,149	9,582	148,963	193,957
Excess of receipts over disbursements	257	8,868	35,390	-	19,757	-	64,272
Excess of receipts and other financing sources over disbursements and other financing uses	257	8,868	35,390	-	19,757	-	64,272
Cash and investments - beginning	-	-	-	-	-	-	-
Cash and investments - ending	$ 257	$ 8,868	$ 35,390	$ -	$ 19,757	$ -	$ 64,272
Cash and Investment Assets - Ending							
Cash and investments	$ 257	$ 8,868	$ 35,390	$ -	$ 19,757	$ -	$ 64,272
Cash and Investment Fund Balance - Ending							
Unrestricted	$ 257	$ 8,868	$ 35,390	$ -	$ 19,757	$ -	$ 64,272

HOOSIER ACADEMY - INDIANAPOLIS
COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	School Lunch	Textbook Rental	Title I 2008-09	Title I 2009-10	Special Education 2008-09	Special Education 2009-10
Receipts:						
Local sources	$ 1,178	$ -	$ -	$ -	$ -	$ -
Federal sources	-	-	-	16,478	17,447	50,596
Total receipts	1,178	-	-	16,478	17,447	50,596
Disbursements:						
Current:						
Instruction	-	-	4,719	16,133	15,793	28,524
Support services	-	-	-	-	1,654	22,072
Noninstructional services	1,435	-	-	-	-	-
Facilities acquistion and construction	-	-	20,180	-	-	-
Total disbursements	1,435	-	24,899	16,133	17,447	50,596
Excess (deficiency) of receipts over disbursements	(257)	-	(24,899)	345	-	-
Other financing sources (uses):						
Transfers in	-	-	-	10,491	-	-
Transfers out	-	-	(10,491)	-	-	-
Total other financing sources (uses)	-	-	(10,491)	10,491	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(257)	-	(35,390)	10,836	-	-
Cash and investments - beginning	257	8,868	35,390	-	-	-
Cash and investments - ending	$ -	$ 8,868	$ -	$ 10,836	$ -	$ -
Cash and Investment Assets - Ending						
Cash and investments	$ -	$ 8,868	$ -	$ 10,836	$ -	$ -
Cash and Investment Fund Balance - Ending						
Unrestricted	$ -	$ 8,868	$ -	$ 10,836	$ -	$ -

HOOSIER ACADEMY - INDIANAPOLIS
COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010
(Continued)

	Improving Teacher Quality	Facilities Grant	Fiscal Stabilization ARRA	Special Education ARRA	Totals
Receipts:					
Local sources	$ -	$ -	$ -	$ 6,007	$ 7,185
Federal sources	10,300	127,500	93,087	50,596	366,004
Total receipts	10,300	127,500	93,087	56,603	373,189
Disbursements:					
Current:					
Instruction	16,857	-	7,067	29,490	118,583
Support services	2,900	-	49,660	-	76,286
Noninstructional services	-	-	3,223	-	4,658
Facilities acquistion and construction	-	127,500	33,137	25,505	206,322
Total disbursements	19,757	127,500	93,087	54,995	405,849
Excess (deficiency) of receipts over disbursements	(9,457)	-	-	1,608	(32,660)
Other financing sources (uses):					
Transfers in	-	-	-	-	10,491
Transfers out	-	-	-	-	(10,491)
Total other financing sources (uses)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(9,457)	-	-	1,608	(32,660)
Cash and investments - beginning	19,757	-	-	-	64,272
Cash and investments - ending	$ 10,300	$ -	$ -	$ 1,608	$ 31,612
Cash and Investment Assets - Ending					
Cash and investments	$ 10,300	$ -	$ -	$ 1,608	$ 31,612
Cash and Investment Fund Balance - Ending					
Unrestricted	$ 10,300	$ -	$ -	$ 1,608	$ 31,612

HOOSIER ACADEMY - INDIANAPOLIS
COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
PRIVATE-PURPOSE TRUST FUNDS
For the Year Ended June 30, 2010

	Walton Grant	School Administration	Totals
Additions:			
Contributions			
Other	$ -	$ 426	$ 426
Total additions	-	426	426
Deductions:			
Administrative and general	159,877	426	160,303
Excess (deficiency) of total additions over total deductions	(159,877)	-	(159,877)
Cash and investment fund balance - beginning	234,373	-	234,373
Cash and investments - June 30	$ 74,496	$ -	$ 74,496
Net assets:			
Cash and investments	$ 74,496	$ -	$ 74,496
Total net assets - cash and investment basis held in trust	$ 74,496	$ -	$ 74,496

HOOSIER ACADEMY - INDIANAPOLIS
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
For The Year Ended June 30, 2010

Primary Government	Ending Balance
Governmental activities:	
Capital assets, not being depreciated:	
Buildings	$ 628,737
Machinery and equipment	670,795
Total governmental activities, capital assets not being depreciated	$ 1,299,532

HOOSIER ACADEMY - INDIANAPOLIS
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
June 30, 2010

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Notes and loans payable	$ 2,124,618	$ -
Total governmental activities debt	$ 2,124,618	$ -

SUPPLEMENTAL AUDIT OF

FEDERAL AWARDS

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE HOOSIER ACADEMY - INDIANAPOLIS, MARION COUNTY, INDIANA

Compliance

We have audited the compliance of the Hoosier Academy - Indianapolis (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2009 and 2010. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2009 and 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a School Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in item 2010-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 14, 2011

HOOSIER ACADEMY - INDIANAPOLIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2009 and 2010

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-09	Total Federal Awards Expended 06-30-10
U.S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
National School Lunch	10.555			
		FY2009-10	$ -	$ 1,178
Total for cluster and federal grantor agency			-	1,178
U.S. DEPARTMENT OF EDUCATION				
Pass-Through Indiana Department of Education				
Title I Cluster				
Title I Grants to Local Educational Agencies				
	84.010	FY2008-09	$ 2,140	$ 24,899
		FY2009-10	-	16,133
Total for cluster			2,140	41,032
Special Education Cluster				
Special Education - Grants to States				
	84.027	FY2008-09	33,149	17,447
		FY2009-10	-	50,596
ARRA - Special Education	84.391	FY2009-10	-	54,995
Total for cluster			33,149	123,038
Fiscal Stabilization Cluster				
State Fiscal Stabilization Fund				
ARRA - State Fiscal Stabilization Fund (SFSF)				
Education State Grants, Recovery	84.394		148,963	93,087
Charter Schools				
	84.282	FY 2008-09	453,557	-
		FY 2009-10	-	170,109
Facilities Grant		FY 2009-10	-	127,500
Total for program			453,557	297,609
Improving Teacher Quality State Grants				
	84.367	FY 2008-09	9,582	-
		FY 2009-10	-	19,757
Total for program			9,582	19,757
Total for federal grantor agency			647,391	574,523
Total federal awards expended			$ 647,391	$ 575,701

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

HOOSIER ACADEMY - INDIANAPOLIS
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Hoosier Academy - Indianapolis (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of $500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of schools shall be conducted biennially. Such audits shall include both years within the biennial period.

HOOSIER ACADEMY - INDIANAPOLIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.282	Charter Schools

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee?	no

Section II – Financial Statement Findings

No matters are reportable.

HOOSIER ACADEMY - INDIANAPOLIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-1, CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program: Charter School
CFDA Number: 84.282
Pass-Through Entity: Indiana Department of Education

EDGAR 80.20 (b)(7) states: "Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

We identified during our audit period that the Fund for the Charter School Planning and Implementation Grant had a cash balance greater than 150% of the average monthly expenditures in seven months during the 2008-2009 school year and two months during the 2009-2010 school year. Surplus cash indicates noncompliance with the Cash Management requirements as set forth by the grant agreement.

We recommended that School Corporation Officials develop and implement procedures and controls to ensure that the time between the receipt and disbursement of federal funds is minimized.

HOOSIER ACADEMY - INDIANAPOLIS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters were reportable.

Indianapolis Learning Center
5640 Caito Drive
Indianapolis, IN 46226
P 317 547 1400
F 317 547 1500
www.hoosieracademy.org

February 4, 2011

FINDING NO. 2010-l Internal Control Reportable Condition/ Cash Management
Federal Agency: Indiana Department of Education
Federal Program: Charter School Planning and implementation grant
CFDA Number: 84.282
Title of Contact Person: Treasurer
Phone Number: 317-695-1330

Corrective Action Plan:

The Hoosier Academy Indianapolis Board Finance Committee, will monitor more closely the grant balances at the end of each month to ensure that the cash balance is not higher than the average monthly expenditures. This should not be an issue in the future due to the change in the way the Indiana Department of Education issues the funds. Charter schools must spend the funds first before receiving the fund reimbursements.

Andrea Goldwater
Treasurer
Hoosier Adademy Inc.
P: 317-495-6494
C: 317-695-1330
agoldwater@k12.com

HOOSIER ACADEMY - INDIANAPOLIS
EXIT CONFERENCE

The contents of this report were discussed on February 8, 2011, Lynn Black, Head of Schools, and John Maerske, Board member.

The contents of this report were discussed on February 14, 2011, Andrea Goldwater, Treasurer.

Strengthening the Promise of Education

2009 Annual Report

K12™ is a leading global provider of proprietary curriculum and online education programs to students in kindergarten through high school. Our mission is to provide any child the curriculum and tools to maximize success in life, regardless of geographic, financial, or demographic circumstances.

Andrew H. Tisch
Chairman

Ronald J. Packard
Chief Executive Officer and Founder

Dear Fellow Shareholders

We are pleased to report that this year K12® made great strides in its mission of helping more and more children receive a better education. Just a decade ago, harnessing the power of the Internet to deliver rigorous, interactive education to students in kindergarten through twelfth grade was just a dream. Today K12 is widely acknowledged as a leader in the field. Tens of thousands of children benefit from our technology-based learning systems and curriculum. We have set the standard for high-quality online education and are working hard to raise the bar higher each year. We are fortunate to have outstanding employees who create a culture centered on educational excellence and thus provide K12 with a distinctive competitive advantage.

Delivering World-Class Education

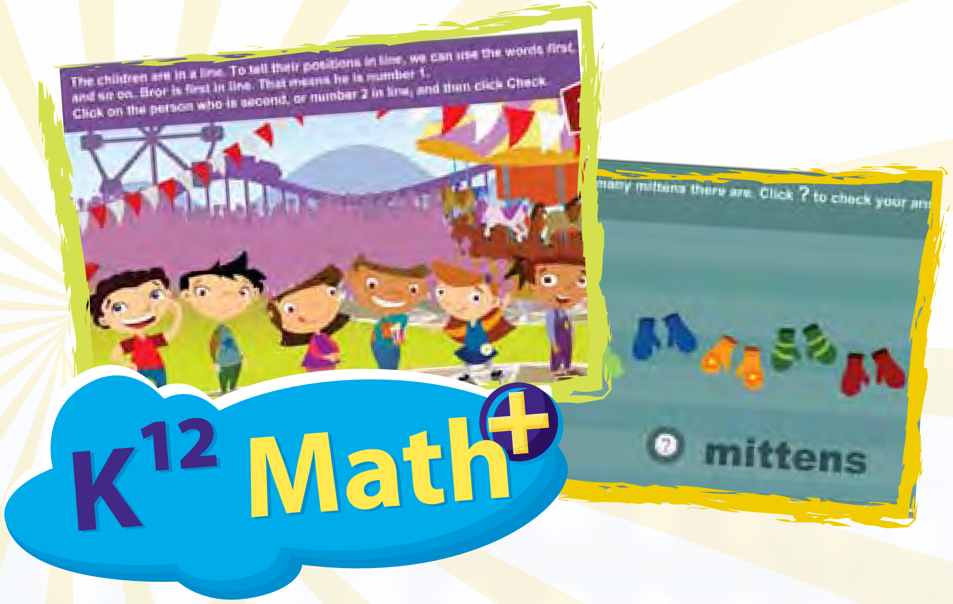
At K12, our vision is to provide a world-class curriculum to every child regardless of economic or geographic circumstance. The ultimate measure of our success is the success of our students. Recent analysis indicates that the longer students remain enrolled in a virtual public school using K12, the better they perform on standardized assessment tests. We have also found that significantly more K12 fourth graders who have used our program since kindergarten score "proficient or better" on state tests than their peers.

This past year, we also had confirmation that colleges and universities recognize the value of a K12 education. Members of the Class of '09 graduating from schools using K12 were accepted at over 150 post-secondary institutions, including Cornell University, the University of Michigan, the University of Texas, and the University of California at Berkeley. We are extremely proud of what our students are accomplishing and to be preparing them to achieve their goals in life.

Financial Results

We believe the high-quality education we deliver and our ability to work closely with administrators, teachers, parents and school districts, provide a solid foundation for growth and consistently strong financial performance.

Our revenues for the year grew to \$316 million, an increase of almost 40 percent over the prior year. EBITDA rose nearly 70 percent to approximately \$43 million, while operating income for fiscal year 2009 was \$22 million, an improvement of 71 percent. Operating margins increased to 7.1 percent of revenue, representing a gross increase of 1.3 percentage points from fiscal year 2008. At K12, we are committed to creating value for our shareholders.



K^{12}'s new K–5 basal math program adheres to the National Math Advisory Panel guidelines as well as the Fordham Foundations analysis of modeled state standards. This program is highly interactive and delivers an efficient and engaging learning experience for students at all levels in K–5.

We achieved these results despite downward pressure on state budgets. Although we do not know when this pressure will subside, we have taken steps to improve our productivity in this environment. K^{12} has a unique value proposition and operating model as we write and design curriculum, develop online teaching materials and offline texts, build the IT infrastructure needed to deliver them, and create a comprehensive system to support administrators, teachers, and parents. This integrated educational delivery system puts us in a position to produce outstanding academic outcomes and operating proficiency.

Extending Our Model

We continue to expand our offerings, providing our curriculum and academic services not just to online public schools but also to hybrid school programs, to traditional classrooms, and to families directly. In fiscal year 2009, we welcomed students to new online public schools in four new states—Oregon, South Carolina, Indiana, and Hawaii. In Indiana, we opened hybrid schools in Indianapolis and Muncie that are similar to the one we operate in Chicago. Students at hybrid schools attend classes in a brick-and-mortar building at least one or two days a week and complete the rest of their work from home. Our ultimate goal is that every child in the United States who wants access to our programs will have that opportunity.

Our K^{12} International Academy continues to grow. It is a fully accredited, U.S. diploma-granting, online private school

K^{12}, along with its supply chain partner, sources, assembles, stores, ships and reclaims over 3 million instructional items per year. A typical student receives 50 lbs. of instructional materials annually—usually delivered within 5 business days.

Congratulations K12 Class of 2009!

Members of the Class of '09 graduating from schools using K12 were accepted at over 150 post-secondary institutions, including Cornell University, the University of Michigan, the University of Texas, and the University of California at Berkeley.

serving students from the U.S. and around the world in grades K–12. During the 2008–09 school year, we had students enrolled from over 35 countries and established the academy's first local site in Dubai, which we use for support activities and hybrid schooling. We believe that the K12 International Academy will become an increasingly larger part of our business in the coming years.

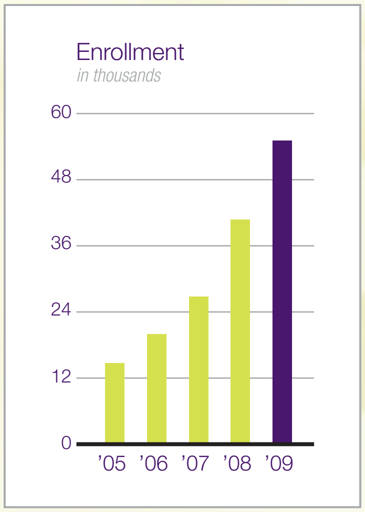
Building on Our Core Strengths

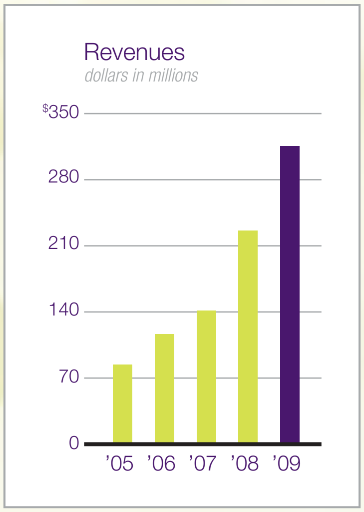
The K12 curriculum is created by veteran teachers, reading specialists, and subject-matter experts. Collaborating with exceptional designers, artists, and writers, these experts make learning come alive by combining the best research about how brains work with rich, engaging content. One indication of our success is the awards we win. This year, K12's *Algebra I: A Reference Guide and Problem Sets*, a high school textbook, won the Distinguished Achievement Award from the Association of Educational Publishers.

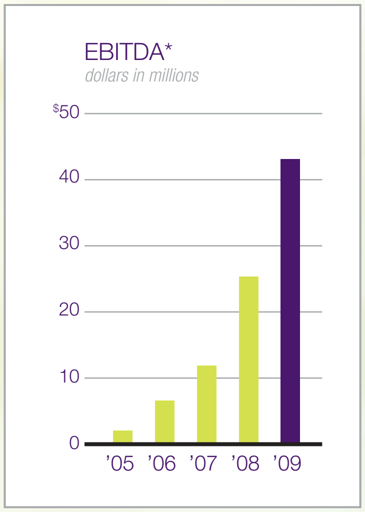
We continue to refine and expand our curriculum. In 2009, we added 29 new proprietary courses including an exciting new basal math program for grades K–5 that follows the recent national math advisory panel guidelines. We also developed a state-of-the-art interactive remedial reading program for grades 3–5 that is designed to enable students to catch up several years in just one year. In addition, we expanded powerspeaK12™, which offers schools and independent learners a comprehensive set of 29

MARK12™

Fully steeped in research-based recommendations, K12's *MARK12 Reading* is designed to bring students in grades 3–5 up to grade-level reading abilities within one year. By providing front-end diagnostics, state-of-the-art audio recording, interactive manipulatives and adaptive branching, K12 is able to efficiently deliver targeted solutions that impact student outcomes.







	Enrollment	Revenues *(dollars in millions)*	EBITDA* *(dollars in millions)*
2005	15,097	$ 85.3M	$ 2.2M
2006	20,220	$116.9M	$ 6.8M
2007	27,005	$140.6M	$12.1M
2008	40,859	$226.2M	$25.6M
2009	54,962	$315.6M	$43.2M

**EBITDA is a non-GAAP financial measure. For a discussion about EBITDA, please see page 42 of our Form 10-K herein.*

courses in multiple levels in Spanish, French, German, Latin, and Chinese. Unlike many foreign language programs that are recycled adult learning products, powerspeakK12 is designed specifically for children.

Our expertise in online education also extends to our students' teachers. We now have the ability to train teachers online using the same platform tools they use every day when working with their students. To date, nearly 1,000 teachers have participated in this program.

The IT infrastructure that we created to support our virtual curriculum is another of our core strengths. This year, we enhanced our portfolio of intellectual property by filing for seven patents related to our new content and learning management systems. We have also been building and testing the next generation of the K12 Online School, the core software system that provides the platform for our curriculum. This next version, for kindergarten through the eighth grade, will enable us to deliver new levels of content and be more readily adaptable to individual needs.

A World Where Every Student Can Benefit from K12

The current administration in Washington, D.C. has made it a national priority to find innovative ways to boost the performance of our public schools and to better prepare our children for the rigors of the twenty-first century. Thanks to the extraordinary talent of our employees and their passionate commitment to our mission, K12 is well positioned to contribute to this effort. While the current recession and economic outlook may create obstacles for K12, we believe our strong culture, educational offerings, and established reputation will allow us to continue to expand our business and serve more children.

We plan to maintain and expand our leadership by both continuing to build the highest quality online courses and products and delivering the best educational experience possible to students. Thanks to ongoing support from you, our shareholders, we look forward to the day where every student can benefit from K12.

Sincerely,

Ronald J. Packard
Chief Executive Officer and Founder

Andrew H. Tisch
Chairman

Form 10-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K

(Mark One)

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

For the fiscal year ended June 30, 2009

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

For the transition period from to

Commission File Number: 001-33883

K12 Inc.

(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**95-4774688** *(I.R.S. Employer Identification No.)*
2300 Corporate Park Drive **Herndon, VA 20171** *(Address of principal executive offices)*	**(703) 483-7000** *(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.0001 par value
Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of the Registrant's voting stock held by non-affiliates of the Registrant as of December 31, 2008 was approximately $430,331,400.

Number of shares outstanding of each class of common equity as of September 9, 2009: 29,448,594 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

The registrant has incorporated by reference into Part III of this Form 10-K specific portions of its proxy statement for the registrant's 2009 Annual Meeting of Stockholders to be held November 18, 2009.

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CERTAIN DEFINITIONS

Unless the context requires otherwise, all references in this Report to “K12”, “K^{12} “, “Company”, “we”, “our”, “us” refer to K12 Inc. and its consolidated subsidiaries.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We have tried, whenever possible, to identify these forward-looking statements using words such as “anticipates,” “believes,” “estimates,” “continues,” “likely,” “may,” “opportunity,” “potential,” “projects,” “will,” “expects,” “plans,” “intends” and similar expressions to identify forward looking statements, whether in the negative or the affirmative. These statements reflect our current beliefs and are based upon information currently available to us. Accordingly, such forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties, factors and contingencies include, but are not limited to: the reduction of per pupil funding amounts at the schools we serve; reputation harm resulting from poor performance or misconduct of other virtual school operators; challenges from virtual public school opponents; failure of the schools we serve to comply with regulations resulting in a loss of funding; discrepancies in interpretation of legislation by regulatory agencies that may lead to payment or funding disputes; termination of our contracts with schools due to a loss of authorizing charter, failure to renew existing contracts with schools; and increased competition.

Forward-looking statements reflect our management’s expectations or predictions of future conditions, events or results based on various assumptions and management’s estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this Report. A discussion of factors that could cause actual conditions, events or results to differ materially from those expressed in any forward-looking statements appears in “Part 1 — Item 1A — Risk Factors.”

Readers are cautioned not to place undue reliance on forward-looking statements in this Report or that we make from time to time, and to consider carefully the factors discussed in “Part 1 — Item 1A — Risk Factors” of this Report in evaluating these forward-looking statements. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise.

PART I

ITEM 1. *BUSINESS*

Our Company

We are a technology-based education company. We offer proprietary curriculum and educational services created for online delivery to students in kindergarten through 12th grade, or K-12. Our mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since our inception, we have invested more than $150 million to develop curriculum and an online learning platform that promotes mastery of core concepts and skills for students of all abilities. This learning system combines a cognitive research-based curriculum with an individualized learning approach well-suited for virtual schools and other educational applications. From fiscal year 2006 to fiscal year 2009, we increased average enrollments in the virtual public schools we serve from approximately 20,000 students to 55,000 students, representing a compound annual growth rate of approximately 40%. Over the same period, we increased revenues from $116.9 million to $315.6 million, representing a compound annual growth rate of approximately 39%, and increased EBITDA from $6.8 million to $43.2 million, a compound annual growth rate of approximately 85.2%. Also, over that period, we increased net income from $1.4 million to $12.3 million and operating income from $1.8 million to $22.3 million.

We believe we are unique in the education industry because of our direct involvement in every component of the educational development and delivery process. Most educational content, software and service providers typically concentrate on only a portion of that process, such as publishing textbooks, managing schools or providing testing and assessment services. This traditional segmented approach has resulted in an uncoordinated and unsatisfactory education for many students. Unburdened by legacy, we have taken a holistic approach to the design of our learning system. We have developed an engaging curriculum which includes online lessons delivered over our proprietary school platform. We combine this with a rigorous system to test and assess students and processes to manage school performance and compliance. In addition, our professional development programs enable teachers to better utilize technology for instruction. Our end-to-end learning system is designed to maximize the performance of the schools we serve and enhance student academic achievement.

As evidence of the benefit of our holistic approach, the virtual public schools we serve generally test near state averages on standardized achievement tests. These results have been achieved despite the enrollment of a significant number of new students each school year who have had limited exposure to our learning system prior to taking these required state tests. Students using our learning system for at least three years usually perform better on standardized tests relative to state averages than students using it for one year or less. The efficacy of our learning system has also helped us achieve high levels of customer satisfaction.

We deliver our learning system to students primarily through virtual public schools. As with any public school, these schools must meet state educational standards, administer proctored exams and are subject to fiscal oversight. The fundamental difference is that students attend virtual public schools primarily over the Internet instead of traveling to a physical classroom. In their online learning environment, students receive assignments, complete lessons, and obtain instruction from certified teachers with whom they interact online, telephonically, in virtual classroom environments, and face-to-face. Many states have embraced virtual public schools as a means to provide families with a publicly funded alternative to a traditional classroom-based education. For parents who believe their child is not thriving and for whom relocating or private school is not an option, virtual public schools can provide a compelling choice. This widespread availability makes them the "most public" of schools. From an education policy standpoint, virtual public schools often represent a savings to the taxpayers when compared with traditional public schools because they are generally funded at a lower per pupil level than the per pupil state average reported by the U.S. Department of Education. Finally, because parents are not required to pay tuition, virtual public schools make our learning system available to the broadest range of students.

We offer virtual schools our proprietary curriculum, online learning platform and varying levels of academic and management services, which can range from targeted programs to complete turnkey solutions, under long-term contracts. These contracts provide the basis for a recurring revenue stream as students progress through successive grades. Additionally, without the requirement of a physical classroom, virtual schools can be scaled quickly to accommodate a large dispersed student population, and allow more capital resources to be allocated towards teaching, curriculum and technology rather than towards a physical infrastructure.

Substantially all of our enrollments are served through virtual public schools to which we provide either full turnkey solutions or limited management services. For the most part, these schools are able to enroll students on a statewide basis in 23 states and the District of Columbia. In addition, we are serving a growing number of students in programs that typically only accept enrollment from their own district. These district-based alternatives are a response to demand from school districts. We have established a dedicated sales team to focus on this sector. The non-turnkey services we provide to these districts are designed to assist them in launching their own distance learning programs and vary according to the needs of the individual school districts. We offer a student account management system, teacher training programs, administrator support, and student placement support. We also sell our foreign language curriculum to third parties.

In addition, Parents can purchase our curriculum and learning solutions directly to facilitate or supplement their children’s education. We also continue to pilot portions of our curriculum in brick and mortar classrooms. Finally, in January 2008 we launched the K^{12} International Academy, a private school that we operate using our curriculum. This school is accredited and enables us to deliver our learning system to students worldwide. This school is positioned as a private international school enabling students to interact with others from more than 35 countries.

Families that choose our learning system for their children come from a broad range of social, economic and academic backgrounds. They share the desire for an individualized learning program to maximize their children’s potential. Examples include, but are not limited to, families with: (i) students seeking to learn faster or slower than they could in a “one size fits all” traditional classroom; (ii) safety and health concerns about their local school; (iii) students with disabilities for which traditional classrooms are problematic; (iv) students with geographic or travel constraints; and (v) student athletes and performers who are not able to attend regularly scheduled classes. Our individualized learning approach allows students to optimize their individual academic performance and, therefore, their chances of achieving their goals.

Our History

We were founded in 2000 to utilize the advances in technology to provide children access to a high-quality education regardless of their geographic location or socio-economic background. Given the geographic flexibility of technology-based education, we believed that the pursuit of this mission could help address the growing concerns regarding the regionalized disparity in the quality of public school education, both in the United States and abroad. These concerns were reflected in the passage of the No Child Left Behind (NCLB) Act of 2001, which implemented new standards and accountability requirements for public K-12 education. The convergence of these concerns and rapid advances in Internet technology created the opportunity to make a significant impact by deploying a high quality learning system on a flexible, online platform.

In September 2001, after 18 months of research and development on our curriculum, we launched our kindergarten through 2nd grade offering. We initially launched our learning system in virtual public schools in Pennsylvania and Colorado, serving approximately 900 students in the two states combined. We launched additional grades and entered additional states over the past seven years. We have also developed and launched hybrid programs that combine face-to-face time in a classroom with online instruction. For the 2009-10 school year, we began operating in Oklahoma and Wyoming and now operate in 23 states and the District of Columbia.

In October 2007, we acquired Power-Glide Language Courses Inc. (Power-Glide), a provider of online world language courseware. We use these courses in our virtual public schools and believe they have wide applicability in online learning. During fiscal year 2009, we released a significantly upgraded version of the language instructional software. Power-Glide’s trade name was changed to powerspeaK^{12} to better reflect the product type and to affiliate the language products with the rest of our course portfolio. The powerspeaK^{12} language courses are very popular with our student population. Over 50% of our students in middle and high school are studying a language. We have been successful in growing this business with school districts and charter schools. In July 2009, we signed a five year agreement with Gale Group Inc. (“Gale”). The agreement grants Gale an exclusive right to distribute our adult language courses to all public libraries in the U.S. We continue to invest in the development of language courses and related technology in anticipation of continued growth in this curriculum category.

Finally, over the last four years, we have invested in our logistics, technology and financial infrastructure. We believe these investments provide a platform upon which to continue to grow our business.

Our Market

The U.S. market for K-12 education is large and growing. For example:

- According to the National Center for Education Statistics (NCES), a division of the U.S. Department of Education, approximately 50 million students will attend K-12 public schools during the 2008-09 school year. In addition, according to National Home Education Research, approximately two million students are home schooled and, according to 2008 NCES report, approximately six million students are enrolled in private schools.
- According to the NCES, the public school system alone will encompass more than 97,000 schools and approximately 14,000 districts during the 2008-09 school year.
- The NCES estimates that total spending in the public K-12 market will be $543 billion for the 2009-10 school year.

Parents and lawmakers are demanding increased standards and accountability in an effort to improve academic performance in U.S. public schools. As a result, each state is now required to establish performance standards and to regularly assess student progress relative to these standards. We expect continued focus on academic standards, assessments and accountability in the future.

Many parents and educators are also seeking alternatives to traditional classroom-based education that can help improve academic achievement. Demand for these alternatives is evident in the growing number of choices available to parents and students. For example, charter schools emerged in 1988 to provide an alternative to traditional public schools. Currently, 40 states and the District of Columbia have passed charter school legislation and there are approximately 4,600 charter schools in the U.S. with an estimated enrollment of over 1.5 million students according to the Center for Education Reform. Similarly, acceptance of online learning initiatives, including not only virtual schools but also online testing and Internet-based professional development, has become widespread. According to the International Association for K-12 Online Learning, as of June 2009, 44 states had established a significant form of online learning initiative, and Alabama became the second state in the country after Michigan to pass legislation mandating that high school students take an online or technology enhanced course in order to graduate. In addition, the current presidential administration has supported charter school growth by linking the removal of restrictions on the growth of charter schools to federal stimulus funding, including “Race to the Top” grants. As a result, many states that have placed enrollment caps or other limitations on charter schools, including online charter schools, are in the process of eliminating or revising such restrictions.

Educational Philosophy

The design, development and delivery of our learning system is based on the following set of guiding principles:

- *Apply “Tried and True” Educational Approaches for Instruction.* Our learning system is designed to utilize both “tried” and “true” methods to drive academic success. “True” methodologies are based on cognitive research regarding the way in which individuals learn. We also supplement our learning system with teaching tools and methodologies that have been tested, or “tried,” and proven to be effective. This “tried and true” philosophy allows us to benefit from both decades of research about learning, and effective methods of teaching.
- *Employ Technology Appropriately for Learning.* While all of our courses are delivered primarily through an online platform and generally include a significant amount of online content, we employ technology only where we feel it is appropriate and can enhance the learning process. In addition to online content, our curriculum includes a rich mix of offline course materials, including engaging textbooks and hands-on

materials such as phonics kits and musical instruments. We believe our balanced use of technology and offline materials helps to maximize the effectiveness of our learning system.

- *Base Learning Objectives on "Big Ideas."* We refer to "big ideas" as the key, subconscious frameworks that serve as the foundation to a student's future understanding of a subject matter. For example, an understanding of waves is fundamental to a physicist's understanding of quantum mechanics; therefore, we teach 1st graders the fundamentals of waves. We use these "big ideas" to organize and provide the master objectives of every course we develop.

- *Assess Every Objective to Ensure Mastery.* Ongoing assessments are the most effective way to evaluate a student's mastery of a lesson or concept. To facilitate effective assessment, our curriculum establishes clear objectives for each lesson. Throughout a course, each student's progress is assessed at a point when each objective is expected to be mastered, providing direction for appropriate pacing. These periodic and well-timed assessments reinforce learning and promote mastery of a topic before a student moves to the next lesson or course.

- *Facilitate Flexibility as the Level, Pace and Hours Spent on Each Objective Vary by Child.* We believe that each student should be challenged appropriately. Generally, adequate progress for most students is to complete one academic year's curriculum within a nine-month school year. Each individual student may take greater or fewer instructional hours and more or less effort than the average student to achieve this progress. Our learning system is designed to facilitate this flexibility in order to ensure that the appropriate amount of time and effort is allocated to each lesson.

- *Prioritize Important, Complex Objectives.* We have developed a clear understanding of those subjects and concepts that are difficult for students. Greater instructional effort is focused on the most important and difficult concepts and skills. We use existing research, feedback from parents and students and experienced teacher judgments to determine these priorities, and to modify our learning system to guide the allocation of each student's time and effort.

  Ensure Fundamental Content Soundness. Our credentialed subject matter experts (SMEs) or "Content Specialists" bring their own scholarly and teaching backgrounds to course design and development and are required to maintain relationships with and awareness of guidelines from nearly 40 national and international subject-area associations.

Products and Services

Our Products

K^{12} Curriculum

Our curriculum consists of the K^{12} online lessons, offline learning kits and lesson guides. We have developed an extensive catalogue of proprietary courses, consisting of more than 21,000 lessons, designed to teach concepts to students from kindergarten through 12th grade. Each lesson is designed to last approximately 45 to 60 minutes, although students are able to work at their own pace. A single course generally consists of 120 to 180 individual lessons.

Online Lessons. Our online lessons are accessed through an Online School (OLS) platform. Each online lesson provides the roadmap for the entire lesson including direction to specific online and offline materials, online lesson content and a summary of the major objectives for the lesson. Lessons utilize a combination of innovative technologies including flash animations, audio, video and other online interactivity, coordinated textbooks and hands-on materials and individualized feedback to create an engaging, responsive and highly effective curriculum. Each lesson also contains an online assessment to ensure that students have mastered the material and are ready to proceed to the next lesson, allowing them to work at their own pace. Pronunciation guides for key words and references to suggested additional resources, specific to each lesson and each student's assessment, are also included.

Offline Learning Kits. Most of our courses utilize a series of offline learning kits in conjunction with the online lessons to help maximize the effectiveness of our learning system. In addition to receiving access to our online lessons through the Internet, each student receives a shipment of offline materials, including award winning textbooks, art supplies, laboratory supplies (e.g. microscopes and scales) and other reference materials which are incorporated throughout our curriculum. This approach is consistent with our guiding principle to utilize technology where appropriate in our learning system. Most of the textbooks we use are proprietary textbooks that are written in a way that is designed to be engaging to students and to complement the online experience. We believe that our ability to effectively combine online lessons and offline materials is a competitive advantage.

Lesson Guides. Our courses are generally paired with a lesson guide. Lesson guides work in coordination with the online lessons and include the following: overview information for learning coaches, lesson objectives, lesson outlines and activities, answer keys to student exercises and suggestions for explaining difficult concepts to students.

Courses Offered

The following table provides a list of our K-8 and high school course offerings:

	English and Language Arts	Mathematics	Science	History	World Languages	Music/Art/Other
Elementary School	Kindergarten Language Arts Kindergarten Phonics 1st Grade Language Arts 1st Grade Phonics 2nd Grade Language Arts 3rd Grade Language Skills 3rd Grade Spelling 3rd Grade Literature 4th Grade Language Skills 4th Grade Spelling 4th Grade Literature 5th Grade Language Skills 5th Grade Spelling 5th Grade Literature	Kindergarten Math 1st Grade Math 2nd Grade Math 3rd Grade Math 4th Grade Math 5th Grade Math	Kindergarten Science 1st Grade Science 2nd Grade Science 3rd Grade Science 4th Grade Science 5th Grade Science	Kindergarten History 1st Grade History 2nd Grade History 3rd Grade History 4th Grade History American History Before 1865	Spanish Elementary Year 1 Spanish Elementary Year 2 French Elementary Year 1 French Elementary Year 2 German Elementary Year 1 German Elementary Year 2 Latin Elementary Year 1	Kindergarten Art 1st Grade Art 2nd Grade Art 3rd Grade Art 4th Grade Art Intermediate Art: American A Preparatory Music Beginning 1 Music Beginning 2 Music Introduction to Music Intermediate 1 Music Intermediate 2 Music Intermediate 3 Music Exploring Music Introduction to Online Learning K — 3 Introduction to Online Learning 4 — 5 Introduction to Online Learning 6 — 8
Middle School	Intermediate Language Skills A Intermediate Language Skills B Intermediate Literature A Intermediate Literature B Literary Analysis and Composition	Pre-Algebra A Pre-Algebra B Algebra I	Earth Science Advanced Earth Science Life Science Advanced Life Science Physical Science Advanced Physical Science	American History Since 1865 Intermediate World History A Intermediate World History B	Middle School Spanish 1 Middle School Spanish 2 Middle School French 1 Middle School French 2 Middle School German 1 Middle School German 2 Middle School Chinese 1 Middle School Chinese 2 Middle School Latin 1 Middle School Latin 2	Intermediate Art: American B Intermediate Art: World A Intermediate Art: World B Music Concepts A Music Concepts B

	English and Language Arts	Mathematics	Science	History	World Languages	Music/Art/Other
High School	ENG102: Literary Analysis and Composition I ENG103: Literary Analysis and Composition I ENG104: Honors Literary Analysis and Composition I ENG202: Literary Analysis and Composition II ENG203: Literary Analysis and Composition II ENG204: Honors Literary Analysis and Composition II ENG302: American Literature ENG303: American Literature ENG304: Honors American Literature ENG402: British and World Literature ENG403: British and World Literature ENG404: Honors British and World Literature ENG500: AP® English Language and Composition ENG510: AP® English Literature and Composition *ENG010: Journalism* *ENG001: English Foundations I* *ENG011: English Foundations II*	MTH112: Pre-Algebra MTH113: Pre-Algebra MTH122: Algebra I MTH123: Algebra I MTH124: Honors Algebra I MTH202: Geometry MTH203: Geometry MTH204: Honors Geometry MTH302: Algebra II MTH303: Algebra II MTH304: Honors Algebra II *MTH312: Business & Consumer Math* MTH403: Pre-Calculus/ Trigonometry MTH500: AP® Calculus AB MTH510: AP® Statistics *MTH001: Math Foundations I* *MTH011: Math Foundations II*	SCI102: Physical Science SCI112: Earth Science SCI113: Earth Science SCI202: Biology SCI203: Biology SCI204: Honors Biology SCI302: Chemistry SCI303: Chemistry SCI304: Honors Chemistry SCI403: Physics SCI404: Honors Physics SCI500: AP® Biology SCI510: AP® Chemistry SCI520: AP® Physics B *SCI010: Environmental Science* *SCI020: Life Science: Oceanography*	HST102: World History HST103: World History HST202: Modern World Studies HST203: Modern World Studies HST204: Honors Modern World Studies HST212: Geography and World Cultures HST213: Geography and World Cultures HST302: U.S. History HST303: U.S. History HST304: Honors U.S. History HST312: Modern U.S. History HST313: Modern U.S. History HST314: Honors Modern U.S. History HST402: U.S. Government and Politics HST403: U.S. Government and Politics HST412: U.S. and Global Economics HST413: U.S. and Global Economics HST500: AP® U.S. History HST510: AP® U.S. Government and Politics HST520: AP® Macroeconomics HST530: AP® Microeconomics HST540: AP® Psychology HIH100: Modern History of Hawai'i WAH100: Washington State History *HST010: Anthropology* *HST020: Psychology* *HST030: Macroeconomics*	WLG100: Spanish I WLG200: Spanish II WLG300: Spanish III WLG500: AP® Spanish Language WLG110: French I WLG210: French II WLG310: French III WLG510: AP® French Language WLG120: German I WLG220: German II WLG130: Latin I WLG230: Latin II WLG140: Chinese I WLG240: Chinese II	ART010: Fine Art ART020: Music Appreciation ORN010: Online Learning 08-09 ORN020: Finding Your Path — Planning for Career and College OTH010: Skills for Health OTH020: Physical Education *OTH030: Career Planning* *OTH040: Study Skills and Learning Strategies* *BUS010: Business Communication and Career Exploration* *BUS020: Business and Personal Relationships* *BUS030: Personal Finance* TCH010: Computer Literacy I TCH020: Computer Literacy II TCH030: Digital Photography and Graphics TCH040: Web Design TCH050: Digital Video Production TCH060: C++ Programming TCH070: Game Design I TCH080: Game Design II TCH090: Online Game Design TCH016: Flash Animation

Notes: Italicized courses are licensed on a per enrollment basis from third parties for the 2009-10 school year.

K-8 Courses. From kindergarten through 8th grade, our courses are categorized into seven major subject areas: English and Language Arts, Mathematics, Science, History, Art Music, and World Languages. Our proprietary curriculum includes all of the courses that students need to complete their core kindergarten through 8th grade education. These courses focus on developing fundamental skills and teaching the key knowledge building blocks or schemas that each student will need to master the major subject areas, meet state standards and complete more advanced coursework. Unlike a traditional classroom education, our learning system offers the flexibility for each student to take courses at different grade levels in a single academic year, providing flexibility for students to progress at their own level and pace within each subject area. In addition, the flexibility of our learning system allows us to tailor our curriculum to state specific requirements, and to date, we have developed 34 state-specific courses. Beginning in 2009, we have expanded the K-8 offering to include two new Latin middle school courses and continue to offer elementary and middle school world language courses in Spanish, French, German, Chinese, and Latin.

High School Courses. The curriculum sought by students in high school is much broader and varies from student to student, largely as a result of the increased flexibility in course selection required for high school students. In order to offer a full suite of courses, including the many elective courses required to meet the needs of high school students, we offer a combination of our own courses, as well as courses licensed from third parties on either an unlimited use or per-course basis. In the 2009-10 school year, courses owned or licensed on an unlimited use basis will support approximately 90% of total high school course enrollments.

Online School Platform

Our Online School platform is an intuitive, web-based software platform that provides access to our online lessons as well as our lesson planning and scheduling tools and our progress tracking tool, both of which serve a key role in assisting parents and teachers in managing each student's progress. Because the OLS is a web-based platform, students, parents and teachers can access our online tools and lessons through the OLS from anywhere with an Internet connection at any time of the day or night. We license a third-party learning management platform for use in our high school program.

- *Lesson Planning and Scheduling Tools.* In a school year, a typical student will complete between 800 and 1,200 lessons across six or more subject areas. Our lesson planning and scheduling tools enable teachers and parents to establish a master plan for completing these lessons. These tools are designed to dynamically update the lesson plan as a student progresses through each lesson and course, allowing flexibility to increase or decrease the pace at which the student moves through the curriculum while ensuring that the student progresses towards completion in the desired time frame. For example, the schedule can easily be adapted to accommodate a student who desires to attend school six days a week, a student who is interested in studying during the winter holidays to take time off during the spring, or a student who chooses to take two math classes a day for the first month of the school year and delay art classes until the second month of the school year. Moreover, changes can be made to the schedule at any point during the school year and the remainder of the student's schedule will automatically be adjusted in the OLS.

- *Progress Tracking Tools.* Once a master schedule has been established, the OLS delivers lessons based upon the specified parameters. Each day, a student is initially directed to a screen listing the syllabus for that particular day and begins the school day by selecting one of the listed lessons. As each lesson is completed, the student returns to the day's syllabus to proceed to the next subject. If a student does not complete a lesson during the session, the lesson will be rescheduled to the next day and will resume at the point where the student left off. Our progress tracking tool allows students, parents and teachers to monitor student progress. In addition, information collected by our progress tracking tool regarding student performance, attendance and other data is transferred to our proprietary management system for use in providing administrative support services.

- *Assessment Tracking Tools:* Independent third-party assessments will be used in most of our managed schools to pinpoint specific individual student strengths and weaknesses relative to state content standards at the beginning of the school year. These results enable the teacher to develop a highly personalized individual learning plan for students. End of year testing will provide a measure of individual student growth demonstrating the value-added gains of the school program.

School Management Systems

The Student Administration Management System (SAMS) is our proprietary Student Information System. SAMS is integrated with the OLS and several other proprietary systems including our Online Enrollment System that allows parents to complete school enrollment forms online and our Order Management System (OMS) that generates orders for offline learning kits and computers to be delivered to students. SAMS houses student-specific data and is used for a variety of functions, including enrolling students in courses, assigning progress marks and grades, tracking student demographic data, and generating student transcripts. In 2008, we launched TotalView, a suite of online applications that provides administrators, teachers, parents and students a unified view of student progress, attendance, communications, and learning kit shipment tracking. TotalView provides a sophisticated means of documenting student engagement in required classroom activities, identification of those students struggling with grade level state content standards, and previous year's performance on state tests. TotalView also houses Kmail, our internal communications medium. Through Kmail, administrators and teachers can communicate electronically with learning coaches and students in a secured environment. Finally, in 2009, TotalView was enhanced to include an enrollment processing and tracking tool that allows us to closely monitor and manage the enrollment process for new students.

Student Community Tools

We place a strong emphasis on the importance of building a sense of community in the schools we manage. We offer tools that foster communication and interaction among virtual public school students and parents. We launched thebigthinK^{12} in the fall of 2008, our secure, online community for enrolled high school students (age 13 and over), parents, teachers, school administrative staff and our staff. It is built using a third party platform and includes the following capabilities: discussion boards, blogs, document repository, calendars, RSS feeds, polls, profiles and private messaging. The community is also professionally monitored by an independent third party. Additionally, our family directory web-based tool enables parents of virtual public school students to organize online and offline social activities for their children. Parents can run searches based on criteria such as their child's location, age or interests (such as hobbies or sports) to locate and contact other parents of children with similar interests to facilitate student interaction.

Our Services

We provide a wide array of services to students and their families as well as directly to virtual public schools. Our services can be categorized broadly into academic support services and management and technology services.

Academic Support Services

Teachers and Related Services. Teachers are critical to the educational success of students in virtual public schools. Teachers in the virtual public schools that we serve are generally employed by the school, with the ultimate authority over these teachers residing with the school's governing body. Under our service agreements, we recruit, train and provide management support for these teachers. Historically, we have seen significant demand for teaching positions in the virtual public schools that we serve.

We use a rigorous evaluation program for making hiring recommendations to the virtual public schools we serve. We hire teachers who, at a minimum, are state certified and meet the federal requirements for designation as a "Highly Qualified Teacher," and generally have at least three years of teaching experience. We also seek to recruit teachers who have the skill set necessary to be successful in a virtual public school environment. Teaching in a virtual public school is characterized by heightened one-on-one student-teacher and parent-teacher interaction, so virtual public school teachers must have strong interpersonal communications skills. Additionally, a virtual public school teacher must be creative in finding ways to effectively connect with their students and integrate themselves into the daily lives of the students' families.

New virtual public school teachers participate in our comprehensive training program during which, among other things, they are introduced to our educational philosophy, our curriculum and our OLS and other technology applications, and are provided strategies for communicating and connecting with students and their families in a virtual public school environment. We also provide ongoing professional development opportunities for teachers so that they may stay abreast of changing educational standards, key learning trends, and sound pedagogical strategies which we believe enhance their teaching abilities and effectiveness.

In addition to our compliance with state-mandated testing programs, we have instituted a longitudinal testing program in cooperation with a third party provider of standardized testing services. The results of this testing will help us manage the quality of our academic programs using widely recognized services from an industry leading third party.

Gifted and Special Education Services. We believe that our individualized learning system is able to effectively address the educational needs of gifted and special education students because it is self-paced and employs flexible teaching methods. For students requiring special attention, we employ a national director who is an expert on the delivery of special education services in a virtual public school environment and who oversees and directs the special education programs at the virtual public schools we serve. We direct and facilitate the development and implementation of "individualized education plans" for students with special needs. Our special education program is compliant with the federal Individuals with Disabilities Education Act and all state special education requirements. Each special needs student is assigned a certified special education teacher who arranges for any required ancillary services, including speech and occupational therapy, and any required assistive technologies, such as special computer displays or speech recognition software. We support gifted and talented students through our advanced learner program. Advanced learners are able to participate in a wide variety of enrichment seminars, clubs, and mentoring opportunities both at the school level and at the national level. Gifted students are connected to each other across state boundaries through learning circles, book clubs, and other special-interest activities. In addition, parent sessions allow for the discussion of topics unique to the parent of an advanced student.

Student Support Services. We provide students attending virtual public schools that we serve and their families with a variety of support services to ensure that we effectively meet their educational needs and goals. We offer support to address any questions or concerns that students and their parents have during the course of their matriculation. We plan and coordinate social events to offer students opportunities to meet and socialize with their virtual public school peers. Finally, in connection with our high school offering, each student is assigned an advisor and/or a guidance counselor who assists them with academic issues, college and career planning and other support as needed.

Management Services

Under many of our contracts, we provide virtual public schools with turnkey management services. In these circumstances, we take responsibility for all aspects of the management of the 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. In 2007, the Commission on International and Trans-regional Accreditation (CITA), a leading worldwide education accreditation agency, now a division of AdvancED, thoroughly evaluated our school management services and we ultimately received its prestigious accreditation.

Compliance and Tracking Services. Operating a virtual public school entails most of the compliance and regulatory requirements of a traditional public school. We have developed management systems and processes designed to ensure that schools we serve are in compliance with all applicable requirements, including tracking appropriate student information and meeting various state reporting requirements. For example, we collect enrollment related information, monitor attendance and administer proctored state tests. As we have expanded into new states, our processes have grown increasingly robust, and we believe our compliance and tracking processes provide us with a distinct competitive advantage.

Financial Support Services. For the schools we manage, we oversee the preparation of the annual budget and coordinate with the school's directors to determine their annual objectives. In addition, we implement an internal control framework, develop policies and procedures, provide accounting services and payroll administration, oversee all federal entitlement programs and arrange for external audits.

Facility, Operations and Technology Support Services. We operate administrative offices and all other facilities on behalf of the virtual public schools we serve. We provide these schools with a complete technology infrastructure. In addition, we provide a comprehensive student help desk solution.

Human Resources Support Services. We are actively involved in hiring virtual public school administrators, teachers and staff, through a thorough interview and orientation process. To better facilitate the hiring process, we review and analyze the profiles of teachers that have been highly effective in our learning system to identify the attributes desired in future new hires. We also negotiate and secure employment benefits for teachers on behalf of virtual public schools and administer employee benefit plans for virtual public school employees. Additionally, we assist the virtual schools we serve in drafting and implementing administrative policies and procedures.

Product Development

We develop our products and related service offerings through a highly collaborative process that blends cognitive research with an innovative development approach by utilizing best practices from the education industry and other industries. Our approach provides for effective content and rapid time to market. Unlike many traditional content companies that may take several years to develop a new course, our course development process usually takes between six and 12 months, depending upon grade and subject. Our development team includes professionals from the following disciplines:

- *Cognitive Scientists, Evaluation and Research Specialists* — conduct and review cognitive research to determine how students master the key ideas in a subject area, the common misconceptions that present obstacles to mastery and available techniques that can effectively address common misconceptions.
- *Curriculum and Teaching Specialists* — bring deep subject matter knowledge and experience with a variety of pedagogical approaches to our course design process.
- *Writers and Editors* — script out the text of the lessons, ensuring that the information is accurate, meaningful and suitable for the age group we are trying to reach.
- *Instructional Designers* — weave together all elements of a lesson and determine the extent to which online, multi-media components, textbooks and other offline materials, and activities can be integrated to achieve the desired learning outcomes.
- *Graphic Artists/Media Specialists/Flash Designers* — ensure overall visual integrity of each lesson and build creative and interactive content.
- *Print Designers* — design and publish our proprietary textbooks and printed learning materials.
- *User Experience Specialists* — work closely with our design teams to ensure that lessons are easy for students to navigate and understand.
- *Training Specialists* — concurrent with the development of the courses, develop training materials and programs to support the effective delivery of our curriculum by teachers.
- *Product Support Specialists* — analyze our courses to ensure alignment to state standards and maintain and update the online and offline materials based upon feedback from teachers, parents and students.
- *Project Managers* — coordinate all of the activities, including the work of the above-listed resources to develop the product as designed, on time, and on budget.

Using these highly skilled resources, we follow a six-stage product development process beginning with idea-generation and carrying through to post-production evaluation. Our ability to continually modify our products based upon student, parent and teacher feedback and assessment data is one of the significant advantages of our online curriculum. All of our lessons contain a user feedback button that allows us to identify learning issues on a real-time basis. In a given week, we receive hundreds of feedback items from students, parents and teachers. The related descriptions below illustrate each stage in our product development process.

Blueprint Stage. During this stage of development, we gather the key requirements for a new product, which may be a new course or a group of related courses. We conduct a thorough review to identify all of the cognitive research related to learning of the subject and gain an understanding of the stages a student will go through in mastering the subject material. We also look at how experts perform in the subject. Expert-novice research has shown that an experts' knowledge of a domain is contained in a subconscious framework, the components of which can help guide the development of a course. During this stage, we also analyze state standards to confirm that we are encompassing the elements of the nation's highest state standards and that we are building courses which meet or surpass all state standards.

Design Stage. We begin the design stage by developing the learning environment in which the product will be used. This includes understanding the types of students that will be using the product, how the course will be taught, the learning objectives within the course and what online and offline materials can be utilized. We then produce a design document and our creative teams develop a work plan for every aspect of the product, including the look and feel of the product, level of functionality and length of the course. We produce, test and refine prototypes with focus groups of students, teachers and parents.

Pre-production Stage. With the work plan complete, a pre-production team is assembled to develop the scope and sequence of the course. The scope and sequence is an ordered collection of learning objectives based on cognitive research and state standards. These learning objectives, once organized, guide the production team in the creation of the individual course lessons. The pre-production team also creates the list of materials that will be required and provides this list to our logistics group for sourcing.

Production Stage. During this stage, the product is built in accordance with the work plan. First, manuscripts, storyboards and lesson design specifications are created. Online screens, offline materials such as textbooks, simulations, photographs, and other reference materials are then created, reviewed and refined. Rights for licensed materials are cleared at this point, if needed. Each lesson then goes through a rigorous quality review before being released.

Support Stage. The goal during this stage is to support the initial launch and ongoing utilization of our lessons and to enhance the products during the course of their useful life. We break this stage down into three components: (i) content development, where we design and develop teacher and student training packages; (ii) alignment and standards analysis, where we examine performance on state tests to determine the extent to which we should refine or adjust the standard alignments initially developed during the blueprint stage; and (iii) long-term maintenance, where we maintain and update the online and offline materials on an ongoing basis based upon feedback from teachers, parents and students.

Evaluation Stage. The final stage of the product development cycle is the evaluation stage. During this phase, we evaluate the overall performance of our product against the original design specifications. We obtain measurement feedback from a number of sources, including:

- *User Feedback* — we receive a substantial amount of feedback from teachers, parents and students. Some feedback is directly incorporated into course modifications. In addition, we observe students in our usability labs and visit students and parents to better understand how our products are being used;

- *Progress Reports* — through our OLS, we are able to monitor each student's progress through a course. This data helps us identify portions of a course that may be especially difficult for students, and may require revision or enhancements; and

- *State Test Scores* — students in the virtual public schools we serve participate in proctored state exams. These tests provide an impartial assessment of how these students are performing against established benchmarks and within their state.

Using these sources of feedback, we can revise our courses as necessary to achieve the desired learning objectives. We believe that this ability to proactively respond to feedback and other data in an efficient manner is a key competitive advantage within the educational industry.

Education Advisory Committee. To ensure the effectiveness of our learning systems, we have established an external Education Advisory Committee comprised of experienced leaders in the education industry. The members of this Committee have the responsibility to review our curriculum and instructional model, identify the needs of the growing online education market and propose solutions for consideration by our management, and discuss ways that we can better implement our guiding principles. The current members of the Committee include:

- *Thomas C. Boysen, Ed.D.,* Senior Vice President, Global Scholar Inc., and formerly Senior Vice President of K12 Inc., Kentucky Commissioner of Education, Chief Operating Officer of the Los Angeles Unified School District, Senior Vice President of the Milken Family Foundation and a school district superintendent in California, Washington and New York. Mr. Boysen is also the Chair of the Education Advisory Committee.

- *Benjamin Canada, Ph.D.,* Associate Executive Director, District Services, Texas Association of School Boards and formerly President of the American Association of School Administrators and a school district superintendent in Georgia, Mississippi and Oregon.
- *JoLynne DeMary, Ed.D.,* Educational Leadership Director, Center for School Improvement, Virginia Commonwealth University and formerly Virginia Superintendent of Public Instruction.
- *David Driscoll, Ed.D.,* Education Consultant and formerly President, Council of Chief State School Officers, Commissioner of Education, Commonwealth of Massachusetts and a school district superintendent in Massachusetts. Dr. Driscoll currently serves on the board of the National Assessment Governing Board.
- *Chester Finn, Ed.D.,* President, Thomas B. Fordham Foundation and formerly Assistant Secretary for Research and Improvement & Counselor to the Secretary, U.S. Department of Education.
- *Charles Fowler Ed.D.*, President of School Leadership, LLC, Executive Secretary of the Suburban School Superintendents, an Adjunct Professor of School Organization and Leadership, Teachers College, Columbia University and formerly Chairperson of State and National Relations for the American Association of School Administrators and a school district superintendent in Connecticut, Florida, Illinois and New York.
- *Mary Futrell, Ed.D.,* Dean, Graduate School of Education and Human Development, George Washington University; Director, K12 Inc.; Co-director, George Washington Institute for Curriculum, Standards and Technology; founding President of Education International; and formerly President, World Confederation of the Organizations of the Teaching Profession; President, National Education Association, President, Virginia Education Association, and President, ERAmerica.
- *Michael Kirst, Ph.D.,* Professor Emeritus of Education and Business, Stanford University and formerly President of the California State Board of Education.
- *Eliot Levinson, Ph.D*., CEO and founder of the BLE Group, an educational technology consulting firm that provides planning, marketing and implementation services to the education industry and school systems; former teacher and school and district administrator, senior scientist at the Rand Corporation, and an adjunct faculty member at MIT and Harvard.
- *William Librera, Ph.D,* Presidential Research Professor of Education for the Rutgers University Graduate School of Education, formerly Commissioner of Education for the State of New Jersey.
- *Dale Mann, Ph.D.,* Managing Director, Interactive Inc. and Professor Emeritus of Educational Administration, Teachers College, Columbia University and formerly Senior Research Associate, Institute on Education and the Economy, Teachers College, Columbia University.
- *Thomas Payzant, Ed.D.,* Professor of Practice, Harvard Graduate School of Education and formerly Assistant Secretary for Elementary and Secondary Education, U.S. Department of Education and a school district superintendent in California, Pennsylvania, Massachusetts, Oklahoma and Oregon.
- *Betty Rosa, Ed.D.,* Education Consultant and formerly a school district superintendent in New York City. Ms. Rosa also serves on the board of the Alumni Council of the Harvard Graduate School of Education.
- *Bernice Stafford, M.A.,* Principal Consultant, Center for Interactive Learning and Collaboration and formerly Vice President of School Strategies and Evaluation, PLATO Learning, Inc. and a co-founder of Lightspan, Inc.

Channel Development

We receive numerous inquiries from school districts, legislators, community leaders, educators and parents who express the desire to offer a virtual public school alternative. Our school development and public affairs groups work together with these interested parties to identify and pursue opportunities to expand the use of our products and services through new channels and in new jurisdictions. Where interested parties seek to offer a virtual public school alternative in their state, our public affairs group works with them to establish the legal framework, advocate for appropriate legislation and explain the educational and fiscal benefits of our learning system. Our public affairs group also seeks to increase public awareness and ensure transparency in virtual schooling by supporting accountability standards for virtual public schools.

Once there is legal and regulatory authorization for, as well as sufficient interest in, a virtual public school, our school development group engages state and school district officials, legislators, community leaders, educators and parent groups seeking to open a virtual public school, and initiates a dialog with these interested parties to explain the steps necessary to pursue this public school alternative in their jurisdiction. Our school development group works with these officials and parent groups in planning, developing and launching the virtual school. We also offer assistance to independent school boards with charter application and authorization processes.

After virtual public schools are approved and established, our school development group engages school administrators and maintains relationships with school officials in order to ensure that they are aware of our product and services offerings and that we understand their specific needs and goals.

In some states where the regulatory environment restricts or does not permit virtual charter education or state-wide programs, our institutional sales team works with public school districts to offer our services to their students. For example in 2009, Florida passed legislation mandating that each school district provide full-time, online education to students in grades K-8. We responded with a dedicated program and have contracted with 42 Florida school districts to provide online education services to their student population. These contracts vary in their scope and duration; however our curriculum and academic services will be available to more than half of the student population of Florida this fall through cooperation with local schools.

Distribution Channels

We distribute our products and services primarily to virtual public schools, school districts, private schools, charter schools, and directly to consumers. We derive revenues from virtual public schools by providing access to online lessons, offline learning kits, student computers and a variety of management and academic support services, ranging from turnkey end-to-end management solutions to a single service to meet a school's specific needs.

We have expanded our efforts selling directly to institutional customers or school districts, offering a continuum of offerings from full-time, turnkey online programs, to hybrid programs, to classroom models, to individual course sales. We have established a dedicated sales team to focus on this sector and we believe that the direct-to-district distribution channel offers further growth potential.

In fiscal year 2009, we derived more than 10% of our revenues from each of the Ohio Virtual Academy and the Agora Cyber Charter School in Pennsylvania. In aggregate, these schools accounted for 28% of our total revenues. We provide our full turnkey management solutions pursuant to our contracts with the Ohio Virtual Academy, which terminates June 30, 2017, and with the Agora Cyber Charter School ("Agora"), pursuant to a contract with the Cynwyd Group LLC which expires June 30, 2016. However, each of the contracts with these schools also provides for termination of the agreement if the school ceases to hold a valid and effective charter from the charter-issuing authority in their respective states or if there is a material reduction in the per enrollment funding level. In July 2009, the Pennsylvania Department of Education ("PDE") initiated a charter revocation proceeding against Agora, but Agora will continue to operate in the 2009-10 school year during the pendency of that proceeding. Should the charter be revoked we will explore alternatives to educate these students.

Our direct-to-consumer product is purchased through our customer call center or online, by parents who desire to educate their children outside of the public school system or to supplement their child's existing public school curriculum. The flexibility of our curriculum combined with the assessment capabilities of our online delivery platform enables us to modularize and repackage lesson modules that can be sold as individual products. For example, if a child has particular difficulties with fractions, the parent may purchase our fractions module. The ability to reconfigure individual lessons is highly scalable and we believe this opportunity is significant.

In addition to these primary distribution channels, we are pursuing additional channels through which to offer our learning system, including direct classroom instruction and hybrid models. For example, we have piloted select grades and subjects of our curriculum in classrooms in 14 states and the District of Columbia, in addition to international pilots in Costa Rica, Uruguay, and Colombia. Although our in-class offering business is at a nascent stage, we believe that this distribution channel offers significant potential. For example, we have been retained for the past two years by the Mississippi Department of Education to assist them in the turn-around of three low-performing elementary schools in North Panola. We have implemented hybrid offerings in Chicago, Honolulu, Indianapolis, Muncie and St. Louis, that combine some face-to-face time for students and teachers in a traditional classroom setting along with online instruction. Beyond expanding our offering to new jurisdictions within the United States, we are pursuing international opportunities where we believe there is significant demand for a quality online education.

In January 2008, we launched the K^{12} International Academy, an online private school which serves students in the U.S. and throughout the world. Through K^{12} International Academy, students may study in an academic program which is virtually identical to a U.S.- based private school and leads ultimately to a recognized high school diploma. The school utilizes our curriculum, systems, and teaching practices as the virtual public schools we serve in the U.S. In addition, K^{12} International Academy provides a unique international community including clubs and events that enrich the student experience by allowing students to interact with peers from over 35 countries and cultures. The school is accredited by the Southern Association of Colleges and Schools (SACS) and AdvancED, and is recognized by the Commonwealth of Virginia as a degree granting institution of secondary learning. K^{12} International Academy also has a branch facility in Dubai to reach and support students in the Gulf Cooperating Countries. We operate this through a joint venture with a local partner. K^{12} International Academy also provides services to students in the United States and allows for part-time enrollment.

Student Recruitment and Marketing

Our student recruitment and marketing team is responsible for promoting our corporate brand; generating new student enrollments; managing the direct-to-consumer business; conducting market and customer research; defining, packaging and pricing our product offerings across distribution channels; and enhancing the experience of students and families enrolled in the virtual public schools we serve. This team employs a variety of strategies designed to better understand and address the requirements of our target markets.

First, this team is responsible for defining our brand image and associating our brand with the many positive attributes of our learning system. We believe that a strong brand provides the basis for our expansion into new states and other markets.

Second, our student recruitment and marketing team generates new enrollments in many of the virtual public schools we serve through targeted recruiting programs, which utilize coordinated direct mailings, email marketing, print, radio and television advertising and search engine marketing. In addition, our marketing team conducts information sessions and workshops that provide teachers and parents with the opportunity to learn our approach to learning and the products and services that we offer. We conducted over 4,200 such events during fiscal year 2009. We have found that effectively communicating the details and benefits of our learning system is an important first step towards building a core group of interested parties. Additionally, we consistently receive a high number of word-of-mouth referrals from our existing customer base. Facilitating our student recruitment and customer service efforts are our call centers. Our primary centers are at our corporate headquarters in Virginia and in Kentucky through a third-party.

Third, we conduct primary and secondary research of our own customers as well as of the key larger markets in order to refine our existing product offerings and customer experiences, as well as to scope new target markets and develop appropriate product offerings.

Finally, this team is responsible for enhancing our relationship with students enrolled in the virtual public schools that we serve to complement the relationship that these students have with their teachers and school. In order to maintain a sense of community, we host "thebigthinK^{12}", an online private global community limited to those parents, teachers and high school students (age 13 and over), with a valid K^{12} password and who are subject to a code of conduct. To ensure appropriate usage and to identify student issues, the community is also professionally monitored by an independent third party. We also work with our partner schools to define and create back-to-school support activities and communications, conduct art contests, host national clubs, facilitate best practices across schools for local clubs and social activities, and manage a parent booster program that helps create support for and awareness of our products and services.

Technology

Our learning system, along with our back office systems supporting order management, logistics and e-commerce, are built on our proprietary Service Oriented Architecture, or SOA, to ensure high availability and redundancy and allow flexibility and security to be core principles of our systems' foundation.

Service Oriented Architecture. All of our systems leverage our SOA built on top of Enterprise Java that separates an implemented capability from a request flow that utilizes those capabilities. This leverage provides us with the ability to deliver different presentations against a single request workflow. Additionally, this flexibility allows iterative solutions to be developed expeditiously to meet both present and future market needs. Our high availability and scalability are also facilitated by this architecture. The SOA also enables seamless integration with third-party solutions in our platform with ease and efficiency.

Availability and Redundancy. Our SOA allows for a hardware topology where primary and secondary equipment can be utilized at all network and application tiers. Each application layer is load balanced across multiple servers, which, along with our sophisticated state management capabilities, allows for additional hardware to be inserted into our network providing us with impressive scalability and availability as evidenced by our greater than 99% uptime with our ever growing user base. We regularly backup critical data and store this backup data at an offsite location.

Security. Our security measures and policies include dividing application layers into multiple zones controlled by firewall technology. Sensitive communications are encrypted between client and server and our server-to-server accessibility is strictly controlled and monitored.

Physical Infrastructure. We utilize the best of breed hardware from industry leading vendors including Cisco, F5, Oracle, Sun, Microsoft, Dell, Intel, and NetApp to provide a foundation for our SOA. Our systems are housed offsite in a state of the art data center that provides robust, redundant network backbone and power. We vigilantly monitor our physical infrastructure for security, availability, and performance.

Competition

We face varying degrees of competition from a variety of education companies because our learning system encompasses many components of the educational development and delivery process. We compete primarily with companies that provide online curriculum and school support services to K-12 virtual public schools. These companies include Connections Academy, LLC; Kaplan, Inc.; KC Distance Learning Inc.; Insight Schools, Inc.; Plato Learning, Inc.; White Hat Management, LLC, and National Network of Digital Schools among others. We also face competition from curriculum developers, including traditional textbook publishers such as the McGraw-Hill Companies, Pearson plc and Houghton Mifflin Harcourt. Additionally, we expect increased competition from post-secondary and supplementary education providers that have begun to establish a presence in the K-12 virtual school sector, including Apollo Group and DeVry, Inc.

We believe that the primary factors on which we compete are:

- extensive experience in, and understanding of, the K-12 virtual school market;
- track record of academic results and customer satisfaction;
- quality of curriculum and online delivery platform;
- qualifications and experience of teachers;
- comprehensiveness of school management and student support services, including fulfillment; and
- cost of the solution.

We are unable to provide meaningful data with respect to our market share. At a minimum, we believe that we serve the market for public education, and in almost all jurisdictions in which we operate, we currently serve far less than 1% of the public school students in the geographic area in which virtual school enrollments are drawn. Defining a more precise relevant market upon which to base a share estimate would not be meaningful due to significant limitations on the comparability of data among jurisdictions. For example, some providers to K-12 virtual schools serve only the high school segment, others serve the elementary and middle school segment, and a few serve both. Furthermore, some school districts offer their own virtual programs. Parents in search of an alternative to their local public school also have a number of substitutable choices beyond virtual schools including private schools, charter schools, home schooling, and blended public schools. In addition, our integrated learning system consists of components that face competition from many different education industry segments, such as traditional textbook publishers, test and assessment firms and private education management companies. Finally, our learning system is designed to operate domestically and internationally over the Internet, and thus the geographic addressable market is global and indeterminate in size.

Intellectual Property

Since our inception, we have invested more than $150 million to develop our proprietary curriculum and OLS. We continue to invest in our intellectual property as we develop more courses for new grades and expand into adjacent education markets, both in the U.S. and overseas. We also continue to add features and tools to our proprietary learning platform and support systems to assist teachers and students and improve educational outcomes. These intellectual property assets are critical to our success and we avail ourselves of the full protections provided under the patent, copyright, trademark and trade secrets laws. We also routinely utilize confidentiality and licensing agreements with our employees, students, the virtual public schools that we serve, direct-to-consumer customers, independent contractors and other businesses and persons with which we have commercial relationships.

Our patent portfolio includes issued patents and pending applications directed towards various aspects of our educational products and offerings. In particular, the first family of patent applications we filed, which is directed towards the first generation of our online school, includes one issued U.S. patent (U.S. Patent No. 7,210,938) and one issued Australian patent (Australian Patent No. 2002259159). This family of patent applications also includes five pending U.S. applications and five pending foreign applications covering various aspects of the first generation of our online school. Additionally, we have submitted four U.S. applications and 11 corresponding foreign applications directed towards aspects of our basal math and science program, our hybrid learning environment and our methods of foreign language instruction. Finally, on August 14, 2009, we filed seven new U.S. patent applications directed towards the second generation of our online school.

We own the copyright to over 14,000 lessons contained in the courses that make up our proprietary curriculum, including our online lessons and offline learning kits, and we register this growing lesson portfolio with the U.S. Copyright Office as each new course is completed or updated. We own and use the domain names K12 (.com, .org) and K-12 (.com, .net, .org) and we have obtained federal registrations for the trademarks K^{12} and Unleash the xPotential. In addition, we have applied to the USPTO to register 10 other trademarks.

Students who enroll in the virtual public schools we serve are granted a license to use our software in order to access our learning system. Similarly, virtual public schools are granted a license to use our learning system in order to access SAMS and our other systems. These licenses are intended to protect our ownership and the confidentiality of the embedded information and technology contained in our software and systems. We also own many of the trademarks and service marks that we use as part of the student recruitment and branding services we provide to virtual public schools. Those marks are licensed to the schools for use during the term of the products and services agreements.

Our employees, contractors and other parties with access to our confidential information sign agreements that prohibit the unauthorized use or disclosure of our proprietary rights, information and technology.

Operations

The offline learning kits that accompany our online lessons are an essential component of our courses. A student enrolling in one of our courses receives multiple textbooks, art supplies, laboratory supplies (e.g. microscopes and scales) and other reference materials designed to enhance the learning experience. We package these books and materials into course-specific learning kits. Because each student's curriculum is customized, the combination of kits for each student must also be customized. In fiscal year 2009, we assembled approximately 8.5 million items into more than 835,000 kits.

Over our eight years of operation, we believe that we have gained significant experience in the fulfillment of offline materials and that this experience provides us with an advantage over many of our current and potential future competitors. We have developed strong relationships with partners allowing us to source goods at favorable price, quality and service levels. Through our fulfillment partner, we store our inventory, build our learning kits and ship the kits to students. We have invested in systems including our Order Management System, to automatically translate the curriculum selected by each enrolled student into an order to build the corresponding learning kit. During fiscal year 2009, working with a new fulfillment partner, we successfully redesigned and implemented a new end-to-end warehousing and fulfillment operation to cost-effectively scale as the business grows in scope and complexity.

For many of our virtual public school customers, we attempt to reclaim any materials that are not consumed during the course of the school year. These items, once returned to our fulfillment center, are refurbished and included in future learning kits. This reclamation process allows us to maintain lower materials costs.

Our fulfillment activities are highly seasonal, and are centered around the start of school in August or September. Accordingly, approximately 60% of our annual materials receiving occurs between March and May and approximately 65% of customer item fulfillment and shipping occurs between June and September.

In order to ensure that students in virtual public schools have access to our OLS, we often provide students with a computer and all necessary support. We source computers and ship them to students when they enroll and reclaim the computers at the end of a school year or upon termination of their enrollment or withdrawal from the virtual public school in which they are enrolled. As of June 30, 2009, we had approximately 37,000 personal computers deployed or available for use by students.

Employees

As of June 30, 2008, we had 993 employees including 216 teachers. In addition, there are approximately 1,170 teachers who are employed by virtual schools that we manage under turnkey solution contracts with those schools. No K^{12} employees are union employees; however, certain virtual public schools we serve employ unionized teachers. We believe that our employee relations are good.

We have an agreement with a professional employer organization (PEO), to manage all payroll processing, workers' compensation, health insurance, and other employment-related benefits for our employees. The PEO is a co-employer of our employees along with us. Although the PEO processes our payroll and pays our workers' compensation, health insurance and other employment-related benefits, we are ultimately responsible for such payments and are responsible for complying with state and federal employment regulations. We pay the PEO a fee based on the number of employees we have.

Available Information

Our Company's Internet address is www.K12.com. We make available, free of charge through our website, our annual reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act, soon after they are electronically filed with the SEC. In addition, our earnings conference calls are web cast live via our website. In addition to visiting our website, you may read and copy public reports we file with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington DC 20549, or at www.sec.gov. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Information contained on our website is expressly not incorporated by reference into this Form 10-K.

REGULATION

We and the virtual public schools that purchase our curriculum and management services are subject to regulation by each of the states in which we operate, including Colorado, Arizona, Idaho, Florida, Wisconsin, Arkansas, Texas, Illinois, Minnesota, Kansas, Utah, Nevada, California, Georgia, Ohio, Pennsylvania, Washington, Oregon, South Carolina, Indiana, Hawaii, Oklahoma, Wyoming and the District of Columbia. The state laws and regulations that directly impact our business are those that authorize or restrict our ability to operate virtual public schools, and those that restrict virtual public school growth and funding. In addition, there are state laws and regulations that are applicable to virtual public schools that indirectly affect our business insofar as they affect these virtual public schools' ability to operate and receive funding. Finally, to the extent a virtual school obtains federal funds, such as through a grant program or financial support dedicated for the education of low-income families, these schools then become subject to additional federal regulation.

State Laws Authorizing or Restricting Virtual Public Schools. The authority to operate a virtual public school is dependent on the laws and regulations of each state. Laws and regulations vary significantly from one state to the next and are constantly evolving. In states that have implemented specific legislation to support virtual public schools, the schools are able to operate under these statutes. Other states provide for virtual public schools under existing charter school legislation or provide that school districts and/or state education agencies may authorize them. Some states do not currently have legislation that provides for virtual public schools or have requirements that effectively prohibit virtual public schools and, as a result, may require new legislation before virtual public schools can open in the state. According to a June 2009 update of state online learning policies by the International Association for K-12 Online Learning ("iNACOL"), there are 44 states that have either adopted legislation or formal rules or have created programs for the purpose of providing statewide supplemental and/or full-time online learning opportunities. We currently serve virtual schools or school district-led programs in 23 states plus the District of Columbia. iNACOL also identified only six states that do not currently have either a state-led program or significant state-level policies for online education; however, the absence of such conditions has not precluded us from applying to serve, and in certain cases serving, schools in some of those states.

Obtaining new legislation in these remaining states can be a protracted and uncertain process despite their limited number. When determining whether to pursue expansion into new states in which the laws are ambiguous, we research the relevant legislation and political climate and then make an assessment of the perceived likelihood of success before deciding to commit resources. Specifically, we take into account numerous factors including, but not limited to, the regulations of the state educational authorities, whether the overall political environment is amenable to school choice, whether current funding levels for virtual school enrollments are adequate and accessible, and the presence of non-profit and for-profit competitors in the state.

State Laws and Regulations Applicable to Virtual Public Schools. Virtual public schools that purchase our curriculum and management services are often governed and overseen by a non-profit or a local or state education agency, such as an independent charter school board, local school district or state education authority. We generally receive funds for products and services rendered to operate virtual schools under detailed service agreements with that governing authority. Virtual public schools are typically funded by state or local governments on a per student basis. A virtual school that fails to comply with the state laws and regulations applicable to it may be required to repay these funds and could become ineligible for receipt of future state funds.

To be eligible for state funding, some states require that virtual schools be organized under not-for-profit charters exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. The schools must then be operated exclusively for charitable educational purposes, and not for the benefit of private, for-profit management companies. The board or governing authority of the not-for-profit virtual school must retain ultimate accountability for the school's operations to retain its tax-exempt status. It may not delegate its responsibility and accountability for the school's operations. Our service agreements with these virtual schools are therefore structured to ensure the full independence of the not-for-profit board and preserve its ability to exercise its fiduciary obligations to operate a virtual public school.

Laws and regulations affect many aspects of operating a virtual public school. They can dictate the content and sequence of the curriculum, the requirements to earn a diploma, use of approved textbooks, the length of the school year and the school day, the assessment of student performance, and any accountability requirements. In addition, a virtual public school may be obligated to comply with states' requirements to offer programs for specific populations, such as students at risk of dropping out of school, gifted and talented students, non-English speaking students, pre-kindergarten students, and students with disabilities. Tutoring services and the use of technology may also be regulated. Other state laws and regulations may affect the school's compulsory attendance requirements, treatment of absences and make-up work, and access by parents to student records and teaching and testing materials. Additionally, states have various requirements concerning the reporting of extensive student data that may apply to the school. A virtual public school may have to comply with state requirements that school campuses report various types of data as performance indicators of the success of the program.

States have laws and regulations concerning certification, training, experience and continued professional development of teachers and staff with which a virtual public school may be required to comply. There are also numerous laws pertaining to employee salaries and benefits, statewide teacher retirement systems, workers' compensation, unemployment benefits, and matters related to employment agreements and procedures for termination of school employees. A virtual public school must also comply with requirements for performing criminal background checks on school staff, reporting criminal activity by school staff and reporting suspected child abuse.

As with any public school, virtual public schools must comply with state laws and regulations applicable to governmental entities, such as open meetings laws, which may require the board of trustees of a virtual public school to hold its meetings open to the public unless an exception in the law allows an executive session. Failure to comply with these requirements may lead to personal civil and/or criminal penalties for board members or officers. Virtual public schools must also comply with public information or open records laws, which require them to make school records available for public inspection, review and copying unless a specific exemption in the law applies. Additionally laws pertaining to records privacy and retention and to standards for maintenance of records apply to virtual public schools.

Other types of regulation applicable to virtual public schools include restrictions on the use of public funds, the types of investments made with public funds, the collection of and use of student fees, and controlling accounting and financial management practices.

There remains uncertainty about the extent to which virtual public schools we serve may be required to comply with state laws and regulations applicable to traditional public schools because the concept of virtual public schools is relatively new. Although we receive state funds indirectly, according to the terms of each service agreement with the local public school entity, our receipt of state funds subjects us to extensive state regulation and scrutiny. Several states have commenced audits, some of which are still pending, to verify enrollment, attendance, fiscal accountability, special education services, and other regulatory issues. While we may believe that a virtual public school we serve is compliant with state law, an agency's different interpretation of law in a particular state could result in non-compliance, potentially affecting funding.

Regulations Restricting Virtual Public School Growth and Funding. As a new public schooling alternative, some state and regulatory authorities have elected to proceed cautiously with virtual public schools while providing opportunities for taxpayer families seeking this alternative. Regulations that control the growth of virtual public schools range from prescribing the number of schools in a state to limiting the percentage of time students may receive instruction online. Funding regulations can also have this effect.

Regulations that hinder our ability to serve certain jurisdictions include: restrictions on student eligibility, such as mandating attendance at a traditional public school prior to enrolling in a virtual public school; caps on the total number of students in a virtual school; restrictions on grade levels served; geographic limitations on enrollments; fixing the percentage of per pupil funding that must be paid to teachers; mandating teacher: student ratios; state-specific curriculum requirements; and limits on the number of charters that can be granted in a state.

Funding regulations for virtual schools can take a variety of forms. These regulations include: (i) attendance — some state daily attendance rules were designed for traditional classroom procedures and applying them to track daily attendance and truancy in an online setting can cause disputes to arise over interpretation and funding; (ii) enrollment eligibility— some states place restrictions on the students seeking to enroll in virtual schools, resulting in lower aggregate funding levels; and (iii) teacher contact time — some states have regulations that specify minimum levels of teacher-student face-to-face time, which can create logistical challenges for statewide virtual schools, reduce funding and eliminate some of the economic, academic and technological advantages of virtual learning.

Federal and State Grants. We have worked with certain entities to secure public and grant funding that flows to virtual public schools that we serve. These grants are awarded to the not-for-profit entity that holds the charter of the virtual public school on a competitive basis in some instances and on an entitlement basis in other instances. Grants awarded to public schools and programs — whether by a federal or state agency or nongovernmental organization — often include reporting requirements, procedures, and obligations.

Five primary federal laws are directly applicable to the day-to-day provision of educational services we provide to virtual public schools:

- *No Child Left Behind (NCLB) Act.* Through the funding of the Title I programs for disadvantaged students under NCLB, the federal government requires public schools to develop a state accountability system based on academic standards and assessments developed by the state, which are applicable to all public school students. Each state must determine a proficiency level of academic achievement based on the state assessments, and must determine what constitutes adequate yearly progress (AYP) toward that goal. NCLB has a timeline to ensure that no later than the 2013-14 school year, all students, including those in all identified subgroups (such as economically disadvantaged, limited English proficient and minority students), will meet or exceed the state proficient level of academic achievement on state assessments. The progress of each school is reviewed annually to determine whether the school is making adequate yearly progress. If a Title I school does not make adequate yearly progress as defined in the state's plan, the local education agency (LEA) is required to identify the school as needing school improvement, and to provide all students enrolled in the school with the option to transfer to another public school served by the LEA, which may include a virtual public school. The LEA must develop a school improvement plan for each school identified as needing improvement in consultation with parents, staff and outside experts and this plan must be implemented not later than the beginning of the next full school year. If the school does not make adequate yearly progress in subsequent years, the school transfer option remains open to students and other corrective action must be taken ranging from providing supplemental education services to the students who remain in the school to taking corrective action including, but not limited to, replacing school staff, implementing a new curriculum, appointing outside experts to advise the school, extending the school year or the school day, reopening the school as a public charter school with a private management company or turning over the operation of the school to the state educational agency.

  Another provision of NCLB requires public school programs to ensure that all teachers are highly qualified. A highly qualified teacher means one who has: (1) obtained full state certification or licensure as a teacher and who has not had certification or licensure requirements waived on an emergency, temporary or provisional basis; (2) obtained a bachelor's degree; and (3) demonstrated competence in the academic subject the teacher teaches. All teacher aides working in a school supported with Title I funds must be highly qualified which means the person must have a high school diploma or its equivalent and one of the following: completed at least two years of study in an institution of higher education, obtained an associate's or higher degree, or met a rigorous standard of quality demonstrated through a formal state or local assessment. Virtual public schools using our products and services may be required to meet these requirements for any persons who perform instructional services.

  Virtual schools that receive Title I funding and use our products and services may be required to provide parents of Title I students with a variety of notices regarding the teachers and teachers aides that teach their children. In addition, if these schools serve limited English proficient (LEP) children, they may be required to provide a variety of notices to the parents regarding the identification of the student as LEP and certain information about the instruction to be provided to the student, as well as the right to remove or refuse to enroll the student in the LEP program. Finally, these schools may also be required annually to develop, with input from parents of Title I students, and implement a written policy on parental involvement in the education of their children, to hold annual meetings with these parents and to provide these parents with assistance in various areas to help the parents to work with their children to improve student achievement.

  Under NCLB, even schools that do not receive Title I funding must provide certain notices to parents. For example, schools may be required to provide a school report card and identify whether any school has been identified as needing improvement and for how long. Parents also must be provided data that will be used to determine adequate yearly progress. Virtual public schools may be contacted by military recruiters who have the right to access the names, addresses and telephone numbers of secondary school students for military recruiting purposes. Additionally, virtual public schools may be required to notify parents that they have the option to request that this information not be released to military recruiters or to institutions of higher education.

- *Individuals with Disabilities Education Act (IDEA).* The IDEA is implemented through regulations governing every aspect of the special education of a child with one or more of the specific disabilities listed in the act. The IDEA created a responsibility on the part of a school to identify students who may qualify under the IDEA and to perform periodic assessments to determine the students' needs for services. A student who qualifies for services under the IDEA must have in place an individual education plan, which must be updated at least annually, created by a team consisting of school personnel, the student, and the parent. This plan must be implemented in a setting where the child with a disability is educated with non-disabled peers to the maximum extent appropriate. The act provides the student and parents with numerous procedural rights relating to the student's program and education, including the right to seek mediation of disputes and make complaints to the state education agency. The schools we manage are responsible for ensuring the requirements of this act are met. The virtual schools could be required to comply with requirements in the act concerning teacher certification and training. We or the virtual public school could be required to provide additional staff, related services and supplemental aids and services at our own cost to comply with the requirement to provide a free appropriate public education to each child covered under the IDEA. If we fail to meet this requirement, we or the virtual public school could lose federal funding and could be liable for compensatory educational services, reimbursement to the parent for educational service the parent provided, and payment of the parent's attorney's fees.

- *Section 504 of the Rehabilitation Act of 1973.* A virtual public school receiving federal funds is subject to Section 504 of the Rehabilitation Act of 1973 (Section 504) insofar as the regulations implementing the act govern the education of students with disabilities as well as personnel and parents. Section 504 prohibits discrimination against a person on the basis of disability in any program receiving federal financial assistance if the person is otherwise qualified to participate in or receive benefit from the program. Students with disabilities not specifically listed in the IDEA may be entitled to specialized instruction or related services pursuant to Section 504 if their disability substantially limits a major life activity. There are many similarities between the regulatory requirements of Section 504 and the IDEA; however this is a separate law which may require a virtual public school to provide a qualified student with a plan to accommodate his or her disability in the educational setting. If a school fails to comply with the requirements and the procedural safeguards of Section 504, it may lose federal funds even though these funds flow indirectly to the school through a local board. In the case of bad faith or intentional wrongdoing, some courts have awarded monetary damages to prevailing parties in Section 504 lawsuits.

- *Family Educational Rights and Privacy Act.* Virtual public schools are subject to the Family Educational Rights and Privacy Act which protects the privacy of a student's educational records and generally prohibits a school from disclosing a student's records to a third-party without the parent's prior consent. The law also gives parents certain procedural rights with respect to their minor children's education records. A school's failure to comply with this law may result in termination of its eligibility to receive federal education funds.

- *Communications Decency Act.* The Communications Decency Act of 1996 ("CDA") provides protection for online service providers against legal action being taken against them because of certain actions of others. For example, the CDA states that no provider or user of an interactive computer service shall be treated as the publisher or speaker of any data given by another provider of information content. Further, Section 230 of the CDA grants interactive online services of all types, broad immunity from tort liability so long as the information at issue is provided or posted by a third party. As part of our technology services offering, we provide an online school platform on which teachers and students may communicate. We also conduct live classroom sessions using Internet-based collaboration software and we offer certain online community platforms for students and parents. While the CDA affords us with some protection from liability associated with the interactive online services we offer, there are exceptions to the CDA that could result in successful actions against us that give rise to financial liability.

If we fail to comply with other federal laws, including federal civil rights laws not specific to education programs, we could be determined ineligible to receive funds from federal programs or face criminal or civil penalties.

ITEM 1A. *RISK FACTORS*

Risks Related to Government Funding and Regulation of Public Education

Most of our revenues depend on per pupil funding amounts remaining near the levels existing at the time we execute service agreements with the virtual public schools we serve. If those funding levels are materially reduced due to economic conditions or political opposition, new restrictions adopted or payments delayed, our business, financial condition, results of operations and cash flows could be adversely affected.

The public schools we contract with are financed with government funding from federal, state and local taxpayers. Our business is primarily dependent upon those funds. Budget appropriations for education at all levels of government are determined through the political process, which may also be affected by conditions in the economy at large, such as the current severe recession in the U.S. that began in 2008. As a result, funding for the virtual public schools we serve may decline. The political process and general economic conditions create a number of risks that could have an adverse affect on our business including the following:

- legislative proposals can and have resulted in budget or program cuts for public education, including the virtual public schools we serve, and therefore have reduced and could potentially eliminate the products and services those schools purchase from us, causing our revenues to decline. From time to time, proposals are introduced in state legislatures that single out virtual public schools for disparate treatment. For example, in 2009, legislation was introduced in Ohio that would have curtailed for-profit companies from managing charter schools and reduced funding for virtual charter schools by as much as 70 percent. This legislation did not survive a House-Senate conference and funding for the Ohio Virtual Academy was not significantly affected. Other examples include laws that decrease per pupil funding for virtual public schools or alter eligibility and attendance criteria or other funding conditions that could decrease our revenues and limit our ability to grow;

  Economic conditions could reduce state education funding for all public schools, and could be disproportionate for the virtual public schools we serve. For example, while budget and funding decisions normally occur on an annual or bi-annual basis, the current economic recession has caused a departure from the normal process in some states. During our fiscal year 2009, several states enacted mid-year funding cuts for public education, affecting the virtual public schools we serve. In addition, we are aware of state budget appropriations involving funding reductions for public education that will affect some of the virtual public schools we serve for the 2009-10 school year.

- as a public company, we are required to file periodic financial and other disclosure reports with the Securities and Exchange Commission, or the SEC. This information may be referenced in the legislative process, including budgetary considerations, related to the funding of alternative public school options, including virtual public schools. The disclosure of this information by a for-profit education company, regardless of parent satisfaction and student academic achievement, may nonetheless be used by opponents of virtual public schools to propose funding reductions; and

- from time to time, government funding to schools is not provided when due, which sometimes causes the affected schools to delay or cease payments to us for our products and services. These payment delays have occurred in the past and can deprive us of significant working capital until the matter is resolved, which could hinder our ability to implement our growth strategies and conduct our business. Most recently, in 2009 the Pennsylvania Department of Education has withheld monthly payments for the Agora Cyber Charter School for products and services we provided as a subcontractor due to the PDE's investigation of the Agora Board of Trustees' compliance with its charter, even though the PDE had no complaints against us.

The poor performance or misconduct of other virtual public school operators could tarnish the reputation of all virtual public school operators, which could have a negative impact on our business.

As a relatively new form of public education, virtual school operators will be subject to scrutiny, perhaps even greater than that applied to traditional public schools or charter schools. Not all virtual public school operators will have successful academic programs or operate efficiently, and new entrants may not perform well either. Such underperforming operators could create the impression that virtual schooling is not an effective way to educate students, whether or not our learning system achieves solid performance. Moreover, some virtual school operators have been subject to governmental investigations alleging the misuse of public funds or financial irregularities. These allegations have attracted significant adverse media coverage and have prompted legislative hearings and regulatory responses. Although these investigations have focused on specific companies and individuals, they may negatively impact public perceptions of virtual public school providers generally, including us. The precise impact of these negative public perceptions on our business is difficult to discern, in part because of the number of states in which we operate and the range of particular malfeasance or performance issues involved. We have incurred significant lobbying costs in several states advocating against harmful legislation which, in our opinion, was aggravated by negative media coverage of particular virtual school operators. If these few situations, or any additional misconduct, cause all virtual public school providers to be viewed by the public and/or policymakers unfavorably, we may find it difficult to enter into or renew contracts to operate virtual schools. In addition, this perception could serve as the impetus for more restrictive legislation, which could limit our future business opportunities.

Opponents of virtual public schools have sought to challenge the establishment and expansion of such schools through the judicial process. If these interests prevail, it could damage our ability to sustain or grow our current business or expand in certain jurisdictions.

We have been, and will likely continue to be, subject to lawsuits filed against virtual public schools by those who do not share our belief in the value of this form of public education. Legal claims have involved challenges to the constitutionality of authorizing statutes, methods of instructional delivery, funding provisions and the respective roles of parents and teachers. For example, in *Illinois v. Chicago Virtual Charter School,* 06 CH 20955 (Cook County) (July 11, 2009), the Chicago Teacher's Union and other plaintiffs' claimed that the instructional model of the Chicago Virtual Charter School violated the prohibition against home-based charter schools under Illinois law.. The Court did not agree and dismissed the claims on summary judgment.

The failure of the virtual public schools we serve to comply with applicable government regulations could result in a loss of funding and an obligation to repay funds previously received, which could adversely affect our business, financial condition and results of operations.

Once authorized by law, virtual public schools are generally subject to extensive regulation. These regulations cover specific program standards and financial requirements including, but not limited to: (i) student eligibility standards; (ii) numeric and geographic limitations on enrollments; (iii) prescribed teacher funding allocations from per pupil revenue; (iv) state-specific curriculum requirements; and (v) restrictions on open-enrollment policies by and among districts. State and federal funding authorities conduct regular program and financial audits of virtual public schools, including the virtual public schools we serve, to ensure compliance with applicable regulations. If a virtual public school we serve is found to be noncompliant, it can be barred from receiving additional funds and could be required to repay funds received during the period of non-compliance, which could impair that school's ability to pay us for services in a timely manner, if at all. Additionally, the indemnity provisions in our standard service agreements with virtual public schools may require us to return any contested funds on behalf of the school.

Virtual public schools are relatively new, and enabling legislation therefore is often ambiguous and subject to discrepancies in interpretation by regulatory authorities, which may lead to disputes over our ability to invoice and receive payments for services rendered.

Statutory language providing for virtual public schools is sometimes interpreted by regulatory authorities in ways that may vary from year to year, making compliance subject to uncertainty. More issues normally arise during our first few school years of doing business in a state because the enabling legislation often does not address specific issues, such as what constitutes proper documentation for enrollment eligibility in a virtual school. We normally work through these issues and come to an agreement with the regulatory authorities on these details, although from time to time, there are changes to the regulators' approach to determining the eligibility of virtual school students for funding purposes. Another example may be differing interpretations on what constitutes a student's substantial completion of a semester in a public school. These regulatory uncertainties may lead to disputes over our ability to invoice and receive payments for services rendered, which could adversely affect our business, financial condition and results of operations.

The operation of virtual public schools depends on the maintenance of the authorizing charter and compliance with applicable laws. If these charters are not renewed, our contracts with these schools would be terminated.

In many cases, virtual public schools operate under a charter that is granted by a state or local authority to the charter holder, such as a community group or an established not-for-profit corporation, which typically is required by state law to qualify for student funding. In fiscal year 2009, approximately 88% of our revenues were derived from virtual public schools operating under a charter. The service agreement for these schools is with the charter holder or the charter board. Non-profit charter schools qualifying for exemption from federal taxation under Internal Revenue Code Section 501(c)(3) as charitable organizations must also operate in accordance with Internal Revenue Service rules and policies to maintain that status and their funding eligibility. In addition, all state charter school statutes require periodic reauthorization. While none of the virtual public schools we serve have failed to maintain their authorizing charter, if a virtual public school we serve fails to maintain its tax-exempt status and funding eligibility, or if its charter is revoked for non-performance or other reasons that may be due to actions of the independent charter board completely outside of our control, our contract with that school would be terminated. For example, in July 2009, the Pennsylvania Department of Education instituted charter revocation proceedings against the Agora Cyber Charter School based on allegations of charter violations and non-compliance with state charter school and other laws by the independent charter board, even though the PDE had no complaints against us.

Actual or alleged misconduct by our senior management and directors would make it more difficult for us to enter into new contracts or renew existing contracts.

If any of our directors, officers or key employees are accused or found to be guilty of serious crimes, including the mismanagement of public funds, the schools we serve could be barred from entering into or renewing service agreements with us or otherwise discouraged from contracting with us and, as a result, our business and revenues would be adversely affected.

Risks Related to Our Business and Our Industry

We have a limited operating history, and sustained cumulative net losses of approximately $90 million before only recently achieving profitability. If we fail to remain profitable or achieve further marketplace acceptance for our products and services, our business, financial condition and results of operations will be adversely affected.

The virtual public schools we serve began enrolling students in the 2001-02 school year. As a result, we have only a limited operating history upon which you can evaluate our business and prospects. Since our inception, we recorded cumulative net losses totaling approximately $90 million until we achieved profitability in the fiscal year ending June 30, 2006. There can be no assurance that we will remain profitable, or that our products and services will achieve further marketplace acceptance. Our marketing efforts may not generate a sufficient number of student enrollments to sustain our business plan; our capital and operating costs may exceed planned levels; and we may be unable to develop and enhance our service offerings to meet the demands of virtual public schools and students to the extent that such demands and preferences change. For example, the current recession in the U.S. economy has led to lower tax revenues and reductions in state educational budgets which may negatively impact a virtual charter school's offerings and student enrollments. If we are not successful in managing our business and operations, our financial condition and results of operations will be adversely affected.

Highly qualified teachers are critical to the success of our learning system. If we are not able to continue to recruit, train and retain quality certified teachers, our curriculum might not be effectively delivered to students, compromising their academic performance and our reputation with the virtual public schools we serve. As a result, our brand, business and operating results may be adversely affected.

Effective teachers are critical to maintaining the quality of our learning system and assisting students with their daily lessons. Teachers in virtual public schools must be state certified and have strong interpersonal communications skills to be able to effectively instruct students in a virtual school setting. They must also possess the technical skills to use our technology-based learning system. There is a limited pool of teachers with these specialized attributes and the virtual public schools we serve must provide competitive compensation packages to attract and retain such qualified teachers.

The teachers in most virtual public schools we serve are not our employees and the ultimate authority relating to those teachers resides with the governing body overseeing the schools. However, under many of our service agreements with virtual public schools, we have responsibility to recruit, train and manage these teachers. We must also provide continuous training to virtual public school teachers so that they can stay abreast of changes in student demands, academic standards and other key trends necessary to teach online effectively. We may not be able to recruit, train and retain enough qualified teachers to keep pace with our growth while maintaining consistent teaching quality in the various virtual public schools we serve. Shortages of qualified teachers or decreases in the quality of our instruction, whether actual or perceived, would have an adverse effect on our business.

The schools we contract with and serve are governed by independent governing bodies who may shift their priorities or change objectives in ways adverse to us.

We contract with and provide a majority of our products and services to virtual public schools governed by independent boards or similar governing bodies. While we typically share a common objective at the outset of our business relationship, over time our interests could diverge. If these independent boards of the schools we serve subsequently shift their priorities or change objectives, and as a result reduce the scope or terminate their relationship with us, our ability to generate revenues would be adversely affected.

Our contracts with the virtual public schools we serve are subject to periodic renewal, and each year several of these agreements are set to expire. If we are unable to renew several such contracts or if a single significant contract expires during a given year, our business, financial condition, results of operations and cash flow could be adversely affected.

We have contracts to provide our full range of products and services to virtual public schools in 23 states and the District of Columbia. Several of these contracts are scheduled to expire in any given year. For example, four such contracts are scheduled to expire in fiscal year 2010, and we usually begin to engage in renewal negotiations during the final year of these contracts. In order to renew these contracts, we have to enter into negotiations with the independent boards of these virtual public schools. Historically we have been successful in renewing these contracts, but such renewals typically contain revised terms, which may be more or less favorable then the terms of the original contract. For example, a school in Pennsylvania reduced the term of its contract from five years to three years when renewing its contract in 2006, but when renewing again in 2009, extended the term to 10 years. Similarly, a school in Colorado increased the term of its contract from five years to 10 years upon renewal in 2009. While we have no reason to believe that schools with valid charters will not continue to renew their contracts upon expiration, we recognize that each renegotiation is unique and, if we are unable to renew several such contracts or one significant contract expiring during a given year, or if such renewals have significantly less favorable terms than existing contracts, or an underlying charter is revoked or not renewed, our business, financial condition, results of operations and cash flow could be adversely affected.

We generate significant revenues from two virtual public schools, and the termination, revocation, expiration or modification of our contracts with these virtual public schools could adversely affect our business, financial condition and results of operation.

In fiscal year 2009, we derived more than 10% of our revenues from each of the Ohio Virtual Academy and the Agora Cyber Charter School in Pennsylvania. In aggregate, these schools accounted for 28% of our total revenues. If our contracts with any of these virtual public schools are terminated, the charters to operate any of these schools are not renewed or are revoked, enrollments decline substantially, funding is reduced, or more restrictive legislation is enacted, our business, financial condition and results of operations could be adversely affected.

If student performance falls, NCLB standards are not achieved, or parent and student satisfaction declines, a significant number of students may not remain enrolled in a virtual public school that we serve, and our business, financial condition and results of operations will be adversely affected.

The success of our business depends on a family's decision to have their child continue his or her education in a virtual public school that we serve. This decision is based on many factors, including student achievement and parent and student satisfaction. Students may perform significantly below state averages or the virtual school may fail to meet the standards of the No Child Left Behind Act ("NCLB"). Not all of the virtual public schools we serve meet the Adequate Yearly Progress requirements of NCLB, as large numbers of new enrollments from students underperforming in traditional schools can drag down overall results or the underperformance of any one subgroup can lead to the entire school failing to achieve Adequate Yearly Progress. We expect that, as our enrollments increase and the portion of students that have not used our learning system for multiple years increases, the average performance of all students using our learning system may decrease, even if the individual performance of other students improves over time. Moreover, Congress may amend the NCLB statute in ways that positively or negatively impact the schools we serve. Finally, parent and student satisfaction may decline as not all parents and students are able to devote the substantial time and energy necessary to complete our curriculum. A student's satisfaction may also suffer if his or her relationship with the virtual school teacher does not meet expectations. If a student's performance or satisfaction declines, students may decide not to remain enrolled in a virtual public school that we serve and our business, financial condition and results of operations will be adversely affected.

We may not be able to effectively address the execution risks associated with our expansion into the virtual high school market. Our failure to do so could substantially harm our growth strategy.

Our continued expansion into virtual high schools presents us with a number of challenges and an evolving array of risks that could affect our financial condition, results of operations and growth strategy. We have recently developed and are continuing to develop new proprietary high school curriculum, and we are currently using third-party platforms and some third-party curriculum in our high school offering. If the quality of our newly developed proprietary curriculum, third-party curriculum or platforms is unsatisfactory, student enrollments could decline. In addition, our inability to scale high school operations or achieve productivity improvements could reduce our operating margins.

Our growth strategy anticipates that we will create new products and distribution channels, expand existing distribution channels and pilot innovative educational programs to enhance academic performance. If we are unable to effectively manage these initiatives or they fail to gain acceptance, our business, financial condition, results of operations and cash flows would be adversely affected.

As we create new products and distribution channels, expand our existing distribution channels and pilot new educational programs, we expect to face challenges distinct from those we currently encounter, including:

- our development of public hybrid schools, which will produce different operational challenges than those we currently encounter. In addition to the online component, hybrid schools may require us to lease facilities for classrooms, staff classrooms with teachers, provide meals, adhere to local safety and fire codes, purchase additional insurance and fulfill many other responsibilities;
- our further expansion into international markets may require us to conduct our business differently than we do in the United States or in existing countries. For example, we may attempt to establish a traditional brick

and mortar school. Additionally, we may have difficulty training and retaining qualified teachers or generating sufficient demand for our products and services in international markets. International opportunities will also produce different operational, tax and currency challenges than those we currently encounter;

- our use of our curriculum in classrooms will produce challenges with respect to adapting our curriculum for effective use in a traditional classroom setting; and

- our continual efforts to innovate and pilot new programs to enhance student learning may not always succeed or may encounter unanticipated opposition, such as what we experienced in 2008 in connection with a limited pilot to outsource essay reviews overseas, which the Company thereafter discontinued.

Our failure to manage these new distribution channels, or any new distribution channels we pursue, may have an adverse effect on our business, financial condition, results of operations and cash flows.

Increasing competition in the market segments that we serve could lead to pricing pressures, reduced operating margins, loss of market share, departure of key employees and increased capital expenditures.

We face varying degrees of competition from several discrete education providers because our learning system integrates all the elements of the education development and delivery process, including curriculum development, textbook publishing, teacher training and support, lesson planning, testing and assessment, and school performance and compliance management. We compete most directly with companies that provide online curriculum and support services to K-12 virtual public schools. Additionally, we expect increased competition from for-profit post-secondary and supplementary education providers that have begun to offer virtual high school curriculum and services. In certain jurisdictions and states where we currently serve virtual public schools, we expect intense competition from existing providers and new entrants. Our competitors may adopt similar curriculum delivery, school support and marketing approaches, with different pricing and service packages that may have greater appeal in the market. If we are unable to successfully compete for new business, win and renew contracts or maintain current levels of academic achievement, our revenue growth and operating margins may decline. Price competition from our current and future competitors could also result in reduced revenues, reduced margins or the failure of our product and service offerings to achieve or maintain more widespread market acceptance.

We may also face direct competition from publishers of traditional educational materials that are substantially larger than we are and have significantly greater financial, technical and marketing resources. As a result, they may be able to devote more resources to develop products and services that are superior to our platform and technologies. We may not have the resources necessary to acquire or compete with technologies being developed by our competitors, which may render our online delivery format less competitive or obsolete. These new and well-funded entrants may also seek to attract our key executives as employees based on their acquired expertise in virtual education where such specialized skills are not widely available.

Our future success will depend in large part on our ability to maintain a competitive position with our curriculum and our technology, as well as our ability to increase capital expenditures to sustain the competitive position of our product and retain our talent base. We cannot assure you that we will have the financial resources, technical expertise, marketing, distribution or support capabilities to compete effectively.

If demand for increased options in public schooling does not continue or if additional jurisdictions do not authorize or adequately fund virtual public schools, our business, financial condition and results of operations could be adversely affected.

For the 2006-07 school year, we served schools in 17 states. For the 2009-10 school year, we will serve schools in 23 states. If the demand for virtual public schools does not increase, if additional jurisdictions do not authorize new virtual schools or if the funding of such schools is inadequate, our business, financial condition and results of operations could be adversely affected.

Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter-to-quarter and adversely impact the market price of our common stock.

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to the number of months in a fiscal quarter that our virtual public schools are fully operational and serving students. In the typical academic year, our first and fourth fiscal quarters have fewer than three full months of operations, whereas our second and third fiscal quarters will have three complete months of operations. We ship offline learning kits to students in the beginning of the school year, our first fiscal quarter, generally resulting in higher offline learning kit revenues and margins in the first fiscal quarter relative to the other quarters. In aggregate, the seasonality of our revenues has generally produced higher revenues in the first quarter of our fiscal year.

Our operating expenses are also seasonal. Instructional costs and services increase in the first fiscal quarter primarily due to the costs incurred to ship offline learning kits at the beginning of the school year. These instructional costs may increase significantly quarter-to-quarter as school operating expenses increase. The majority of our selling and marketing expenses are incurred in the first and fourth fiscal quarters, as our primary enrollment season is July through September.

We expect quarterly fluctuations in our revenues and operating results to continue. These fluctuations could result in volatility and adversely affect our cash flow. As our business grows, these seasonal fluctuations may become more pronounced. As a result, we believe that quarterly comparisons of our financial results may not be reliable as an indication of future performance.

Our revenues for a fiscal year are based in part on our estimate of the total funds each school will receive in a particular school year and our estimate of the full year deficits to be incurred by each school. As a result, differences between our estimates and the actual funds received and deficits incurred could have an adverse impact on our results of operations and cash flows.

We recognize revenues from certain of our fees ratably over the course of our fiscal year. To determine the amount of revenues to recognize, we estimate the total funds each school will receive in a particular school year. Additionally, we take responsibility for any operating deficits at most of the virtual schools we serve. Because these operating deficits may impair our ability to collect the full amount invoiced in a period and collection cannot reasonably be assured, we reduce revenues by the estimated amount of these deficits. We review our estimates of total funds and operating deficits periodically, and we revise as necessary, amortizing any adjustments over the remaining portion of the fiscal year. Actual funding received and operating deficits incurred may vary from our estimates or revisions and could adversely impact our results of operation and cash flows.

The continued development of our brand identity is important to our business. If we are not able to maintain and enhance our brand, our business and operating results may suffer.

Expanding brand awareness is critical to attracting and retaining students, and for serving additional virtual public schools. In order to expand brand awareness, we intend to spend significant resources on a brand-enhancement strategy, which includes sales and marketing efforts directed to targeted locations as well as the national marketplace, the educational community at large, key political groups, image-makers and the media. We believe that the quality of our curriculum and management services has contributed significantly to the success of our brand. As we continue to increase enrollments and extend our geographic reach, maintaining quality and consistency across all of our services and products may become more difficult to achieve, and any significant and well-publicized failure to maintain this quality and consistency will have a detrimental effect on our brand. We cannot provide assurances that our new sales and marketing efforts will be successful in further promoting our brand in a competitive and cost effective manner. If we are unable to further enhance our brand recognition and increase awareness of our products and services, or if we incur excessive sales and marketing expenses, our business and results of operations could be adversely affected.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand.

Our patent, trademarks, trade secrets, copyrights, domain names and other intellectual property rights are important assets for us. For example, we have been granted two patents relating to the hardware and network infrastructure of our online school, including the system components for creating and administering assessment tests and our lesson progress tracker. Additionally, we are the copyright owner of over 14,000 lessons in the courses comprising our proprietary curriculum and we have registered copyrights or filed copyright applications that cover nearly all of these lessons. Various events outside of our control pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed or made available through the Internet. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

Although we seek to obtain patent protection for our innovations, it is possible that we may not be able to sufficiently protect some of these innovations. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable.

We also seek to maintain certain intellectual property as trade secrets. This secrecy could be compromised by outside parties, or by our employees intentionally or accidentally, which would cause us to lose the competitive advantage resulting from these trade secrets. Third parties may acquire domain names that are substantially similar to our domain names leading to a decrease in the value of our domain names and trademarks and other proprietary rights.

We may be sued for infringing the intellectual property rights of others and such actions would be costly to defend, could require us to pay damages and could limit our ability or increase our costs to use certain technologies in the future.

Companies in the Internet, technology, education, curriculum and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. As we grow, the likelihood that we may be subject to such claims also increases. Regardless of the merits, intellectual property claims are time-consuming and expensive to litigate or settle. In addition, to the extent claims against us are successful, we may have to pay substantial monetary damages or discontinue any of our products, services or practices that are found to be in violation of another party’s rights. We also may have to seek a license and make royalty payments to continue offering our products and services or following such practices, which may significantly increase our operating expenses.

We may be subject to legal liability resulting from the actions of third parties, including independent contractors, business partners, or teachers, which could cause us to incur substantial costs and damage our reputation.

We may be subject, directly or indirectly, to legal claims associated with the actions of or filed by our independent contractors, business partners, or teachers. In the event of accidents or injuries or other harm to students, we could face claims alleging that we were negligent, provided inadequate supervision or were otherwise liable for their injuries. Additionally, we could face claims alleging that our independent curriculum contractors or teachers infringed the intellectual property rights of third parties. A liability claim against us or any of our independent contractors, business partners, or teachers could adversely affect our reputation, enrollment and revenues. Even if unsuccessful, such a claim could create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of management.

Unauthorized disclosure or manipulation of student, teacher and other sensitive data, whether through breach of our network security or otherwise, could expose us to costly litigation or could jeopardize our contracts with virtual public schools.

Maintaining our network security and internal controls over access rights is of critical importance because our Student Administration Management System (SAMS) stores proprietary and confidential student and teacher information, such as names, addresses, and other personal information. Individuals and groups may develop and deploy viruses, worms and other malicious software programs that attack or attempt to infiltrate SAMS.

If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, third parties may receive or be able to access student records and we could be subject to liability or our business could be interrupted. Penetration of our network security could have a negative impact on our reputation and could lead virtual public schools and parents to choose competitive offerings. As a result, we may be required to expend significant resources to provide additional protection from the threat of these security breaches or to alleviate problems caused by these breaches. Additionally, we run the risk that employees or vendors could illegally disclose confidential educational information.

We rely on the Internet to enroll students and to deliver our products and services to children, which exposes us to a growing number of legal risks and increasing regulation.

We collect information regarding students during the online enrollment process, and a significant amount of our curriculum content is delivered over the Internet. As a result, specific federal and state laws that could have an impact on our business include the following:

- the Children's Online Privacy Protection Act, which restricts the distribution of certain materials deemed harmful to children and imposes additional restrictions on the ability of online companies to collect personal information from children under the age of 13; and

- the Family Educational Rights and Privacy Act, which imposes parental or student consent requirements for specified disclosures of student information, including online information.

- The Communications Decency Act, which provides website operators immunity from most claims arising from the publication of third-party content; and

- numerous state cyberbullying laws which require schools to adopt policies on harassment through the Internet or other electronic communications.

In addition, the laws applicable to the Internet are still developing. These laws impact pricing, advertising, taxation, consumer protection, quality of products and services, and are in a state of change. New laws may also be enacted, which could increase the costs of regulatory compliance for us or force us to change our business practices. As a result, we may be exposed to substantial liability, including significant expenses necessary to comply with such laws and regulations.

System disruptions and vulnerability from security risks to our online computer networks could impact our ability to generate revenues and damage our reputation, limiting our ability to attract and retain students.

The performance and reliability of our technology infrastructure is critical to our reputation and ability to attract and retain virtual public schools, parents and students. Any sustained system error or failure, or a sudden and significant increase in bandwidth usage, could limit our users' access to our learning system, and therefore, damage our ability to generate revenues or provide sufficient documentation to comply with state laws requiring proof that students completed the required number of hours of instruction. Our technology infrastructure could be vulnerable to interruption or malfunction due to events beyond our control, including natural disasters, terrorist activities and telecommunications failures.

We utilize a single logistics vendor for the management, receiving and shipping of all of our offline learning kits and printed educational materials. In addition, we utilize another vendor for the reclamation and redeployment of our student computers. Both of these partnerships depend upon execution on the part of us and the vendors. Any material failure to execute properly for any reason, including damage or disruption to either of the vendor's facilities would have an adverse effect on our business, financial condition and results of operations.

Substantially all of the inventory for our offline learning kits and printed materials is located in one warehouse facility operated by a third-party logistics vendor which handles receipt, assembly, and shipping of all physical learning materials. If this logistics vendor were to fail to meet its obligations to deliver learning materials to students in a timely manner, or if such shipments are incomplete or contain assembly errors, our business and results of operations could be adversely affected. We contracted with a new materials logistics vendor beginning with the current school year and while the transition has gone smoothly to date, any significant problems with this vendor's performance would adversely affect our business and results of operations. In addition, we provide computers for a substantial number of our students. Execution failures which interfere with the reclamation or redeployment of computers may result in additional costs. Furthermore, a natural disaster, fire, power interruption, work stoppage or other unanticipated catastrophic event, especially during the period from May through September when we have received most of the curriculum materials for the school year and have not yet shipped such materials to students, could significantly disrupt our ability to deliver our products and operate our business. If any of our material inventory were to experience any significant damage, we would be unable to meet our contractual obligations and our business would suffer.

Any significant interruption in the operations of our data center could cause a loss of data and disrupt our ability to manage our network hardware and software and technological infrastructure.

We host our products and serve all of our students from a third-party data center facility. While we are developing a risk mitigation plan, such a plan may not be able to prevent a significant interruption in the operation of this facility or the loss of school and operational data due to a natural disaster, fire, power interruption, act of terrorism or other unanticipated catastrophic event. Any significant interruption in the operation of this facility, including an interruption caused by our failure to successfully expand or upgrade our systems or manage our transition to utilizing the expansions or upgrades, could reduce our ability to manage our network and technological infrastructure, which could result in lost sales, enrollment terminations and impact our brand reputation.

Additionally, we do not control the operation of this facility and must rely on a third-party to provide the physical security, facilities management and communications infrastructure services related to our data center. Although we believe we would be able to enter into a similar relationship with another third-party should this relationship fail or terminate for any reason, our reliance on a third-party vendor exposes us to risks outside of our control. If this third-party vendor encounters financial difficulty such as bankruptcy or other events beyond our control that causes it to fail to secure adequately and maintain its hosting facilities or provide the required data communications capacity, students of the virtual public schools we serve may experience interruptions in our service or the loss or theft of important customer data.

Any significant interruption in the operations of our call center could disrupt our ability to respond to service requests and process orders and to deliver our products in a timely manner.

Our primary call center operations are housed in two facilities, one in Virginia and one through a vendor in Kentucky. We have limited call center operations in Arizona and Utah. While we are developing a risk mitigation plan, such a plan may not be able to prevent a significant interruption in the operation of either facility due to natural disasters, accidents, failures of the inventory locator or automated packing and shipping systems we use or other events. Any significant interruption in the operation of either primary facility, including an interruption caused by our failure to successfully expand or upgrade our systems or to manage these expansions or upgrades, could reduce our ability to respond to service requests, receive and process orders and provide products and services, which could result in lost and cancelled sales, and damage to our brand reputation.

Capacity limits on some of our technology, transaction processing systems and network hardware and software may be difficult to project and we may not be able to expand and upgrade our systems in a timely manner to meet significant unexpected increased demand.

As the number of virtual public schools we serve increases and our student base grows, the traffic on our transaction processing systems and network hardware and software will rise. We may be unable to accurately project the rate of increase in the use of our transaction processing systems and network hardware and software. In addition, we may not be able to expand and upgrade our systems and network hardware and software capabilities to accommodate significant unexpected increased use. If we are unable to appropriately upgrade our systems and network hardware and software in a timely manner, our operations and processes may be temporarily disrupted.

We may be unable to manage and adapt to changes in technology.

We will need to respond to technological advances and emerging industry standards in a cost-effective and timely manner in order to remain competitive. The need to respond to technological changes may require us to make substantial, unanticipated expenditures. There can be no assurance that we will be able to respond successfully to technological change.

We may be unable to attract and retain skilled employees.

Our success depends in large part on continued employment of senior management and key personnel who can effectively operate our business. If any of these employees leave us and we fail to effectively manage a transition to new personnel, or if we fail to attract and retain qualified and experienced professionals on acceptable terms, our business, financial conditions and results of operations could be adversely affected.

Our success also depends on our having highly trained financial, technical, recruiting, sales and marketing personnel. We will need to continue to hire additional personnel as our business grows. A shortage in the number of people with these skills or our failure to attract them to our Company could impede our ability to increase revenues from our existing products and services and to launch new product offerings, and would have an adverse effect on our business and financial results.

We may not be able to effectively manage our growth, which could impair our ability to operate profitably.

We have experienced significant expansion since our inception, which has sometimes strained our managerial, operational, financial and other resources. A substantial increase in our enrollment or the addition of new schools in a short period of time could strain our current resources and increase capital expenditures, without an immediate increase in revenues. Our failure to successfully manage our growth in a cost efficient manner and add and retain personnel to adequately support our growth could disrupt our business and decrease profitability.

We may need additional capital in the future, but there is no assurance that funds will be available on acceptable terms.

We may need to raise additional funds in order to achieve growth or fund other business initiatives. This financing may not be available in sufficient amounts or on terms acceptable to us and may be dilutive to existing stockholders. Additionally, any securities issued to raise funds may have rights, preferences or privileges senior to those of existing stockholders. If adequate funds are not available or are not available on acceptable terms, our ability to expand, develop or enhance services or products, or respond to competitive pressures will be limited.

Our curriculum and approach to instruction may not achieve widespread acceptance, which would limit our growth and profitability.

Our curriculum and approach to instruction are based on the structured delivery, clarification, verification and practice of lesson subject matter. The goal of this approach is to make students proficient at the fundamentals and to instill confidence in a subject prior to confronting new and complex concepts. This approach, however, is not accepted by all academics and educators, who may favor less formalistic methods. Accordingly, some academics and educators are opposed to the principles and methodologies associated with our approach to learning, and have the ability to negatively influence the market for our products and services.

Although we do not currently transact a material amount of business in a foreign country, we intend to expand into international markets, which will subject us to additional economic, operational, legal and political risks that could increase our costs and make it difficult for us to continue to operate profitably.

One of our growth strategies is to pursue international opportunities that leverage our current product and service offerings. The addition of international operations may require significant expenditure of financial and management resources and result in increased administrative and compliance costs. As a result of such expansion, we will be increasingly subject to the risks inherent in conducting business internationally, including:

- foreign currency fluctuations, which could result in reduced revenues and increased operating expenses;
- potentially longer payment and sales cycles;
- difficulty in collecting accounts receivable;
- the effect of applicable foreign tax structures or taxes that may be duplicative of those imposed in the United States, notwithstanding steps taken by the Company to address such matters;
- tariffs and trade barriers;
- general economic and political conditions in each country;
- inadequate intellectual property protection in foreign countries;
- uncertainty regarding liability for information retrieved and replicated in foreign countries;
- the difficulties and increased expenses in complying with a variety of U.S. and foreign laws, regulations and trade standards, including the Foreign Corrupt Practices Act and Treasury regulations; and
- unexpected changes in regulatory requirements.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

The Company's headquarters are located in approximately 104,000 square feet of office space in Herndon, Virginia. The property is leased until April 2013. The Company leases approximately 49,000 square feet in multiple locations under individual leases that expire between July 2009 and July 2013.

ITEM 3. *LEGAL PROCEEDINGS*

In the ordinary conduct of our business, we are subject to lawsuits, arbitrations and administrative proceedings from time to time.

We are currently involved in two lawsuits related to a charter revocation proceeding brought by the Pennsylvania Department of Education (the "PDE") against the Agora Cyber Charter School ("Agora"). In 2006, Agora contracted with an education management company, The Cynwyd Group LLC ("Cynwyd"), to operate the school. Cynwyd, in turn, subcontracted with us to provide Agora's students with our curriculum, as well as our school administrative and technology support services. The PDE charter revocation proceeding is the result of an investigation in which the agency concluded that the Agora Board of Trustees, the school's independent governing authority, violated its charter by contracting with Cynwyd without the PDE's approval, and that state funds have been misused to benefit personally Cynwyd's sole owner, due to her financial and business ties to members of the Agora Board of Trustees. The PDE investigation found no wrongdoing by us. In *Re Agora Cyber Charter School, No. 2009-01*. In addition, the PDE directed that all funds from school districts with students attending Agora be placed in a state escrow account from which the PDE will approve all payments to Agora and its vendors, including Cynwyd and us.

On June 25, 2009, Agora filed a "Complaint for Accounting" against our subsidiary K12 Pennsylvania L.L.C. in the Chester County Court of Common Pleas, Agora Cyber Charter School v. K12 Pennsylvania L.L.C., No. 2009-07375-CA. The complaint seeks no monetary damages from us, but an order compelling us to account for payments that we may have made outside the state escrow from a bank account that we administer for Agora as part of the K12-Cynwyd agreement. On July 22, 2009, we filed our Preliminary Objections and requested that the Complaint for Accounting be dismissed with prejudice. On June 29, 2009, Cynwyd filed a breach of contract lawsuit against us in the United States District Court for the Eastern District of Pennsylvania, The Cynwyd Group, L.L.C. v. K12 Pennsylvania L.L.C., Civil Action No. 09-2963. Cynwyd asserts that we failed to perform certain school administrative functions specified in the Cynwyd-K12 services agreement, including a failure to remit to Cynwyd management fees of approximately $2 million. Accordingly, Cynwyd claims direct damages of $2 million and unspecified consequential damages. On August 10, 2009, we filed our "Answer to Plaintiff's Complaint and Counterclaims Against Plaintiff, and Third Party Complaint." Beyond being subject to instruction from the PDE not to pay the Cynwyd management fee without PDE's prior approval, we also asserted counterclaims against both Cynwyd and Agora. Those counterclaims include counts for breach of contract and abuse of process, and we seek direct and consequential damages in amounts to be determined at trial. While the two above-mentioned lawsuits against us, individually or combined, are not material to our business, when considered in conjunction with the PDE charter revocation proceeding and other lawsuits by Agora against PDE, our ability to continue to provide our services and curriculum to Agora beyond the 2009-2010 school year depends on how all of these interrelated matters are ultimately resolved. At this time, the cases have just commenced. In addition, some of the fees owed to us for FY 2009 services rendered to Agora have been delayed and remain in the state escrow account pending approval by the PDE. Subsequent to June 30, 2009, PDE released a significant portion of the funds owed to K12. We believe the remaining amount will be received although no timetable has been communicated.

On October 4, 2006, the Chicago Teachers Union and individual taxpayers ("CTU" or "plaintiffs") filed a citizen taxpayer's lawsuit in the Circuit Court of Cook County challenging the decision of the Illinois State Board of Education to certify the Chicago Virtual Charter School (CVCS) and to enjoin the disbursement of state funds to the Chicago Board of Education under its contract with the CVCS. On June 11, 2009, the Court granted the CVCS's motion for summary judgment dismissing the case. The plaintiffs elected not to appeal the decision, thus establishing the legal right of CVCS to continue operations and receive state funding.

ITEM 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning our executive officers as of June 30, 2009:

Name	Age	Position
Ronald J. Packard	46	Chief Executive Officer, Founder and Director
John F. Baule	45	Chief Operating Officer and Chief Financial Officer
Bruce J. Davis	46	Executive Vice President, Worldwide Business Development
George B. Hughes, Jr.	50	Executive Vice President, School Services
Howard D. Polsky	57	Senior Vice President, General Counsel and Secretary
Celia M. Stokes	45	Executive Vice President and Chief Marketing Officer
Howard L. Allentoff	47	Senior Vice President , Human Resources

Ronald J. Packard, Chief Executive Officer, Founder and Director

Ronald J. Packard founded K12 in 2000. Previously, Mr. Packard served as Vice President of Knowledge Universe and he served as Chief Executive Officer of Knowledge Schools, a provider of early childhood education and after school companies. Mr. Packard has also held positions at McKinsey & Company and Goldman Sachs in mergers and acquisitions. Additionally, Mr. Packard served on the Advisory Board of the Department of Defense Schools from 2002 to 2008, and is a member of the Fairfax Education Foundation Board of Directors. Previously, Mr. Packard served as a director of Academy 123 and Zumbox. Mr. Packard holds B.A. degrees in Economics and Mechanical Engineering from the University of California at Berkeley, an M.B.A. from the University of Chicago, and he was a Chartered Financial Analyst.

John F. Baule, Chief Operating Officer and Chief Financial Officer

John F. Baule joined us in March 2005, and serves as Chief Operating Officer and Chief Financial Officer. Previously, Mr. Baule spent five years at Headstrong, a global consultancy services firm, first serving as Senior Vice President of Finance from 1999 until 2001 and later as Chief Financial Officer from 2001 to 2004. Prior to Headstrong, Mr. Baule worked for Bristol-Myers Squibb (BMS) from 1990 to 1999, initially joining their corporate internal audit division. He then spent six years with BMS based in the Asia Pacific region, first as the Director of Finance for BMS Philippines, and then as the Regional Finance Director for BMS Asia-Pacific, based in Hong Kong. He later served as Director of International Finance for the BMS Nutritional Division. Mr. Baule began his career working in the audit services practice at KPMG from 1986 to 1990. Mr. Baule holds a B.B.A. in Accounting from the College of William and Mary and he is a Certified Public Accountant.

Bruce J. Davis, Executive Vice President, Worldwide Business Development

Bruce J. Davis joined us in January 2007, and serves as Executive Vice President Worldwide Business Development. From 2005 until joining us, Mr. Davis was Sr. Vice President of Business Development for Laureate Education Inc. with focus on the Middle East region. From 2003 to 2004 Mr. Davis was a strategic advisor to Discovery Communications where he developed plans for Discovery's entry into the education video market and the creation of the United Streaming product. From 1994 to 2002 Mr. Davis held various positions with Sylvan Learning Systems including Principal at Sylvan Ventures, Chief Operating Officer of Prometric and Vice President of International Operations. From 1985 to 1991, Mr. Davis was a Manager with Deloitte and Touche's Information Systems Strategy group where he managed their practice office in Egypt and served clients including USAID, the Department of State, and the Marine Corps. Mr. Davis holds a B.S. in Computer Science from Loyola University and an M.B.A. from Columbia University.

George B. ("Chip") Hughes, Jr., Executive Vice President, School Services

George B. ("Chip") Hughes, Jr. joined us in July 2007, and serves as Executive Vice President, School Services. From 1997 until joining us, Mr. Hughes was a co-founder and Managing Director of Blue Capital Management, L.L.C., a middle-market private equity firm. Mr. Hughes previously served as a Partner of

McKinsey & Company, Inc., a global management consulting firm, in McKinsey's Los Angeles and New Jersey offices, where he was a member of the firm's Strategy and Health Care practices. Mr. Hughes serves on the National Board and the Executive Committee of Recording for the Blind & Dyslexic, and on the Board of Councilors of the College of Letters, Arts & Sciences at the University of Southern California. Previously he was a member of the Board of Trustees at Big Brothers of Greater Los Angeles and of Big Brothers Big Sisters of Morris, Bergen, and Passaic Counties (New Jersey). Mr. Hughes holds a B.A. in Economics from the University of Southern California and an M.B.A. from Harvard University.

Howard D. Polsky, Senior Vice President, General Counsel and Secretary

Howard D. Polsky joined us in June 2004, and serves as Senior Vice President, General Counsel and Secretary. Mr. Polsky previously held the position of Vice President and General Counsel of Lockheed Martin Global Telecommunications from 2000 to 2002. Prior to its acquisition by Lockheed Martin, Mr. Polsky worked at COMSAT Corporation from 1992 to 2000, initially serving as Vice President and General Counsel of COMSAT's largest operating division, and subsequently was promoted to the executive management team as Vice President of Federal Policy and Regulation. From 1983 to 1992, Mr. Polsky was a partner at Wiley, Rein & Fielding after being at Kirkland & Ellis from 1979 to 1983. Mr. Polsky started his legal career at the Federal Communications Commission in 1976. Mr. Polsky received a B.A. in Government from Lehigh University, and a J.D. from Indiana University.

Celia M. Stokes, Executive Vice President and Chief Marketing Officer

Celia M. Stokes joined us in March 2006, and serves as Executive Vice President and Chief Marketing Officer. Before joining K12, Ms. Stokes served as Vice President of Marketing at Independence Air from 2003 to 2006. Previously, Ms. Stokes ran her own marketing firm providing consulting services to organizations such as Fox TV, PBS, the National Gallery of Art, JWalter Thompson, and ADP. From 1993 to 1998, Ms. Stokes served in successive roles leading to Vice President of Marketing at Bell Atlantic and at a joint venture of Bell Atlantic and two other Regional Bell Operating Companies. From 1990 to 1993, Ms. Stokes was Manager of Marketing at Software AG, and from 1988 to 1990, was Client Group Manager at Targeted Communications, an Ogilvy & Mather Direct company. Ms. Stokes holds a B.A. in Economics from the University of Virginia.

Howard L. Allentoff, Senior Vice President, Human Resources

Howard L. Allentoff joined us in December 2008 and serves as Senior Vice President, Human Resources. Dr. Allentoff previously was Consultant & President of Strategic People Solutions (SPS) where he assisted companies of all types in both strategic and operational human resources issues. Prior to SPS, Dr. Allentoff worked at Blackboard as the company's first Vice President of Human Resources. He also worked in other human resources consulting roles as well as in corporate HR environments at Prometric (formerly of Sylvan and Thomson Learning), Ward Machinery and Westinghouse. He holds a B.S. in Psychology from the University of Maryland, College Park as well both M.S. and Ph.D. degrees in Industrial & Organizational Psychology from Auburn University.

PART II

ITEM 5. *MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS*

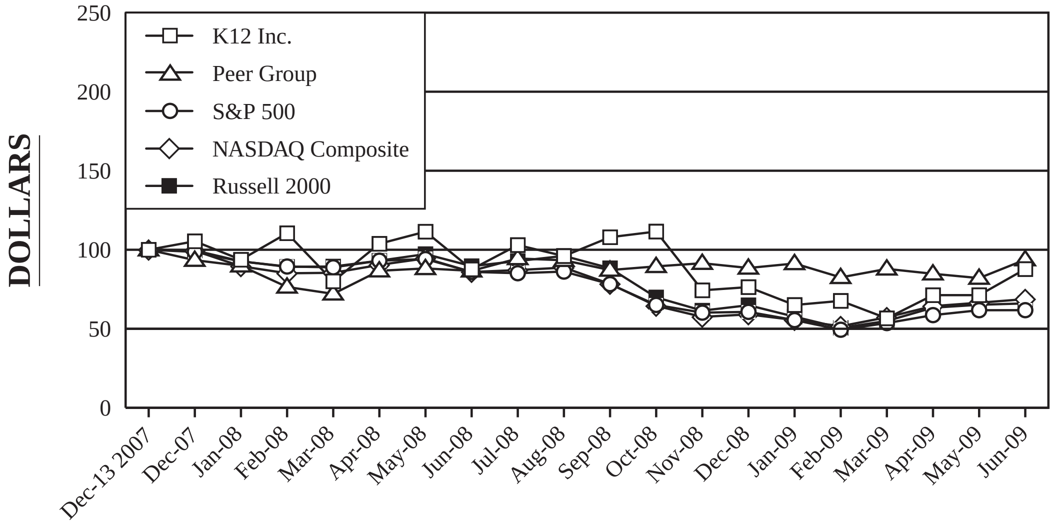
The Company's common stock, par value $0.0001 per share, is traded on the New York Stock Exchange (NYSE) under the symbol "LRN." Set forth below are the high and low sales prices for our common stock, as reported on the NYSE. As of September 3, 2009, there were approximately 66 registered holders of common stock.

	High	Low
Quarter ended:		
September 30, 2008	$29.47	$20.45
December 31, 2008	28.53	15.13
March 31, 2009	19.46	11.95
June 30, 2009	22.18	13.50

Stock Performance Graph

The graph below matches the cumulative 19-month total return of holders of K12 Inc.'s common stock with the cumulative total returns of the S&P 500 index, the NASDAQ Composite index, the Russell 2000 index and a customized peer group of seventeen companies. The graph assumes that the value of the investment in the company's common stock, in each index, and in the peer group (including reinvestment of dividends) was $100 on December 13, 2007 and tracks it through June 30, 2009.

COMPARISON OF 19 MONTH CUMULATIVE TOTAL RETURN
Among K12 Inc., S&P 500 Index, NASDAQ Composite Index, Russell 2000 Index and a Peer Group



	12/13/2007	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
K12 Inc.	100.00	105.38	93.69	110.47	80.04	103.79	111.45	87.62	102.97	96.01	107.94	111.53	74.34	76.37	65.05	67.66	56.62	71.61	71.28	87.78
Peer Group	100.00	93.41	89.84	76.46	72.09	86.71	88.18	86.66	94.47	93.35	87.17	89.48	91.48	88.47	91.31	82.52	87.90	84.80	82.07	93.75
S&P 500	100.00	98.65	92.62	89.40	88.87	93.09	94.09	86.00	85.15	86.19	78.25	65.09	60.21	60.69	55.49	49.39	53.61	58.64	61.75	61.77
NASDAQ Composite	100.00	99.39	89.56	85.12	85.41	90.42	94.54	85.93	87.15	88.72	78.39	64.49	57.54	59.10	55.33	51.63	57.28	64.35	66.49	68.77
Russell 2000	100.00	99.55	92.70	89.18	89.41	93.08	97.25	89.63	92.86	96.11	88.32	69.86	61.49	64.91	57.64	50.56	54.94	63.36	65.19	66.06

All prices reflect closing prices on last day of trading at the end of each calendar month except December 13, 2007.

Peer Group

Apollo Group Inc., Capella Education Company, Career Education Corp., Corinthian Colleges Inc., Devry Inc., Strayer Education Inc., ITT Educational Services, New Oriental Education, American Public Education Inc., Lincoln Educational Services, Universal Technical Institute, Renaissance Learning, Scientific Learning, SkillSoft, BlackBoard, McGraw-Hill, and Scholastic.

Dividend Policy

We have never declared or paid any cash dividends on our common stock and we currently do not anticipate paying any cash dividends for the foreseeable future. Instead, we anticipate that all of our earnings on our common stock will be used to provide working capital, to support our operations, and to finance the growth and development of our business, including potentially the acquisition of, or investment in, businesses, technologies or products that complement our existing business. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including, but not limited to, our future earnings, capital requirements, financial condition, future prospects, applicable Delaware law, which provides that dividends are only payable out of surplus or current net profits and other factors our board of directors might deem relevant.

Stock-based Incentive Plan Information

The following table provides certain information as of June 30, 2009, with respect to our equity compensation plans under which Common Stock is authorized for issuance:

Equity Compensation Plan Information
as of June 30, 2009

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders(1)	4,114,258	$14.55	846,807
Equity compensation plans not approved by security holders	—	—	—
Total	4,114,258	$14.55	846,807

(1) Includes shares under the 2007 Equity Incentive Award Plan

The 2007 Equity Incentive Award Plan (the 2007 Plan) adopted in November 2007 contains an "evergreen provision" that allows for an annual increase in the number of shares available for issuance under the 2007 Plan on July 1 of each year during the ten-year term of the 2007 Plan, beginning on July 1, 2008. The annual increase in the number of shares shall be equal to the least of:

- 4% of our outstanding common stock on the applicable July 1;
- 2,745,098 shares; or
- a lesser number of shares as determined by our Board of Directors.

Sales of unregistered securities

None.

ITEM 6. *SELECTED FINANCIAL DATA*

The following table sets forth our selected consolidated statement of operations, balance sheet and other data as of the dates and for the periods indicated. You should read this data together with "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, included elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of operations data for each of the years in the three-year period ended June 30, 2009, and the selected consolidated balance sheet data as of June 30, 2009 and 2008, have been derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report on Form 10-K. The selected consolidated statements of operations data for the years ended June 30, 2006 and 2005, and selected consolidated balance sheet data as of June 30, 2007, 2006 and 2005, have been derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. The pro forma net income per common share amounts for the years ended June 30, 2008 and June 30, 2007 were derived by eliminating the one-time tax benefit of $27.0 million from the reversal of the deferred tax valuation allowance in 2008 and by giving effect to the automatic conversion of all of our outstanding shares of our preferred stock into common stock immediately prior to the completion of our initial public offering. Our historical results are not necessarily indicative of future operating results.

	Year Ended June 30,				
	2009	**2008**	**2007**	**2006**	**2005**
Consolidated Statement of Operations Data:					
Revenues	$ 315,573	$ 226,235	$ 140,556	$ 116,902	$ 85,310
Cost and expenses					
Instructional costs and services	196,976	131,282	76,064	64,828	49,130
Selling, administrative, and other operating expenses	86,683	72,393	51,159	41,660	30,031
Product development expenses	9,575	9,550	8,611	8,568	9,410
Total costs and expenses	293,234	213,225	135,834	115,056	88,571
Income (loss) from operations	22,339	13,010	4,722	1,846	(3,261)
Interest expense, net	(982)	(295)	(639)	(488)	(279)
Income (loss) before income tax (expense) benefit and minority interest	21,357	12,715	4,083	1,358	(3,540)
Income tax (expense) benefit	(9,628)	21,058	(218)	—	—
Income (loss) before minority interest	11,729	33,773	3,865	1,358	(3,540)
Minority interest, net of tax	586	—	—	—	—
Net income (loss)	12,315	33,773	3,865	1,358	(3,540)
Dividends on preferred stock	—	(3,066)	(6,378)	(5,851)	(5,261)
Preferred stock accretion	—	(12,193)	(22,353)	(18,697)	(15,947)
Net income (loss) attributable to common stockholders	$ 12,315	$ 18,514	$ (24,866)	$ (23,190)	$ (24,748)
Net income (loss) attributable to common stockholders per share:					
Basic	$ 0.43	$ 1.18	$ (12.42)	$ (11.73)	$ (12.54)
Diluted	$ 0.42	$ 1.10	$ (12.42)	$ (11.73)	$ (12.54)
Basic (pro forma)(1)	$ n/a	$ 0.27	0.18	n/a	n/a
Diluted (pro forma)(1)	$ n/a	$ 0.26	0.18	n/a	n/a
Weighted average shares used in computing per share amounts:					
Basic	28,746,188	15,701,278	2,001,661	1,977,195	1,973,053
Diluted	29,639,974	16,850,909	2,001,661	1,977,195	1,973,053
Basic (pro forma)(1)	n/a	24,989,323	21,881,316	n/a	n/a
Diluted (pro forma)(1)	n/a	26,138,954	21,888,941	n/a	n/a
Other Data:					
Net cash (used in) provided by operating activities	$ (6,855)	$ 15,535	$ 5,563	$ 3,625	$ 9,697
Depreciation and amortization	$ 20,835	$ 12,568	$ 7,404	$ 4,986	$ 5,509
Stock-based compensation expense	$ 2,790	$ 1,464	$ 218	$ —	$ —
Capitalized curriculum development costs	$ 13,931	$ 11,669	$ 8,683	$ 655	$ 3,787
Capital expenditures(2)	$ 29,978	$ 17,211	$ 13,418	$ 10,842	$ 5,133
EBITDA(3)	$ 43,174	$ 25,578	$ 12,126	$ 6,832	$ 2,248
Average enrollments(4)	54,962	40,859	27,005	20,220	15,097

	As of June 30,				
	2009	2008	2007	2006	2005
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 49,461	$ 71,682	$ 1,660	$ 9,475	$ 19,953
Total assets	240,176	197,324	61,212	48,485	41,968
Total short-term debt	—	—	1,500	—	—
Total long-term obligations	22,402	13,161	7,135	4,025	4,466
Convertible redeemable preferred stock	—	—	229,556	200,825	176,277
Total stockholders' equity (deficit)	182,286	150,288	(197,807)	(173,451)	(150,299)
Working capital	111,048	97,379	9,730	16,475	23,878

(1) Pro forma net income per common share eliminates the one-time tax benefit of $27.0 million from the reversal of the deferred tax asset valuation allowance and gives effect to the automatic conversion of all of our outstanding shares of preferred stock into common stock immediately prior to the completion of our initial public offering. Assuming the completion of the offering on June 30, 2007, all of our outstanding shares of preferred stock would convert into 19,879,675 shares of common.

(2) Capital expenditures consist of the purchase of property and equipment, capitalized software and new capital lease obligations.

(3) EBITDA consists of net income (loss) minus interest income, plus interest expense, plus income tax expense, plus depreciation and amortization and minus minority interest. Interest income consists primarily of interest earned on short-term investments or cash deposits. Interest expense primarily consists of interest expense for capital leases, long-term and short-term borrowings. We use EBITDA as a measure of operating performance. However, EBITDA is not a recognized measurement under U.S. generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, net income (loss) as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax payments.

We believe EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company's operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired. Our management uses EBITDA:

- as a measurement of operating performance because it assists us in comparing our performance on a consistent basis; and
- in presentations to the members of our board of directors to enable our board to have the same measurement basis of operating performance as is used by management to compare our current operating results with corresponding prior periods and with the results of other companies in our industry.

The following table provides a reconciliation of net income (loss) to EBITDA:

	Year Ended June 30,				
	2009	2008	2007	2006	2005
Net income (loss)	$12,315	$ 33,773	$ 3,865	$1,358	$(3,540)
Interest expense, net	982	295	639	488	279
Income tax expense (benefit)	9,628	(21,058)	218	—	—
Depreciation and amortization	20,835	12,568	7,404	4,986	5,509
Minority interest	(586)	—	—	—	—
EBITDA	$43,174	$ 25,578	$12,126	$6,832	$ 2,248

(4) To ensure that all schools are reflected in our measure of enrollments, we consider our enrollments as of the end of September to be our opening enrollment level, and the number of students enrolled at the end of May to be our ending enrollment level. To provide comparability, we do not consider enrollment levels for June, July and August as all schools are not open during these months. For each period, average enrollments represent the average of the month end enrollment levels for each month that has transpired between September and the end of the period, up to and including the month of May.

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. 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 this 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 consolidated financial statements and related notes included in this annual report on form 10-K (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 year ended June 30, 2009.
- *Key Aspects and Trends of Our Operations* — a discussion of items and trends that may impact our business in the upcoming year
- *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 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, the impact of inflation, and quantitative and qualitative disclosures about market risk.

Executive Summary

We are a technology-based education company. We offer proprietary curriculum and educational services created for online delivery to students in kindergarten through 12th grade, or K-12. Our mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since our inception, we have invested more than $150 million to develop curriculum and an online learning platform that promotes mastery of core concepts and skills for students of all abilities. This learning system combines a cognitive research-based curriculum with an individualized learning approach well-suited for virtual schools and other educational applications. From fiscal year 2006 to fiscal year 2009, we increased average enrollments in the virtual public schools we serve from approximately 20,000 students to 55,000 students, representing a compound annual growth rate of approximately 40%. Over the same period, we increased revenues from $116.9 million to $315.6 million, representing a compound annual growth rate of approximately 39%, and increased EBITDA from $6.8 million to $43.2 million, a compound annual growth rate of approximately 85%. Over the same timeframe, we went from a net income of $1.4 million to net income of $12.3 million, and from an operating income of $1.8 million to operating income of $22.3 million.

We deliver our learning system to students primarily through virtual public schools. Many states have embraced virtual public schools as a means to provide families with a publicly funded alternative to a traditional classroom-based education. We offer virtual schools our proprietary curriculum, online learning platform and varying levels of academic and management services, which can range from targeted programs to complete turnkey solutions, under long-term contracts. These contracts provide the basis for a recurring revenue stream as students progress through successive grades. Additionally, without the requirement of a physical classroom, virtual schools can be scaled quickly to accommodate a large dispersed student population, and allow more capital resources to be allocated towards teaching, curriculum and technology rather than towards a physical infrastructure.

Our proprietary curriculum is currently used primarily by public school students in 23 states and the District of Columbia, including two new states approved for the Fall of 2009. Parents can also purchase our curriculum and online learning platform directly to facilitate or supplement their children's education. Additionally, we have piloted our curriculum in brick and mortar classrooms with promising academic results. We also believe there is additional widespread applicability for our learning system internationally.

Our History

We were founded in 2000 to utilize the advances in technology to provide children access to a high-quality public school education regardless of their geographic location or socio-economic background. Given the geographic flexibility of technology-based education, we believed that the pursuit of this mission could help address the growing concerns regarding the regionalized disparity in the quality of public school education, both in the United States and abroad. These concerns were reflected in the passage of the No Child Left Behind (NCLB) Act of 2001, which implemented new standards and accountability requirements for public K-12 education. The convergence of these concerns and rapid advances in Internet technology created the opportunity to make a significant impact by deploying a high quality learning system on a flexible, online platform.

In September 2001, after 18 months of research and development on our curriculum, we launched our kindergarten through 2nd grade offering. We initially launched our learning system in virtual public schools in Pennsylvania and Colorado, serving approximately 900 students in the two states combined. We launched additional grades and entered additional states over the past seven years. We have also developed and launched hybrid programs that combine face-to-face time in the classroom with online instruction. For the 2008-09 school year, we operated in 21 states as set forth in the table below. For the 2009-10 school year, we have been approved to operate in Oklahoma and Wyoming bringing the total states were we operate to 23.

The following table sets forth the enrollment, grade level, and new state by school year:

School Year	Approximate Total Enrollment	Grades Offered	New States
SY 2001 - 2002	900	K - 2nd	Colorado, Pennsylvania,
SY 2002 - 2003	5,900	K - 5th	Arkansas, California, Idaho, Minnesota, Ohio
SY 2003 - 2004	11,200	K - 7th	Arizona, Florida, Utah, Wisconsin
SY 2004 - 2005	15,100	K - 8th	Kansas
SY 2005 - 2006	20,200	K - 9th	Texas
SY 2006 - 2007	27,000	K - 10th	Illinois, Washington,
SY 2007 - 2008	40,800	K - 12th	Georgia, Nevada
SY 2008 - 2009	55,000	K - 12th	Hawaii, Indiana, Oregon, South Carolina

In October 2007, we acquired all of the stock of Power-Glide, a provider of online language courseware, for $4.1 million in shares of common stock and the assumption of liabilities. We use these courses in our virtual public schools and believe they have wide applicability in online learning.

In December 2007, we completed an initial public offering (IPO) of our common stock in which we sold and issued 4,450,000 shares of our common stock, at an issue price of $18.00 per share. We raised a total of

$80.1 million in gross proceeds from the IPO, or approximately $71.0 million in net proceeds after deducting underwriting discounts, commissions, and other offering costs of $9.1 million. Concurrently with the closing of the IPO and at the initial public offering price, we sold shares of common stock for an aggregate purchase price of $15.0 million to a non-U.S. person, in a private placement transaction outside the United States in reliance upon Regulation S under the Securities Act. This non-U.S. person is affiliated with our Middle East joint venture partner.

In January 2008, we launched the K^{12} International Academy, an accredited, online private school which serves students in the U.S. and throughout the world. In August 2008, we established a joint venture with a Middle East partner. The purpose of the joint venture is to develop and manage the distribution of our learning system in the Gulf Cooperating Countries. The K12 International Academy has a branch facility in Dubai, operated under this joint venture. Our investment into this joint venture consists of $1 million in cash and contributed assets in return for a 66.7% ownership interest. Our Middle East partner contributed $5 million in cash in return for a 33.3% ownership interest.

We believe we have significant growth potential. Therefore, over the last four years, we have put a great deal of effort into developing the infrastructure necessary to scale our business. We further enhanced our logistics and technological infrastructure and implemented sophisticated financial systems to allow us to more effectively operate a large and growing company.

Key Aspects and Trends of Our Operations

Revenues

We generate a significant portion of our revenues from enrollments in virtual public schools. In each of the past five years, more than 90% of our revenues have been derived through contracts with these schools. We anticipate that these revenues will continue to represent the bulk of our total revenues over the next 12-24 months, although the percentage may decline over the longer term as we identify new channels through which to market our curriculum and educational services. These contracts provide the channels through which we can enroll students into the school, and we execute marketing and recruiting programs designed to create awareness and generate enrollments for these schools. We generate our revenues by providing each student with access to our online lessons and offline learning kits, including use of a personal computer. In addition, we provide a variety of management and academic support services to virtual public schools, ranging from turnkey end-to-end management solutions to a single service to meet a school's specific needs. We also generate revenues from sales of our curriculum and offline learning kits through other channels, including directly to consumers and pilots in a traditional classroom environment.

Factors affecting our revenues include: (i) the number of enrollments; (ii) the nature and extent of the management services provided to the schools and school districts; (iii) state or district per student funding levels; and (iv) prices for our products and services.

We define an enrollment as a full-time student using our provided courses as their primary curriculum regardless of the nature and extent of the management services we provide to the virtual public school. Generally, students will take five or six courses, except for some kindergarten students who may participate in half-day programs. We count each half-day kindergarten student as an enrollment.

School sessions generally begin in August or September and end in May or June. We consider the duration of a school year to be 10 months. To ensure that all schools are reflected in our measure of enrollments, we consider the number of students on the last day of September to be our opening enrollment level, and the number of students enrolled on the last day of May to be our ending enrollment level. To provide comparability, we do not consider enrollment levels for June, July and August as most schools are not open during these months. For each period, average enrollments represent the average of the month-end enrollment levels for each month that has transpired between September and the end of the period, up to and including the month of May. We continually evaluate our enrollment levels by state, by school and by grade. We track new student enrollments and withdrawals throughout the year.

We believe that the number of enrollments depends upon the following:

- the number of states and school districts in which we operate;
- the appeal of our curriculum and instructional model to students and families;

- the effectiveness of our program in delivering favorable academic outcomes;
- the quality of the teachers working in the virtual public schools we serve; and
- the effectiveness of our marketing and recruiting programs.

In fiscal year 2009, we continued our annual enrollment growth by 34.5%, adding 14,103 students to total average fiscal year 2008 enrollments of 40,859. We did this by a process that combines replacing students who have withdrawn and adding new enrollments to attain our rate of growth. We continually evaluate our trends in revenues by monitoring the number of enrollments in total, by state, by school and by grade, assessing the impact of changes in funding levels and the pricing of our curriculum and educational services. We track enrollments throughout the year, as students enroll and withdraw. We also provide our courses for use in a traditional classroom setting and we sell our courses directly to consumers. Our classroom course revenues are generally for single courses. Consumers typically purchase from one to six courses in a year, however, we do not monitor the progress of these students. Our K[12] International Academy can enroll students on a full or part-time basis. While we believe this offering has significant long-term opportunity, we anticipate the level of revenues and enrollments will be immaterial for FY 2010. Therefore, we do not include classroom, consumer or international academy students in our enrollment totals.

We closely monitor the financial performance of the virtual public schools to which we provide turnkey management services. Under the contracts with these schools, we take responsibility for any operating deficits that they may incur in a given school year. These operating deficits represent the excess of costs over revenues incurred by the virtual public schools as reflected on their financial statements. The costs include our charges to the schools. These operating deficits may result from a combination of cost increases or funding reductions attributable to the following: 1) costs associated with new schools including the initial hiring of teachers, administrators and the establishment of school infrastructure; 2) school requirements to establish contingency reserves; 3) one-time costs such as a legal claim; 4) funding reductions due to the inability to qualify specific students for funding; and 5) regulatory or academic performance thresholds which may restrict the ability of a school to fund all expenses. In these cases, because a deficit may impair our ability to collect our invoices in full, we reduce revenues by the sum of these deficits. These deficits and the related reduction to revenues have grown substantially faster than overall revenue growth. We expect these deficits to continue to grow faster than overall revenue growth as we expand into new states, continue investment in educational programs, and incur the higher costs associated with our high school offering.

Our annual growth in revenues may be materially affected by changes in the level of management services we provide to certain schools. Currently a significant portion of our enrollments are associated with virtual public schools to which we provide turnkey management services. We are responsible for the complete management of these schools and therefore, we recognize as revenues the funds received by the schools, up to the level of costs incurred. These costs are substantial, as they include the cost of teacher compensation and other ancillary school expenses. Accordingly, enrollments in these schools generate substantially more revenues than enrollments in other schools where we provide limited or no management services. In these situations, our revenues are limited to invoiced amounts and are independent of the total funds received by the school from a state or district. As a result, changes in the number of enrollments associated with schools operating under turnkey arrangements relative to total enrollments may have a disproportionate impact on average revenues per enrollment and growth in revenues relative to the growth in enrollments.

The percentage of enrollments associated with turnkey management service schools, or managed schools, was 85% for the year ended June 30, 2009 as compared to 82% for the year ended June 30, 2008. This increase was primarily attributable to the enrollments at new schools in South Carolina, Hawaii, Oregon, and Indiana as well as enrollment growth in existing managed schools. Changes in the mix of enrollments associated with turnkey management services compared with limited management services may change the average revenues per enrollment and accordingly impact total revenues. As we renew our existing management contracts, the extent of the management services we provide may change. Our turnkey management contracts have terms from three to ten years. We are providing turnkey management services to new schools in Oklahoma and Wyoming in 2010. We have also added several contracts to provide only our curriculum and limited services to individual school districts. Consequently, we anticipate that the percentage of enrollments associated with turnkey management services will remain relatively stable for fiscal year 2010 as compared to the prior year. Considered in isolation, this would cause average revenues per enrollment to be relatively stable in fiscal year 2010 as compared to fiscal year 2009.

In fiscal year 2009, we derived more than 10% of our revenues from each of the Ohio Virtual Academy and the Agora Cyber Charter School in Pennsylvania. In aggregate, these schools accounted for 28% of our total revenues. We provide our full turnkey management solution pursuant to our contract with the Ohio Virtual Academy, which terminates June 30, 2017. We provide our full turnkey solution to the Agora Cyber Charter School, pursuant to a contract with the Cynwyd Group which expires June 30, 2016. Each of the contracts with these schools provides for termination of the agreement if the school ceases to hold a valid and effective charter from the charter-issuing authority in their respective states or if there is a material reduction in the per enrollment funding level. The annual revenues generated under each of these contracts represent a material portion of our total revenues in fiscal year 2009 and we expect this to continue in fiscal year 2010. In July 2009, the Pennsylvania Department of Education initiated a charter revocation proceeding against Agora, but Agora will continue to operate in the 2009-10 school year during the pendency of that proceeding. See also Item 3, Legal Proceedings.

Our annual growth in revenues will also be impacted by changes in state or district per enrollment funding levels. These funding levels are typically established on an annual basis, are usually consistent from grade to grade, and generally increase at modest levels from year to year. Funding levels are generally set by the relevant state's budgetary process. While this normally occurs on an annual or bi-annual basis, the current economic recession has caused a departure from the normal process in some states. During our fiscal year 2009, several states enacted mid-year funding cuts for public education, affecting the virtual public schools we serve. In addition, we are aware of legislation involving funding reductions for public education for the 2009-10 school year that will affect many of the virtual public schools we serve. In conjunction with this, states are now submitting applications for federal education funds under the American Recovery and Reinvestment Act of 2009 ("Stimulus Package"), which provides significant allocations designed to alleviate reductions in critical spending on education. There may be mid-year funding cuts to public education for the 2009-10 school year. Funding changes are difficult to predict. While we believe that we have the flexibility to reduce spending to offset the impact of funding reductions, we cannot be certain that we will be able to fully mitigate the impact of the reductions on our results of operations and cash flows.

We evaluate the pricing of our curriculum and educational services annually against market benchmarks and conditions and change them as we deem appropriate. We do not expect our price changes to have a significant impact on revenues as they are encompassed within changes in per enrollment funding levels.

Instructional Costs and Services Expenses

Instructional costs and services expenses include expenses directly attributable to the educational products and services we provide. The virtual public schools we manage are the primary drivers of these costs, including teacher and administrator salaries and benefits and expenses of related support services. Instructional costs also include fulfillment costs of student textbooks and materials, depreciation and reclamation costs of computers provided for student use, and the cost of any third-party online courses. In addition, we include in instructional costs the amortization of capitalized curriculum and related systems. We measure, track and manage instructional costs and services as a percentage of revenues and on a per enrollment basis as these are key indicators of performance and operating efficiency.

As a percentage of revenues, instructional costs and services expenses increased for the year ended June 30, 2009, as compared to the year ended June 30, 2008 due to an increase in enrollments associated with managed schools compared with non-managed schools. Managed school enrollments have higher costs as a percentage of revenues due to the high level of support services provided to the school. Also contributing to the increase was the rapid growth in high school enrollments relative to total enrollments. Notably, the high school instructional model includes teacher and administrative support costs on a per student basis that are higher than those of K-8 students. In addition, incremental freight charges due to expedited student materials shipments and fuel surcharges, partially offset by reduced costs of student materials and computers, contributed to the increase as well as start-up costs associated with the commencement of school operations in four new states and two existing states. Reflecting the impact of these items, instructional costs and services expenses increased to 62.4% of revenues for the year ended June 30, 2009 compared with 58.0% for the year ended June 30, 2008.

In the near term, we expect high school enrollments to grow as a percentage of total enrollments. Our high school offering requires increased instructional costs as a percentage of revenues compared to our kindergarten to 8th grade offering. This is due to the following: (i) generally lower student-to-teacher ratios; (ii) higher compensation costs for some teaching positions requiring subject-matter expertise; (iii) ancillary costs for required student support services including college placement, SAT preparation and guidance counseling; and (vi) use of third-party courses to augment our proprietary curriculum. Over time, we anticipate offsetting these factors by obtaining productivity gains in our high school instructional model, replacing third-party high school courses with proprietary content, leveraging our school infrastructure and obtaining purchasing economies of scale.

We have deployed and are continuing to develop new delivery models, including a hybrid model, where students receive both face-to-face and online instruction. These models necessitate additional costs including facilities related costs and additional administrative support, which are generally not required to operate typical virtual public schools. In addition, development costs may include instructional research and curriculum development. As a result, instructional costs as a percentage of revenues may be higher than our kindergarten through eighth grade offering. In addition, we are pursuing expansion into new states. If we are successful, we will incur start-up costs and other expenses associated with the initial launch of a virtual public school, which may result in increased instructional costs as a percentage of revenues.

Selling, Administrative and Other Operating Expenses

Selling, administrative and other operating expenses include the salaries, benefits and related costs of employees engaged in business development, sales and marketing, and administrative functions. In addition, we include rent expense for our corporate headquarters and stock compensation expense. We measure and track selling, administrative and other operating expenses as a percentage of revenues to track performance and efficiency of these areas. In addition, we track measures of sales and marketing efficiency including the number of new enrollment prospects for virtual public schools and our ability to convert these prospects into enrollments. We also track various operating, call center and information technology statistics as indicators of operating efficiency and customer service. From fiscal year 2005 through fiscal year 2007, our selling, administrative and other operating expenses as a percentage of revenues remained relatively stable as we significantly increased our marketing and selling expenses and expanded our management team and administrative staff over this period. For fiscal years 2009 and 2008, our selling, administrative and other operating expenses as a percentage of revenues were 27.5% and 32.0% respectively, a decrease of 4.5% and 4.4% respectively, as compared to the prior year. This decline is attributable to our ability to support growth in revenues and enrollments without a corresponding increase in management and administrative expenses. This was offset by growth in marketing and student recruitment expenses at rates in excess of revenue growth. We expect to gradually gain more leverage on our corporate overhead and selling resources and expect our selling, administrative and other operating expenses to decline over time as a percentage of revenues.

Product Development Expenses

Product development expenses include research and development costs and overhead costs associated with the management of projects to develop curriculum and internal systems. In addition, product development expenses include the amortization of internal systems and any impairment charges. We measure and track our product development expenditures on a per course or project basis to measure and assess our development efficiency. In addition, we monitor employee utilization to evaluate our workforce efficiency. We plan to invest in additional curriculum development and related software in the future, primarily to produce additional high school courses, world language courses, new releases of existing courses and to upgrade our content management system and our OLS. We capitalize most of the costs incurred to develop our curriculum and software, beginning with application development, through production and testing.

We account for impairment of capitalized curriculum development costs in accordance with Statement of Financial Accounting Standard No. 144 (SFAS No. 144), *Accounting for the Impairment or Disposal of Long-Lived*

Assets. See “Critical Accounting Policies and Estimates”. We recorded impairment charges on capitalized curriculum of $0.3 million for the year ended June 30, 2009. There were no impairment charges for the years ended June 30, 2008 and 2007.

Other Factors That May Affect Comparability

Public Company Expenses. Upon the completion of our initial public offering, we became a public company, and our shares of common stock are publicly traded on the NYSE under the symbol “LRN”. As a result, we comply with new laws, regulations and requirements that we did not need to comply with as a private company, including certain provisions of the Sarbanes-Oxley Act of 2002, other applicable SEC regulations and the requirements of the NYSE. Compliance with the requirements of being a public company require us to increase our general and administrative expenses in order to pay our employees, legal counsel and independent registered public accountants to assist us in, among other things, instituting and monitoring a more comprehensive compliance and board governance function, establishing and maintaining internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 and preparing and distributing periodic public reports in compliance with our obligations under the federal securities laws. In addition, as a public company, it is more expensive for us to obtain directors and officers liability insurance.

Stock Option Expense. The adoption of Statement of Financial Accounting Standard No. 123R, *“Share Based Payments”* (SFAS No. 123R), requires that we recognize an expense for stock options granted beginning July 1, 2006. We incurred approximately $2.8 million and $1.5 million in stock compensation expense for the years ended June 30, 2009 and 2008, respectively. We expect stock option expense to increase in the future as we grant additional stock options.

Income Tax Benefits Resulting from Decrease of Valuation Allowance. In the period from our inception through fiscal year 2005, we incurred significant operating losses that resulted in a net operating loss carryforward for tax purposes. However, in each of the three years ending June 30, 2008, we have generated increasing enrollments, revenue and operating profit. As a result, in fiscal year 2008, we determined it was more likely than not that substantially all of our net deferred tax asset would be utilized. For the year ended June 30, 2008, we recognized a net income tax benefit of $21.1 million. This reflects the net effect of a $27.0 million tax benefit from the reversal of the valuation allowance on net deferred tax assets and an income tax expense of $5.9 million, or 46.6% of pretax income. Income tax expense for the year ended June 30, 2009 was $9.6 million, or 45.0% of pretax income.

Public Funding and Regulation. Our public school customers are financed with federal, state and local government funding. Budget appropriations for education at all levels of government are determined through a political process and impacted by general economic conditions, and, as a result, our revenues may be affected by changes in appropriations. Decreases in funding could result in an adverse affect on our financial condition, results of operations and cash flows.

Competition. The market for providing online education for grades K-12 is becoming increasingly competitive and attracting significant new entrants. If we are unable to successfully compete for new business and contract renewals, our growth in revenues and operating margins may decline. With the introduction of new technologies and market entrants, we expect this competition to intensify.

Critical Accounting Policies and Estimates

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. In the preparation of our consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements. Our critical accounting policies have been discussed with the audit committee of our board of directors.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

In accordance with SEC Staff Accounting Bulletin No. 104 (SAB No. 104), we recognize revenues when the following conditions are met: (1) persuasive evidence of an arrangement exists; (2) delivery of physical goods or rendering of services is complete; (3) the seller's price to the buyer is fixed or determinable; and (4) collection is reasonably assured. Once these conditions are satisfied, the amount of revenues we record is determined in accordance with Emerging Issues Task Force (EITF 99-19), "*Reporting Revenue Gross as a Principal versus Net as an Agent.*"

We generate almost all of our revenues through long-term contracts with virtual public schools. These schools are generally funded by state or local governments on a per student basis. Under these contracts, we are responsible for providing each enrolled student with access to our OLS, our online lessons, offline learning kits and student support services required for their complete education. In most cases, we are also responsible for providing complete management and technology services required for the operation of the school. The revenues derived from these long-term agreements are primarily dependent upon the number of students enrolled, the extent of the management services contracted for by the school, and the level of funding provided to the school for each student.

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

We invoice virtual public schools in accordance with the established contractual terms. Generally, this means that for each enrolled student, we invoice their school on a per student basis for the following items: (1) access to our online school and online lessons; (2) offline learning kits; and (3) student personal computers. We also invoice for management and technology services. We apply SAB No. 104 to each of these items as follows:

- *Access to the K(12) Online School and Online Lessons.* Our OLS revenues come primarily from contracts with charter schools and school districts. Students are provided access to the OLS and online lessons at the start of the school year for which they have enrolled. On a per student basis, we invoice schools an upfront fee at the beginning of the school year or at the time a student enrolls and a monthly fee for each month during the school year in which the student is enrolled. A school year generally consists of 10 months. The upfront fee is initially recorded as deferred revenue and is recognized as revenues ratably over the remaining months of the current school year. If a student withdraws prior to the end of a school year, any remaining deferred revenue related to the upfront fee is recognized ratably over the remaining months of the school year. The monthly fees are recognized in the month in which they are earned.

  The majority of our enrollments occur at the beginning of the school year in August or September, depending upon the state. Because upfront fees are generally charged at the beginning of the school year, the balance in our deferred revenue account tends to be at its highest point at the end of the first quarter.

  Generally, the balance will decline over the course of the year and all deferred revenue related to virtual public schools will be fully recognized by the end of our fiscal year on June 30.

- *Offline Learning Kits.* Our offline learning kit revenues come primarily from contracts with virtual public schools and our curriculum blends which online and offline content. The lessons in our online school are meant to be used in conjunction with selected printed materials, workbooks, laboratory materials and other manipulative items which we provide to students. We generally ship all offline learning kits to a student when their enrollment is approved and invoice the schools in full for the materials at that time. Once materials have been shipped, our efforts are substantially complete. Therefore, we recognize revenues upon shipment. Because offline learning kits revenues are recognized near the time of enrollment in its entirety, we generate a majority of these revenues in our first fiscal quarter which coincides with the start of the school year.

- *Student Personal Computers.* In most of our contracts with virtual public schools, we are responsible for ensuring that each enrolled student has the ability to access our online school. To accomplish this, we generally provide each enrolled student with the use of a personal computer, complete technical support through our call center, and reclamation services when a student withdraws or a computer needs to be exchanged. Schools are invoiced on a per student basis for each enrolled student to whom we have provided a personal computer. This may include an upfront fee at the beginning of the school year or at the time a student enrolls and a monthly fee for each month during the school year in which the student is enrolled. A school year generally consists of 10 months. The upfront fee is initially recorded as deferred revenue and is recognized as revenues ratably over the remaining months of the current school year. If a student withdraws prior to the end of a school year, any remaining deferred revenue related to the upfront fee is recognized ratably over the remaining months of the school year. All deferred revenue will be recognized by the end of our fiscal year, June 30. The monthly fees are recognized in the month in which they are earned.

- *Management and Technology Services.* Under most of our school contracts, we provide the boards of the virtual public schools we serve with turnkey management and technology services. We take responsibility for all academic and fiscal outcomes. This includes responsibility for all aspects of the management of the schools, including monitoring academic achievement, teacher recruitment and training, compensation of school personnel, financial management, enrollment processing and procurement of curriculum, equipment and required services. Management and technology fees are generally determined based upon a percentage of the funding received by the virtual public school. We generally invoice schools for management and technology services in the month in which they receive such funding.

  We recognize the revenues from turnkey management and technology fees ratably over the course of our fiscal year. We use 12 months as a basis for recognition because administrative offices of the school remain open for the entire year. To determine the amount of revenues to recognize in our fiscal year, we estimate the total funds that each school will receive in a particular school year, and our related fees associated with the estimated funding. Our management and technology service fees are generally a contracted percentage of yearly school revenues. We review our estimates of funding periodically, and revise as necessary, amortizing any adjustments over the remaining portion of the fiscal year. Actual school funding may vary from these estimates or revisions, and the impact of these differences could have a material impact on our results of operations. Since the end of the school year coincides with the end of our fiscal year, we are generally able to base our annual revenues on actual school revenues. As a result, on an annual basis, we have not had to make any material adjustments to our estimates of revenue over the last three years.

  Under most contracts, we provide the virtual schools we manage with turnkey management services and agree to operate the school within per enrollment funding levels. This includes assuming responsibility for any operating deficits that the schools may incur in a given school year. These operating deficits represent the excess of costs over revenues incurred by the virtual public schools as reflected on their financial statements. The costs include our charges to the schools. Such deficits may arise from school start-up costs, from funding shortfalls, from temporary or long-term incremental cost requirements for a particular school, or due to specific one-time expenses that a school may incur. Up to the level of school revenues, our collections are reasonably assured. We consider the operating deficits to estimate any impairment of collection, and our recognized revenue reflects this impairment. The fact that a school has an operating deficit does not mean we anticipate losing money on the contract. We recognize the impact of these operating deficits by estimating the full year revenues and full year deficits of schools at the beginning of the fiscal year. We amortize the estimated deficits against recognized revenues based upon the percentage of actual revenues in the period to total estimated revenues for the fiscal year. We periodically review our estimates of full year school revenues and full year operating deficits and amortize the impact of any changes to these estimates over the remainder of our fiscal year. Actual school operating deficits may vary from these estimates or revisions, and the impact of these differences could have a material impact on our results of operations. Since the end of the school year coincides with the end of our fiscal year, we are generally able to base our annual revenues on actual school revenues and use actual costs incurred in our calculation of school operating deficits. As a result, on an annual basis, we have not had to make any material adjustments to our estimates of realizable revenue over the last three years.

The amount of revenues we record is determined in accordance with EITF 99-19. For the schools where we provide turnkey management services, we have determined that we are the primary obligor for substantially all expenses of the school. Accordingly, we report revenues on a gross basis by recording the associated per student revenues received by the school from its funding state or school district up to the expenses incurred by the school. Revenues are recognized when the underlying expenses are incurred by the school. For the small percentage of contracts where we provide individually selected services for the school, we invoice on a per student or per service basis and recognize revenues in accordance with SAB No. 104. Under these contracts, where we do not assume responsibility for operating deficits, we record revenues on a net basis.

We also generate a small percentage of our revenues through the sale of our online courses and offline learning kits directly to consumers. Online course sales are generally month to month subscriptions or for periods of 12 months and customers have the option of paying a discounted amount in full upfront or paying in monthly installments. Payments are generally made with charge cards. For those customers electing to pay these subscription fees in their entirety upfront, we record the payment as deferred revenue and amortize the revenues over the life of the subscription. For customers paying monthly, we recognize these payments as revenues in the month earned. Revenues for offline learning kits are recognized when shipped. Within 30 days of enrollment, customers can receive a full refund, however customers terminating after 30 days will receive a pro rata refund for the unused portion of their subscription less a termination fee. Historically, the impact of refunds has been immaterial. We currently generate revenues from K^{12} International Academy, although the amounts are immaterial. These revenues are recognized based upon the products or services provided as described above.

Capitalized Curriculum Development Costs

Our curriculum is primarily developed by our employees and to a lesser extent, by independent contractors. Generally, our courses cover traditional subjects and utilize examples and references designed to remain relevant for long periods of time. The online nature of our curriculum allows us to incorporate user feedback rapidly and make ongoing corrections and improvements. For these reasons, we believe that our courses, once developed, have an extended useful life, similar to computer software. We also create textbooks and other offline materials. Our curriculum is integral to our learning system. Our customers do not acquire our curriculum or future rights to it.

We capitalize curriculum development costs incurred during the application development stage in accordance with Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.* SOP 98-1 provides guidance for the treatment of costs associated with computer software development and defines those costs to be capitalized and those to be expensed. Costs that qualify for capitalization are external direct costs, payroll, and payroll-related costs. Costs related to general and administrative functions are not capitalizable and are expensed as incurred. We capitalize curriculum development costs when the projects under development reach technological feasibility. Many of our new courses leverage off of proven delivery platforms and are primarily content, which has no technological hurdles. As a result, a significant portion of our courseware development costs qualify for capitalization due to the concentration of our development efforts on the content of the courseware. Technological feasibility is established when we have completed all planning, designing, coding, and testing activities necessary to establish that a course can be produced to meet its design specifications. Capitalization ends when a course is available for general release to our 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. This is consistent with the capitalization period used by others in our industry and corresponds with our product development lifecycle. Included in capitalized curriculum development is the November 2007 purchase of a perpetual license of curriculum for $3 million. The purchase agreement includes a provision for future royalty payments. This curriculum will be included as part of our high school offering and will be amortized over five years.

Software Developed or Obtained for Internal Use

We develop our own proprietary computer software programs to provide specific functionality to support both our unique education offering and the student and school management services. These programs enable us to develop courses, process student enrollments, meet state documentation requirements, track student academic progress, deliver online courses to students, coordinate and track the delivery of course-specific materials to students and provide teacher support and training. These applications are integral to our learning system and we continue to enhance existing applications and create new applications. Our customers do not acquire our software or future rights to it.

We capitalize software development costs incurred during the development stage of these applications in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. These capitalized development costs are included in property and equipment and are generally amortized over three years.

Impairment of Long-lived Assets

Long-lived assets include property, equipment, capitalized curriculum and software developed or obtained for internal use. In accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, we review our recorded long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We determine the extent to which an asset may be impaired based upon our expectation of the asset's future usability as well as on a reasonable assurance that the future cash flows associated with the asset will be in excess of its carrying amount. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between fair value and the carrying value of the asset.

Accounting for Stock-based Compensation

Effective July 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R using the prospective transition method, which requires us to apply the provisions of SFAS No. 123R only to awards granted, modified, repurchased or cancelled after the effective date. Under this transition method, stock based compensation expense recognized beginning July 1, 2006 is based on the fair value of stock awards as of the grant date. As we had used the minimum value method for valuing its stock options under the disclosure requirements of SFAS No. 123, all options granted prior to July 1, 2006 continue to be accounted for under APB No. 25.

We use the Black-Scholes option pricing model method to calculate the fair value of stock options. Depending on certain substantive characteristics of the stock option, we, where appropriate, utilize a binomial model. The use of option valuation models requires the input of highly subjective assumptions, including the expected stock price volatility and the expected term of the option.

Option valuation models also require a determination of the fair value of our common stock at various dates. As a public company, fair value is readily observable in the market price of our common stock. Before the completion of our IPO, such determinations required complex and subjective judgments. During this pre-IPO period, we considered several methodologies to estimate our enterprise value, including guideline public company analysis, an analysis of comparable company transactions, and a discounted cash flow analysis.

We also considered several equity allocation methodologies to allocate the estimate of enterprise value to our redeemable convertible preferred stock and common stock including the current value method, the option pricing method, and the probability weighted expected return method (PWERM). The final valuation conclusion was based upon the PWERM equity allocation because it considers the value that would be attributable to each equity interest under different scenarios.

We account for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123R and EITF 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*.

Deferred Tax Asset Valuation Allowance

We account for income taxes as prescribed by Statement of Financial Accounting Standards No. 109 (SFAS No. 109), *Accounting for Income Taxes*. SFAS No. 109 prescribes the use of the asset and liability method to compute the differences between the tax bases of assets and liabilities and the related financial amounts, using currently enacted tax laws. If necessary, a valuation allowance is established, based on the weight of available evidence, to reduce deferred tax assets to the amount that is more likely than not to be realized. Realization of the deferred tax assets, net of deferred tax liabilities, is principally dependent upon achievement of sufficient future taxable income. We exercise significant judgment in determining our provisions for income taxes, our deferred tax assets and liabilities and our future taxable income for purposes of assessing our ability to utilize any future tax benefit from our deferred tax assets. However, our ability to forecast sufficient future taxable income is subject to certain market factors that we may not be able to control such as a material reduction in per pupil funding levels, legislative budget cuts reducing or eliminating the products and services we provide and government regulation.

From inception through fiscal year 2005, we had generated significant losses. However, in the three years ending June 30, 2008 we generated increasing operating profit. In addition, our revenues are dependent upon the number of student enrollments. During the recruiting season for fall 2008, we received enrollment applications that would provide for additional growth for fiscal year 2009. When considering this positive evidence of future profitability, we believed that our recent history of generating positive pre-tax income is sustainable and is expected to continue to grow as a result of the increasing revenues primarily from virtual public schools. Consequently, as we believed that it is more likely than not that we would be able to utilize substantially all of our net deferred tax asset, we reversed approximately $27.0 million of the valuation allowance on our net deferred tax asset for the year ended June 30, 2008.

Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to examination by tax authorities in the ordinary course of business. We periodically assess the likelihood of adverse outcomes resulting from these examinations to determine the impact on our deferred taxes and income tax liabilities and the adequacy of our provision for income taxes. Changes in income tax legislation, statutory income tax rates, or future taxable income levels, among other things, could materially impact our valuation of income tax assets and liabilities and could cause our income tax provision to vary significantly among financial reporting periods.

As of June 30, 2009, we had federal net operating loss carryforwards of $68.3 million that expire between 2020 and 2029 if unused. We maintain a valuation allowance on net deferred tax assets of $0.7 million as of June 30, 2009 related to state income taxes as we believe it is more likely than not that we will not be able to utilize these deferred tax assets. During 2008, we changed our tax treatment of certain capitalized costs which resulted in an increase in its net operating loss carryforwards. Due to these net operating loss carryforwards, we do not expect to pay federal income taxes in the next twelve months.

Goodwill and Other Intangibles

We record as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. The determination of fair value of the identifiable net assets acquired was determined by management utilizing various valuation methodologies. Intangible assets subject to amortization include trade names, domain names, and non-compete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives, which are considered to be two years.

Statements of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, prescribes a two-step process for impairment testing of goodwill and intangibles with indefinite lives, which is performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. 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. We have elected to perform our annual assessment on May 31st. For the year ended June 30, 2009, 2008, and 2007 no impairment to goodwill was recorded.

Consolidation of Minority Interest

Our consolidated financial statements reflect the results of operations of our Middle East joint venture. Earnings or losses attributable to our partner are classified as "minority interest" in our consolidated statements of operations. Minority interest adjusts our consolidated net results of operations to reflect only our share of the after-tax earnings or losses of an affiliated company. Income taxes attributable to minority interest are determined using the applicable statutory tax rates in the jurisdictions where such operations are conducted.

Results of Operations

The following table sets forth average enrollment data for each of the periods indicated:

	Year Ended June 30,		
	2009	2008	2007
Total enrollments	54,962	40,859	27,005
Managed Enrollments as a percentage of total enrollments	85.4%	82.0%	76.9%
High School enrollments as a percentage of total enrollments	18.5%	13.5%	8.7%

The following table sets forth statements of operations data for each of the periods indicated:

	Year Ended June 30,		
	2009	2008	2007
Revenues	$315,573	$226,235	$140,556
Cost and expenses			
Instructional costs and services	196,976	131,282	76,064
Selling, administrative, and other operating expenses	86,683	72,393	51,159
Product development expenses	9,575	9,550	8,611
Total costs and expenses	293,234	213,225	135,834
Income from operations	22,339	13,010	4,722
Interest expense, net	(982)	(295)	(639)
Income before income tax (expense) benefit and minority interest	21,357	12,715	4,083
Income tax benefit (expense)	(9,628)	21,058	(218)
Income before minority interest	11,729	33,773	3,865
Minority interest, net of tax	586	—	—
Net income	$ 12,315	$ 33,773	$ 3,865

The following table presents our selected consolidated statement of operations data expressed as a percentage of our total revenues for the periods indicated:

	Year Ended June 30,		
	2009	2008	2007
Revenues	100.0%	100.0%	100.0%
Cost and expenses			
Instructional costs and services	62.4	58.0	54.1
Selling, administrative, and other operating expenses	27.5	32.0	36.4
Product development expenses	3.0	4.2	6.1
Total costs and expenses	92.9	94.2	96.6
Income from operations	7.1	5.8	3.4
Interest expense, net	(0.3)	(0.1)	(0.5)
Income before income tax (expense) benefit and minority interest	6.8	5.7	2.9
Income tax benefit (expense)	(3.1)	9.3	(0.2)
Income before minority interest	3.7	15.0	2.7
Minority interest, net of tax	0.2	0.0	0.0
Net income	3.9%	15.0%	2.7%

Comparison of Years Ended June 30, 2009 and 2008

Revenues. Our revenues for the year ended June 30, 2009 were $315.6 million, representing an increase of $89.3 million, or 39.5%, as compared to revenues of $226.2 million for the year ended June 30, 2008. Average enrollments increased 34.5% to 54,962 for the year ended June 30, 2009 from 40,859 for the same period prior year. The increase in average enrollments was primarily attributable to 29.9% enrollment growth in existing states. New school openings in Hawaii, Indiana, Oregon, and South Carolina contributed approximately 4.6% to enrollment growth. In new and existing states combined, high school enrollments contributed approximately 11.4% to enrollment growth. High school enrollments increased 84.0% and constituted approximately 18.5% of our enrollments for the year ended June 30, 2009 as compared to 13.5% for the same period in the prior year. Also contributing to the growth in revenues was the increase in the percentage of enrollments associated with managed schools, which generate higher revenue per enrollment than non-managed school enrollments. The percentage of enrollments associated with managed schools increased to 85.4% for the year ended June 30, 2009 from 82.0% for the year ended June 30, 2008.

Instructional Costs and Services Expenses. Instructional costs and services expenses for the year ended June 30, 2009 were $197.0 million, representing an increase of $65.7 million, or 50.0% as compared to instructional costs and services of $131.3 million for the year ended June 30, 2008. This increase was primarily attributable to a $47.9 million increase in expenses to operate and manage the schools and a $17.8 million increase in costs to supply curriculum, books, educational materials and computers to students, including depreciation and amortization. As a percentage of revenues, instructional costs increased to 62.4% for the year ended June 30, 2009, as compared to 58.0% for the year ended June 30, 2008. This increase as a percentage of revenues is primarily attributable to four factors: 1) an increase in the percentage of managed school enrollments relative to total enrollments from 82.0% to 85.4%. Managed school enrollments generate more revenue than those associated with non-managed schools, but have higher instructional costs as a percentage of revenues; 2) an increase in the percentage of high school enrollments relative to total enrollments from 13.5% to 18.5%. High school enrollments have higher costs as a percentage of revenues due to increased teacher and related services costs; 3) incremental freight charges due to expedited student materials shipments and fuel surcharges, partially offset by reduced costs of student materials and computers; and 4) start-up costs associated with the commencement of school operations in four new states and two new schools in existing states.

Selling, Administrative, and Other Operating Expenses. Selling, administrative, and other operating expenses for year ended June 30, 2009 were $86.7 million, representing an increase of $14.3 million, or 19.7%, as compared to selling, administrative and other operating expenses of $72.4 million for the year ended June 30, 2008. This increase is primarily attributable to a $6.2 million increase in student recruiting costs, a $1.6 million increase in professional services, and a $6.5 million increase in other expenses. As a percentage of revenues, selling, administrative, and other operating expenses decreased to 27.5% for the year ended June 30, 2009 as compared to 32.0% for the year ended June 30, 2008 primarily due to greater leverage on our corporate overhead and fixed selling resources. Partially offsetting this leverage were increased investments in demand generating activities and our international expansion efforts.

Product Development Expenses. Product development expenses for the years ended June 30, 2009 and 2008 were $9.6 million. Employee compensation as well as contract labor costs increased, but were offset by greater utilization of these resources to develop curriculum assets. As a percentage of revenues, product development expenses decreased to 3.0% for the year ended June 30, 2009 as compared to 4.2% for the year ended June 30, 2008 as we were able to leverage these costs over a larger revenue base.

Net Interest Expense. Net interest expense for the year ended June 30, 2009 was $1.0 million, as compared to net interest expense of $0.3 million for the year ended June 30, 2008. The increase is due to growth in our capital lease obligations partially offset by reduced borrowings under our revolving line of credit. In addition, although our average cash balances were higher for the year ended June 30, 2009, the significant decline in interest rates resulted in lower interest income.

Income Taxes. Income tax expense for the year ended June 30, 2009 was $9.6 million, or 45.0% of income before income taxes, as compared to an income tax benefit of $21.1 million for the year ended June 30, 2008. The income tax benefit for the year ended June 30, 2008 reflects a $27.0 million tax benefit as we were able to reverse the valuation allowance on net deferred tax assets generated by our net operating losses that were fully reserved in prior periods. Had that reversal not occurred, we would have recorded an income tax expense of $5.9 million, or 46.6% of income before income taxes for the year ended June 30, 2008.

Minority Interest. Minority interest for the year ended June 30, 2009 was $0.6 million, reflecting losses attributable to shareholders in our joint venture. There was no minority interest for the year ended June 30, 2008.

Net Income. Net income was $12.3 million for the year ended June 30, 2009, compared to net income of $33.8 million for the year ended June 30, 2008, a decrease of $21.5 million. Excluding the $27.0 million income tax benefit in fiscal year 2008, net income as a percentage of revenues increased to 3.9% for the year ended June 30, 2009, as compared to 3.0% for the year ended June 30, 2008, as a result of the factors discussed above.

Comparison of Years Ended June 30, 2008 and 2007

Revenues. Our revenues for the year ended June 30, 2008 were $226.2 million, representing an increase of $85.7 million, or 61.0%, as compared to revenues of $140.6 million for the year ended June 30, 2007. Average enrollments increased 51.3% to 40,859 for the year ended June 30, 2008 from 27,005 for the year ended June 30, 2007. The increase in average enrollments was primarily attributable to 40.5% enrollment growth in existing states. New school openings in Georgia and Nevada contributed approximately 10.8% to enrollment growth. In new and existing states combined, high school enrollments contributed approximately 11.7% to enrollment growth. In addition, we launched 11th and 12th grade in August 2007 attracting new students as well as prior year 10th grade students. High school enrollments comprised approximately 13.5% of our total average enrollment for the year ended June 30, 2008 as compared to 8.7% in the prior period. Also contributing to the growth in revenues was a 6.4% increase in average revenues per enrollment. This increase was primarily attributable to an increase in the percentage of enrollments associated with managed schools, which generate higher revenue per enrollment than non-managed school enrollments. The percentage of enrollments associated with managed schools increased to 82.0% for the year ended June 30, 2008 from 76.9% for the year ended June 30, 2007.

Instructional Costs and Services Expenses. Instructional costs and services expenses for the year ended June 30, 2008 were $131.3 million, representing an increase of $55.2 million, or 72.6% as compared to instructional costs and services of $76.1 million for the year ended June 30, 2007. This increase was primarily attributable to a

$40.6 million increase in expenses to operate and manage the schools and a $13.6 million increase in costs to supply books, educational materials and computers to students, including depreciation and amortization. As a percentage of revenues, instructional costs increased to 58.0% for the year ended June 30, 2008, as compared to 54.1% for the year ended June 30, 2007. The increase in instructional cost and service expenses as a percentage of revenues is primarily due to an increase in enrollments associated with managed schools, which have higher costs as a percentage of revenues than non-managed school, higher per student costs for high school because our instructional model has not yet attained scale, and higher costs to procure and supply materials due to greater than anticipated enrollments.

Selling, Administrative, and Other Operating Expenses. Selling, administrative, and other operating expenses for year ended June 30, 2008 were $72.4 million, representing an increase of $21.2 million, or 41.5%, as compared to selling, administrative and other operating expenses of $51.2 million for the year ended June 30, 2007. This increase is primarily attributable to an $8.9 million increase in personnel costs primarily due to increased headcount and a $4.7 million increase in professional services. As a percentage of revenues, selling, administrative, and other operating expenses decreased to 32.0% for the year ended June 30, 2008 as compared to 36.4% for the year ended June 30, 2007 as we gained greater leverage on our corporate overhead and selling resources.

Product Development Expenses. Product development expenses for the year ended June 30, 2008 were $9.6 million, representing an increase of $1.0 million, or 10.9%, as compared to product development expenses of $8.6 million for the year ended June 30, 2007. Employee headcount and contract labor increased, but was offset by greater utilization of these resources for capitalized curriculum. As a percentage of revenues, product development expenses decreased to 4.2% for the year ended June 30, 2008 as compared to 6.1% for the year ended June 30, 2007.

Net Interest Expense. Net interest expense for the year ended June 30, 2008 was $0.3 million, a decrease of $0.3 million, from $0.6 million for the year ended June 30, 2007. The decrease in net interest expense is primarily due to interest income generated on the net cash proceeds from our IPO, partially offset by an increase in interest charges on increased capital lease obligations.

Income Taxes. Income tax benefit for the year ended June 30, 2008 was $21.1 million compared to income tax expense of $0.2 million for the year ended June 30, 2007. Our provision for income taxes for the year ended June 30, 2008 was $5.9 million, or 46.6% of income before income taxes. The tax provision was offset by a $27.0 million tax benefit we recognized as we were able to reverse the valuation allowance on net deferred tax assets generated by our net operating losses that were fully reserved for in prior periods. For the year ended June 30, 2007 income tax expense was $0.2 million, as we were able to utilize the deferred tax assets which were generated from our net operating losses and for which a full reserve was maintained in prior periods.

Net Income. Net income for the year ended June 30, 2008 was $33.8 million, representing an increase of $29.9 million, as compared to net income of $3.9 million for the year ended June 30, 2007. Net income as a percentage of revenues increased to 15.0% for the year ended June 30, 2008, as compared to 2.7% for the year ended June 30, 2007, as a result of the factors discussed above. Excluding the $27.0 million income tax benefit in fiscal year 2008, net income for the year ended June 30, 2008 would have been $6.8 million, representing an increase of $2.9 million or 75.9% as compared to net income of $3.9 million for the year ended June 30, 2007. Excluding the income tax benefit, net income as a percentage of revenues would have increased to 3.0% for the year ended June 30, 2008 as compared to 2.7% for the year ended June 30, 2007.

Quarterly Results of Operations

The following tables set forth selected unaudited quarterly consolidated statement of operations data for the eight most recent quarters, as well as each line item expressed as a percentage of total revenues. The information for each of these quarters has been prepared on the same basis as the audited consolidated financial statements included in this Form 10-K and, in the opinion of management, includes all adjustments necessary for the fair presentation of the results of operations for such periods. This data should be read in conjunction with the audited consolidated financial statements and the related notes included in this annual report. These quarterly operating results are not necessarily indicative of our operating results for any future period

	Three Months Ended							
	Jun 30, 2009	March 31, 2009	Dec 31, 2008	Sep 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007
Total Enrollments	52,563	56,022	55,076	56,233	40,033	42,048	40,675	39,493
Enrollments associated with managed schools as a percentage of total enrollments	85.1%	85.7%	85.3%	85.4%	82.3%	82.6%	81.5%	80.8%
High School enrollments as a percentage of total enrollments	16.9%	18.6%	18.6%	20.9%	12.8%	13.8%	13.5%	14.5%

	Three Months Ended							
	Jun 30, 2009	March 31, 2009	Dec 31, 2008	Sep 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007
Revenues	$72,166	$77,164	$77,618	$88,625	$56,475	$56,016	$54,391	$59,353
Cost and expenses								
Instructional costs and services	44,375	47,868	50,312	54,421	32,462	32,062	31,980	34,778
Selling, administrative, and other	25,494	19,467	18,887	22,835	22,712	17,032	16,610	16,039
Product development expenses	2,560	2,415	2,405	2,195	2,021	2,542	2,460	2,527
Total costs and expenses	72,429	69,750	71,604	79,451	57,195	51,636	51,050	53,344
Income (loss) from operations	(263)	7,414	6,014	9,174	(720)	4,380	3,341	6,009
Interest (expense) income, net	(464)	(361)	(264)	107	88	309	(388)	(304)
Income (loss) before income taxes and minority interest	(727)	7,053	5,750	9,281	(632)	4,689	2,953	5,705
Income tax benefit (expense)	13	(3,490)	(2,365)	(3,786)	17,735	(2,229)	(1,565)	7,117
Income (loss) before minority interest	(714)	3,563	3,385	5,495	17,103	2,460	1,388	12,822
Minority interest , net of tax	48	(16)	135	419	—	—	—	—
Net income (loss)	$ (666)	$ 3,547	$ 3,520	$ 5,914	$17,103	$ 2,460	$ 1,388	$12,822

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

	Three Months Ended							
	Jun 30, 2009	March 31, 2009	Dec 31, 2008	Sep 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007
Revenues	100%	100%	100%	100%	100%	100%	100%	100%
Cost and expenses								
Instructional costs and services	61.5	62.1	64.8	61.4	57.5	57.2	58.8	58.6
Selling, administrative, and other	35.3	25.2	24.4	25.7	40.2	30.4	30.5	27.0
Product development expenses	3.6	3.1	3.1	2.5	3.6	4.6	4.5	4.3
Total costs and expenses	100.4	90.4	92.3	89.6	101.3	92.2	93.8	89.9
Income (loss) from operations	(0.4)	9.6	7.7	10.4	(1.3)	7.8	6.2	10.1
Interest (expense) income, net	(0.6)	(0.5)	(0.3)	0.1	0.2	0.6	(0.7)	(0.5)
Income (loss) before income taxes and minority interest	(1.0)	9.1	7.4	10.5	(1.1)	8.4	5.5	9.6
Income tax benefit (expense)	0.0	(4.5)	(3.1)	(4.3)	31.4	(4.0)	(2.9)	12.0
Income (loss) before minority interest	(1.0)	4.6	4.3	6.2	30.3	4.4	2.6	21.6
Minority interest, net of tax	0.1	0.0	0.2	0.5	0.0	0.0	0.0	0.0
Net income (loss)	(0.9)%	4.6%	4.5%	6.7%	30.3%	4.4%	2.6%	21.6%

Discussion of Quarterly Results of Operations

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to the number of months the virtual public schools we serve are fully operational and serving students in a fiscal quarter. While school administrative offices are generally open year round, a school typically serves students during a 10 month academic year. A school's academic year typically begins in August or September, our first fiscal quarter, and finishes in May or June, our fourth fiscal quarter. Consequently, our first and fourth fiscal quarters reflect fewer than three months of full school operations when compared to the second and third fiscal quarters.

In the first fiscal quarter, we ship materials to students for the beginning of the school year. New students will enroll after the start of the school year, but in significantly smaller numbers. This generally results in higher materials revenues and margin in the first quarter versus other quarters. In the first and fourth fiscal quarters, online curriculum and computer revenues are generally lower as these revenues are primarily earned during the school academic year which may provide for only one or two months of these revenues in these quarters versus the second and third fiscal quarters. Management and technology service revenues are recognized ratably over the course of our fiscal year. The combined effect of these factors results in higher revenues in the first fiscal quarter than in the subsequent quarters.

Operating expenses are also seasonal. Instructional costs and services expenses increase in the first fiscal quarter primarily due to the costs incurred to ship student materials at the beginning of the school year. Instructional costs may increase significantly quarter-to-quarter as school operating expenses increase. For example, enrollment growth will require additional teaching staff, thereby increasing salary and benefits expense. School events may be seasonal, (e.g. professional development, proctored exam related expenses, and community events,) impacting the quarterly change in instructional costs. The majority of our recruiting and selling expenses are incurred in the first and fourth fiscal quarters, as our primary enrollment season is July through September. A significant portion of our overhead expenses does not vary with the school year or enrollment season.

Discussion of Seasonality of Financial Condition

Certain accounts in our balance sheet are subject to seasonal fluctuations. As our enrollments and revenues grow, we expect these seasonal trends to be amplified. The bulk of our materials are shipped to students prior to the beginning of the school year, usually in July or August. In order to prepare for the upcoming school year, we generally build up inventories during the fourth quarter of our fiscal year. Therefore, inventories tend to be at the highest levels at the end of our fiscal year. In the first quarter of our fiscal year, inventories tend to decline significantly as materials are shipped to students. We generally have payment terms with our inventory suppliers, therefore the fourth quarter purchases of inventory typically will increase accounts payable, however this may be partially offset by occasional use of early payment discounts.

Accounts receivable balances tend to be at the highest levels in the first quarter of our fiscal year as we begin billing for all enrolled students and our billing arrangements include upfront fees for many of the elements of our offering. These upfront fees result in seasonal fluctuations to our deferred revenue balances. In a few cases, virtual public schools may have funds to pay these invoices in a timely manner and this provides us with liquidity. Generally, deferred revenue has not been a significant source of funds to us since most schools receive their funding over the course of the year and pay their invoices in a corresponding manner. Since the upfront fees are charged to the schools at the time of enrollment, deferred revenue balances related to the schools tend to be highest in the first quarter, when the majority of students enroll. Since the deferred revenue is amortized over the course of the school year, which ends in June, the balance would be at its lowest at the end of our fiscal year.

The deferred revenue related to our direct-to-consumer business results from advance payments for twelve month subscriptions to our online school. These advance payments are amortized over the life of the subscription and tend to be highest at the end of the fourth quarter and first quarter, when the majority of subscriptions are sold. Year end balances in deferred revenue are primarily related to the direct-to-consumer sales. Billings related to the direct-to-consumer sales are small relative to those of public virtual schools; however, they do represent a source of liquidity.

Liquidity and Capital Resources

We financed our operating activities and capital expenditures during the twelve months ended June 30, 2009 primarily through the use of cash on hand and capital lease financing. As of June 30, 2009, 2008 and 2007, we had cash and cash equivalents of $49.5 million, $71.7 million and $1.7 million, respectively.

In December 2006, we entered into a $15 million revolving credit agreement with PNC Bank (the Credit Agreement). Pursuant to the terms of the Credit Agreement, we agreed that the proceeds of the term loan facility were to be used primarily for working capital requirements. Because of the seasonality of our business and timing of funds received, the school expenditures are higher in relation to funds received in certain periods during the year. The Credit Agreement provides the ability to fund these periods until cash is received from the schools; therefore, borrowings against the Credit Agreement are primarily going to be short-term.

Borrowings under the Credit Agreement bear interest based upon the term of the borrowings. Interest is charged, at our option, either at: (i) the higher of (a) the rate of interest announced by PNC Bank from time to time as its "prime rate" and (b) the federal funds rate plus 0.5%; or (ii) the applicable London interbank offered rate (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 the applicable margin for such loans, which ranges between 1.25% and 1.75%, based on the leverage ratio (as defined in the Credit Agreement). We pay a quarterly commitment fee which varies between 0.15% and 0.25% on the unused portion of the credit agreement (depending on the leverage ratio). The working capital line includes a $5.0 million letter of credit facility. Issuances of letters of credit reduce the availability of permitted borrowings under the Credit Agreement.

Borrowings under the Credit Agreement are secured by substantially all of our assets. 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 its subsidiaries, or make capital expenditures above specified limits and engage in other matters customarily restricted in senior secured credit facilities. We must also maintain a minimum net worth (as defined in the credit agreement) and maximum debt leverage ratios. These covenants are subject to certain qualifications and exceptions. Through June 30, 2009, we were in compliance with these covenants.

As of June 30, 2009, no borrowings were outstanding on the working capital line of credit and approximately $2.3 million was outstanding for letters of credit. On October 5, 2007, we amended the Credit Agreement to increase the borrowing limit from $15 million to $20 million under substantially the same terms. This agreement expires on December 20, 2009. In September 2009, the Credit Agreement with PNC bank, which expires in December 2009, was renewed for an additional three-year period expiring in December 2012. The Credit Agreement was renewed under substantially the same terms and increased the borrowing limit to $35 million.

One of our subsidiaries has an equipment lease line of credit for new purchases with Hewlett-Packard Financial Services Company that expires on April 30, 2010 for new purchases on the line of credit. The interest rate on new borrowings under the equipment lease line is set quarterly. The rate on new borrowings for the three months ending October 31, 2009 is approximately 4.96%. For the year ended June 30, 2009, we borrowed $15.1 million to finance the purchase of student computers and related equipment at an interest rate of approximately 6.4%. These leases include a 36-month payment term with a bargain purchase option at the end of the term. Accordingly, we include this equipment in property and equipment and the related liability in capital lease obligations. In addition, we have pledged the assets financed with the equipment lease line to secure the amounts outstanding.

Upon the closing of the IPO, the holders of Redeemable Convertible Series C Preferred stock were paid a cash dividend of approximately $6.4 million from the net proceeds of the offering. The amount of the declared dividend was equal to the pro rata amount of the annual cumulative dividend that would have normally accrued on January 2, 2008 under the provisions of the Series C Preferred stock agreement. Also concurrently with the closing of the IPO, all shares of convertible preferred stock outstanding automatically converted into an aggregate of 19,879,675 shares of common stock thereby also eliminating the associated future annual dividend accrual.

A substantial portion of our revenues are generated through our contractual arrangements with virtual public schools. The virtual public schools are generally funded on a per student basis by their state and local governments and the timing of funding varies by state. The amount of funding is dependent upon per enrollment funding levels for the state and school enrollment. The current economic recession has impacted funding levels. We are aware of funding reductions for public education for the 2009-10 school year that will affect many of the virtual public schools we serve. In conjunction with this, states are now submitting applications for federal education funds under the Stimulus Package, which provides significant allocations designed to alleviate reductions in critical spending on education. In addition, there were mid-year funding cuts to public education during fiscal year 2009 and there may be mid-year reductions for fiscal year 2010 that affect our results of operations and cash flows. Funding receipts by an individual school may vary over the year and may be in arrears. On rare occasions, we have experienced delayed payments. Because our receivables represent obligations indirectly due from governments, we have not historically had an issue with non-payment and believe the risk of non-payment is minimal although we cannot guarantee this will continue.

Our cash requirements consist primarily of day-to-day operating expenses, capital expenditures and contractual obligations with respect to facility leases, capital equipment leases and other operating leases. We expect capital expenditures for additional courses, new releases of existing courses and internal systems enhancements to remain relatively stable for the next two years and expenditures for computers to support virtual school enrollments to increase with enrollment growth. We expect to be able to fund these capital expenditures with cash on hand, cash generated from operations and capital lease financing. We lease all of our office facilities. We expect to make future payments on existing leases from cash generated from operations. Based on our current operating and capital expenditure forecasts, we believe that the combination of funds currently available and funds to be generated from operations will be adequate to finance our ongoing operations for the foreseeable future.

Operating Activities

Net cash used in operating activities for the year ended June 30, 2009 was $6.9 million as compared to net cash provided by operating activities for the year ended June 30, 2008 and 2007 of $15.5 million and $5.6 million, respectively.

The decrease in 2009 of $22.4 million in cash from operating activities was primarily due to a $11.4 million decrease in accounts payable, a $6.7 million increase in the amount of cash used to finance accounts receivable, a $4.3 million increase in the change in inventories, a $5.6 million increase in the use of cash for accrued compensation and benefits, a $7.0 million adjustment for the excess tax benefit from stock compensation expense, a decrease in net income of $21.5 million and a $6.8 million increase in the change of prepaid expenses, deposits and other assets. The decrease in accounts payable was primarily due to an earlier inventory purchasing cycle and utilization of early payment discounts. The increase in accounts receivable was primarily due to growth in revenues and the timing of customer receipts including delayed receipts from Agora. These amounts were partially offset by a $30.7 million change in adjustments for deferred income taxes, a $8.3 million increase in depreciation and amortization, a $0.5 million increase in the change in deferred revenues, and a $1.1 million increase in the change in accrued liabilities.

Net cash provided by operating activities for the year ended June 30, 2008 was $15.5 million, as compared to $5.6 million for the year ended June 30, 2007. This increase was primarily due to a $29.9 million increase in net income, a $5.2 million increase in depreciation and amortization, a $6.8 million increase in accounts payable, and a $2.7 million increase in accrued compensation and benefits. The increase in accounts payable was primarily attributable amounts due on fourth quarter purchases of inventory and marketing activities. This was partially offset by a $21.1 million increase in deferred income taxes, a $11.4 million increase in accounts receivable, due to the growth in revenues and the timing of customer receipts, and a $4.5 million increase in inventories acquired in anticipation of the fall enrollment season.

Investing Activities

Net cash used in investing activities for the year ended 2009, 2008 and 2007 was $30.4 million, $18.5 million and $11.7 million, respectively.

Purchases of property and equipment for the fiscal year ended 2009, 2008 and 2007 were $13.9 million, $6.5 million and $5.4 million, respectively. In fiscal year 2009, we also deposited $2.5 million in escrow for the benefit of a virtual public school we serve. This deposit is classified as restricted cash on our consolidated balance sheet. In fiscal year 2009, 2008 and 2007, we also financed, with capital leases, purchases of property and equipment and student computers of $16.0 million, $10.6 million and $8.1 million, respectively. Capitalized curriculum for the fiscal year ended 2009, 2008 and 2007 were $13.9 million, $11.7 million and $8.7 million, respectively. The fiscal year 2008 amount includes the purchase of a perpetual license of curriculum for $3.0 million.

Financing Activities

Net cash provided by financing activities for the year ended June 30, 2009 and 2008 was $15.0 million and $73.0 million, respectively. Net cash used in financing activities for the year ended June 30, 2007 was $1.7 million.

For the year ended June 30, 2009, net cash provided by financing activities primarily consists of the proceeds from the exercise of stock options of $9.8 million, proceeds received from the minority interest contribution of $5.0 million, proceeds from notes payable of $3.1 million, and the excess tax benefit from stock compensation expense of $7.0 million. These amounts were partially offset by payments on capital leases and notes payable totaling $9.9 million. As of June 30, 2009, there were no borrowings outstanding on our $20 million line of credit.

Net cash provided by financing activities for the year ended June 30, 2008 was $73.0 million. This was primarily due to the net proceeds from our IPO and private placement transaction.

In December, 2007, we completed the initial public offering of our common stock in which we sold and issued 4,450,000 shares of our common stock, at an issue price of $18.00 per share. We raised a total of $80.1 million in gross proceeds from the IPO, or approximately $70.5 million in net proceeds after deducting underwriting discounts and commissions of $5.6 million and other offering costs of $4.0 million.

Concurrently with the closing of the IPO and at the initial public offering price, we sold 833,333 shares of common stock at the initial public offering price of $18.00 per share for an aggregate purchase price of $15.0 million to a non-U.S. person, in a private placement transaction outside the United States in reliance upon Regulation S under the Securities Act of 1933.

Also concurrently with the closing of the IPO, the holders of Redeemable, Convertible Series C Preferred stock were paid a cash dividend of $6.4 million. The amount of the declared dividend was equal to the pro rata amount of the annual cumulative dividend that would have normally accrued on January 2, 2008.

For the year ended June 30, 2008, net cash used for the repayment of short term debt was $1.5 million and cash used for the repayment of capital leases and bank overdraft was $4.8 million and $1.6 million, respectively.

Net cash used in financing activities for the year ended June 30, 2007 was $1.7 million. This was primarily due to payment on a related party note payable of $4.0 million and repayments of capital lease obligations of $1.4 million. This was offset by a bank overdraft of $1.6 million, and net borrowings from our revolving credit facility of $1.5 million.

Contractual Obligations

Our contractual obligations consist primarily of leases for office space, capital leases for equipment and other operating leases. The following summarizes our long-term contractual obligations as of June 30, 2009:

	For Years Ended June 30,						
	Total	2010	2011	2012	2013	2014	Thereafter
	(In thousands)						
Contractual Obligations at June 30, 2009							
Capital leases(1)	$20,847	$11,232	$ 7,391	$2,224	$ —	$ —	$ —
Operating leases	31,968	3,619	3,722	3,720	3,655	3,421	13,831
Long-term obligations(1)	3,157	1,148	1,339	670	—	—	—
Total	$55,972	$15,999	$12,452	$6,614	$3,655	$3,421	$13,831

(1) Includes interest expense.

Under most contracts, we provide the virtual schools we manage with turnkey management services and take responsibility for any operating deficits that the school may incur. These deficits are recorded as a reduction in revenues, and therefore are not included as a commitment or obligation in the above table.

Off-Balance Sheet Arrangements

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 that are material to investors.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for any of the years in the three year period ended June 30, 2009. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141R (revised 2007), *Business Combinations*, which replaces SFAS No 141.

The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for us beginning July 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for us beginning July 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently assessing the potential impact that adoption of SFAS No. 160 would have on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "*Effective Date of FASB Statement No. 157*," which partially delays the effective date of SFAS 157 for non-financial assets or liabilities that are not required or permitted to be measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008, and interim periods within those years. We are currently evaluating the impact that SFAS No. 157 will have on our consolidated financial statements when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis beginning in the first quarter of fiscal year 2010. In April 2009, the FASB issued FSP No. FAS 157-4, "*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.*" FSP FAS 157-4 amends Statement 157 to provide additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. Accordingly, we have adopted the provisions of FAS 157-4 and the adoption has not had a material affect on our consolidated financial statements.

In March 2008, FASB issued SFAS No. 161, *Disclosures About Instruments and Hedging Activities* — amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. As SFAS No. 161 relates only to disclosure, management anticipates that the adoption of SFAS No. 161 will not have a material effect on our consolidated financial statements.

In June 2008, the FASB issued EITF 07-05, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock." EITF 07-05 provides guidance in assessing whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock for purposes of determining whether the appropriate accounting treatment falls under the scope of SFAS 133, "Accounting For Derivative Instruments and Hedging Activities" and/or EITF 00-19, "Accounting For Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." EITF 07-05 is effective for year-ends beginning after December 15, 2008. We are currently evaluating the impact that the adoption of EITF 07-05 will have on our financial condition, results of operations, and disclosures.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (SFAS 165), which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. Accordingly, we have adopted the provisions of SFAS 165 and the adoption has not had a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140" ("SFAS 166"), which requires additional information regarding transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. SFAS 166 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS 166 is effective for fiscal years beginning after November 15, 2009. SFAS 166 is effective for us on July 1, 2010. We are currently evaluating the impact that the adoption of SFAS 166 will have on our financial condition, results of operations, and disclosures.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"), which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. SFAS 167 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for fiscal years beginning after November 15, 2009 and is effective for us on July 1, 2010. We are currently evaluating the impact that the adoption of SFAS 167 will have on our financial condition, results of operations, and disclosures.

In July 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *the FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162 (SFAS 168). With the issuance of SFAS 168, the FASB Accounting Standards Codification (Codification) becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the Securities and Exchange Commission (SEC). The Codification does not change current U.S. GAAP, but changes the referencing of financial standards, and is intended to simplify user access to authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and is effective for our first quarter of 2010. At that time, all references made to U.S. GAAP will use the new Codification numbering system prescribed by the FASB. We are currently evaluating the impact to our financial reporting process of providing Codification references in our public filings. However, as the Codification is not intended to change or alter existing US GAAP, it is not expected to have any impact on our consolidated financial position or results of operations.

ITEM 7A. *Quantitative and Qualitative Disclosures about Market Risk*

Interest Rate Risk

At June 30, 2009 and June 30, 2008, we had cash and cash equivalents totaling $49.5 million and $71.7 million, respectively. 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 June 30, 2009, a 10% increase or decrease in interest rates would not have a material impact on our future earnings, fair values, or cash flows.

Our short-term debt obligations under our revolving credit facility are subject to interest rate exposure, however as we had no outstanding balance on this facility as of June 30, 2009, fluctuations in interest rates would not have a material impact on our interest expense.

Foreign Currency Exchange Risk

We currently operate in a foreign country, 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. However, we are pursuing opportunities in international markets. 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.

PART II

ITEM 8. *CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
K12 Inc.
Herndon, Virginia

We have audited the accompanying consolidated balance sheets of K12 Inc. and subsidiaries (the Company) as of June 30, 2009 and 2008 and the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended June 30, 2009. In connection with audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of K12 Inc. and subsidiaries at June 30, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), K12 Inc. and subsidiaries' internal control over financial reporting as of June 30, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria) and our report dated September 11, 2009 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Bethesda, Maryland
September 11, 2009

K12 INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2009	June 30, 2008
	(In thousands, except per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 49,461	$ 71,682
Restricted cash and cash equivalents	2,500	—
Accounts receivable, net of allowance of $1,555 and $1,458 at June 30, 2009 and June 30, 2008, respectively	52,532	30,630
Inventories, net	32,052	20,672
Current portion of deferred tax asset	3,888	8,344
Prepaid expenses	7,810	3,648
Other current assets	3,454	1,158
Total current assets	151,697	136,134
Property and equipment, net	37,860	24,536
Capitalized curriculum development costs, net	31,649	21,366
Deferred tax asset, net of current portion	14,619	12,749
Goodwill	1,825	1,754
Deposits and other assets	2,526	785
Total assets	$ 240,176	$ 197,324
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 10,366	$ 14,388
Accrued liabilities	7,329	4,684
Accrued compensation and benefits	8,291	10,049
Deferred revenue	3,389	3,114
Current portion of capital lease obligations	10,240	6,107
Current portion of notes payable	1,034	413
Total current liabilities	40,649	38,755
Deferred rent, net of current portion	1,699	1,640
Capital lease obligations, net of current portion	9,222	6,445
Notes payable, net of current portion	1,906	196
Total liabilities	53,476	47,036
Commitments and contingencies		
Minority interest	4,414	—
Stockholders' equity		
Common stock, par value $0.0001; 100,000,000 shares authorized; 29,290,486 and 27,944,826 shares issued and outstanding at June 30, 2009 and June 30, 2008, respectively	3	3
Additional paid-in capital	343,304	323,621
Accumulated deficit	(161,021)	(173,336)
Total stockholders' equity	182,286	150,288
Total liabilities and stockholders' equity	$ 240,176	$ 197,324

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

K12 INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended June 30,		
	2009	2008	2007
	(In thousands, except per share data)		
Revenues	$ 315,573	$ 226,235	$ 140,556
Cost and expenses			
Instructional costs and services	196,976	131,282	76,064
Selling, administrative, and other operating expenses	86,683	72,393	51,159
Product development expenses	9,575	9,550	8,611
Total costs and expenses	293,234	213,225	135,834
Income from operations	22,339	13,010	4,722
Interest expense, net	(982)	(295)	(639)
Income before income tax (expense) benefit and minority interest	21,357	12,715	4,083
Income tax (expense) benefit	(9,628)	21,058	(218)
Income before minority interest	11,729	33,773	3,865
Minority interest, net of tax	586	—	—
Net income	12,315	33,773	3,865
Dividends on preferred stock	—	(3,066)	(6,378)
Preferred stock accretion	—	(12,193)	(22,353)
Net income (loss) attributable to common stockholders	$ 12,315	$ 18,514	$ (24,866)
Net income (loss) attributable to common stockholders per share:			
Basic	$ 0.43	$ 1.18	$ (12.42)
Diluted	$ 0.42	$ 1.10	$ (12.42)
Weighted average shares used in computing per share amounts (see note 3):			
Basic	28,746,188	15,701,278	2,001,661
Diluted	29,639,974	16,850,909	2,001,661

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

K12 INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

	Redeemable Convertible Series C Preferred Stock		Redeemable Convertible Series B Preferred Stock		Stockholders' Equity (Deficit)				
					Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
				(In thousands, except share data)					
Balance, June 30, 2006	8,887,959	$ 76,211	10,102,899	$ 124,614	1,998,896	$ 1	$ —	$(173,452)	$(173,451)
Exercise of stock options	—	—	—	—	42,708	—	292	—	292
Stock based compensation expense	—	—	—	—	—	—	218	—	218
Accretion of Preferred Stock	—	8,533	—	13,820	—	—	(510)	(21,843)	(22,353)
Series C 10% Stock Dividend	888,797	6,378	—	—	—	—	—	(6,378)	(6,378)
Net Income	—	—	—	—	—	—	—	3,865	3,865
Balance, June 30, 2007	9,776,756	91,122	10,102,899	138,434	2,041,604	1	—	(197,808)	(197,807)
Exercise of stock options	—	—	—	—	221,914	—	1,510	—	1,510
Stock based compensation expense	—	—	—	—	—	—	1,464	—	1,464
Accretion of Preferred Stock	—	5,164	—	7,029	—	—	(5,958)	(6,235)	(12,193)
Series C 10% Stock Dividend	—	1,671	—	—	—	—	—	(1,671)	(1,671)
Issuance of stock related to acquisition of Power-Glide	—	—	—	—	186,266	—	2,660	—	2,660
Conversion of Preferred Stock	(9,776,756)	(97,957)	(10,102,899)	(145,463)	19,879,675	2	238,406	5,011	243,419
Issuance of common stock — Reg S transaction	—	—	—	—	833,333	—	15,000	—	15,000
Initial public offering, net of transaction costs and expense	—	—	—	—	4,450,000	—	70,539	—	70,539
Payment of Series C cash dividend	—	—	—	—	—	—	—	(6,406)	(6,406)
Exercise of stock warrants on cashless provision	—	—	—	—	332,034	—	—	—	—
Net income	—	—	—	—	—	—	—	33,773	33,773
Balance, June 30, 2008	—	—	—	—	27,944,826	3	323,621	(173,336)	150,288
Exercise of stock options	—	—	—	—	1,344,993	—	9,895	—	9,895
Stock based compensation expense	—	—	—	—	—	—	2,790	—	2,790
Excess tax benefit from stock-based compensation	—	—	—	—	—	—	6,998	—	6,998
Exercise of stock warrants on cashless provision	—	—	—	—	667	—	—	—	—
Net income	—	—	—	—	—	—	—	12,315	12,315
Balance, June 30, 2009	—	$ —	—	$ —	29,290,486	$ 3	$343,304	$(161,021)	$ 182,286

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

K12 INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,		
	2009	2008	2007
	(In thousands)		
Cash flows from operating activities			
Net income	$ 12,315	$ 33,773	$ 3,865
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization expense	20,835	12,568	7,404
Stock based compensation expense	2,790	1,464	218
Excess tax benefit from stock based compensation	(6,998)	—	—
Deferred income taxes	9,584	(21,093)	—
Provision for (reduction of) doubtful accounts	97	867	(852)
Provision for inventory obsolescence	149	407	95
Provision for (reduction of) student computer shrinkage and obsolescence	243	162	(48)
Impairment of capitalized curriculum development cost	261	—	—
Minority interest, net of tax	(586)	—	—
Changes in assets and liabilities:			
Accounts receivable	(21,999)	(15,322)	(3,154)
Inventories	(11,529)	(7,275)	(2,790)
Prepaid expenses	(4,162)	(2,403)	(763)
Other current assets	(3,226)	47	(255)
Deposits and other assets	(1,828)	(104)	(322)
Accounts payable	(4,022)	7,375	579
Accrued liabilities	2,645	1,557	(824)
Accrued compensation and benefits	(1,758)	3,828	1,100
Deferred revenue	275	(273)	1,224
Deferred rent	59	(44)	86
Net cash (used in) provided by operating activities	(6,855)	15,534	5,563
Cash flows from investing activities			
Purchase of property and equipment	(13,939)	(6,476)	(5,366)
Purchase of domain name	(16)	(250)	—
Cash (invested in) released from restricted cash and cash equivalents	(2,500)	—	2,332
Acquisition of Power-Glide	—	(119)	—
Capitalized curriculum development costs	(13,931)	(11,669)	(8,683)
Net cash used in investing activities	(30,386)	(18,514)	(11,717)
Cash flows from financing activities			
Cash received from issuance of common stock, net of underwriters commission	—	74,493	—
Cash received from issuance of common stock — Regulation S transaction	—	15,000	—
Deferred initial public offering costs	—	(3,954)	—
Net (repayments on) borrowings from revolving credit facility	—	(1,500)	1,500
Repayments on notes payable — related party	—	—	(4,025)
Repayments on capital lease obligations	(9,133)	(4,767)	(1,384)
Repayments on notes payable	(804)	(180)	(62)
Proceeds from notes payable	3,135	408	441
Proceeds from minority interest contribution	5,000	—	—
Proceeds from exercise of stock options	9,824	1,485	292
Excess tax benefit from stock based compensation	6,998	—	—
Payment of cash dividend — Preferred Stock	—	(6,406)	—
Bank overdraft	—	(1,577)	1,577
Net cash provided by (used in) financing activities	15,020	73,002	(1,661)
Net change in cash and cash equivalents	(22,221)	70,022	(7,815)
Cash and cash equivalents, beginning of year	71,682	1,660	9,475
Cash and cash equivalents, end of year	$ 49,461	$ 71,682	$ 1,660

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

Notes to Consolidated Financial Statements

1. Description of the Business

K12 Inc. and its subsidiaries (K12 or the Company) sell online curriculum and educational books and materials designed for students in grades K-12 and provide management and technology services to virtual public schools. The K12 proprietary curriculum is research-based and combines content with innovative technology to allow students to receive an outstanding education regardless of geographic location. In contracting with a virtual public school, the Company typically provides students with access to the K12 on-line curriculum, offline learning kits, and use of a personal computer. As of June 30, 2009, the Company served schools in 21 states and the District of Columbia, providing curriculum for grades kindergarten through twelfth. The Company expanded into two new states for fiscal year 2010: Oklahoma and Wyoming. In addition, the Company sells access to its on-line curriculum and offline learning kits directly to individual consumers.

2. Basis of Presentation

The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions affecting the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions, including those related to allowance for doubtful accounts, inventory reserves, amortization periods, the allocation of purchase price to the fair value of net assets and liabilities acquired in connection with business combinations, fair values used in asset impairment evaluations, valuation of long-lived assets, contingencies, income taxes and stock-based compensation expense. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Revenue Recognition and Concentration of Revenues

Revenues are principally earned from long-term contractual agreements to provide on-line curriculum, books, materials, computers and management services to public charter schools and school districts. In addition to providing the curriculum, books and materials, under most contracts, the Company is responsible to the virtual public schools for all aspects of the management of 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. Where the Company has determined that they are 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 Emerging Issues Task Force (EITF) 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent.* As a result, amounts recorded as revenues and instructional costs and services for the years ended June 30, 2009, 2008 and 2007 were $92.8 million, $62.2 million and $38.3 million, respectively. For contracts in which the Company is not the primary obligor, the Company records revenue based on its net fees earned per the contractual agreement.

The Company generates revenues under contracts with public virtual schools which include multiple elements. These elements include providing each of a school's students with access to the Company's on-line school and the on-line component of lessons; offline learning kits which include books and materials designed to complement and supplement the on-line 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; all management and technology services required to operate a public virtual school.

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

Under the contracts with the schools where the Company provides turnkey management services, the Company has generally agreed to absorb any operating deficits of the schools in a given school year. These operating deficits represent the excess of costs over revenues incurred by the virtual public schools as reflected on their financial statements. The costs include Company charges to the schools. These operating deficits may impair the Company's ability to collect invoices in full. Accordingly, the Company's amount of recognized revenue reflects this impairment. For the years ended June 30, 2009, 2008 and 2007, the Company's revenue reflected impairment from these operating deficits of $28.3 million, $9.1 million and $13.7 million, respectively.

Other revenues are generated from individual customers who prepay and have access for 12 or 24 months to curriculum via the Company's Web site. The Company recognizes these revenues pro rata over the maximum term of the customer contract, which is either 12 or 24 months. Revenues from associated offline learning kits are recognized upon shipment.

During the years ended June 30, 2009, 2008 and 2007, approximately 94%, 97% and 97%, respectively, of the Company's revenues were recognized from virtual public schools. In fiscal year 2009, we had contracts with two schools that individually represented 14% and 14% of revenues. In fiscal year 2008, we had contracts with two schools that individually represented 14% and 12% of revenues. In fiscal year 2007, we had contracts with four schools that individually represented 16%, 11%, 11% and 11% of revenues.

Shipping and handling costs

Shipping and handling costs are expensed when incurred and are classified as cost of goods sold in the accompanying consolidated statements of operations. Shipping and handling charges are invoiced to the customer and are included in gross revenues.

Research and Development Costs

All research and development costs are expensed as incurred including patent application costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 2, *Accounting for Research and Development Costs.*

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash on hand and cash held in money market and demand deposit accounts. For purposes of the statements of cash flows, the Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Company maintains funds in accounts in excess of FDIC insurance limits; however, management believes it minimizes risk by maintaining deposits in well-capitalized financial institutions.

Restricted Cash and Cash Equivalents

Restricted cash consists of cash held in escrow pursuant to an agreement with a virtual public school that the Company manages. The Company established an escrow account for the benefit of the school's sponsoring school district in the event a future claim is made.

Allowance for Doubtful Accounts

The Company maintains an allowance for uncollectible accounts primarily for estimated losses resulting from the inability, failure or refusal of individual customers to make required payments. These losses have been within management's expectations. The Company analyzes accounts receivable, historical percentages of uncollectible accounts and changes in payment history when evaluating the adequacy of the allowance for uncollectible accounts. Management believes that an allowance for doubtful accounts of $1.6 million and $1.5 million as of June 30, 2009 and 2008, respectively, is adequate. However, actual write-offs might exceed the recorded allowance. Included in the allowance for doubtful accounts is a reserve for the potential impact of certain disallowed enrollments stemming from a regulatory audit in the state of Washington totaling $0.5 million.

Inventory

Inventory consists primarily of schoolbooks and curriculum materials, a majority of which are leased to virtual schools and utilized directly by students. Inventory represents 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 at June 30, 2009 and 2008 was $0.9 million and $0.7 million, respectively.

Other Current Assets

Other current assets consist primarily of schoolbooks and curriculum materials which are expected to be returned to the Company upon the completion of the school year. Materials not returned are expensed as part of instructional costs and services. In addition, other current assets consist of materials shipped prior to June 30, 2009 for the upcoming school year for which no revenue has been recognized.

Property and Equipment

Property and equipment, which includes capitalized software and web site development, 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 for fixed assets under capital leases). Amortization of assets capitalized under capital lease arrangements is included in depreciation expense. Property and equipment are depreciated over the following lives:

	Useful Life
Computer hardware	3 years
Computer software	3 years
Capitalized software and web site development costs	3 years
Office equipment	5 years
Furniture and fixtures	7 years
Leasehold Improvements	3-12 years

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 Statement of Financial Accounting Standards No. 13 (FAS 13), *Accounting for Lease*, 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.

Capitalized Software and Web Site Development Costs

The Company develops software for internal use. Software development costs incurred during the application development stage are capitalized in accordance with Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. The Company amortizes these costs over the estimated useful life of the software which is generally three years.

Software development costs incurred totaled $9.8 million, $5.5 million and $3.1 million for the years ended June 30, 2009 and 2008 and 2007, respectively. These amounts are recorded on the accompanying consolidated balance sheet as part of property and equipment, net of amortization and impairment charges. The estimated aggregate amortization expense for each of the three succeeding years ending June 30, 2010, 2011 and 2012 is $2.8 million, $2.3 million and $1.0 million, respectively.

The Company accounts for web site development costs in accordance with Emerging Issues Task Force Issue No. 00-2 (EITF 00-2) , *Accounting for Web Site Development Costs*. Total capitalized web site development costs incurred for the years ended June 30, 2009, 2008 and 2007 were $0.2 million, $0.3 million and $0.4 million, respectively. These amounts are recorded on the accompanying consolidated balance sheet as part of property and equipment, net of amortization and impairment charges. The estimated aggregate amortization expense for each of the three succeeding years ending June 30, 2010, 2011 and 2012 is $0.3 million, $0.1 million and $0, respectively.

Capitalized Curriculum Development Costs

The Company internally develops curriculum, which is primarily provided as web content and accessed via the Internet. The Company also creates textbooks and other offline materials.

We capitalize curriculum development costs incurred during the application development stage in accordance with Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.* SOP 98-1 provides guidance for the treatment of costs associated with computer software development and defines those costs to be capitalized and those to be expensed. Costs that qualify for capitalization are external direct costs, payroll and payroll-related costs. Costs related to general and administrative functions are not capitalizable and are expensed as incurred. We capitalize curriculum development costs when the projects under development reach technological feasibility. Many of our new courses leverage off of proven delivery platforms and are primarily content, which has no technological hurdles. As a result, a significant portion of our courseware development costs qualify for capitalization due to the concentration of our development efforts on the content of the courseware.

Technological feasibility is established when we have completed all planning, designing, coding, and testing activities necessary to establish that a course can be produced to meet its design specifications. Capitalization ends when a course is available for general release to our 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. This is consistent with the capitalization period used by others in our industry and corresponds with our product development lifecycle. Included in capitalized curriculum development is the November 2007 purchase of a perpetual license of curriculum for $3 million. The agreement includes a provision for future royalty payments. The curriculum will be included as part of our high school offering and will be amortized over five years.

Total capitalized curriculum development costs incurred were $13.9 million, $11.7 million and $8.7 million for the years ended June 30, 2009, 2008 and 2007, respectively. These amounts are recorded on the accompanying consolidated balance sheet, net of amortization and impairment charges. Amortization and impairment charges are recorded in product development expenses on the accompanying consolidated statement of operations. The estimated aggregate amortization expense for each of the five succeeding years ending June 30, 2010, 2011, 2012, 2013 and 2014 is $4.5 million, $4.1 million, $2.3 million, $1.9 million and $0.4 million, respectively.

Goodwill and Other Intangibles

We record as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. The determination of fair value of the identifiable net assets acquired was determined by management utilizing various valuation methodologies.

Intangible assets subject to amortization include the trade name, domain name and non-compete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives, which are considered to be no more than two years.

Goodwill increased by $0.1 million during the year ended June 30, 2009 due to the issuance of stock options related to earn-out provisions of the Power-Glide acquisition.

Statements of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, prescribes a two-step process for impairment testing of goodwill and intangibles with indefinite lives, which is performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. Goodwill and intangible assets deemed to have an indefinite life are tested for impairment on an annual basis, or earlier when events or changes in circumstances suggest the carrying amount may not be fully recoverable. The Company has elected to perform its annual assessment on May 31st. For the years ended June 30, 2009, 2008 and 2007 no impairment to goodwill was recorded.

Impairment of Long-Lived Assets

Long-lived assets include property, equipment, capitalized curriculum and software developed or obtained for internal use. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, 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. Impairment charges related to capitalized curriculum development were $0.3 million for the year ended June 30, 2009. There was no impairment for the years ended June 30, 2008 and 2007.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under SFAS No. 109, 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. SFAS No. 109 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.

The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), *"Accounting for Uncertainty in Income Taxes"* effective July 1, 2007. FIN 48 provides a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Company did not have any unrecognized tax benefits and there was no effect on its financial condition or results of operations as a result of implementing FIN 48.

The Company or one of its subsidiaries files income tax returns in the U.S. federal, foreign and various states jurisdictions. For income tax returns filed by the Company, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2006, although carryforward tax attributes that were generated prior to 2006 may still be adjusted upon examination by tax authorities if they either have been or will be utilized. The Company does not have any unrecognized tax benefits for the years ended June 30, 2009 and 2008. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

Sales Taxes

Sales tax collected from customers is excluded from revenues. Collected but unremitted sales tax is included as part of accrued expenses in the accompanying consolidated balance sheets. Revenues do not include sales tax as the Company considers itself a pass-through conduit for collecting and remitting sales tax.

Stock-Based Compensation

The Company adopted SFAS No. 123(R), *Share-Based Payment (Revised 2004)*, as of July 1, 2006, which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees*. The Company adopted SFAS 123(R) using the prospective application method. SFAS No. 123(R) eliminates the intrinsic value method that was previously used by the Company as an alternative method of accounting for stock-based compensation. SFAS No. 123(R) requires an entity to recognize the grant date fair value of stock options and other equity-based compensation issued to employees in the consolidated statement of operations. The Company applied SFAS 123(R) to all new awards granted after July 1, 2006.

Advertising and Marketing Expenses

Advertising and marketing costs consist primarily of print media and brochures and are expensed when incurred. The advertising and marketing expenses recorded were $16.2 million, $8.4 million and $5.2 million during the years ended June 30, 2009, 2008 and 2007, respectively.

Net Income (Loss) Per Common Share

The Company calculates net income (loss) per share in accordance with SFAS No. 128, *Earnings Per Share*. Under SFAS No. 128, basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted net income (loss) per common share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The potentially dilutive securities consist of convertible preferred stock, stock options and warrants.

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur assuming conversion or exercise of all dilutive unexercised stock options and warrants. The dilutive effect of stock options was determined using the treasury stock method. Under the treasury stock method, the proceeds received from the exercise of stock options, 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 are not included in the computation of diluted earnings per share when they are antidilutive.

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

	Year Ended June 30, 2009	2008	2007
	(In thousands except shares and per share data)		
Net income (loss) available to common shareholders — basic and diluted	$ 12,315	$ 18,514	$ (24,866)
Weighted average common shares outstanding — basic	28,746,188	15,701,278	2,001,661
Weighted average common shares outstanding — diluted	29,639,974	16,850,909	2,001,661
Net income (loss) per common share:			
Basic	$ 0.43	$ 1.18	$ (12.42)
Diluted	$ 0.42	$ 1.10	$ (12.42)

The basic and diluted weighted average common shares outstanding for the year ended June 30, 2008 reflect the weighted average effect of the conversion of preferred stock to common stock upon the closing of the initial public offering on December 18, 2007. The number of shares of common stock outstanding at June 30, 2009 is 29,290,486.

As of June 30, 2009, 2008 and 2007, the shares of common stock issuable in connection with convertible preferred stock, stock options, and warrants of 1,001,259, 378,300 and 23,260,070, respectively, were not included in the diluted loss per common share calculation since their effect was anti-dilutive.

Reclassifications

Certain prior year amounts related to other current assets have been reclassified to conform to the current year presentation.

Fair Value of Financial Instruments

We adopted the provisions of SFAS 157 for financial assets and liabilities as of July 1, 2008. SFAS 157 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. SFAS 157 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.

SFAS 157 describes three levels of inputs that may be used to measure fair value:

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

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

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

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

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141R (revised 2007), *Business Combinations,* which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for the Company beginning July 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for the Company beginning July 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Company is in the process of evaluating the potential impact that adoption of SFAS No. 160 would have on its consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "*Effective Date of FASB Statement No. 157*," which partially delays the effective date of SFAS 157 for non-financial assets or liabilities that are not required or permitted to be measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008, and interim periods within those years. The Company is currently evaluating the impact that SFAS No. 157 will have on its consolidated financial statements when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis beginning in the first quarter of fiscal year 2010. In April 2009, the FASB issued FSP No. FAS 157-4, "*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.*" FSP FAS 157-4 amends Statement 157 to provide additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. Accordingly, the Company has adopted the provisions of FAS 157-4 and the adoption has not had a material affect on our consolidated financial statements.

In March 2008, FASB issued SFAS No. 161, *Disclosures About Instruments and Hedging Activities* — amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. As SFAS No. 161 relates only to disclosure, the Company anticipates that the adoption of SFAS No. 161 will not have a material effect on its consolidated financial statements.

In June 2008, the FASB issued EITF 07-05, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock." EITF 07-05 provides guidance in assessing whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock for purposes of determining whether the appropriate accounting treatment falls under the scope of SFAS 133, "Accounting For Derivative Instruments and Hedging Activities" and/or EITF 00-19, "Accounting For Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." EITF 07-05 is effective for year-ends beginning after December 15, 2008. The Company is currently evaluating the impact that the adoption of EITF 07-05 will have on our financial condition, results of operations, and disclosures.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (SFAS 165), which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. Accordingly, the Company has adopted the provisions of SFAS 165 and the adoption has not had a material impact on our consolidated financial statements.

In accordance with SFAS 165, the Company has evaluated subsequent events through September 11, 2009, the date of issuance of the Consolidated Financial Statements. During the period from July 1, 2009 to September 11, 2009, the Company did not have any material recognizable subsequent events other than those disclosed in Note 16.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140" ("SFAS 166"), which requires additional information regarding transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. SFAS 166 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS 166 is effective for fiscal years beginning after November 15, 2009. SFAS 166 is effective for the Company on July 1, 2010. The Company is currently evaluating the impact that the adoption of SFAS 166 will have on our financial condition, results of operations, and disclosures.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"), which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. SFAS 167 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for fiscal years beginning after November 15, 2009 and is effective for the Company on July 1, 2010. The Company is currently evaluating the impact that the adoption of SFAS 167 will have on our financial condition, results of operations, and disclosures.

In July 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *the FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162 (SFAS 168). With the issuance of SFAS 168, the FASB Accounting Standards Codification (Codification) becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the Securities and Exchange Commission (SEC). The Codification does not change current U.S. GAAP, but changes the referencing of financial standards, and is intended to simplify user access to authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and is effective for the Company's first quarter of 2010. At that time, all references made to U.S. GAAP will use the new Codification numbering system prescribed by the FASB. The Company is currently evaluating the impact to the Company's financial reporting process of providing Codification references in the Company's public filings. However, as the Codification is not intended to change or alter existing US GAAP, it is not expected to have any impact on the Company's consolidated financial position or results of operations.

4. Property and Equipment

Property and equipment consists of the following at:

	June 30, 2009	June 30, 2008
Student computers	$ 45,072	$ 30,126
Capitalized software and web site development costs	20,559	10,648
Computer hardware	8,354	6,738
Computer software	6,129	4,051
Leasehold improvements	2,695	2,467
Furniture and fixtures	1,067	896
Office equipment	923	899
	84,799	55,825
Less accumulated depreciation and amortization	(46,939)	(31,289)
	$ 37,860	$ 24,536

The Company recorded depreciation expense related to property and equipment reflected in selling, administrative and other operating expenses of $4.0 million, $2.6 million and $1.9 million during the years ended June 30, 2009, 2008 and 2007, respectively. Depreciation expense of $15.7 million, $9.2 million and $5.1 million related primarily to computers leased to students and amortization of capitalized curriculum development reflected in instructional costs and services was recorded during the years ended June 30, 2009, 2008 and 2007, respectively. Amortization expense of $1.1 million, $0.8 million and $0.4 million related to capitalized software development reflected in product development expenses was recorded during the years ended June 30, 2009, 2008 and 2007, respectively.

In the course of its normal operations, the Company incurs maintenance and repair expenses. Those are expensed as incurred and amounted to $0.9 million, $0.5 million and $0.4 million for the years ended June 30, 2009, 2008 and 2007, respectively.

5. Income Taxes

The provision for income taxes is based on earnings reported in the 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 year.

Deferred tax assets and liabilities result primarily from temporary differences in book versus tax basis accounting. Deferred tax assets and liabilities consist of the following:

	Year Ended June 30, 2009	2008
Deferred tax assets:		
Net operating loss carryforward	$ 24,213	$25,481
Reserves	2,120	1,977
Accrued expenses	1,866	609
Stock compensation expense	1,669	656
Property and equipment	1,633	837
Other assets	479	—
Deferred rent	248	231
Deferred revenue	103	144
Charitable contributions carryforward	78	128
Total deferred tax assets	32,409	30,063
Deferred tax liabilities:		
Capitalized curriculum development	(6,574)	(4,747)
Capitalized software and website development costs	(5,759)	(3,160)
Other assets	(822)	(452)
Total deferred tax liabilities	(13,155)	(8,359)
Deferred tax asset	19,254	21,704
Valuation allowance	(747)	(611)
Net deferred tax asset	$ 18,507	$21,093

The Company maintains a valuation allowance on net deferred tax assets of $0.7 million and $0.6 million as of June 30, 2009 and 2008, respectively related to state income taxes as the Company believes it is more likely than not that we will not be able to utilize these deferred tax assets. At June 30, 2009, the Company has available federal net operating loss carryforwards of $68.3 million of which $4.6 million is attributable to stock option deductions for which no deferred tax asset is recorded that expire between 2020 and 2029 if unused. We have not provided for U.S. deferred income taxes on undistributed earnings from our non-U.S. subsidiaries because such earnings are considered to be permanently reinvested.

For the years ended June 30, 2009 and 2008, the Company has evaluated whether a change in the Company's ownership of outstanding classes of stock as defined in Internal Revenue Code Section 382 could prohibit or limit the Company's ability to utilize its net operating losses. As a result of this study, the Company has concluded it is more likely than not that the Company will be able to fully utilize its net operating losses subject to the Section 382 limitation.

The related components of the income tax expense (benefit) for the years ended June 30, 2009, 2008 and 2007 are as follows:

	Year Ended June 30,		
	2009	2008	2007
Current:			
State	$ 25	$ 35	$218
Foreign	19	—	—
Other(1)	6,998	—	—
Total current	7,042	35	218
Deferred:			—
Federal	2,421	(20,081)	—
State	165	(1,012)	—
Total deferred	2,586	(21,093)	—
Total income tax expense (benefit)	$9,628	$(21,058)	$218

(1) Amount is primarily attributable to stock option deductions

The provision for income taxes can be reconciled to the income tax that would result from applying the statutory rate to the net income before income taxes as follows:

	Year Ended June 30,		
	2009	2008	2007
U.S. federal tax at statutory rates	35.0%	35.0%	35.0%
Permanent items	6.0	7.8	20.2
State taxes, net of federal benefit	3.9	3.6	13.7
Other	(0.6)	—	—
Change in valuation allowance	—	(212.2)	(63.6)
Provision for income taxes	44.3%	(165.8)%	5.3%

6. Lease Commitments and Notes Payable

Capital leases

As of June 30, 2009 and 2008, computer equipment and software under capital leases are recorded at a cost of $34.5 million and $18.6 million, respectively and accumulated depreciation of $17.6 million and $7.1 million, respectively. The Company has an equipment lease line of credit with Hewlett-Packard Financial Services Company that expires on August 31, 2010 for new purchases on the line of credit. The interest rate on new advances under the equipment lease line is set quarterly. Prior borrowings under the equipment lease line had interest rates ranging from 5.55% to 8.83%. The prior borrowings include a 36-month payment term with a $1 purchase option at the end of the term. The Company has pledged the assets financed with the equipment lease line to secure the amounts outstanding. The Company entered into a guaranty agreement with Hewlett-Packard Financial Services Company to guarantee the obligations under this equipment lease and financing agreement.

Notes payable

The Company has purchased computer software licenses and maintenance services through notes payable arrangements with various vendors at interest rates ranging up to 6.1% and payment terms of three years.

The following is a summary as of June 30, 2009 of the present value of the net minimum lease payments on capital leases and notes payable under the Company's commitments:

	Capital Leases	Notes Payable	Total
2010	$ 11,232	$ 1,148	$ 12,380
2011	7,391	1,339	8,730
2012	2,224	670	2,894
Total minimum lease payments	20,847	3,157	24,004
Less amount representing interest (imputed interest rate of 7.5)%	(1,385)	(217)	(1,602)
Net minimum lease payments	19,462	2,940	22,402
Less current portion	(10,240)	(1,034)	(11,274)
Present value of net minimum payments, less current portion	$ 9,222	$ 1,906	$ 11,128

Operating leases

The Company has fixed non-cancelable operating leases with terms expiring through 2013. Office leases generally contain renewal options and certain leases provide for scheduled rate increases over the lease terms.

In December 2005, the Company entered into an operating lease for non-owned facilities commencing in May 2006. The term of the lease is seven years with the option to extend the lease for two five year periods. In accordance with the lease terms, the Company delivered to the landlord an unconditional and irrevocable letter of credit in the amount of $2.1 million for a term ending 90 days after the expiration of the lease. The letter of credit can be reduced up to 25% on the first day of each of the fourth, fifth and sixth years if certain covenants are met. The landlord can draw down on the letter of credit if the following events occur: downgrade of the Company's credit rating, failure to renew or replace existing letter of credit prior to expiration and initiation of voluntary or involuntary bankruptcy proceedings. As of June 30, 2009, the landlord has not drawn down on the letter of credit nor have any circumstances occurred which could result in a draw down of the letter of credit. Additionally, in December 2005, the Company entered into an operating sublease for non-owned facilities commencing in January 2006. The term of the sublease is through September 2009 with an automatic renewal through April 2013. In accordance with the lease terms, the Company delivered to the sublandlord an unconditional and irrevocable letter of credit in the amount of $0.2 million for a term ending 60 days after the expiration of the lease. In November 2006, the Company entered into an operating lease for non-owned facilities commencing in January 2007. The term of the lease is through April 2013 with the option to extend for two additional five year terms. In March 2007, the Company entered into a second amendment to the December 2005 operating lease whereby the Company agreed to lease additional space subject to a "first right of refusal". The lease for the additional space commences in October 2009 and expires in April 2013. In July 2008, the Company entered into an operating sublease for non-owned facilities commencing in August 2008. The term of the lease is through July 2010. Rent expense was $2.9 million, $2.5 million and $2.1 million for the years ended June 30, 2009, 2008 and 2007, respectively.

Future minimum lease payments under noncancelable operating leases with initial terms of one year or more including an additional five year term renewal on the November 2006 lease are as follows:

	Year Ending June 30,
2010	$ 3,619
2011	3,722
2012	3,720
2013	3,655
2014	3,421
Thereafter	13,831
Total future minimum lease payments	$31,968

7. Line of Credit

In December 2006, the Company entered into a $15 million revolving credit agreement with PNC Bank (the "Credit Agreement") which expires in December 2009. Pursuant to the terms of the Credit Agreement, the proceeds of the term loan facility were to be used primarily for working capital requirements and other general business or corporate purposes. Because of the seasonality of our business and timing of funds received from the state, expenditures are higher in relation to funds received in certain periods during the year. The Credit Agreement provides the ability to fund these periods until cash is received from the schools; therefore, borrowings against the Credit Agreement are primarily short term.

Borrowings under the Credit Agreement bear interest based upon the term of the borrowings. Interest is charged, at either: (i) the higher of (a) the rate of interest announced by PNC Bank from time to time as its "prime rate" and (b) the federal funds rate plus 0.5% or (ii) the applicable London interbank offered rate 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" as defined in Regulation D as promulgated by the Board of Governors of the Federal Reserve System, plus the applicable margin for such loans, which ranges between 1.250% and 1.750%, based on the leverage ratio (as defined in the Credit Agreement).

The Company pays a commitment fee on the unused portion of the Credit Agreement, quarterly in arrears, during the term of the credit agreement which varies between 0.150% and 0.250% depending on the leverage ratio. The commitment fees incurred for the year ended June 30, 2009 and 2008 were minimal.

The working capital line includes a $5.0 million letter of credit facility. Issuances of letters of credit reduce the availability of permitted borrowings under the Credit Agreement.

Borrowings under the Credit Agreement are secured by substantially all of our assets of the Company. 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 its subsidiaries, or make capital expenditures above specified limits and engage in other matters customarily restricted in senior secured credit facilities. We must also maintain a minimum net worth (as defined in the Credit Agreement) and maximum debt leverage ratios. These covenants are subject to certain qualifications and exceptions. As of June 30, 2009, the Company was in compliance with all covenants.

In October 2007, the Company increased the Credit Agreement from $15 million to $20 million under substantially the same terms. As of June 30, 2009, there was no outstanding balance on the working capital line of credit and approximately $2.3 million was outstanding under the letter of credit facility with an interest rate of 1.25%.

8. Warrants

Warrants for common stock outstanding at June 30, 2009 consist of 20,050 warrants to purchase an equivalent number of common stock at a price of $8.16 per share that expire in March 2010. These warrants were issued in March 2003 in conjunction with promissory notes issued by the Company for funds borrowed from existing shareholders. In June 2009, a certain shareholder exercised stock purchase warrants with a strike price of $8.16 per share for a net issuance of 667 shares of common stock. In March 2008, certain shareholders exercised stock purchase warrants with a strike price of $6.83 per share for an aggregate net issuance of 332,034 shares of common stock. Both the June 2009 and the March 2008 exercise of warrants were exercised on a cashless basis, as provided for under the terms of the warrant agreements. The June 2009 and March 2008 warrants were set to expire in March 2010 and April 2008, respectively. For the year ended June 30, 2007 there were no warrants issued or exercised.

Warrant activity during the year ended June 30, 2009 was as follows:

	Warrants	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, June 30, 2008	21,299	$8.16	1.70	$284
Granted	—	—		
Exercised	(1,249)	8.16		
Canceled	—	—		
Outstanding, June 30, 2009	20,050	$8.16	0.70	$268

9. Equity Transactions

Reverse Stock Split

On October 30, 2007, the Board approved a 1-for-5.1 reverse split of the Company's common stock. On October 31, 2007, the reverse split was further approved by a majority of the shareholders. The stock split was effective on November 2, 2007. In conjunction with these actions, the number of authorized shares of common stock was adjusted to 33,362,500. All share and per share amounts related to common stock, options and common stock warrants included in the consolidated financial statements have been retroactively adjusted for all periods presented to give effect to the stock split.

Amended and Restated Certificate of Incorporation

On October 30, 2007, the Board approved an amendment and restatement of the Company's Second Amended and Restated Certificate of Incorporation, which was adopted by the majority of the shareholders of the Company on October 31, 2007 (the "Third Amended and Restated Certificate of Incorporation" or "Certificate"). The Certificate authorizes the Company to issue 100,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock. The Certificate became effective on December 18, 2007, upon its filing with the Secretary of State of the State of Delaware. This Certificate superseded the Company's previous Certificate of Incorporation. The Redeemable Convertible Series B and Series C Preferred Stock are no longer authorized effective December 18, 2007.

Series C Dividend

On November 5, 2007, the Company's Board unanimously declared a cash dividend to the holders of Redeemable Convertible Series C Preferred stock effective immediately prior to and contingent upon the closing of an Initial Public Offering (the "IPO") and payable from the proceeds of the offering.

Concurrently with the closing of the IPO, the holders of Redeemable Convertible Series C Preferred stock were paid a cash dividend of $6.4 million. The amount of the declared dividend was equal to the pro rata amount of the annual ten percent cumulative dividend that would have normally accrued on January 2, 2008 under the provisions of the preferred stock agreement.

Prior to declaration of the cash dividend, the Company accrued $5.0 million toward the annual cumulative dividend which was reversed in the recording of the cash dividend.

On November 16, 2007, PNC Bank consented to waive the restriction of dividends in its credit agreement with the Company for the purposes of this dividend. The PNC agreement amended certain other covenants.

Private Placement of Shares

On November 6, 2007, the Company entered into an agreement to sell to a non-U.S. person in a transaction outside the United States in reliance upon Regulation S under the Securities Act of 1933, as amended (Securities Act), concurrently with and contingent upon the closing of the IPO and at the IPO price, $15,000,000 worth of shares of the Company's common stock. On December 18, 2007, the Company closed on its initial public offering and issued 833,333 shares to this investor at the offering price of $18.00 per share.

Initial Public Offering

In December 2007, the Company completed the IPO of its common stock in which it sold and issued 4,450,000 shares of its common stock, at an issue price of $18.00 per share. The Company raised a total of $80.1 million in gross proceeds from the IPO, or approximately $71.0 million in net proceeds after deducting underwriting discounts and commissions of $5.6 million and other offering costs of $3.5 million. Upon the closing of the IPO, all shares of convertible preferred stock outstanding automatically converted into an aggregate of 19,879,675 shares of common stock.

10. Stock Option Plan

The Company adopted a Stock Option Plan (the Plan) in May 2000. Under the Plan, employees, outside directors and independent contractors are able to participate in the Company's future performance through the awards of nonqualified stock options to purchase common stock. In December 2003, the Board increased the total number of common stock shares reserved and available for grant and issuance pursuant to the Plan to 2,549,019 shares. In November 2007, the Board adopted the 2007 Plan increasing the number of common stock shares reserved to 4,213,921 shares plus the increases in the shares pursuant to the "evergreen provision" that may be issued under the 2007 Plan over the course of its ten-year term. Each stock option is exercisable pursuant to the vesting schedule set forth in the stock option agreement granting such stock option, generally over four years. No stock option shall be exercisable after the expiration of its option term. The Company has granted stock options under the 2007 Plan. The Company also grants stock options to executive officers under stand-alone agreements outside the Plan. These options totaled 1,441,168 as of June 30, 2009.

Effective July 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), "*Share-Based Payment*" (SFAS 123R), using the prospective transition method which requires the Company to apply the provisions of SFAS No. 123R only to awards granted, modified, repurchased or cancelled after July 1, 2006. Equity-based compensation expense for all equity-based compensation awards granted after July 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. The Company recognizes these compensation costs on a straight-line basis over the requisite service period, which is generally the vesting period of the award.

The Company uses the Black-Scholes option pricing model method to calculate the fair value of stock options. Depending on certain substantive characteristics of the stock option, the Company, where appropriate, utilizes a binomial model. The use of option valuation models requires the input of highly subjective assumptions, including the expected stock price volatility and the expected term of the option. In March 2005, the Securities and Exchange Commission (SEC) issued SAB No. 107 (SAB 107) regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. For options issued subsequent to July 1, 2006, the Company has applied the provisions of SAB 107 in its adoption of SFAS 123R. The Company believes that its historical share option exercise experience does not provide a reasonable basis upon which to estimate expected term, consequently, the Company has estimated the expected term of granted options using the "simplified" method calculated as the weighted average mid-point between the vesting date and the end of the contractual term. The Company estimates the volatility rate based on historical closing stock prices of a pool of comparable companies. The dividend yield is zero as the Company has no present intention to pay cash dividends.

SFAS 123R requires management to make assumptions regarding the expected life of the options, the expected liability of the options and other items in determining estimated fair value. Changes to the underlying assumptions may have significant impact on the underlying value of the stock options, which could have a material impact on its consolidated financial statements.

The fair value of our service and performance based stock options was estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended June 30,	
	2009	**2008**
Dividend yield	0.0%	0.0%
Expected volatility	48%	46%
Risk-free interest rate	1.81% to 3.11%	2.69% to 4.95%
Expected life of the option term (in years)	5.12	4.64 - 5.76
Forfeiture rate	20% to 30%	20% to 30%

The fair value of the options granted for the years ended June 30, 2009, 2008 and 2007 was $6.6 million, $5.3 million and $1.0 million, respectively. This amount will be expensed over the expected vesting.

Dividend yield — The Company has never declared or paid dividends on its common stock and has no plans to do so in the foreseeable future.

Expected volatility — Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. Since the Company's common shares have recently been publicly traded and therefore does not have sufficient historical data, the basis for the standard option volatility calculation is derived from known publicly traded comparable companies. The annual volatility for these companies is derived from their historical stock price data.

Risk-free interest rate — The assumed risk free rate used is a zero coupon U.S. Treasury security with a maturity that approximates the expected term of the option.

Expected life of the option term — This is the period of time that the options granted are expected to remain unexercised. Options granted during the year have a maximum term of eight years. The Company estimates the expected life of the option term based on an average life between the dates that options become fully vested and the maximum life of options granted.

Forfeiture rate — This is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. The Company uses a forfeiture rate that is based on historical forfeitures at various classification levels with the Company.

Stock option activity including stand-alone agreements during the year ended June 30, 2009 was as follows:

	Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, June 30, 2008	4,766,849	$11.20	5.19	$49,167
Granted	835,500	22.49		
Exercised	(1,344,993)	7.28		
Canceled	(163,148)	16.27		
Outstanding, June 30, 2009	4,094,208	$14.59	5.16	$28,516
Stock options exercisable at June 30, 2009	1,996,156	$ 9.83	4.36	$23,403

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last day of the year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2009. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.

The total intrinsic value of options exercised for the years ended June 30, 2009, 2008 and 2007 was $19.4 million, $3.7 million and $0.1 million, respectively.

As of June 30, 2009, there was $7.3 million of total unrecognized compensation expense related to unvested stock options granted under the Stock Option Plans adopted in May 2000 and November 2007. The cost is expected to be recognized over a weighted average period of 2.7 years. The total fair value of shares vested during the years ended June 30, 2009, 2008 and 2007 was $13.6 million, $3.6 million and $4.2 million, respectively. During the years ended June 30, 2009, 2008 and 2007, the Company recognized $2.8 million, $1.5 million and $0.2 million of stock based compensation. The total income tax benefit recognized in the statement of operations related to stock options exercised during the years ended June 30, 2009, 2008 and 2007 was $6.9 million, $1.4 million and $0, respectively.

11. Commitments and Contingencies

Litigation

In the ordinary conduct of our business, we are subject to lawsuits, arbitrations and administrative proceedings from time to time.

On October 4, 2006, the Chicago Teachers Union and individual taxpayers ("CTU" or "plaintiffs") filed a citizen taxpayer's lawsuit in the Circuit Court of Cook County challenging the decision of the Illinois State Board of Education to certify the Chicago Virtual Charter School (CVCS) and to enjoin the disbursement of state funds to the Chicago Board of Education under its contract with the CVCS. On June 11, 2009, the Court granted the CVCS's motion for summary judgment dismissing the case. The plaintiffs elected not to appeal the decision, thus establishing the legal right of CVCS to continue operations and receive state funding.

We are currently involved in two lawsuits related to a charter revocation proceeding brought by the Pennsylvania Department of Education (the "PDE") against the Agora Cyber Charter School ("Agora"). In 2006, Agora contracted with an education management company, The Cynwyd Group LLC ("Cynwyd"), to operate the school. Cynwyd, in turn, subcontracted with K12 to provide Agora's students with our curriculum, as well as our school administrative and technology support services. The PDE charter revocation proceeding is the result of an investigation in which the agency concluded that the Agora Board of Trustees, the school's independent governing authority, violated its charter by contracting with Cynwyd without the PDE's approval, and that state funds have been misused to benefit personally Cynwyd's sole owner, due to her financial and business ties to members of the Agora Board of Trustees. The PDE investigation found no wrongdoing by K12 (*In Re Agora Cyber Charter School*, No. 2009-01). In addition, the PDE directed that all funds from school districts with students attending Agora be placed in a state escrow account from which the PDE will approve all payments to Agora and its vendors, including Cynwyd and K12. Subsequent to June 30, 2009, PDE released a significant portion of the funds owed to K12. We believe the remaining amount will be received although no timetable has been communicated.

On June 25, 2009, Agora filed a "Complaint for Accounting" against K12 Pennsylvania L.L.C. ("K12") in the Chester County Court of Common Pleas, *Agora Cyber Charter School v. K12 Pennsylvania L.L.C.*, No. 2009-07375-CA. The complaint seeks no monetary damages from K12, but an order compelling us to account for payments that K12 may have made outside the state escrow from a bank account that we administer for Agora as part of the K12-Cynwyd agreement. On July 22, 2009, K12 filed its Preliminary Objections and requested that the Complaint for Accounting be dismissed with prejudice. On June 29, 2009, Cynwyd filed a breach of contract lawsuit against K12 in the United States District Court for the Eastern District of Pennsylvania, *The Cynwyd Group, L.L.C. v. K12 Pennsylvania L.L.C.*, Civil Action No. 09-2963. Cynwyd asserts that we failed to perform certain school administrative functions specified in the Cynwyd-K12 services agreement, including a failure to remit to Cynwyd management fees of approximately $2 million. Accordingly, Cynwyd claims direct damages of $2 million and unspecified consequential damages. On August 10, 2009, K12 filed its "Answer to Plaintiff's Complaint and Counterclaims Against Plaintiff, and Third Party Complaint." Beyond being subject to instruction from the PDE not to pay the Cynwyd management fee without PDE's prior approval, we also asserted counterclaims against both Cynwyd and Agora. Those counterclaims include counts for breach of contract and abuse of process, and we seek direct and consequential damages in amounts to be determined at trial. While the two above-mentioned lawsuits against K12, individually or combined, are not material to our business, when considered in conjunction with the PDE charter revocation proceeding and other lawsuits by Agora against PDE, our ability to continue to provide our services and curriculum to Agora beyond the 2009-2010 school year depends on how all of these interrelated matters are ultimately resolved. At this time, the cases have just commenced. In addition, some of the fees owed to K12 for FY 2009 services rendered to Agora have been delayed and remain in the state escrow account pending approval by the PDE.

The Company expenses legal costs as incurred in connection with a loss contingency.

Employment Agreements

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

On July 12, 2007, the Company's board of directors approved an amended and restated employment agreement for an executive officer. The amended and restated agreement extends the term of employment until January 1, 2011 and amended certain elements of compensation including salary, stock options and severance. Additionally, on July 12, 2007, the Company's board of directors also approved the terms of a new option agreement for an executive officer which provides that all outstanding options will become fully vested upon a change in control of Company.

The Company maintains an annual cash performance bonus program that is intended to reward executive officers based on our performance and the individual named executive officer's contribution to that performance. In determining the performance-based compensation awarded to each named executive officer, the Company may generally evaluate the Company's and the executive's performance in a number of areas, which could include revenues, operating earnings, student retention, efficiency in product and systems development, marketing investment efficacy, new enrollment and developing company leaders.

Vendor Payment Commitments

In April 2007, the Company entered into a master services and license agreement with a third party that provides for the Company to license their proprietary computer system. The agreement is effective through July 2010. In exchange for the license of the computer system, the Company agrees to pay a service fee per enrollment. In the event the fees paid over the term of the contract do not exceed $1 million (the minimum commitment fee), the Company agrees to pay the difference between the actual fees paid and the minimum commitment fee. As of June 30, 2009, the actual fees paid have exceeded the minimum commitment fee.

12. Related Party Transactions

Affiliates of the Company, rendered $0.1 million, $0.4 million and $0.3 million of professional services to the Company during the years ended June 30, 2009, 2008 and 2007, respectively. These costs include administrative operations, consulting and curriculum development services, other operating charges and the purchase of our domain name.

13. Employee Benefits

The Company is party to a Section 401(k) Salary Deferral Plan (the 401(k) Plan). Under the 401(k) Plan, employees at least 18 years of age having been employed for at least 30 days may voluntarily contribute up to 15% of their compensation. The 401(k) Plan provides for a matching Company contribution of 25% of the first 4% of each participant's compensation, which begins following six months of service and vests after three years of service. Under the 401(k) Plan, the Company expensed $0.3 million, $0.2 million and $0.1 million during each of the years ended June 30, 2009, 2008 and 2007, respectively.

14. Supplemental Disclosure of Cash Flow Information

	Year Ended June 30,		
	2009	2008	2007
Cash paid for interest	$ 1,428	$ 1,256	$1,317
Cash paid for taxes	$ 65	$ 161	$ 244
Supplemental disclosure of non-cash investing and financing activities:			
New capital lease obligations	$16,044	$ 10,564	$8,052
Cash receipts in transit from exercise of stock options	$ 691	$ 25	$ —
Issuance of stock options related to earn-out provision of Power-Glide acquisition	$ 71	$ —	$ —
Business Combination:			
— Net working capital	$ —	$ (190)	$ —
— Property and equipment	$ —	$ 33	$ —
— Capitalized curriculum development costs	$ —	$ 2,263	$ —
— Intangible assets	$ —	$ 189	$ —
— Deferred tax liabilities	$ —	$ (936)	$ —
— Goodwill	$ —	$ 2,691	$ —
— Assumed liabilities	$ —	$ 1,271	$ —
— Issuance of common stock	$ —	$ 2,660	$ —
Conversion of preferred stock to common stock upon initial public offering	$ —	$238,408	$ —
Purchase of perpetual license agreement/accrued liabilities	$ —	$ 150	$ —

15. Quarterly Results of Operations (Unaudited)

The unaudited consolidated interim financial information presented should be read in conjunction with other information included in our consolidated financial statements. The following unaudited consolidated financial information reflects all adjustments necessary for the fair presentation of the results of interim periods. The following tables set forth selected unaudited quarterly financial information for each of our last eight quarters.

	2009			
	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008	Sep 30, 2008
Consolidated Quarterly Statements of Income				
Revenues	$ 72,166	$ 77,164	$ 77,618	$ 88,625
Cost and expenses				
Instructional costs and services	44,375	47,868	50,312	54,421
Selling, administrative, and other	25,494	19,467	18,887	22,835
Product development expenses	2,560	2,415	2,405	2,195
Total costs and expenses	72,429	69,750	71,604	79,451
Income (loss) from operations	(263)	7,414	6,014	9,174
Interest expense, net	(464)	(361)	(264)	107
Income (loss) before income tax benefit (expense) and minority interest	(727)	7,053	5,750	9,281
Income tax benefit (expense)	13	(3,490)	(2,365)	(3,786)
Income (loss) before minority interest	(714)	3,563	3,385	5,495
Minority interest, net of tax	48	(16)	135	419
Net income (loss)	$ (666)	$ 3,547	$ 3,520	$ 5,914
Net income (loss) per share:				
Basic	$ (0.02)	$ 0.12	$ 0.12	$ 0.21
Diluted	$ (0.02)	$ 0.12	$ 0.12	$ 0.20
Weighted average shares used in computing per share amounts:				
Basic	29,000,514	27,449,893	28,749,126	28,487,440
Diluted	29,000,514	28,780,389	29,682,250	29,499,102

	2008			
	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007
Consolidated Quarterly Statements of Income				
Revenues	$ 56,475	$ 56,016	$ 54,391	$ 59,353
Cost and expenses				
Instructional costs and services	32,462	32,062	31,980	34,778
Selling, administrative, and other	22,712	17,032	16,610	16,039
Product development expenses	2,021	2,542	2,460	2,527
Total costs and expenses	57,195	51,636	51,050	53,344
Income (loss) from operations	(720)	4,380	3,341	6,009
Interest expense, net	88	309	(388)	(304)
Income (loss) before income taxes	(632)	4,689	2,953	5,705
Income tax benefit (expense)	17,735	(2,229)	(1,565)	7,117
Net income (loss)	17,103	2,460	1,388	12,822
Dividends on preferred stock	—	—	(1,395)	(1,671)
Preferred stock accretion	—	—	(5,633)	(6,560)
Net income (loss) attributable to common stockholders	$ 17,103	$ 2,460	$ (5,640)	$ 4,591
Net income (loss) attributable to common stockholders per share:				
Basic	$ 0.62	$ 0.09	$ (0.98)	$ 2.25
Diluted	$ 0.59	$ 0.09	$ (0.98)	$ 0.20
Weighted average shares used in computing per share amounts:				
Basic	27,793,003	28,863,137	5,777,767	2,043,589
Diluted	29,125,372	29,466,247	5,777,767	22,744,525

16. Subsequent Events

In accordance with the Company's adoption of SFAS No. 165, "Subsequent Events," the Company evaluated all events or transactions that occurred after June 30, 2009 up through September 11, 2009, the date the Company issued these consolidated financial statements. Based on that evaluation, we have determined no material events or transactions occurred after June 30, 2009 up through September 11, 2009 that would affect the June 30, 2009 consolidated financial statements.

In September 2009, the Credit Agreement with PNC bank, which expires in December 2009, was renewed for an additional three-year period expiring in December 2012. The Credit Agreement was renewed under substantially the same terms and increased the borrowing limit to $35 million.

SCHEDULE II

K12 INC

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

1. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Deductions from Allowance	Balance at End of Period
June 30, 2009	$1,458,372	923,571	826,682	$1,555,261
June 30, 2008	$ 588,971	917,730	48,329	$1,458,372
June 30, 2007	$1,440,499	106,038	957,566	$ 588,971

2. INVENTORY RESERVE

	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Deductions Shrinkage and Obsolescence	Balance at End of Period
June 30, 2009	$734,827	149,267	—	$884,094
June 30, 2008	$327,608	781,104	373,885	$734,827
June 30, 2007	$232,055	320,960	225,407	$327,608

3. COMPUTER RESERVE (1)

	Balance at Beginning of Period	Additions (Deductions) Charged to Cost and Expenses	Deductions Shrinkage and Obsolescence	Balance at End of Period
June 30, 2009	$778,789	243,358	—	$1,022,147
June 30, 2008	$616,361	162,428	—	$ 778,789
June 30, 2007	$664,186	(47,825)	—	$ 616,361

(1) A reserve account is maintained against potential shrinkage and obsolescence for those computers provided to our students. The reserve is calculated based upon several factors including historical percentages, the net book value and remaining useful life.

4. INCOME TAX VALUATION ALLOWANCE

	Balance at Beginning of Period	Additions to Net Deferred Tax Assets Allowance	Deductions in Net Deferred Tax Asset Allowance	Balance at End of Period
June 30, 2009	$ 610,954	135,772	—	$ 746,726
June 30, 2008	$29,925,898	—	29,314,944	$ 610,954
June 30, 2007	$32,527,019	—	2,601,121	$29,925,898

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE*

None.

ITEM 9A. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's chief executive officer and chief financial officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control-Integrated Framework, our management concluded that our internal control over financial reporting was effective as of June 30, 2009.

The effectiveness of our internal control over financial reporting as of June 30, 2009, has been audited by BDO Seidman, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
K12 Inc.
Herndon, Virginia

We have audited K12 Inc. and subsidiaries' internal control over financial reporting as of June 30, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). K12 Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, K12 Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of K12 Inc. and subsidiaries as of June 30, 2009 and 2008, and the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended June 30, 2009, and our report dated September 11, 2009 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Bethesda, Maryland
September 11, 2009

ITEM 9B. *OTHER INFORMATION*

None

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Information relating to directors and officers of K12 is incorporated by reference to our proxy statement for our annual stockholders meeting. Certain information regarding our executive officers required by this item is set forth in Part I of this Annual Report on Form 10-K.

ITEM 11. *EXECUTIVE COMPENSATION*

Information regarding compensation of officers and directors of K12 is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

Information regarding ownership of K12 common stock is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 13. *CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE*

Information regarding certain relationships, related transactions with K12, and director independence is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

Information regarding principal accountant fees and services is incorporated by reference to our proxy statement for our annual stockholders meeting.

PART IV

ITEM 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES*

(a)(1) *All financial statements.* The information required by this item is incorporated herein by reference to the financial statements and notes thereto listed in Item 8 of Part II and included in this Form 10-K.

(a)(2) *Financial statement schedules.* All financial statement schedules are omitted because the required information is included in the financial statements and notes thereto listed in Item 8 of Part II and included in this Form 10-K.

(b) *Exhibits.*

An index to exhibits has been filed as part of this Report and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ RONALD J. PACKARD

Name: Ronald J. Packard
Title: Chief Executive Officer

Date: September 11, 2009

POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Ronald J. Packard, John F. Baule and Howard D. Polsky, and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RONALD J. PACKARD Ronald J. Packard	Chief Executive Officer *(Principal Executive Officer)*	September 11, 2009
/s/ JOHN F. BAULE John F. Baule	Chief Operating Officer and Chief Financial Officer *(Principal Financial Officer and Principal Accounting Officer)*	September 11, 2009
/s/ ANDREW H. TISCH Andrew H. Tisch	Chairman of the Board and Director	September 11, 2009
/s/ GUILLERMO BRON Guillermo Bron	Director	September 11, 2009
/s/ NATHANIEL A. DAVIS Nathaniel A. Davis	Director	September 11, 2009
/s/ STEVEN B. FINK Steven B. Fink	Director	September 11, 2009

Signature	Title	Date
/s/ JANE M. SWIFT Jane M. Swift	Director	September 11, 2009
/s/ THOMAS J. WILFORD Thomas J. Wilford	Director	September 11, 2009
/s/ MARY H. FUTRELL Mary H. Futrell	Director	September 11, 2009

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Third Amended and Restated Certificate of Incorporation of K12 Inc. (Incorporated by reference to Exhibit 3.1 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended December 31, 2007).
3.2	Amended and Restated Bylaws of K12 Inc. (Incorporated by reference to Exhibit 3.2 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended December 31, 2007).
4.1	Form of stock certificate of common stock (Incorporated by reference to Exhibit 4.1 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.2	Amended and Restated Stock Option Plan and Amendment thereto (Incorporated by reference to Exhibit 4.2 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.3	Form of Stock Option Contract — Employee (Incorporated by reference to Exhibit 4.3 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.4	Form of Stock Option Contract — Director (Incorporated by reference to Exhibit 4.4 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.5	Form of Second Amended and Restated Stockholders Agreement (Incorporated by reference to Exhibit 4.5 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.6	Form of Common Stock Warrant Agreement (Incorporated by reference to Exhibit 4.6 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.7	K12 Inc. 2007 Equity Incentive Award Plan (Incorporated by reference to Exhibit 4.8 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.8	K12 Inc. 2007 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.9 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.9	Form of Indemnification Agreement for Non-Management Directors and for Officers of K12 Inc. (Incorporated by reference to Exhibit 10.1 to K12's Annual Report on Form 10-Q for the quarter ended September 30, 2008).
4.10	Form of Director's Indemnification Agreement (Incorporated by reference to Exhibit 10.1 to K12's Current Report on Form 8-K filed on October 22, 2008).
10.1	Revolving Credit Agreement and Certain Other Loan Documents by and among K12 Inc., School Leasing Corporation, American School Supply Corporation and PNC Bank, N.A. (Incorporated by reference to Exhibit 10.1 to K12's Registration Statement on Form S-1, File No. 333-144894).
10.2*	Amended and Restated Stock Option Agreement of Ronald J. Packard dated as of July 12, 2007 (Incorporated by reference to Exhibit 10.5 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.3	Stock Option Agreement of Bruce J. Davis (Incorporated by reference to Exhibit 10.6 to K12's Registration Statement on Form S-1, File No. 333-144894).
10.4	Stock Option Agreement of John Baule (Incorporated by reference to Exhibit 10.7 to K12's Registration Statement on Form S-1, File No. 333-144894).
10.5	Stock Option Agreement of Bror Saxberg (Incorporated by reference to Exhibit 10.8 to K12's Registration Statement on Form S-1, File No. 333-144894).
10.6*	Employment Agreement of Ronald J. Packard (Incorporated by reference to Exhibit 10.9 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.7	Employment Agreement of John F. Baule (Incorporated by reference to Exhibit 10.10 to K12's Amendment No. 2 to Registration Statement on Form S-1, File No. 333-144894).
10.8	Employment Agreement of Bruce J. Davis (Incorporated by reference to Exhibit 10.11 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.9	Employment Agreement of Bror V. H. Saxberg (Incorporated by reference to Exhibit 10.12 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.10	Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated December 7, 2005 (Incorporated by reference to Exhibit 10.13 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).

Exhibit No.	Description of Exhibit
10.11	Sublease by and between France Telecom Long Distance USA, LLC, and K12 Inc., dated December 9, 2005 (Incorporated by reference to Exhibit 10.14 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.12	Employment Agreement of Celia Stokes (Incorporated by reference to Exhibit 10.15 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.13	Employment Agreement of Howard D. Polsky (Incorporated by reference to Exhibit 10.16 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.14*	Stock Option Agreement between K12 Inc. and Ronald J. Packard dated as of July 12, 2007 (Incorporated by reference to Exhibit 10.17 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.15	First Amendment to Employment Agreement of Howard D. Polsky (Incorporated by reference to Exhibit 10.18 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.16	Amendment No. 1 to Revolving Credit Agreement (Incorporated by reference to Exhibit 10.19 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.17	Stock Subscription Agreement between K12 Inc. and KB Education Investments Limited, dated November 6, 2007 (Incorporated by reference to Exhibit 10.20 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.18	Second Amended and Restated Educational Products and, Administrative, and Technology Services Agreement between the Ohio Virtual Academy and K12 Ohio LLC (Incorporated by reference to Exhibit 10.21 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.19	Stock Option Agreement of John Baule (Incorporated by reference to Exhibit 10.22 to K12's Amendment No. 7 to Registration Statement on Form S-1, File No. 333-144894).
10.20	Stock Option Agreement of Richard Rasmus (Incorporated by reference to Exhibit 10.23 to K12's Amendment No. 7 to Registration Statement on Form S-1, File No. 333-144894).
10.21	First Amendment to Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated as of November 30, 2006. (Incorporated by reference to Exhibit 10.21 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.22	Second Amendment to Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated as of March 26, 2007. (Incorporated by reference to Exhibit 10.22 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.23	Sublease by and between DIECA Communications Inc. and K12 Inc., dated June 25, 2008. (Incorporated by reference to Exhibit 10.23 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
21.1	Subsidiaries of K12 Inc.
23.1	Consent of BDO Seidman, LLP.
24.1	Power of Attorney (included in signature pages).
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer and 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.

* Portions omitted pursuant to a request for confidential treatment. The omitted information has been filed separately with the Securities and Exchange Commission.

Executive Management

Ronald J. Packard
Chief Executive Officer and Founder

John F. Baule
Chief Operating Officer and Chief Financial Officer

Bruce J. Davis
Executive Vice President, Worldwide Business Development

George B. ("Chip") Hughes, Jr.
Executive Vice President, School Services

Celia M. Stokes
Executive Vice President and Chief Marketing Officer

Howard D. Polsky
Senior Vice President, General Counsel and Corporate Secretary

Howard L. Allentoff
Senior Vice President, Human Resources

Board of Directors

Andrew H. Tisch, Chairman
Co-Chairman of the Board and Chairman of Executive Committee, Loews Corporation

Ronald J. Packard
Director, Chief Executive Officer and Founder, K12 Inc.

Guillermo Bron
Chairman of the Board, United Pan Am Financial Corp.

Nathaniel A. Davis
Former CEO, XM Satellite Radio

Steven B. Fink
Former Chairman of the Board, Leapfrog Enterprises, Inc.

Mary H. Futrell
Dean, Graduate School of Education and Human Development, George Washington University

Jane M. Swift
Former Governor of the Commonwealth of Massachusetts

Thomas J. Wilford
President and Director, Alscott, Inc.

Company Directory

Transfer Agent
Registrar & Transfer Company
10 Commerce Drive
Cranford, NJ 07016
Phone: 800.368.5948
Corporate Website: www.rtco.com

Independent Auditor
BDO Seidman, LLP
Bethesda, MD

Legal Counsel
Latham & Watkins, LLP
Washington, DC

Stock Exchange Listing
Listed on the New York Stock Exchange under the symbol LRN

Annual Meeting
The annual meeting of K12 Inc. shareholders will be held at the offices of Latham & Watkins, LLP, 885 Third Avenue, New York, NY 10022 on Wednesday, November 18, 2009 at 10 am (ET).

Investor Inquiries
Keith T. Haas
Senior Vice President, Finance and Investor Relations
703.483.7077
khaas@K12.com

Online Information
For corporate reports and company news, visit K12.com.

2300 Corporate Park Drive
Suite 200
Herndon, VA 20171
703.483.7000
K12.com

"My oldest no longer waits for the rest of the class to catch up to her; my youngest no longer curls up into a ball because she didn't understand what the class was doing. We have wonderful teachers who help us solve any difficulties we are having. We have a wonderful curriculum. We have the benefit of going on trips with other families that are using the same schooling. What more could a parent ask for?"—K12 Parent k12™

Transforming Education.
Transforming Lives.

2010 Annual Report

"We see the impact of the K12 curriculum, with many students jumping a year and a half in one year."

—Laura Belnap, Online Director, Washington County School District, Utah

"Our job as teachers is to find out how the students learn, meet them where they are, and progress at the speed at which they're capable. This school gives me that opportunity."

—Margaret Skimmyhorn, Teacher, Idaho Virtual Academy

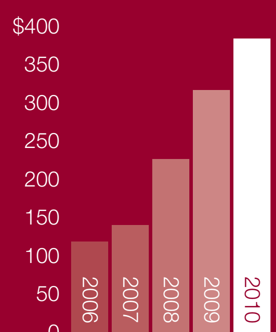
"I know these students better than I did in traditional classrooms because you get to know the students, parents, and families…it's a whole different level of connection."

—Kathy Hennings, K–2 Teacher, Wisconsin Virtual Academy

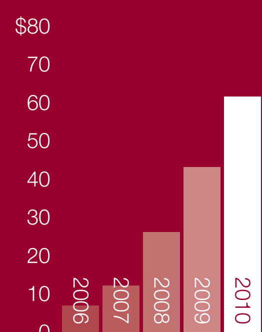
(5 years with WIVA, 30 years in traditional school)

2300 Corporate Park Drive
Suite 200
Herndon, VA 20171
703.483.7000
K12.com

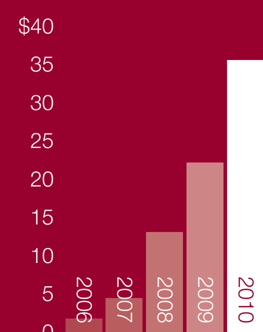
K[12] is the leading global provider of proprietary curriculum and online education programs to students in kindergarten through high school. Our mission is to provide any child the curriculum and tools to maximize success in life, regardless of geographic, financial, or demographic circumstances. We strive to develop each child's full potential with engaging and individualized learning. K[12]'s curriculum is available through full-time public and private school programs, via individual courses for supplemental needs or homeschooling, and worldwide through our online private school.



Revenues
dollars in millions



EBITDA*
dollars in millions



Income from Operations
dollars in millions

Year Ended June 30, (dollars in millions)	Revenues	EBITDA*	Income from Operations
2010	$384.5	$61.2	$35.5
2009	$315.6	$43.2	$22.3
2008	$226.2	$25.6	$13.0
2007	$140.6	$12.1	$ 4.7
2006	$116.9	$ 6.8	$ 1.8

**EBITDA is a non-GAAP financial measure. For a discussion about EBITDA, please see page 50 of our Form 10-K herein.*

Andrew H. Tisch
Chairman

Ronald J. Packard
Chief Executive Officer and Founder

To our fellow shareholders:

Transforming Education and Lives

Ten years ago, K12 set forth a vision that every child deserves a world-class education regardless of geographic, financial, or demographic circumstances. Today, not only is the vision a proven reality, but K12 has grown from an upstart provider of online education to a leading force in helping states and school districts transform traditional K–12 education.

We have come a long way in 10 years—educating more than 200,000 children with a superior curriculum. Our initial vision continues to serve as our inspiration for domestic and international expansion. We look back so we can forge ahead, and we believe that our future is brighter than ever. Most important, we are changing the centuries-old mode of K–12 education and uplifting lives—preparing students to excel in a 21st-century global economy.

In fact, this year's K12 graduates were accepted at hundreds of post-secondary schools, including many of the nation's most selective institutions—Cornell, Duke, Northwestern, Princeton, Stanford, Vanderbilt, University of California, University of Texas, Middlebury College, and many more. An astounding 93 percent of seniors surveyed reported their intent to pursue post-high school education. The success of this impressive class of students is a testament to the effectiveness of our online school program. The achievement of our students is consistent with customer satisfaction that exceeds 90 percent. This high customer satisfaction also results in a significant number of referrals which helps propel K^{12}'s growth.

Vision and Expansion

Our vision drives us to serve as many children as we can. We now have K^{12} virtual public schools in 27 states and the District of Columbia. We added Massachusetts and Michigan to our growing nationwide portfolio for the 2010–2011 school year, and Alaska, Virginia, Oklahoma, and Wyoming the prior year. Further, our reach now firmly extends from the virtual public school and individual consumer markets to the brick-and-mortar classroom, as more and more states, school districts, and private schools partner with K^{12} because they trust our curriculum to enhance their students' education—and lives. Our K^{12} International Academy serves students in more than 59 countries, and enrollment continues to increase rapidly.

Financial Results

We are quite pleased with our record results for fiscal year (FY) 2010. Revenues for the year grew to $384.5 million, an increase of 21.8 percent over the same period for the prior year, primarily due to strong enrollment growth in virtual public schools. EBITDA for FY 2010 increased 41.8 percent to $61.2 million. Net income to shareholders for the year was $21.5 million, compared to $12.3 million in FY 2009—an increase of 74.8 percent. Operating income improved to $35.5 million, an increase of 58.8 percent compared to the prior year.

33%

Each year, almost one third of all public high school students—and nearly one half of all African Americans, Hispanics, and Native Americans—fail to graduate from public high school with their class. Many of these students abandon school with less than two years to complete of their high school education.

—The Silent Epidemic: Perspectives of High School Dropouts, March 2006, a study commissioned by the Bill & Melinda Gates Foundation

Chicago K^{12} Blended Learning Program Delivers Strong Results

Chicago Virtual Charter School, a blended learning program, has outperformed the Chicago Public School System in reading, math, and science by up to 16 percentage points. The school was also one of 147 state public schools to receive an Illinois Honor Award for achieving significant gains in academic performance in 2009.

20%

The percentage of K12 high school survey respondents who took the Finding Your Path course and were inspired to raise their planned post-graduation goals for college.

We achieved these results despite continued pressure on state education budgets. They demonstrate the further scaling of the business and greater productivity and are primarily attributable to the dedication, passion, and talent of our employees.

At K12, we are committed to creating shareholder value. Looking ahead, we will continue to extend our curriculum to more markets and become more involved in brick-and-mortar classrooms, while also selling more individual courses to schools. In addition, we are focused on mergers and acquisitions, strategic partnerships, and expanding into new markets. We will be disciplined buyers, and we believe there are attractive opportunities to enhance our business.

Acquisitions and Partnerships

Two important additions to our portfolio this year were the acquisition of KC Distance Learning (KCDL) and an innovative joint venture with Middlebury College.

The all-stock acquisition of KCDL, a leading provider of distance learning programs for middle and high school students, adds a new line of products and services and allows us to scale at a faster rate—with greater cost-efficiency—to meet the growing demand for online learning solutions. KCDL has three brands that provide educational services to states, school districts, and end users: Aventa Learning, The Keystone School, and iQ Academies.

Aventa Learning offers an extensive grades 6–12 catalog of 140 courses and instructional services for schools and school districts. Courses include core, elective, AP, and credit recovery, as well as full-scale virtual school programs. The Keystone School is a leading online private school for middle and high school students. Established in 1974, the school has served more than 250,000 students from 84 countries. KCDL's iQ Academies operates statewide online public schools, in partnership with school districts or public charter schools, that serve middle and high school students. Presently, iQ Academies operate in six states: Kansas, Minnesota, Nevada, Texas, Washington, and Wisconsin.

Partnership to Offer World-Class Language Instruction

K12 and Middlebury College, the renowned leader in world language instruction, have partnered to form Middlebury Interactive Languages. The new company will create and distribute high-quality, online language courses, utilizing Middlebury's expertise in full language immersion and cultural education.

The partnership between K12 and Middlebury College—the renowned leader in world language teaching among the nation's higher education institutions—is called Middlebury Interactive Languages. The new venture will create and distribute high-quality online language courses. The first courses, beginner French and Spanish for high school students, will be available in pilot programs this Fall. At a time when world language opportunities for primary and secondary school students in the U.S. are declining due to reductions in education budgets, the need and demand for first-rate language learning are growing exponentially. We will soon offer a product line to meet that demand.

Partnerships with School Districts

K12 is no longer just the leading provider of online education options for families seeking an alternative or a supplement to traditional schooling. We are rapidly becoming a preferred partner with state governments and public school districts in applying our growing continuum of online curriculum and service offerings to the myriad of educational challenges facing traditional schools.

This continuum of offerings ranges from complete turnkey online school programs, to blended online classroom solutions, to full classroom solutions, to supplemental courses. These solutions address credit recovery, student attraction, engagement, retention, overcrowded classrooms, program reductions due to budget cuts, teacher staffing, and special programs for advanced or struggling students.

We also have had notable success in assuming management responsibility for brick-and-mortar public schools in distress. For example, K12 was involved with the management of Sarah T. Reed Senior High School in New Orleans. Working with the school district, K12 transformed the school to focus on engineering, information technology, and biomedical science—subject areas the state deemed important to produce a technical workforce to support its economy. In the first year, the school had one of the largest performance improvements in the state, and the graduation rate has soared. Another turnaround success story is the launch of Chicago's Youth Connection Charter School Virtual High School, a blended high school credit recovery program that helps high school dropouts re-engage in their education and graduate.

K12 is becoming a trusted and effective partner to states and school districts who seek to benefit from our unique combination of best-in-class curriculum *and* expert school management services. These include administrative tools, student and teacher recruitment, family support services, teacher training and staffing options, enrollment processing, budget consulting and management, as well as student performance reporting. While other companies offer online curricula, no other company *also* offers our curriculum expertise, technical expertise, and breadth of school management services, as well as our track record in delivering them. K12 intends to continue to build these areas of expertise and use them to help school districts and states, and their students.

Dedicated and Engaged

A driving factor in K12's success is our teachers' engagement with families. Teachers often remark

K^{12} Improves Math and Science Scores in Northern Mississippi

The Mississippi Department of Education called on K^{12} to provide daily math and science instruction to three struggling elementary schools in the North Panola School District. In less than two years, math and science proficiency test scores surged for students in all three schools.

over 90%

Parent satisfaction with K^{12} curriculum quality.

Congratulations to the Class of 2010

K[12] virtual schools graduated more than 1,000 students in 2010, and the majority of students—93 percent of those surveyed—plan to pursue post-high school education.

that they have more interaction with families than they ever did when they taught at brick-and-mortar schools. The one-to-one relationship between teachers and students allows consistent communications, assessments, and targeted interventions to ensure that students stay on their individual path to academic success. Our teachers have a passion for education that challenges students to achieve academic and personal excellence. Indeed, teachers *do* make a difference in children's lives and are front-line champions of our core vision.

Moreover, our many initiatives and achievements could not occur without the dedication of K[12]'s employees—all focused on fulfilling the vision that now extends to an array of new markets and expanded offerings.

Finally, our work remains firmly grounded on the premise that every child deserves the best possible education. As we continue to drive and expand that vision, growth, academic success, and shareholder value will follow. We thank you, our fellow shareholders, for your continued support and confidence. We believe our future is brighter than ever and we look forward to serving more children each and every year.

Sincerely,

Ronald J. Packard
Chief Executive Officer and Founder

Andrew H. Tisch
Chairman

50%

Data suggests that by 2019, about 50 percent of high school courses will be delivered online.

—Disrupting Class: How Disruptive Innovation Will Change the Way the World Learns, 2008

Form 10-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended June 30, 2010

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

For the transition period from to

Commission File Number 001-33883

K12 Inc.

(Exact name of registrant as specified in its charter)

Delaware	**95-4774688**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2300 Corporate Park Drive Herndon, VA 20171	**(703) 483-7000**
(Address of principal executive offices)	*(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.0001 par value
Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of December 31, 2009 was approximately $500,449,800.

Number of shares outstanding of each class of common equity as of September 10, 2010: 30,589,173 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

The registrant has incorporated by reference into Part III of this Form 10-K specific portions of its proxy statement for the registrant's 2010 Annual Meeting of Stockholders.

TABLE OF CONTENTS

CERTAIN DEFINITIONS

Unless the context requires otherwise, all references in this Annual Report on Form 10-K (Annual Report) to "K12", "K^{12}", "Company", "we", "our", and "us" refer to K12 Inc. and its consolidated subsidiaries.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We have tried, whenever possible, to identify these forward-looking statements using words such as "anticipates," "believes," "estimates," "continues," "likely," "may," "opportunity," "potential," "projects," "will," "expects," "plans," "intends" and similar expressions to identify forward looking statements, whether in the negative or the affirmative. These statements reflect our current beliefs and are based upon information currently available to us. Accordingly, such forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties, factors and contingencies include, but are not limited to: the reduction of per pupil funding amounts at the schools we serve; reputation harm resulting from poor performance or misconduct by other virtual school operators; challenges from virtual public school opponents; failure of the schools we serve to comply with regulations resulting in a loss of funding; discrepancies in interpretation of legislation by regulatory agencies that may lead to payment or funding disputes; termination of our contracts with schools due to a loss of authorizing charter, failure to renew existing contracts with schools; and increased competition.

Forward-looking statements reflect our management's expectations or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial conditions may differ, possibly materially, from the anticipated results and financial conditions indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this Annual Report. A discussion of factors that could cause actual conditions, events or results to differ materially from those expressed in any forward-looking statements appears in "Part 1 — Item 1A — Risk Factors."

Readers are cautioned not to place undue reliance on forward-looking statements in this Annual Report or that we make from time to time, and to consider carefully the factors discussed in "Part 1 — Item 1A — Risk Factors" of this Annual Report in evaluating these forward-looking statements. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise.

PART I

ITEM 1. *BUSINESS*

Our Company

We are a technology-based education company. We offer proprietary curriculum and educational services designed to facilitate individualized learning for students in kindergarten through 12th grade, or K-12. Our mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since our inception, we have invested more than $175 million to develop curriculum and an online learning platform that promotes mastery of core concepts and skills for students of all abilities. This learning system combines a cognitive research-based curriculum with an individualized learning approach well-suited for virtual public schools, online public district programs, public charter schools, hybrid programs and private schools that combine varying degrees of online and traditional classroom instruction, and other educational applications.

We increased total average enrollments in the virtual public schools we serve from 54,962 in fiscal year 2009 to 66,811 in fiscal year 2010, a growth rate of 21.6%. These enrollments exclude students in our direct-to-consumer, private school, and international channels, as well as our pilot programs. Over the same period, we increased revenues from $315.6 million to $384.5 million, a growth rate of 21.8%, increased operating income from $22.3 million to operating income of $35.5 million, a growth rate of 58.8%, and increased net income-K12 Inc. from $12.3 million to net income-K12 Inc. of $21.5 million, a growth rate of 74.8%. Also over the same timeframe, we increased EBITDA, a non-GAAP measure (see reconciliation on page 51), from $43.2 million to $61.2 million, a growth rate of 41.8%.

We believe we are unique in the education industry because of our direct involvement in every component of the educational development and delivery process. Most educational content, software and service providers typically concentrate on only a portion of that process, such as publishing textbooks, managing schools or providing testing and assessment services. This traditional segmented approach has resulted in an uncoordinated and unsatisfactory education for many students. Unburdened by legacy, we have taken a holistic approach to the design of our learning system. We have developed an engaging curriculum which includes online lessons delivered over our proprietary school platform. We combine this with a rigorous system to test and assess students and processes to manage school performance and compliance. In addition, our professional development programs enable teachers to better utilize technology for instruction. Our end-to-end learning system is designed to maximize the performance of the schools we serve and enhance student academic achievement.

As evidence of the benefit of our holistic approach, the virtual public schools we serve generally test near state averages on standardized achievement tests. These results have been achieved despite the enrollment of a significant number of new students each school year who have had limited exposure to our learning system prior to taking these required state tests. Students using our learning system for at least three years usually perform better on standardized tests relative to state averages than students using it for one year or less. The efficacy of our learning system has also helped us achieve high levels of customer satisfaction.

We deliver our learning system to students primarily through virtual public schools and are building an institutional business with sales directly to school districts. The virtual public schools we serve, as with any public school, must meet state educational standards, administer proctored exams and are subject to fiscal oversight. The fundamental difference is that students attend virtual public schools primarily over the Internet instead of traveling to a physical classroom. In their online learning environment, students receive assignments, complete lessons, and obtain instruction from certified teachers with whom they interact online, telephonically, in virtual classroom environments, and sometimes face-to-face. Many states have embraced virtual public schools as a means to provide families with a publicly funded alternative to a traditional classroom-based education. For parents who believe their child is not thriving and for whom relocating or private school is not an option, virtual public schools can provide a compelling choice. This widespread availability makes them the "most public" of schools. From an education policy standpoint, virtual public schools often represent a savings to the taxpayers when compared with traditional public schools because they are generally funded at a lower per pupil level than the per pupil state average reported by the U.S. Department of Education. Finally, because parents are generally not required to pay tuition, virtual public schools make our learning system available to the broadest range of students.

We offer virtual public schools our proprietary curriculum, online learning platform and varying levels of academic and management services, which can range from targeted programs to complete turnkey solutions. Without the requirement of a physical classroom, virtual schools can be scaled quickly to accommodate a large dispersed student population, and allow more capital resources to be allocated towards teaching, curriculum and technology rather than towards a physical infrastructure.

For the 2010-11 school year, we will manage schools in 27 states and the District of Columbia. For the most part, these schools are able to enroll students on a statewide basis. Most of these enrollments are in virtual public schools. We are serving a growing number of hybrid schools the first of which opened in Chicago in 2006. A hybrid school is a virtual public school that combines the benefits of face-to-face time for students and teachers in a traditional classroom setting along with the flexibility and individualized learning advantages of online instruction. In July 2010, through our acquisition of KC Distance Learning, Inc. (KCDL), we have added the iQ Academies that serve statewide virtual public schools in six states where we also serve other schools.

A new online alternative for students are district-based programs that typically only accept enrollments from their own district. We have established a dedicated sales team to focus on this sector, and through our acquisition of KCDL in July 2010, we increased the size and expertise of this sales team and expanded our course portfolio to provide school districts with more options. The services we provide to these districts are designed to assist them in launching their own distance learning programs and vary according to the needs of the individual school districts and may include teacher training programs, administrator support and our student account management system. With our services, districts can offer programs that allow students to participate full-time, as their primary school, or part-time, supplementing their education with a single elective or core course.

In addition, parents can purchase our curriculum and learning solutions directly to facilitate or supplement their children's education. In 2008, we launched the K^{12} International Academy, a private school that we operate using our curriculum. This private school is accredited and enables us to offer students throughout the United States and worldwide the same full-time education programs that we provide to the virtual public schools we serve. This school is organized as a private international school and enrolled students can interact with their classmates from more than 60 countries. Through our acquisition of KCDL, we have added The Keystone School, a private school that has been serving students for over 35 years and offers online and correspondence courses.

In April 2010, we formed a joint venture with Middlebury College known as Middlebury Interactive Languages LLC (MIL) to develop online foreign language courses. We contributed substantially all of the assets in our Power-Glide Language Courses Inc. (Power-Glide), subsidiary, along with certain intellectual property licenses and cash for a 60% interest in the joint venture. As a majority-owned subsidiary, we will consolidate the financial statements of MIL into our financial statements. Middlebury contributed a license to use its school name, its Middlebury-Monterey Language Academy (MMLA) business and cash for a 40% interest in the joint venture. We offer these MIL courses in our virtual public schools and believe they have wide applicability in online learning. This new venture will create innovative, online language programs for pre-college students and will leverage Middlebury's recognized experience in foreign language instruction and our expertise in online education. Language faculty from Middlebury will work with us to develop and manage the academic content of the Web-based language courses, which we will offer through its online education programs. The new courses will use features such as animation, music, videos and other elements that immerse students in new languages. The first courses, beginner French and Spanish for high school students, will be offered for the 2010-11 school year. The joint venture will also expand the Middlebury-Monterey Language Academy, a language immersion summer program for middle and high school students. MMLA offers Arabic, Chinese, French, German and Spanish at its summer four-week residential session at four college campuses.

In July 2010, we acquired all of the stock of KC Distance Learning, Inc. (KCDL), a provider of online curriculum and public and private virtual education, for approximately $63 million in 2.75 million non-voting shares of a new class of preferred stock (Series A Shares). If approved by a shareholder vote, these shares are eligible to convert to common stock on a one-for-one basis. If converted and outstanding for the full fiscal year ended June 30, 2010, the Series A Shares would have increased our total dilutive shares outstanding by approximately 9.2%. The KCDL businesses include: Aventa Learning (online curriculum and instruction), the iQ Academies (statewide virtual public charter schools for middle and high school), and The Keystone School (international online private school). Aventa Learning offers to schools and school districts over 140 core, elective and AP® courses in grades 6-12, from credit recovery courses to full-scale virtual school programs, as well as instructional services. Aventa Learning is accredited by the Northwest Association of Accredited Schools (NAAS). The Keystone School is an online private school for middle and high school students, which is also accredited by the NAAS. It was established in 1974 and has served over 250,000 students from 84 countries. The school enrolls both full-time and part-time students and its course offerings are supported by certified teachers. The iQ Academies are statewide online public schools that partner with school districts or public charter schools to serve middle and high school students. iQ Academies currently operate in Kansas, Minnesota, Nevada, Texas, Washington, and Wisconsin. With the formation of MIL and the addition of KCDL, we believe we have improved our growth potential and the ability to scale our business even further.

Families that choose our educational programs for their children come from a broad range of social, economic and academic backgrounds. They share the desire for individualized instruction so as to maximize their child's potential. Examples include, but are not limited to, families with: (i) students seeking to learn faster or slower than they could in a "one size fits all" traditional classroom; (ii) safety, social and health concerns about their local school; (iii) students with disabilities who are underserved in traditional classrooms; (iv) students with geographic or travel constraints; and (v) student-athletes and performers who are not able to attend regularly scheduled classes. Our individualized learning approach allows students to optimize their individual academic performance and, therefore, their chances of achieving their goals.

Our History

We were founded in 2000 to utilize advances in technology to provide children access to a high-quality education regardless of their geographic location or socio-economic background. Given the geographic flexibility of technology-based education, we believed that the pursuit of this mission could help address the growing concerns regarding the regionalized disparity in the quality of public school education, both in the United States and abroad. The convergence of these concerns and rapid advances in Internet technology created the opportunity to make a significant impact by deploying a high quality learning system on a flexible, online platform.

In fiscal year 2002, after 18 months of research and development of our curriculum, we launched our kindergarten through 2nd grade offering in two states and served approximately 900 average enrollments. By fiscal year 2005, we completed our K-8 offering and served 10 new states. Over the next three years, we completed our high school offering and served another nine states. In fiscal year 2006, we developed and launched our first hybrid program that combines face-to-face time in a classroom with online instruction.

In fiscal year 2007, we acquired Power-Glide Language Courses Inc. (Power-Glide), a provider of online world language courseware and later that year, we completed our initial public offering of our common stock on the New York Stock Exchange. In fiscal year 2008, we launched the K^{12} International Academy and later that year, entered into a joint venture to distribute our learning system in the Gulf Cooperating Countries with a branch facility in Dubai. In fiscal year 2010, we added four states and increased our average enrollments to approximately 67,000 students. In fiscal year 2010, besides serving new states, we formed a joint venture with Middlebury College to develop world languages courses and acquired KC Distance Learning, Inc. For the 2010-11 school year, we began serving virtual public schools in Massachusetts and Michigan and now fully manage schools in 27 states and the District of Columbia.

Our Market

The U.S. market for K-12 education is large and growing. For example:

- According to the National Center for Education Statistics (NCES), a division of the U.S. Department of Education, approximately 50 million students attended K-12 public schools during the 2009-10 school year. In addition, according to National Home Education Research, approximately two million students are home schooled and, according to 2009 NCES report, approximately six million students are enrolled in private schools.

- According to the NCES, the public school system alone encompassed more than 98,000 schools and approximately 14,000 districts during the 2008-09 school year.
- The NCES estimates that total spending in the K-12 market was $661 billion for the 2009-10 school year.

Parents and lawmakers are demanding increased standards and accountability in an effort to improve academic performance in U.S. public schools. As a result, each state is now required to establish performance standards and to regularly assess student progress relative to these standards. We expect continued focus on academic standards, assessments and accountability in the future. The precise forms of accountability will be debated as part of the reauthorization of the federal Elementary and Secondary Education Act (ESEA), which could occur as soon as 2011. The Obama Administration has issued a Blueprint for ESEA Reauthorization and we view the focus on quality curriculum in this initiative to achieve the goal of college-ready students as a positive step and one that is consistent with the rigor of our academic programs and curriculum.

Many parents and educators are also seeking alternatives to traditional classroom-based education that can help improve academic achievement. Demand for these alternatives is evident in the growing number of choices available to parents and students. For example, charter schools emerged in 1988 to provide an alternative to traditional public schools. Currently, 40 states and the District of Columbia have passed charter school legislation and there are approximately 5,000 charter schools in the U.S. with an estimated enrollment of over 1.5 million students according to the Center for Education Reform. Similarly, acceptance of online learning initiatives, including not only virtual schools but also online testing and Internet-based professional development, has become widespread. According to the International Association for K-12 Online Learning, as of August 2010, 46 states had established a significant form of online learning initiative, and Alabama became the second state in the country after Michigan to pass legislation mandating that high school students take an online or technology enhanced course in order to graduate. In addition, the current presidential administration has supported charter school growth by linking the removal of restrictions on the growth of charter schools to federal stimulus funding, including “Race to the Top” grants. As a result, many states that have placed enrollment caps or other limitations on charter schools, including online charter schools, are in the process of eliminating or revising such restrictions. Both Massachusetts and Michigan passed legislation in 2010 which encouraged the development of full-time online schools.

Educational Philosophy

The design, development and delivery of our proprietary learning system that facilitates individualized learning is utilized in the virtual public schools and public hybrid schools that account for most of our revenue is based on the following set of guiding principles:

- *Apply “Tried and True” Educational Approaches for Instruction.* Our learning system is designed to utilize both “tried” and “true” methods to drive academic success. “True” methodologies are based on cognitive research regarding the way in which individuals learn. We also supplement our learning system with teaching tools and methodologies that have been tested, or “tried,” and proven to be effective. This “tried and true” philosophy allows us to benefit from both decades of research about learning, and effective methods of teaching.
- *Employ Technology Appropriately for Learning.* While all of our courses are delivered primarily through an online platform and generally include a significant amount of online content, we employ technology only where we feel it is appropriate and can enhance the learning process. In addition to online content, our curriculum includes a rich mix of course materials, including engaging textbooks and hands-on materials such as phonics kits and musical instruments. Furthermore, our teachers utilize telephonic contact as well as email and virtual electronic classrooms. We believe our balanced use of technology and more traditional approaches help to maximize the effectiveness of our learning system.
- *Base Learning Objectives on “Big Ideas.”* We refer to “big ideas” as the key, subconscious frameworks that serve as the foundation to a student’s future understanding of a subject matter. For example, an understanding of waves is fundamental to a physicist’s understanding of quantum mechanics; therefore, we

teach 1st graders the fundamentals of waves. We use these "big ideas" to organize and provide the master objectives of every course we develop.

- *Assess Every Objective to Ensure Mastery.* Ongoing assessments are the most effective way to evaluate a student's mastery of a lesson or concept. To facilitate effective assessment, our curriculum establishes clear objectives for each lesson. Throughout a course, each student's progress is assessed at a point when each objective is expected to be mastered, providing direction for appropriate pacing. These periodic and well-timed assessments reinforce learning and promote mastery of a topic before a student moves to the next lesson or course.
- *Facilitate Flexibility as the Level, Pace and Hours Spent on Each Objective Vary by Child.* We believe that each student should be challenged appropriately. Generally, adequate progress for most students is to complete one academic year's curriculum within a nine-month school year. Each individual student may take greater or fewer instructional hours and more or less effort than the average student to achieve this progress. Our learning system is designed to facilitate this flexibility in order to ensure that the appropriate amount of time and effort is allocated to each lesson.
- *Prioritize Important, Complex Objectives.* We have developed a clear understanding of those subjects and concepts that are difficult for students. Greater instructional effort is focused on the most important and difficult concepts and skills. We use existing research, feedback from parents and students and experienced teacher judgments to determine these priorities, and to modify our learning system to guide the allocation of each student's time and effort.
- *Ensure Fundamental Content Soundness.* Our credentialed subject matter experts (SMEs) or "Content Specialists" bring their own scholarly and teaching backgrounds to course design and development and are required to maintain relationships with and awareness of guidelines from nearly 40 national and international subject-area associations.

Products and Services

Our Products

Curriculum

Our curriculum consists of the online lessons, learning kits and lesson guides. We have developed an extensive catalogue of proprietary courses designed to teach concepts to students from kindergarten through 12th grade. A single year-long course generally consists of 120 to 180 unique instructional lessons. Each lesson is designed to last approximately 45 to 60 minutes, although students are able to work at their own pace.

Online Lessons. Our online lessons are accessed through an Online School (OLS) platform for K-8, or the e-college platform for high school. Each online lesson provides the roadmap for the entire lesson including direction to specific online and offline materials, online lesson content and a summary of the major objectives for the lesson. Lessons utilize a combination of innovative technologies including flash animations, audio, video and other online interactivity, coordinated textbooks and hands-on materials and individualized feedback to create an engaging, responsive and highly effective curriculum. Each lesson also contains an online assessment to ensure that students have mastered the material and are ready to proceed to the next lesson, allowing them to work at their own pace. Pronunciation guides for key words and references to suggested additional resources, specific to each lesson and each student's assessment, are also included.

Learning Kits. Many of our courses utilize a series of learning kits in conjunction with the online lessons to help maximize the effectiveness of our learning system. In addition to receiving access to our online lessons through the Internet, each student receives a shipment of materials, including award winning textbooks, art supplies, laboratory supplies (e.g. microscopes and scales) and other reference materials which are incorporated throughout our curriculum. This approach is consistent with our guiding principle to utilize technology where appropriate in our learning system. Most of the textbooks we use are proprietary textbooks that are written in a way that is designed to be engaging to students and to complement the online experience. We have also converted an initial set of our books into an electronic format enabling us to offer options to enhance the student experience without physical books. We believe that our ability to effectively combine online lessons and materials is a competitive advantage.

Lesson Guides. Our courses are generally paired with a lesson guide. Lesson guides work in coordination with the online lessons and include the following: overview information for learning coaches, lesson objectives, lesson outlines and activities, answer keys to student exercises and suggestions for explaining difficult concepts to students.

Our Course Offerings

The following table provides a list of our K-8 and high school course offerings marketed under the K[12] trademarks:

	English and Language Arts	Mathematics	Science	History	World Languages	Music/Art/Other
Elementary School	Kindergarten Language Arts Kindergarten Phonics 1st Grade Language Arts 1st Grade Phonics 2nd Grade Language Arts 3rd Grade Language Skills 3rd Grade Spelling 3rd Grade Literature 4th Grade Language Skills 4th Grade Spelling 4th Grade Literature 5th Grade Language Skills 5th Grade Spelling 5th Grade Literature MARK[12] Reading I MARK[12] Reading II MARK[12] Reading III	Kindergarten Math 1st Grade Math 2nd Grade Math 3rd Grade Math 4th Grade Math 5th Grade Math Math+ Blue Math+ Green Math+ Orange Math+ Purple Math+ Red Math+ Yellow	Kindergarten Science 1st Grade Science 2nd Grade Science 3rd Grade Science 4th Grade Science 5th Grade Science	Kindergarten History Kindergarten Social Studies 1st Grade History 2nd Grade History 3rd Grade History 4th Grade History American History Before 1865	Spanish Elementary Year 1 Spanish Elementary Year 2 French Elementary Year 1 French Elementary Year 2 German Elementary Year 1 German Elementary Year 2 Latin Elementary Year 1	Kindergarten Art 1st Grade Art 2nd Grade Art 3rd Grade Art 4th Grade Art Intermediate Art: American A Preparatory Music Beginning 1 Music Beginning 2 Music Introduction to Music Intermediate 1 Music Intermediate 2 Music Intermediate 3 Music Exploring Music Introduction to Online Learning K — 2 Introduction to Online Learning 3 — 5 Introduction to Online Learning 6 — 8
Middle School	Intermediate Language Skills A Intermediate Language Skills B Intermediate Literature A Intermediate Literature B Literary Analysis and Composition	Pre-Algebra A Pre-Algebra B Algebra I	Earth Science Advanced Earth Science Life Science Advanced Life Science Physical Science Advanced Physical Science	American History Since 1865 Intermediate World History A Intermediate World History B	Middle School Spanish 1 Middle School Spanish 2 Middle School French 1 Middle School French 2 Middle School German 1 Middle School German 2 Middle School Chinese 1 Middle School Chinese 2 Middle School Latin 1 Middle School Latin 2	Intermediate Art: American B Intermediate Art: World A Intermediate Art: World B Music Concepts A Music Concepts B

	English and Language Arts	Mathematics	Science	History	World Languages	Music/Art/Other
High School	ENG102: Literary Analysis and Composition I ENG103: Literary Analysis and Composition I ENG104: Honors Literary Analysis and Composition I ENG106: Literary Analysis and Composition I (Credit Recovery) ENG202: Literary Analysis and Composition II ENG203: Literary Analysis and Composition II ENG204: Honors Literary Analysis and Composition II ENG206: Literary Analysis and Composition II (Credit Recovery) ENG302: American Literature ENG303: American Literature ENG304: Honors American Literature ENG306: American Literature (Credit Recovery) ENG402: British and World Literature ENG403: British and World Literature ENG404: Honors British and World Literature ENG406: British and World Literature (Credit Recovery) ENG500: AP® English Language and Composition ENG510: AP® English Literature and Composition ENG010: Journalism *ENG001: English Foundations I* *ENG011: English Foundations II*	MTH112: Pre-Algebra MTH113: Pre-Algebra MTH116: Pre-Algebra (Credit Recovery) MTH122: Algebra I MTH123: Algebra I MTH124: Honors Algebra I MTH126: Algebra I (Credit Recovery) MTH202: Geometry MTH203: Geometry MTH204: Honors Geometry MTH206: Geometry (Credit Recovery) MTH302: Algebra II MTH303: Algebra II MTH304: Honors Algebra II MTH306: Algebra II (Credit Recovery) *MTH312: Business & Consumer Math* MTH403: Pre-Calculus/ Trigonometry MTH500: AP® Calculus AB MTH510: AP® Statistics *MTH001: Math Foundations I* *MTH011: Math Foundations II*	SCI102: Physical Science SCI106: Physical Science (Credit Recovery) SCI112: Earth Science SCI113: Earth Science SCI114: Honors Earth Science SCI116: Earth Science (Credit Recovery) SCI202: Biology SCI203: Biology SCI204: Honors Biology SCI206: Biology (Credit Recovery) SCI302: Chemistry SCI303: Chemistry SCI304: Honors Chemistry SCI306: Chemistry (Credit Recovery) SCI403: Physics SCI404: Honors Physics SCI500: AP® Biology SCI510: AP® Chemistry SCI520: AP® Physics B SCI010: Environmental Science *SCI020: Life Science: Oceanography*	HST102: World History HST103: World History HST104: Honors World History HST202: Modern World Studies HST203: Modern World Studies HST204: Honors Modern World Studies HST206: Modern World Studies (Credit Recovery) HST212: Geography and World Cultures HST213: Geography and World Cultures HST302: U.S. History HST303: U.S. History HST304: Honors U.S. History HST306: U.S. History (Credit Recovery) HST312: Modern U.S. History HST313: Modern U.S. History HST314: Honors Modern U.S. History HST316: Modern U.S. History (Credit Recovery) HST402: U.S. Government and Politics HST403: U.S. Government and Politics HST412: U.S. and Global Economics HST413: U.S. and Global Economics HST500: AP® U.S. History HST510: AP® U.S. Government and Politics HST520: AP® Macroeconomics HST530: AP® Microeconomics HST540: AP® Psychology HST550: AP® European History HIH100: Modern History of Hawai'i WAH100: Washington State History *HST010: Anthropology* *HST020: Psychology* *HST030: Macroeconomics*	WLG100: Spanish I WLG200: Spanish II WLG300: Spanish III WLG500: AP® Spanish Language WLG110: French I WLG210: French II WLG310: French III WLG510:AP® French Language WLG120: German I WLG220: German II WLG130: Latin I WLG230: Latin II WLG140: Chinese I WLG240: Chinese II	ART010: Fine Art ART020: Music Appreciation ORN010: Online Learning 10-11 ORN030: Introduction to Online Learning ORN100: Finding Your Path I ORN200: Finding Your Path II ORN300: Finding Your Path III ORN400: Finding Your Path IV OTH010: Skills for Health OTH020: Physical Education OTH040: Reaching Your Academic Potential OTH050: Achieving Your Career and College Goals PRJ010: Service Learning *BUS010: Business Communication and Career Exploration* *BUS020: Business and Personal Relationships* *BUS030: Personal Finance* *BUS040: Introduction to Entrepreneurship* *BUS050: Introduction to Entrepreneurship II* *BUS060: Introduction to Marketing I* *BUS070: Introduction to Marketing II* *TCH010: Computer Literacy I* *TCH016: Flash Animation* *TCH017: 3D Art I — Modeling* *TCH018: 3D Art II — Animation* *TCH019: Computer-Aided Design (CAD)* *TCH020: Computer Literacy II* *TCH026: Audio Engineering* *TCH027: Green Design and Technology* *TCH028: Digital Arts I* *TCH029: Digital Arts II* *TCH030: Digital Photography and Graphics* *TCH040: Web Design* *TCH050: Digital Video Production* *TCH060: C++ Programming* *TCH070: Game Design ICH080: Game Design II* *TCH090: Online Game Design*

Notes: Italicized courses are licensed on a per enrollment basis from third parties for the 2010-11 school year. World language courses represent Middlebury Interactive Language courses offered through our joint venture with Middlebury College.

K-8 Courses

From kindergarten through 8th grade, our courses are categorized into six major subject areas: English and Language Arts, Mathematics, Science, History, Art and Music, and World Languages. Our proprietary curriculum includes all of the courses that students need to complete their core kindergarten through 8th grade education. These courses focus on developing fundamental skills and teaching the key knowledge building blocks or schemas that each student will need to master the major subject areas, meet state standards and complete more advanced coursework. Unlike a traditional classroom education, our learning system offers the flexibility for each student to take courses at different grade levels in a single academic year, providing flexibility for students to progress at their own level and pace within each subject area.

Our new MARK^{12} Reading program is designed to bring students in grades 3-5 up to grade level reading abilities within one calendar year, while our new Middle School Pre-Algebra and Algebra courses include an award-winning textbook that supplements online lessons which provide demonstrations of concepts, as well as interactive problems with contextual feedback. In addition, the flexibility of our learning system allows us to tailor our curriculum to state specific requirements. For example, we have developed 39 courses specifically created for Arkansas, Georgia, Hawaii, South Carolina, Texas, Utah, Washington, and Virginia public schools. In addition to the ongoing evolution and full-scale deployment of our innovative K-5 Math+ program, we also created 54 custom Math+ sequences to serve specific state-based needs.

High School Courses

The curriculum sought by students in each of the high school grades is much broader and varies from student to student, largely as a result of the increased flexibility in course selection required for high school students. Journalism, Environmental Science, AP® European History, and Service Learning highlight the list of new high school course offerings this year. Our proprietary core curriculum accounts for approximately 90% of our high school course enrollments and we offer other more specialized electives licensed from third-parties.

Aventa, iQ Academies, and The Keystone School Curriculum

With our acquisition of KC Distance Learning, we also offer curriculum marketed under the Aventa, iQ Academies, and The Keystone School brand names. The following table provides a list of our high school courses offered under these trademarks:

Advanced Placement*	**Language Arts**	**Math**	**Science**	**Social Studies**
AP Art History	Grammar and Composition	Pre-Algebra	Physical Science	Geography
AP Biology	English I	Algebra I	Earth Science	World History
AP Calculus AB	English II	Geometry	Biology	American History
AP Calculus BC	English III	Algebra II	Chemistry	American Government**
AP Chemistry	English IV	Trigonometry**	Physics	Civics**
AP Computer Science A	Creative Writing	Pre-Calculus**	Environmental Science	Economics**
AP English Language	Journalism**	Calculus		
AP English Literature		Consumer Math		
*AP Environmental Science***		Integrated Math		
AP European History				
AP French Language				
AP Macroeconomics**				
AP Microeconomics**				
AP Physics B				
AP Psychology**				
AP Spanish Language				
AP Statistics				
AP US Government**				
AP US History				
AP World History				

World Languages	**Technology**	**Electives**	**Foundations**
Spanish I	Computer Fundamentals	Accounting	Algebra I
Spanish II	Game Design	Art Appreciation **	American History
Spanish III	*Flash Animation***	Career Planning**	Biology
Spanish IV	Digital Photography**	Driver's Education**	Earth Science
French I	Web Design*	Health**	English I
French II	*Digital Video Production***	Life Skills**	English II
French III	VB.Net Programming**	Music Appreciation **	English III
French IV	Java Programming	Nutrition & Wellness**	English IV
German I		Personal Finance **	Geography
German II		Physical Education	Geometry
German III		Psychology**	Health*
German IV		Sociology	Physical Science
Japanese I			World History
Japanese II			
Mandarin (Chinese) I			
Mandarin (Chinese) II			
Latin I			
Latin II			

* Aventa Learning has been authorized to use the AP designation by successfully passing The College Board's reviews. AP and Advanced Placement Program are registered trademarks of The College Board.

** .5 credit course

Notes: Italicized courses are licensed on a per enrollment basis from third parties for the 2010-11 school year.

The following table provides a list of our grades 6-8 course offerings marketed under the Aventa, iQ Academy, and The Keystone School trademarks:

Language Arts	Math	Science	Social Studies	Electives
Language Arts 6	Math 6	Science 6	Social Studies 6	Art 6*
Language Arts 7	Math 7	Science 7	Social Studies 7	Art 7*
Language Arts 8	Math 8	Science 8	Social Studies 8	Art 8*
				Career Explorations*
				Health 6*
				Health 7*
				Health 8*
				Music 6*
				Music 7*
				Music 8*
				Physical Education 6*
				Physical Education 7*
				Physical Education 8*
				World Language Survey*
				* .5 credit course

Aventa Credit Recovery Catalogue

Language Arts	Math	Science	Social Studies	Electives
English I (E)	Algebra I (E)	Biology (E)	American Government*	Health*
English II (E)	Algebra II	Earth Science (E)	American History (E)	Physical Education*
English III (E)	Geometry (E)	Physical Science (E)	Geography (E)	Spanish I
English IV (E)			World History (E)	

* = .5 credit course

(E) = ELL-Assistive Content Included in this Course

Aventa courses are written to national academic standards and each of Aventa's 22 AP courses has been reviewed and approved by The College Board. Aventa's Online Courses are developed by subject matter experts, designed by multimedia teams and delivered by highly qualified high school instructors. Aventa classes are primarily delivered over the Internet and use a variety of interactive elements to keep students engaged throughout. A deep understanding of K-12 pedagogy, as well as the human factors associated with online technology, are integrated into Aventa's product development.

Students with different learning styles, post-high school plans and diverse educational backgrounds enroll in The Keystone School. Most students seek to earn a high school diploma, but many enroll in supplemental courses and transfer the credits they earn to their resident high school. Keystone classic high school program, known as Keystone Independent is for students in grades 9-12 who excel in an independent learning environment and students with parents taking an active role in their child's education. More than 80 courses are available in this program both online and in printed correspondence formats. Keystone's newest program, known as Keystone Comprehensive is for students in grades 11-12 seeking additional support, interaction and feedback to help them succeed. More than 50 online courses, including exclusive college preparatory courses, are available in this program. Advanced Placement courses are available to students in all Keystone programs. AP courses offer advanced students the opportunity to take courses with more challenging college-level content. Students who complete AP courses are eligible to take the AP exams administered each May by the College Board.

Middlebury Interactive Languages

We offer online foreign language courses and summer foreign language instruction programs through our joint venture with Middlebury College, Middlebury Interactive Languages LLC. In addition to our existing power-speak[12] language courses, this new venture will create innovative, online language programs for pre-college students. The new courses will use instructional tools such as animation, music, videos and other elements that immerse students in new languages. The first courses, beginner French and Spanish for high school students, will be offered for the 2010-11 school year. The joint venture will also expand the Middlebury-Monterey Language Academy (MMLA), a foreign language immersion summer program for middle and high school students. MMLA offers Arabic, Chinese, French, German and Spanish at its four-week summer residential session at four college campuses.

Innovative Learning Applications

In order to continue to enhance the user experience and instructional methods of our learning system, we strive to develop new technologies and learning applications, and adapt our curriculum to new technology platforms.

- *Mobile Learning:* Several mobile application initiatives are underway to deploy innovative educational tools for the mobile environment. With the explosion of mobile devices, our mobile applications will create the ability for a student to learn "on-the-go" allowing for more efficient learning and mastery of content. The initial deployment of applications is targeted for the iPhone and Android marketplaces and involves enhancing many of our award-winning curriculum features adapted for the mobile application space.
- *Interactive Games:* An active educational games initiative is delivering new methods for teaching, practice, and review of K-12 concepts using a variety of game types and features, e.g. narrative/immersive styles, in-game methods for motivation such as rewards, persistent data, complex algorithms, etc. These games make use of extensive research and educational best practices, as well as address targeted learning objectives and common misconceptions. Several game projects are underway including a "Space Rescue" fraction games pilot with the University of Washington, a partnership with Muzzy Lane Software on their "ClearLab project" to create 3D games for middle school science, and the development of several proprietary efforts that include fluency games in elementary math and spelling.
- *Virtual Labs:* We have continued to develop alternatives for customers who desire different materials-related strategies. This includes converting existing materials-based High School Science labs into highly interactive Virtual Labs that meet state standards and still maintain teaching the original learning objectives.
- *eBook & Digital Book Distribution*: We have converted an initial set of our proprietary books into an electronic format across our high school product, including textbooks, reference guides, literature readers, and lab manuals. This digital delivery ability enables us to offer options to our customers via interactive online books that enhance the student's reading experience, reinforce the student's learning approach, and create a new method for delivering book and print materials. Each offline book is converted into an electronic book format with a custom user interface to be viewed via a standard web browser or a commercially available electronic reader (Kindle, Nook, etc.).

Online School Platform

We are launching a new Online School (OLS) platform for the 2010-11 school year. The new Online School platform is an adaptive, intuitive, web-based software platform that provides access to our online lessons, our lesson planning and scheduling tools, as well as our progress tracking tool which serves a key role in assisting parents and teachers in managing each student's progress. The new OLS will also be the central structure through which students, parents, teachers and administrators interact using Kmail (our secure internal communications center) and Class Connect (our integrated synchronous session scheduler). Because the OLS is a web-based platform, students, parents and teachers can access our online tools and lessons through the OLS from anywhere with an Internet connection at any time of the day or night. We license a third-party learning management platform for use in our high school program.

- *Lesson Planning and Scheduling Tools.* In a school year, a typical student will complete between 800 and 1,200 lessons across six or more subject areas. Our lesson planning and scheduling tools enable teachers and parents to establish an individualized plan for each student to complete his or her lessons. These tools are designed to dynamically update the lesson plan as a student progresses through each lesson and course, allowing flexibility to increase or decrease the pace at which the student moves through the curriculum while ensuring that the student progresses towards completion in the desired time frame. For example, the schedule can easily be adapted to accommodate a student who desires to attend school six days a week, a student who is interested in studying during the winter holidays to take time off during the spring, or a student who chooses to take two math classes a day for the first month of the school year and delay art classes until the second month of the school year. Moreover, changes can be made to the schedule at any point during the school year and the remainder of the student's schedule will automatically be adjusted in the OLS. Unlike a traditional classroom education, our learning system offers the flexibility for each student to take courses at different grade levels in a single academic year providing flexibility for students to progress at their own level and pace within each subject area. The curriculum includes assessments built into every lesson to guide and tailor the pace of progress to each child's needs.

- *Progress Tracking Tools.* Once a schedule has been established, the OLS delivers lessons based upon the specified parameters of the school and the student. Each day, a student is initially directed to a screen listing the syllabus for that particular day and begins the school day by selecting one of the listed lessons. As each lesson is completed, the student returns to the day's syllabus to proceed to the next subject. If a student does not complete a lesson during the session, the lesson will be rescheduled to the next day and will resume at the point where the student left off. Our progress tracking tool allows students, parents and teachers to monitor student progress. In addition, information collected by our progress tracking tool regarding student performance, attendance and other data is transferred to our proprietary management system for use in providing administrative support services. This instructional program includes several processes and educational techniques that embrace proactive intervention. As a result, we can provide high quality instruction and intervention equal to student needs.

- *Assessment Tracking Tools:* Good assessment and feedback are critical to efficient and successful learning. Assessments help the parent, teacher, and student see that the student is achieving important learning objectives. Assessments show growth and progress, as well as any content areas that might need extra work. These tools also help us improve the program by providing information on the effectiveness of specific instructional activities and the curriculum overall.

Our program makes use of a variety of formative and summative assessment instruments:

- Lesson assessments are used to verify mastery of the objectives for that lesson and to determine whether a review of some or all of the lesson is advisable.

- Unit assessments show whether or not the student has retained key learning objectives for the unit, and identify specific objectives students may need to review before moving on.

- Semester assessments verify student mastery of key learning objectives for the semester.

Independent third-party assessments are used in most of our managed schools to pinpoint specific individual student strengths and weaknesses relative to state content standards. These results enable the teacher to develop a highly personalized individual learning plan for each student. End of year testing provides a measure of individual student growth demonstrating the value-added gains of the school program.

School Management Systems

The Student Administration Management System (SAMS) is our proprietary Student Information System. SAMS is integrated with the OLS and several other proprietary systems including our Online Enrollment System that allows parents to complete school enrollment forms online and our Order Management System (OMS) that generates orders for learning kits and computers to be delivered to students. SAMS houses student-specific data and is used for a variety of functions, including enrolling students in courses, assigning progress marks and grades, tracking student demographic data, and generating student transcripts. In 2008, we launched TotalView, a suite of online applications that provides administrators, teachers, parents and students a unified view of student progress, attendance, communications, and learning kit shipment tracking. TotalView provides a sophisticated means of documenting student engagement in required classroom activities, identification of those students struggling with grade level state content standards, and previous year's performance on state tests. TotalView also houses Kmail, our internal communications medium. Through Kmail, administrators and teachers can communicate electronically with learning coaches and students in a secured environment. Finally, in 2009, TotalView was enhanced to include an enrollment processing and tracking tool that allows us to closely monitor and manage the enrollment process for new students.

Student Community Tools

We place a strong emphasis on the importance of building a sense of community in the schools we manage. We offer tools that foster communication and interaction among students and parents. We launched thebigthinK^{12} in the fall of 2008, our secure, online community for enrolled high school students (age 13 and over), parents, teachers, school administrative staff and our staff. It is built using a third party platform and includes the following capabilities: discussion boards, blogs, document repository, calendars, RSS feeds, polls, profiles and private messaging. The community is also professionally monitored by an independent third party. Additionally, our family directory web-based tool enables parents to organize online and offline social activities for their children. Parents can run searches based on criteria such as their child's location, age or interests (such as hobbies or sports) to locate and contact other parents of children with similar interests to facilitate student interaction.

Our Services

We provide a wide array of services to students and their families as well as directly to virtual public schools, hybrid schools and school districts. Our services can be categorized broadly into academic support services and management and technology services.

Academic Support Services

Teachers and Related Services. Teachers are critical to the educational success of students in schools. Teachers in the virtual public schools and hybrid schools that we serve are generally employed by the school, with the ultimate authority over these teachers residing with the school's governing body. Under our service agreements, we often recruit, train and provide management support for these teachers. Historically, we have seen significant demand for teaching positions in the virtual public schools that we serve.

We use a rigorous evaluation program for making hiring recommendations to the schools we serve. We recruit teachers who, at a minimum, are state certified and meet the federal requirements for designation as a "Highly Qualified Teacher," and generally have at least three years of teaching experience. We also seek to recruit teachers who have the skill set necessary to be successful in a virtual environment. Teaching in a virtual public school or hybrid school is characterized by heightened one-on-one student-teacher and parent-teacher interaction, so these teachers must have strong interpersonal communications skills. Additionally, a virtual public school or hybrid school teacher must be creative in finding ways to effectively connect with their students and integrate themselves into the daily lives of the students' families.

New teachers participate in our comprehensive training program during which, among other things, they are introduced to our educational philosophy, our curriculum and our OLS and other technology applications, and are provided strategies for communicating and connecting with students and their families in a virtual environment. We also provide ongoing professional development opportunities for teachers so that they may stay abreast of changing educational standards, key learning trends, and sound pedagogical strategies which we believe enhance their teaching abilities and effectiveness.

In addition to our compliance with state-mandated testing programs, we have instituted a student progress testing program in cooperation with a third party provider of standardized testing services. The results of this testing helps us manage the quality of our academic programs using widely recognized services from an industry-leading third party.

Gifted and Special Education Services. We believe that our individualized learning system is able to effectively address the educational needs of gifted and special education students because it is self-paced and employs flexible teaching methods. For students requiring special attention, we employ a national director who is an expert on the delivery of special education services in a virtual public school environment and who oversees and directs the special education programs at the schools we serve. We direct and facilitate the development and implementation of "individualized education plans" for students with special needs. Our special education program is compliant with the federal Individuals with Disabilities Education Act and all state special education requirements. Each special needs student is assigned a certified special education teacher who arranges for any required ancillary services, including speech and occupational therapy, and any required assistive technologies, such as special computer displays or speech recognition software. We support gifted and talented students through our advanced learner program. Advanced learners are able to participate in a wide variety of enrichment seminars, clubs, and mentoring opportunities both at the school level and at the national level. Gifted students are connected to each other across state boundaries through learning circles, book clubs, and other special-interest activities. In addition, parent sessions allow for the discussion of topics specific to parents of advanced students.

Supporting At-Risk Learners. We have a commitment to closing the achievement gap for those students who enter our virtual public schools behind their same-age peers. To that end, we conduct both summative and formative assessments during the course of the school year in order to identify those students needing specific remedial support as well as measure the effectiveness of those supports. Student growth and progress is reported to administrators, teachers, parents and students regularly.

Student Support Services. We provide students attending virtual public schools that we serve and their families with a variety of support services to ensure that we effectively meet their educational needs and goals. We offer support to address any questions or concerns that students and their parents have during the course of their matriculation. We plan and coordinate social events to offer students opportunities to meet and socialize with their virtual public school peers. Finally, in connection with our high school offering, each student is assigned a homeroom teacher, an advisor and/or a guidance counselor who assists them with academic issues, college and career planning and other support as needed.

Management Services

Turnkey Services. For most of our statewide virtual public schools and hybrid schools, we provide turnkey management services. In these circumstances, we take responsibility for all aspects of the management of the schools, including monitoring academic achievement, teacher hiring and training, compensation of school personnel, financial management, enrollment processing and provision of curriculum, equipment and required services. In 2007, the Commission on International and Trans-regional Accreditation (CITA), a leading worldwide education accreditation agency, now a division of AdvancED, thoroughly evaluated our school management services and we ultimately received its prestigious accreditation.

Compliance and Tracking Services. Operating a virtual public school or hybrid school entails most of the compliance and regulatory requirements of a traditional public school. We have developed management systems and processes designed to ensure that schools we serve are in compliance with all applicable requirements, including tracking appropriate student information and meeting various state and federal reporting requirements. For example, we collect enrollment related information, monitor attendance and administer proctored state tests. As we have expanded into new states, our processes have grown increasingly robust, and we believe our compliance and tracking processes provide us with a distinct competitive advantage.

Financial Support Services. For the schools we manage, we oversee the preparation of the annual budget and coordinate with the school's directors to determine their annual objectives. In addition, we implement an internal control framework, develop policies and procedures, provide accounting services and payroll administration, oversee all federal entitlement programs, arrange for external audits and ensure all state and local compliance reporting is met.

Facility, Operations and Technology Support Services. We operate administrative offices and all other facilities on behalf of the virtual public schools we serve. We provide these schools with a complete technology infrastructure. In addition, we provide a comprehensive student help desk solution to address their computer or other technical issues.

Human Resources Support Services. We are actively involved in hiring virtual public school administrators, teachers and staff, through a thorough interview and orientation process. To better facilitate the hiring process, we review and analyze the profiles of teachers that have been highly effective in our learning system to identify the attributes desired in future new hires. While most schools employ teachers directly, we also negotiate and secure employment benefits for teachers on behalf of the schools and administer employee benefit plans for school employees. Additionally, we assist the schools we serve in drafting and implementing administrative policies and procedures.

Product Development

We develop our products and related service offerings through a highly collaborative process that blends cognitive research with an innovative development approach by utilizing best practices from the education industry and other industries. Our approach provides for effective content and rapid time to market. Unlike many traditional content companies that may take several years to develop a new course, our course development process usually takes between six and 12 months, depending upon grade and subject.

Using highly skilled resources, we follow a six-stage product development process beginning with idea-generation and carrying through to post-production evaluation. Our ability to continually modify our products based upon student, parent and teacher feedback and assessment data is one of the significant advantages of our online curriculum. All of our lessons contain a user feedback button that allows us to identify learning issues on a real-time basis. In a given week, we receive hundreds of feedback items from students, parents and teachers. The related descriptions below illustrate each stage in our product development process.

Blueprint Stage. During this stage of development, we gather the key requirements for a new product, which may be a new course or a group of related courses. We conduct a thorough review to identify all of the cognitive research related to learning of the subject and gain an understanding of the stages a student will go through in mastering the subject material. We also look at how experts perform in the subject. Expert-novice research has shown that an experts' knowledge of a domain is contained in a subconscious framework, the components of which can help guide the development of a course. During this stage, we also analyze state standards to confirm that we are encompassing the elements of the nation's highest state standards and that we are building courses which meet or surpass all state standards.

Design Stage. We begin the design stage by developing the learning environment in which the product will be used. This includes understanding the types of students that will be using the product, how the course will be taught, the learning objectives within the course and what online and offline materials can be utilized. We then produce a design document and our creative teams develop a work plan for every aspect of the product, including the look and feel of the product, level of functionality and length of the course. We produce, test and refine prototypes with focus groups of students, teachers and parents.

Pre-production Stage. With the work plan complete, a pre-production team is assembled to develop the scope and sequence of the course. The scope and sequence is an ordered collection of learning objectives based on cognitive research and state standards. These learning objectives, once organized, guide the production team in the creation of the individual course lessons. The pre-production team also creates the list of materials that will be required and provides this list to our logistics group for sourcing.

Production Stage. During this stage, the product is built in accordance with the work plan. First, manuscripts, storyboards and lesson design specifications are created. Online screens, offline materials such as textbooks, simulations, photographs, and other reference materials are then created, reviewed and refined. Rights for licensed materials are cleared at this point, if needed. Each lesson then goes through a rigorous quality review before being released.

Support Stage. The goal during this stage is to support the initial launch and ongoing utilization of our lessons and to enhance the products during the course of their useful life. We break this stage down into three components: (i) content development, where we design and develop teacher and student training packages; (ii) alignment and standards analysis, where we examine performance on state tests to determine the extent to which we should refine or adjust the standard alignments initially developed during the blueprint stage; and (iii) long-term maintenance, where we maintain and update the online and offline materials on an ongoing basis based upon feedback from teachers, parents and students.

Evaluation Stage. The final stage of the product development cycle is the evaluation stage. During this phase, we evaluate the overall performance of our product against the original design specifications. We obtain measurement feedback from a number of sources, including:

- *User Feedback* — we receive a substantial amount of feedback from teachers, parents and students. Some feedback is directly incorporated into course modifications. In addition, we observe students in our usability labs and visit students and parents to better understand how our products are being used;
- *Progress Reports* — through our OLS, we are able to monitor each student's progress through a course. This data helps us identify portions of a course that may be especially difficult for students, and may require revision or enhancements; and
- *State Test Scores* — students in the virtual public schools we serve participate in proctored state exams. These tests provide an impartial assessment of how these students are performing against established benchmarks and within their state.

Using these sources of feedback, we can revise our courses as necessary to achieve the desired learning objectives. We believe that this ability to proactively respond to feedback and other data in an efficient manner is a key competitive advantage within the educational industry.

Education Advisory Committee. To ensure the effectiveness of our learning systems, we have established an external Education Advisory Committee (EAC) comprised of experienced leaders in the education industry. The members of the EAC have the responsibility to review our curriculum and instructional model, identify the needs of the growing field of online education and propose solutions for consideration by our management, and discuss ways that we can better implement our guiding principles. During the 2009-2010 academic year, the EAC focused on several topics including the various aspects of hybrid programs, especially those focused on at-risk populations, and the contrast of high school graduates who are genuinely college ready as opposed to college eligible. The EAC met twice in fiscal year 2010 and its current members include:

- *Thomas C. Boysen, Ed.D.,* Senior Vice President, Global Scholar Inc., and formerly Senior Vice President of K12 Inc., Kentucky Commissioner of Education, Chief Operating Officer of the Los Angeles Unified School District, Senior Vice President of the Milken Family Foundation and a school district superintendent in California, Washington and New York. Mr. Boysen is also the Chair of the Education Advisory Committee.
- *Benjamin Canada, Ph.D.,* Associate Executive Director, District Services, Texas Association of School Boards and formerly President of the American Association of School Administrators and a school district superintendent in Georgia, Mississippi and Oregon.
- *JoLynne DeMary, Ed.D.,* Educational Leadership Director, Center for School Improvement, Virginia Commonwealth University and formerly Virginia Superintendent of Public Instruction.
- *David Driscoll, Ed.D.,* Education Consultant and formerly President, Council of Chief State School Officers, Commissioner of Education, Commonwealth of Massachusetts and a school district superintendent in Massachusetts. Dr. Driscoll currently serves on the board of the National Assessment Governing Board.
- *Chester Finn, Ed.D.,* President, Thomas B. Fordham Foundation and formerly Assistant Secretary for Research and Improvement & Counselor to the Secretary, U.S. Department of Education.
- *Charles Fowler Ed.D.,* President of School Leadership, LLC, Executive Secretary of the Suburban School Superintendents, an Adjunct Professor of School Organization and Leadership, Teachers College, Columbia University and formerly Chairperson of State and National Relations for the American Association of School Administrators and a school district superintendent in Connecticut, Florida, Illinois and New York.
- *Mary Futrell, Ed.D.,* Dean, Graduate School of Education and Human Development, George Washington University; Director, K12 Inc.; Co-director, George Washington Institute for Curriculum, Standards and Technology; founding President of Education International; and formerly President, World Confederation

of the Organizations of the Teaching Profession; President, National Education Association, President, Virginia Education Association, and President, ERAmerica.

- *Michael Kirst, Ph.D.,* Professor Emeritus of Education and Business, Stanford University and formerly President of the California State Board of Education.
- *Eliot Levinson, Ph.D*., CEO and founder of the BLE Group, an educational technology consulting firm that provides planning, marketing and implementation services to the education industry and school systems; former teacher and school and district administrator, senior scientist at the Rand Corporation, and an adjunct faculty member at MIT and Harvard.
- *William Librera, Ph.D,* Presidential Research Professor of Education for the Rutgers University Graduate School of Education, formerly Commissioner of Education for the State of New Jersey.
- *Dale Mann, Ph.D.,* Managing Director, Interactive Inc. and Professor Emeritus of Educational Administration, Teachers College, Columbia University and formerly Senior Research Associate, Institute on Education and the Economy, Teachers College, Columbia University.
- *Thomas Payzant, Ed.D.,* Professor of Practice, Harvard Graduate School of Education and formerly Assistant Secretary for Elementary and Secondary Education, U.S. Department of Education and a school district superintendent in California, Pennsylvania, Massachusetts, Oklahoma and Oregon.
- *Betty Rosa, Ed.D.,* Education Consultant and formerly a school district superintendent in New York City. Ms. Rosa also serves on the board of the Alumni Council of the Harvard Graduate School of Education.
- *Bernice Stafford, M.A.,* Principal Consultant, Center for Interactive Learning and Collaboration and formerly Vice President of School Strategies and Evaluation, PLATO Learning, Inc. and a co-founder of Lightspan, Inc.

Channel Development

We distribute our products and services primarily to virtual public schools, public hybrid schools, public school districts, private schools, public charter schools, and directly to consumers. Our public affairs, school development, and institutional sales groups lead our channel development and sales efforts.

Public Affairs and School Development

We seek to increase public awareness of the educational and fiscal benefits of full-time online and hybrid instructional models. We receive numerous inquiries from school districts, legislators, charter school boards, community leaders, state departments of education, educators and parents who express the desire to have a choice in public school options. Our school development and public affairs groups work together with these interested parties to identify and pursue opportunities to expand the use of our products and services in new jurisdictions.

Where interested parties seek to offer a virtual public school alternative in their state, our public affairs group works with them to analyze the legal and regulatory framework, and where necessary help them to advocate for appropriate legislation, rule making, or authorization. We also offer assistance to those seeking to create new schools. This often entails an extensive approval process and support by charter school authorizers and state departments of education. Our teams provide a wide range of assistance including planning, developing and launching of these unique schools.

Institutional Sales

Our institutional sales team works with public school districts to offer our products and services to their students, usually in the form of an array of courses, teacher training, teaching services, and other support services.

We have established a dedicated sales team to focus on this sector and recently increased the size and expertise of this sales team with our acquisition of KCDL. Our sales team is focused on geographic regions and is supported by our call center and marketing resources. Based upon school districts' and academic administrators' growing acceptance of online learning and desire for cost efficient educational solutions, we believe that the direct-to-district distribution channel offers further growth potential.

We offer a continuum of offerings from full-time, turnkey online programs, to hybrid programs, to individual course solutions. We make available our complete K[12] course catalogue, and now with our acquisition of KCDL, the Aventa course catalogue. Our foreign language offering, powerspeak[12], for example, is a popular choice of districts seeking to broaden their course catalog. We expect further expansion of the foreign language business through our joint venture, Middlebury Interactive Languages.

For the 2009-10 school year, we served school districts or individual schools in 27 states. These offerings allow us to serve school districts in some states where the regulatory environment restricts or does not permit state-wide online programs. For example in 2009, Florida passed legislation mandating that each school district provide full-time, online education to students in grades K-8. We responded with a dedicated program and have contracted with 42 Florida school districts making our curriculum and academic services available to more than half of the student population of Florida.

Distribution Channels

We distribute our products and services primarily to virtual public schools, public hybrid schools, public school districts, private schools, public charter schools, and directly to consumers primarily in the U.S. We are also expanding internationally and working to develop other new channels.

Virtual Public Schools

We derive most of our revenues from virtual public schools to which we provide access to our course catalogue, student computers and a variety of management, technology and academic support services. In these schools, students attend class primarily over the Internet with offline learning materials instead of traveling to a physical classroom. Students receive assignments, complete lessons, and obtain instruction from certified teachers with whom they interact online, telephonically, in virtual classroom environments, and sometimes face-to-face. For parents who believe their child is not thriving in their current public school and for whom relocating or private school is not an option, or for students and families who require time or location flexibility in their schooling, virtual public schools can provide a compelling choice.

We offer these virtual public schools a range of management, technology and academic services. For the 2010-11 school year, we provide turnkey management services to virtual public schools in 25 states, not including the two states where we manage public hybrid schools. For these schools, we take responsibility for all aspects of the management of the schools, including monitoring academic achievement, teacher recruitment and training, compensation of school personnel, financial management, enrollment processing and procurement of curriculum, equipment and other required services. In July 2010, through our acquisition of KCDL, we have added the iQ Academies that serve statewide virtual public schools in six states where we also serve other schools.

Hybrid Schools

A hybrid school is a school that combines online and face-to-face instruction. Hybrid schools are designed to have a mixture of online and traditional instruction for students. In contrast to a typical school, hybrid schools can provide a greater array of available courses, increased opportunities for self-paced, individualized instruction, and greater scheduling flexibility. Hybrid schools bring students, teachers, and students together more often than a purely online program. We manage hybrid schools in California, Illinois, Indiana and Hawaii and some examples of the different types of hybrid schools we serve are as follows.

Chicago Virtual Charter School: In partnership with Chicago Public Schools, we launched this hybrid program for the 2006-07 school year and we now serve students in grades K-8 and high school. Students enrolled in this program get the full benefits of our online offering and also participate in classes with their teachers and classmates at a learning center one or more days a week.

The Hoosier Academies: This program was authorized by Ball State University in 2008 and serves students in grades K-8 and high school. Students attend a learning center in Muncie or Indianapolis two or more days a week to complement our online offering. At the learning center, teachers and students meet for instruction, discussion and lessons. Sessions at the learning center may utilize our curriculum on interactive whiteboards for an engaging learning environment.

Schools and School Districts

We are serving a growing number of schools enabling them to offer our course catalogue to students either full-time or on an individual course basis. These programs often only accept enrollments from their own district or school. We also offer these schools differing levels of management, technology and educational services to assist them in launching their own distance learning program. Through our acquisition of KCDL, we have added the Aventa course catalogue, broadening our offering. These institutions include school districts, private schools and charter schools including statewide online programs.

Direct-to-Consumer

Our direct-to-consumer product is sold to customers who desire to educate their children outside of the public school system or to supplement their child's existing public school education. Customers of our direct-to-consumer product have the option of purchasing a complete grade-level curriculum or individual subjects depending on their child's needs. Typical applications include summer school course work, home schooling and a means to experience our approach to online education prior to enrolling in a virtual public school.

Online Private Schools

In 2008, we launched the K^{12} International Academy, an online private school that serves students in the U.S. and throughout the world. Through K^{12} International Academy, students may study in an academic program that ultimately leads to a recognized high school diploma. Students may also enroll part-time. The school utilizes the same curriculum, systems, and teaching practices that we provide to the virtual public schools we serve in the U.S. In addition, K^{12} International Academy provides a unique international community including clubs and events that enrich the student experience by allowing students to interact with peers from over 59 countries. The school is accredited by the Southern Association of Colleges and Schools (SACS) and AdvancED, and is recognized by the Commonwealth of Virginia as a degree granting institution of secondary learning.

In July 2010, we acquired The Keystone School as part of our acquisition of KCDL. The Keystone School (Keystone) is a private school that has been an innovator in home education and distance learning for over 35 years. Students attend The Keystone School for middle and high school on a full or part time basis. Keystone has served over 250,000 students through online courses with teacher support as well as print correspondence course programs. Keystone is accredited by the Northwest Association of Accredited Schools (NAAS).

International

Beyond our business in the United States, we are pursuing international opportunities where we believe there is significant demand for a quality online education. Our principal customers are expatriate families and foreign students who wish to study in English. We currently operate a branch facility in Dubai to reach and support students in the Gulf Cooperating Countries. We operate this through a joint venture with a local partner. In fiscal year 2010, we opened an office in Singapore to further develop our international footprint. The Singapore office provides customer support services for our K^{12} International Academy program in Asia. We also opened a registration and customer support office in Switzerland. Moreover, we have entered into partnerships with English-speaking international private schools in other countries to enhance their offerings with our high school courses accompanied by teacher support. Upon completion, students receive a transcript from the K^{12} International Academy, an accredited school, indicating the completion of courses that help them meet their local graduation requirements.

Pilot Programs

To allow us to meet the needs of more students, we have piloted our curriculum and management services in different academic settings.

Classroom Pilots: By the close of fiscal year 2010, we had piloted select grades and subjects of our curriculum in traditional brick and mortar classrooms in 10 states, including three states where we currently do not manage a virtual public school. These programs utilize a projector and interactive whiteboard with our curriculum and emphasize our math, science and technology and may also offer our art and history courses. The result is an engaging, interactive lesson environment for students. We typically support these programs with an onsite teaching and learning coach. Although our in-class offering business is still in a developmental stage, we believe that this distribution channel can become an important part of our institutional business.

Brick and Mortar School Management: For the first time in July 2010, we also extended our involvement with traditional classroom settings to the full operational management of a brick and mortar school. Specifically, the Delaware Department of Education contracted with us to assume responsibility for all aspects of the operation of the Moyer Charter School, and authorized us to serve up to 460 students in grades 6-12. This contract furthers the use of our learning systems and instructional methods in a traditional classroom setting. Our management model is based upon our experience and success with the Sarah T. Reed Senior High School in New Orleans where we provided academic and leadership consulting for the past three years under a contract with the Recovery School District and the Louisiana Department of Education.

Student Recruitment and Marketing

Our student recruitment and marketing team is responsible for promoting our corporate brand; generating new student enrollments; managing the direct-to-consumer business; conducting market and customer research; defining, packaging and pricing our product offerings across distribution channels; and enhancing the experience of students and families enrolled in the virtual public schools we serve. This team employs a variety of strategies designed to better understand and address the requirements of our target markets.

First, this team is responsible for defining our brand image and associating our brand with the many positive attributes of our learning system. We believe that a strong brand provides the basis for our expansion into new states and other markets.

Second, our student recruitment and marketing team generates new enrollments in many of the virtual public schools we serve through targeted recruiting programs, which utilize coordinated direct mailings, email marketing, print, radio and television advertising and search engine marketing. In addition, our marketing team conducts information sessions and workshops that provide teachers and parents with the opportunity to learn our approach to learning and the products and services that we offer. We conducted thousands of such events during fiscal year 2010. We have found that effectively communicating the details and benefits of our learning system is an important first step towards building a core group of interested parties. Additionally, we consistently receive a high number of word-of-mouth referrals from our existing customer base. Facilitating our student recruitment and customer service efforts are our call centers. Our primary call center operations are housed in five facilities, one in Virginia, one in Pennsylvania, one in Oregon and two through a vendor located in Kentucky and Texas.

Third, we conduct primary and secondary research of our own customers as well as of the key larger markets in order to refine our existing product offerings and customer experiences, as well as to scope new target markets and develop appropriate product offerings.

Finally, this team is responsible for enhancing our relationship with students enrolled in the virtual public schools that we serve to complement the relationship that these students have with their teachers and school. In order to maintain a sense of community, we host “thebigthinK^{12}”, an online private global community limited to those parents, teachers and high school students (age 13 and over), with a valid password and who are subject to a code of conduct. To ensure appropriate usage and to identify student issues, the community is also professionally monitored by an independent third party. We also work with our partner schools to define and create back-to-school support activities and communications, conduct art contests, host national clubs, facilitate best practices across schools for local clubs and social activities, and manage a parent booster program that helps create support for and awareness of our products and services.

Technology

Our learning system, along with our back office systems supporting order management, logistics and e-commerce, are built on our proprietary Service Oriented Architecture, or SOA, to ensure high availability and redundancy and allow flexibility and security to be core principles of our systems' foundation.

Service Oriented Architecture (SOA). All of our systems leverage our SOA built on top of Enterprise Java that separates an implemented capability from a request flow that utilizes those capabilities. This leverage provides us with the ability to deliver different presentations against a single request workflow. Additionally, this flexibility allows iterative solutions to be developed expeditiously to meet both present and future market needs. Our high availability and scalability are also facilitated by this architecture. The SOA also enables seamless integration with third-party solutions in our platform with ease and efficiency.

Availability and Redundancy. Our SOA allows for primary and secondary equipment to be utilized at all network and application tiers. Each application layer is load balanced across multiple servers, which, along with our sophisticated stateful management capabilities, allows for additional hardware to be inserted into our network providing us with optimal scalability and availability as evidenced by our greater than 99% uptime with our ever growing user base. We regularly backup critical data and store this backup data at an offsite location.

Security. Our security measures and policies include dividing application layers into multiple zones controlled by firewall technology. Sensitive communications are encrypted between client and server and our server-to-server accessibility is strictly controlled and monitored.

Physical Infrastructure. We utilize the best of breed hardware from industry leading vendors including Cisco, F5, Oracle, Sun, Microsoft, Dell, Intel, and NetApp to provide a foundation for our SOA. Our systems are housed offsite in a state of the art data center that provides robust, redundant network backbone and power. We vigilantly monitor our physical infrastructure for security, availability, and performance.

Competition

We face varying degrees of competition from a variety of education companies because our learning system encompasses many components of the educational development and delivery process. We compete primarily with companies that provide online curriculum and school support services to K-12 virtual public schools and school districts. These companies include Advanced Academics (DeVry, Inc), Connections Academy, LLC, Kaplan, Inc., Insight Schools, Inc. (Apollo Group, Inc.), White Hat Management, LLC, and National Network of Digital Schools Management Foundation Inc. among others. We also face competition from online and print curriculum developers. The online curriculum providers include Apex Learning Inc., Compass Learning, OdysseyWare, Plato Learning, Inc., and traditional textbook publishers include McGraw-Hill Companies, Pearson plc and Houghton Mifflin Harcourt. We also compete with institutions such as The Laurel Springs School (Nobel Learning Communities, Inc.), National Connections Academy, and Kaplan High School for online private school students. Additionally, we expect increased competition from charter school management organizations (CMOs), state-run online programs such as Florida Virtual School, and post-secondary and supplementary education providers that have sought to establish a presence in the K-12 virtual school sector, including Apollo Group, Inc. and DeVry, Inc.

We believe that the primary factors on which we compete are:

- extensive experience in, and understanding of, K-12 virtual schooling;
- track record of academic results and customer satisfaction;
- quality of curriculum and online delivery platform;
- qualifications and experience of teachers;
- comprehensiveness of school management and student support services, including fulfillment; and
- cost of the solution.

We are unable to provide meaningful data with respect to our market share. At a minimum, we believe that we serve the market for public education, and in almost all jurisdictions in which we operate, we currently serve far less than 1% of the public school students in the geographic area in which virtual school enrollments are drawn. Defining a more precise relevant market upon which to base a share estimate would not be meaningful due to significant limitations on the comparability of data among jurisdictions. For example, some providers to K-12 virtual schools serve only the high school segment, others serve the elementary and middle school segment, and a few serve both. Furthermore, some school districts offer their own virtual programs. Parents in search of an alternative to their local public school also have a number of substitutable choices beyond virtual schools including private schools, charter schools, home schooling, and blended public schools. In addition, our integrated learning system consists of components that face competition from many different education industry segments, such as traditional textbook publishers, test and assessment firms and private education management companies. Finally, our learning system is designed to operate domestically and internationally over the Internet, and thus the geographic addressable market is global and indeterminate in size.

Intellectual Property

Since our inception, we have invested more than $175 million to develop our proprietary curriculum and OLS. We continue to invest in our intellectual property as we develop more courses for new grades and expand into adjacent education markets, both in the U.S. and overseas. We also continue to add features and tools to our proprietary learning platform and support systems to assist teachers and students and improve educational outcomes. These intellectual property assets are critical to our success and we avail ourselves of the full protections provided under the patent, copyright, trademark and trade secrets laws. We also routinely utilize confidentiality and licensing agreements with our employees, students, the virtual public schools that we serve, direct-to-consumer customers, independent contractors and other businesses and persons with which we have commercial relationships.

Our patent portfolio includes issued patents and pending applications directed towards various aspects of our educational products and offerings. In particular, the first family of patent applications we filed in the U.S. and in foreign countries was directed towards the first generation of our system and method of virtual schooling and includes two patents as well as numerous pending patent applications. Additionally, we have submitted patent applications in the U.S. and in foreign countries directed towards aspects of our basal math and science program, our methods of foreign language instruction and the second generation of our virtual school application.

We own the copyright to over 22,500 lessons contained in the courses that comprise our proprietary curriculum and we continue to register this growing lesson portfolio with the U.S. Copyright Office. Through our acquisition of KCDL, we acquired copyright ownership of 140 Aventa courses. We also own and use a portfolio of domain names associated with our offerings and the schools we manage. We have obtained federal and state registrations for numerous trademarks that are related to our offerings and we have applied to the U.S. Patent and Trademark Office to register certain new trademarks.

Students who enroll in the virtual public schools we serve are granted a license to use our software in order to access our learning system. Similarly, virtual public schools are granted a license to use our learning system in order to access SAMS and our other systems. These licenses are intended to protect our ownership and the confidentiality of the embedded information and technology contained in our software and systems. We also own many of the trademarks and service marks that we use as part of the student recruitment and branding services we provide to virtual public schools. Those marks are licensed to the schools for use during the term of the products and services agreements.

Our employees, contractors and other parties with access to our confidential information sign agreements that prohibit the unauthorized use or disclosure of our proprietary rights, information and technology.

Operations

The learning kits that accompany our online lessons are an essential component of our courses. A student enrolling in one of our courses receives multiple textbooks, art supplies, laboratory supplies (e.g. microscopes and scales) and other reference materials designed to enhance the learning experience. We package these books and materials into course-specific learning kits. Because each student’s curriculum is customized, the combination of kits for each student must also be customized. In fiscal year 2010, we assembled approximately 4.6 million items into more than 475,000 kits.

Over our nine years of operation, we believe that we have gained significant experience in the fulfillment of offline materials and that this experience provides us with an advantage over many of our current and potential future competitors. We have developed strong relationships with partners allowing us to source goods at favorable price, quality and service levels. Through our fulfillment partner, we store our inventory, build our learning kits and ship the kits to students. We have invested in systems including our Order Management System, to automatically translate the curriculum selected by each enrolled student into an order to build the corresponding learning kit. During fiscal year 2009, working with a new fulfillment partner, we successfully redesigned and implemented a new end-to-end warehousing and fulfillment operation to cost-effectively scale as the business grows in scope and complexity.

For many of our virtual public school customers, we attempt to reclaim any materials that are not consumed during the course of the school year. These items, once returned to our fulfillment center, are refurbished and included in future learning kits. This reclamation process allows us to maintain lower materials costs.

Our fulfillment activities are highly seasonal, and are centered around the start of school in August or September. Accordingly, approximately 70% of our annual materials receiving occurs between March and May and approximately 65% of customer item fulfillment and shipping occurs between June and September.

In order to ensure that students in virtual public schools have access to our OLS, we often provide students with a computer and all necessary support. We source computers and ship them to students when they enroll and reclaim the computers at the end of a school year or upon termination of their enrollment or withdrawal from the virtual public school in which they are enrolled. As of June 30, 2010, we had approximately 41,500 personal computers deployed or available for use by students.

Employees

As of June 30, 2010, we had 1,065 employees including 306 teachers. In addition, there are approximately 1,409 teachers who are employed by virtual public schools or hybrid schools that we manage under turnkey solution contracts with those schools. None of our employees are union employees; however, certain virtual public schools we serve employ unionized teachers. We believe that our employee relations are good.

In FY 2010, we did not renew our agreement with a professional employer organization (PEO), to manage all payroll processing, workers' compensation, health insurance, and other employment-related benefits for our employees. In place of a PEO we assumed responsibility for arranging for the provision of these employee benefits and services.

Available Information

Our Company's Internet address is www.K12.com. We make available, free of charge through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), soon after they are electronically filed with the Securities and Exchange Commission (SEC). In addition, our earnings conference calls are web cast live via our website. In addition to visiting our website, you may read and copy public reports we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC 20549, or at www.sec.gov. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Information contained on our website is expressly not incorporated by reference into this Annual Report.

REGULATION

We and the virtual public schools that purchase our curriculum and management services are subject to regulation by each of the states in which we operate, including Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kansas, Massachusetts, Michigan, Minnesota, Nevada, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Utah, Washington, Wisconsin, Wyoming and the District of Columbia. The state laws and regulations that directly impact our business are those that authorize or restrict our ability to operate virtual public schools, and those that restrict virtual public school growth and funding. In addition, there are state laws and regulations that are applicable to virtual public schools that indirectly affect our business insofar as they affect these virtual public schools' ability to operate and receive funding. Finally, to the extent a virtual school obtains federal funds, such as through a grant program or financial support dedicated for the education of low-income families, these schools then become subject to additional federal regulation.

State Laws Authorizing or Restricting Virtual Public Schools. The authority to operate a virtual public school is dependent on the laws and regulations of each state. Laws and regulations vary significantly from one state to the next and are constantly evolving. In states that have implemented specific legislation to support virtual public schools, the schools are able to operate under these statutes. Other states provide for virtual public schools under existing charter school legislation or provide that school districts and/or state education agencies may authorize them. Some states do not currently have legislation that provides for virtual public schools or have requirements that effectively prohibit virtual public schools and, as a result, may require new legislation before virtual public schools can open in the state. According to a September 2009 update of state online learning policies by the International Association for K-12 Online Learning (iNACOL), there are 45 states that have either adopted legislation or formal rules or have created programs for the purpose of providing statewide supplemental and/or full-time online learning opportunities. We currently serve virtual schools or school district-led programs in 27 states plus the District of Columbia. iNACOL also identified only five states that do not currently have either a state-led program or significant state-level policies for online education; however, the absence of such conditions has not precluded us from applying to serve, and in certain cases serving, schools in some of those states.

Obtaining new legislation in these remaining states can be a protracted and uncertain process despite their limited number. When determining whether to pursue expansion into new states in which the laws are ambiguous, we research the relevant legislation and political climate and then make an assessment of the perceived likelihood of success before deciding to commit resources. Specifically, we take into account numerous factors including, but not limited to, the regulations of the state educational authorities, whether the overall political environment is amenable to school choice, whether current funding levels for virtual school enrollments are adequate and accessible, and the presence of non-profit and for-profit competitors in the state.

State Laws and Regulations Applicable to Virtual Public Schools. Virtual public schools that purchase our curriculum and management services are often governed and overseen by a non-profit or a local or state education agency, such as an independent charter school board, local school district or state education authority. We generally receive funds for products and services rendered to operate virtual schools under detailed service agreements with that governing authority. Virtual public schools are typically funded by state or local governments on a per student basis. A virtual school that fails to comply with the state laws and regulations applicable to it may be required to repay these funds and could become ineligible for receipt of future state funds.

To be eligible for state funding, some states require that virtual schools be organized under not-for-profit charters exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. The schools must then be operated exclusively for charitable educational purposes, and not for the benefit of private, for-profit management companies. The board or governing authority of the not-for-profit virtual school must retain ultimate accountability for the school's operations to retain its tax-exempt status. It may not delegate its responsibility and accountability for the school's operations. Our service agreements with these virtual schools are therefore structured to ensure the full independence of the not-for-profit board and preserve its ability to exercise its fiduciary obligations to operate a virtual public school.

Laws and regulations affect many aspects of operating a virtual public school. They can dictate the content and sequence of the curriculum, the requirements to earn a diploma, use of approved textbooks, the length of the school year and the school day, the assessment of student performance, and any accountability requirements. In addition, a virtual public school may be obligated to comply with states' requirements to offer programs for specific populations, such as students at risk of dropping out of school, gifted and talented students, non-English speaking students, pre-kindergarten students, and students with disabilities. Tutoring services and the use of technology may also be regulated. Other state laws and regulations may affect the school's compulsory attendance requirements, treatment of absences and make-up work, and access by parents to student records and teaching and testing materials. Additionally, states have various requirements concerning the reporting of extensive student data that may apply to the school. A virtual public school may have to comply with state requirements that school campuses report various types of data as performance indicators of the success of the program.

States have laws and regulations concerning certification, training, experience and continued professional development of teachers and staff with which a virtual public school may be required to comply. There are also numerous laws pertaining to employee salaries and benefits, statewide teacher retirement systems, workers' compensation, unemployment benefits, and matters related to employment agreements and procedures for termination of school employees. A virtual public school must also comply with requirements for performing criminal background checks on school staff, reporting criminal activity by school staff and reporting suspected child abuse.

As with any public school, virtual public schools must comply with state laws and regulations applicable to governmental entities, such as open meetings laws, which may require the board of trustees of a virtual public school to hold its meetings open to the public unless an exception in the law allows an executive session. Failure to comply with these requirements may lead to personal civil and/or criminal penalties for board members or officers. Virtual public schools must also comply with public information or open records laws, which require them to make school records available for public inspection, review and copying unless a specific exemption in the law applies. Additionally laws pertaining to records privacy and retention and to standards for maintenance of records apply to virtual public schools.

Other types of regulation applicable to virtual public schools include restrictions on the use of public funds, the types of investments made with public funds, the collection of and use of student fees, and controlling accounting and financial management practices.

There remains uncertainty about the extent to which virtual public schools we serve may be required to comply with state laws and regulations applicable to traditional public schools because the concept of virtual public schools is relatively new. Although we receive state funds indirectly, according to the terms of each service agreement with the local public school entity, our receipt of state funds subjects us to extensive state regulation and scrutiny. Several states have commenced audits, some of which are still pending, to verify enrollment, attendance, fiscal accountability, special education services, and other regulatory issues. While we may believe that a virtual public school we serve is compliant with state law, an agency's different interpretation of law in a particular state could result in non-compliance, potentially affecting funding.

Regulations Restricting Virtual Public School Growth and Funding. As a new public schooling alternative, some state and regulatory authorities have elected to proceed cautiously with virtual public schools while providing opportunities for taxpayer families seeking this alternative. Regulations that control the growth of virtual public schools range from setting caps on statewide student enrollments, to prescribing the number of schools in a state, to limiting the percentage of time students may receive instruction online. Funding regulations can also have this effect.

Regulations that hinder our ability to serve certain jurisdictions include: restrictions on student eligibility, such as mandating attendance at a traditional public school prior to enrolling in a virtual public school; caps on the total number of students in a virtual public school; restrictions on grade levels served; geographic limitations on enrollments; fixing the percentage of per pupil funding that must be paid to teachers; mandating teacher: student ratios; state-specific curriculum requirements; and limits on the number of charters that can be granted in a state.

Funding regulations for virtual schools can take a variety of forms. These regulations include: (i) attendance — some state daily attendance rules were designed for traditional classroom procedures and applying them to track daily attendance and truancy in an online setting can cause disputes to arise over interpretation and funding; (ii) enrollment eligibility— some states place restrictions on the students seeking to enroll in virtual schools, resulting in lower aggregate funding levels; and (iii) teacher contact time — some states have regulations that specify minimum levels of teacher-student face-to-face time, which can create logistical challenges for statewide virtual schools, reduce funding and eliminate some of the economic, academic and technological advantages of virtual learning.

Federal and State Grants. We have worked with certain entities to secure public and grant funding that flows to virtual public schools that we serve. These grants are awarded to the not-for-profit entity that holds the charter of the virtual public school on a competitive basis in some instances and on an entitlement basis in other instances. Grants awarded to public schools and programs — whether by a federal or state agency or nongovernmental organization — often include reporting requirements, procedures, and obligations.

Federal Laws Applicable to Virtual Public Schools

Five primary federal laws are directly applicable to the day-to-day provision of educational services we provide to virtual public schools:

- *No Child Left Behind Act (NCLB).* Through the funding of the Title I programs for disadvantaged students under NCLB, the federal government requires public schools to develop a state accountability system based on academic standards and assessments developed by the state, which are applicable to all public school students. Each state must determine a proficiency level of academic achievement based on the state assessments, and must determine what constitutes adequate yearly progress (AYP) toward that goal. NCLB has a timeline to ensure that no later than the 2013-14 school year, all students, including those in all identified subgroups (such as economically disadvantaged, limited English proficient and minority students), will meet or exceed the state proficient level of academic achievement on state assessments. The progress of each school is reviewed annually to determine whether the school is making adequate yearly progress. If a Title I school does not make adequate yearly progress as defined in the state's plan, the local education agency (LEA) is required to identify the school as needing school improvement, and to provide all students enrolled in the school with the option to transfer to another public school served by the LEA, which may include a virtual public school. The LEA must develop a school improvement plan for each school identified as needing improvement in consultation with parents, staff and outside experts and this plan must be implemented not later than the beginning of the next full school year. If the school does not make adequate yearly progress in subsequent years, the school transfer option remains open to students and other corrective action must be taken ranging from providing supplemental education services to the students who remain in the school to taking corrective action including, but not limited to, replacing school staff, implementing a new curriculum, appointing outside experts to advise the school, extending the school year or the school day, reopening the school as a public charter school with a private management company or turning over the operation of the school to the state educational agency.

  Another provision of NCLB requires public school programs to ensure that all teachers are highly qualified. A highly qualified teacher means one who has: (1) obtained full state certification or licensure as a teacher and who has not had certification or licensure requirements waived on an emergency, temporary or provisional basis; (2) obtained a bachelor's degree; and (3) demonstrated competence in the academic subject the teacher teaches. All teacher aides working in a school supported with Title I funds must be highly qualified which means the person must have a high school diploma or its equivalent and one of the following: completed at least two years of study in an institution of higher education, obtained an associate's or higher degree, or met a rigorous standard of quality demonstrated through a formal state or local assessment. Virtual public schools using our products and services may be required to meet these requirements for any persons who perform instructional services.

  Virtual schools that receive Title I funding and use our products and services may be required to provide parents of Title I students with a variety of notices regarding the teachers and teachers' aides that teach their children. In addition, if these schools serve limited English proficient (LEP) children, they may be required to provide a variety of notices to the parents regarding the identification of the student as LEP and certain information about the instruction to be provided to the student, as well as the right to remove or refuse to enroll the student in the LEP program. Finally, these schools may also be required annually to develop, with input from parents of Title I students, and implement a written policy on parental involvement in the education of their children, to hold annual meetings with these parents and to provide these parents with assistance in various areas to help the parents to work with their children to improve student achievement.

Under NCLB, even schools that do not receive Title I funding must provide certain notices to parents. For example, schools may be required to provide a school report card and identify whether any school has been identified as needing improvement and for how long. Parents also must be provided data that will be used to determine adequate yearly progress. Virtual public schools may be contacted by military recruiters who have the right to access the names, addresses and telephone numbers of secondary school students for military recruiting purposes. Additionally, virtual public schools may be required to notify parents that they have the option to request that this information not be released to military recruiters or to institutions of higher education.

- *Individuals with Disabilities Education Act (IDEA).* The IDEA is implemented through regulations governing every aspect of the special education of a child with one or more of the specific disabilities listed in the act. The IDEA created a responsibility on the part of a school to identify students who may qualify under the IDEA and to perform periodic assessments to determine the students' needs for services. A student who qualifies for services under the IDEA must have in place an individual education plan, which must be updated at least annually, created by a team consisting of school personnel, the student, and the parent. This plan must be implemented in a setting where the child with a disability is educated with non-disabled peers to the maximum extent appropriate. The act provides the student and parents with numerous procedural rights relating to the student's program and education, including the right to seek mediation of disputes and make complaints to the state education agency. The schools we manage are responsible for ensuring the requirements of this act are met. The virtual schools could be required to comply with requirements in the act concerning teacher certification and training. We or the virtual public school could be required to provide additional staff, related services and supplemental aids and services at our own cost to comply with the requirement to provide a free appropriate public education to each child covered under the IDEA. If we fail to meet this requirement, we or the virtual public school could lose federal funding and could be liable for compensatory educational services, reimbursement to the parent for educational service the parent provided, and payment of the parent's attorney's fees.

- *Section 504 of the Rehabilitation Act of 1973.* A virtual public school receiving federal funds is subject to Section 504 of the Rehabilitation Act of 1973 (Section 504) insofar as the regulations implementing the act govern the education of students with disabilities as well as personnel and parents. Section 504 prohibits discrimination against a person on the basis of disability in any program receiving federal financial assistance if the person is otherwise qualified to participate in or receive benefit from the program. Students with disabilities not specifically listed in the IDEA may be entitled to specialized instruction or related services pursuant to Section 504 if their disability substantially limits a major life activity. There are many similarities between the regulatory requirements of Section 504 and the IDEA; however this is a separate law which may require a virtual public school to provide a qualified student with a plan to accommodate his or her disability in the educational setting. If a school fails to comply with the requirements and the procedural safeguards of Section 504, it may lose federal funds even though these funds flow indirectly to the school through a local board. In the case of bad faith or intentional wrongdoing, some courts have awarded monetary damages to prevailing parties in Section 504 lawsuits.

- *Family Educational Rights and Privacy Act.* Virtual public schools are subject to the Family Educational Rights and Privacy Act which protects the privacy of a student's educational records and generally prohibits a school from disclosing a student's records to a third-party without the parent's prior consent. The law also gives parents certain procedural rights with respect to their minor children's education records. A school's failure to comply with this law may result in termination of its eligibility to receive federal education funds.

- *Communications Decency Act.* The Communications Decency Act of 1996 (CDA) provides protection for online service providers against legal action being taken against them because of certain actions of others. For example, the CDA states that no provider or user of an interactive computer service shall be treated as the publisher or speaker of any data given by another provider of information content. Further, Section 230 of the CDA grants interactive online services of all types, broad immunity from tort liability so long as the information at issue is provided or posted by a third party. As part of our technology services offering, we provide an online school platform on which teachers and students may communicate. We also conduct live classroom sessions using Internet-based collaboration software and we offer certain online community platforms for students and parents. While the CDA affords us with some protection from liability associated with the interactive online services we offer, there are exceptions to the CDA that could result in successful actions against us that give rise to financial liability.

If we fail to comply with other federal laws, including federal civil rights laws not specific to education programs, we could be determined ineligible to receive funds from federal programs or face criminal or civil penalties. Finally, there are also other federal laws and regulations that affect other aspects of our business such as the identify theft rules adopted by the Federal Trade Commission and for which we have adopted policies to ensure compliance.

ITEM 1A. *RISK FACTORS*

Risks Related to Government Funding and Regulation of Public Education

Most of our revenues depend on per pupil funding amounts remaining near the levels existing at the time we execute service agreements with the virtual public schools we serve. If those funding levels are materially reduced due to economic conditions or political opposition, new restrictions adopted or payments delayed, our business, financial condition, results of operations and cash flows could be adversely affected.

The public schools we contract with are financed with government funding from federal, state and local taxpayers. Our business is primarily dependent upon those funds. Budget appropriations for education at all levels of government are determined through the political process, which may also be affected by conditions in the economy at large, such as the current severe recession in the U.S. that began in 2008 and by budgetary pressures experienced by state and local governments. As a result, funding for the virtual public schools we serve may decline. The political process and general economic conditions create a number of risks that could have an adverse affect on our business including the following:

- Legislative proposals can and have resulted in budget or program cuts for public education, including the virtual public schools we serve, and therefore have reduced and could potentially limit or eliminate the products and services those schools purchase from us, causing our revenues to decline. From time to time, proposals are introduced in state legislatures that single out virtual public schools for disparate treatment. For example, in 2009, legislation was introduced in Ohio that would have curtailed for-profit companies from managing charter schools and reduced funding for virtual charter schools by as much as 70 percent. This legislation did not survive a House-Senate conference and funding for the Ohio Virtual Academy was not significantly affected. Other examples include laws that decrease per pupil funding for virtual public schools or alter eligibility and attendance criteria or other funding conditions that could decrease our revenues and limit our ability to grow.

- Economic conditions could reduce state education funding for all public schools, and could be disproportionate for the virtual public schools we serve. Due to the recession, many states have reduced per enrollment funding for public education affecting many of the virtual public schools we serve. While the American Recovery and Reinvestment Act of 2009 (ARRA) has provided additional funds to states, it has not fully offset the state funding reductions. Thus, the net impact to funding was negative in many states and had a negative effect on our revenue and income for our fiscal years 2009 and 2010. Our financial results reflect annual school revenues and expenses, including ARRA funds, state funding reductions and expense reductions that we undertook in order to mitigate the impact of the funding reductions that have occurred. At this time, many states still have budget issues and the specific level of federal funding for the coming years is not yet known so it is possible we could experience lower per enrollment funding in the future.

- As a public company, we are required to file periodic financial and other disclosure reports with the Securities and Exchange Commission, or the SEC. This information may be referenced in the legislative process, including budgetary considerations, related to the funding of alternative public school options, including virtual public schools. The disclosure of this information by a for-profit education company, regardless of parent satisfaction and student academic achievement, may nonetheless be used by opponents of virtual public schools to propose funding reductions. And,

- From time to time, government funding to schools is not provided when due, which sometimes causes the affected schools to delay or cease payments to us for our products and services. These payment delays have occurred in the past and can deprive us of significant working capital until the matter is resolved, which could hinder our ability to implement our growth strategies and conduct our business. Most recently, in 2009 the Pennsylvania Department of Education withheld monthly payments for the Agora Cyber Charter School for products and services we provided as a subcontractor due to the PDE's investigation of the Agora Board of Trustees' compliance with its charter, even though the PDE had no complaints against us. The Pennsylvania Department of Education subsequently paid to us all amounts that had been withheld.

The poor performance or misconduct by other virtual public school operators could tarnish the reputation of all virtual public school operators, which could have a negative impact on our business.

As a relatively new form of public education, virtual school operators will be subject to scrutiny, perhaps even greater than that applied to traditional public schools or charter schools. Not all virtual public school operators will have successful academic programs or operate efficiently, and new entrants may not perform well either. Such underperforming operators could create the impression that virtual schooling is not an effective way to educate students, whether or not our learning system achieves solid performance. Moreover, some virtual school operators have been subject to governmental investigations alleging the misuse of public funds or financial irregularities. These allegations have attracted significant adverse media coverage and have prompted legislative hearings and regulatory responses. Although these investigations have focused on specific companies and individuals, they may negatively impact public perceptions of virtual public school providers generally, including us. The precise impact of these negative public perceptions on our business is difficult to discern, in part because of the number of states in which we operate and the range of particular malfeasance or performance issues involved. We have incurred significant lobbying costs in several states advocating against harmful legislation which, in our opinion, was aggravated by negative media coverage of particular virtual school operators. If these few situations, or any additional misconduct, cause all virtual public school providers to be viewed by the public and/or policymakers unfavorably, we may find it difficult to enter into or renew contracts to operate virtual schools. In addition, this perception could serve as the impetus for more restrictive legislation, which could limit our future business opportunities.

Opponents of virtual public schools have sought to challenge the establishment and expansion of such schools through the judicial process. If these interests prevail, it could damage our ability to sustain or grow our current business or expand in certain jurisdictions.

We have been, and will likely continue to be, subject to lawsuits filed against virtual public schools by those who do not share our belief in the value of this form of public education. Legal claims have involved challenges to the constitutionality of authorizing statutes, methods of instructional delivery, funding provisions and the respective roles of parents and teachers. For example, in *Illinois v. Chicago Virtual Charter School*, 06 CH 20955 (Cook County) (July 11, 2009), the Chicago Teacher's Union and other plaintiffs' claimed that the instructional model of the Chicago Virtual Charter School violated the prohibition against home-based charter schools under Illinois law. The Court did not agree and dismissed the claims on summary judgment.

The failure of the virtual public schools we serve to comply with applicable government regulations could result in a loss of funding and an obligation to repay funds previously received, which could adversely affect our business, financial condition and results of operations.

Once authorized by law, virtual public schools are generally subject to extensive regulation. These regulations cover specific program standards and financial requirements including, but not limited to: (i) student eligibility standards; (ii) numeric and geographic limitations on enrollments; (iii) prescribed student:teacher ratios and teacher funding allocations from per pupil revenue; (iv) state-specific curriculum requirements; and (v) restrictions on open-enrollment policies by and among districts. State and federal funding authorities conduct regular program and financial audits of virtual public schools, including the virtual public schools we serve, to ensure compliance with applicable regulations. If a virtual public school we serve is found to be noncompliant, it can be barred from receiving additional funds and could be required to repay funds received during the period of non-compliance, which could impair that school's ability to pay us for services in a timely manner, if at all. Additionally, the indemnity provisions in our standard service agreements with virtual public schools may require us to return any contested funds on behalf of the school. For example, preliminary audit findings of a fully-managed virtual school we serve in Washington State have focused on the quality of documentation, and interpretation of the rules governing such documentation, maintained by the school district for statewide enrollments and student-teacher contacts. We are working with the school district to evaluate potential responses.

Virtual public schools are relatively new, and enabling legislation therefore is often ambiguous and subject to discrepancies in interpretation by regulatory authorities, which may lead to disputes over our ability to invoice and receive payments for services rendered.

Statutory language providing for virtual public schools is sometimes interpreted by regulatory authorities in ways that may vary from year to year, making compliance subject to uncertainty. More issues normally arise during our first few school years of doing business in a state because the enabling legislation often does not address specific issues, such as what constitutes proper documentation for enrollment eligibility in a virtual school. We normally work through these issues and come to an agreement with the regulatory authorities on these details, although from time to time, there are changes to the regulators' approach to determining the eligibility of virtual school students for funding purposes. Another example may be differing interpretations on what constitutes a student's substantial completion of a semester in a public school. These regulatory uncertainties may lead to disputes over our ability to invoice and receive payments for services rendered, which could adversely affect our business, financial condition and results of operations.

The operation of virtual public schools depends on the maintenance of the authorizing charter and compliance with applicable laws. If these charters are not renewed, our contracts with these schools would be terminated.

In many cases, virtual public schools operate under a charter that is granted by a state or local authority to the charter holder, such as a community group or an established not-for-profit corporation, which typically is required by state law to qualify for student funding. In fiscal year 2010, approximately 87% of our revenues were derived from virtual public schools operating under a charter. The service agreement for these schools is with the charter holder or the charter board. Non-profit charter schools qualifying for exemption from federal taxation under Internal Revenue Code Section 501(c)(3) as charitable organizations must also operate in accordance with Internal Revenue Service rules and policies to maintain that status and their funding eligibility. In addition, all state charter school statutes require periodic reauthorization. While none of the virtual public schools we serve have failed to maintain their authorizing charter, if a virtual public school we serve fails to maintain its tax-exempt status and funding eligibility, or if its charter is revoked for non-performance or other reasons that may be due to actions of the independent charter board completely outside of our control, our contract with that school would be terminated. For example, in July 2009, the Pennsylvania Department of Education instituted charter revocation proceedings against the Agora Cyber Charter School based on allegations of charter violations and non-compliance with state charter school and other laws by the independent charter board, even though the PDE had no complaints against us. However, the charter was renewed for five years on June 30, 2010, following PDE approval of new board and management contract with us.

Actual or alleged misconduct by our senior management and directors would make it more difficult for us to enter into new contracts or renew existing contracts.

If any of our directors, officers or key employees are accused or found to be guilty of serious crimes, including the mismanagement of public funds, the schools we serve could be barred from entering into or renewing service agreements with us or otherwise discouraged from contracting with us and, as a result, our business and revenues would be adversely affected.

Risks Related to Our Business and Our Industry

The holders of a new class of Series A Special Stock issued on July 23, 2010 in connection with our acquisition of KC Distance Learning, Inc. will have the right to redeem those shares for cash in the event that our shareholders do not approve the rights of conversion of those shares into common stock by July 23, 2011. Because the redemption amount would be based on our future stock price at the redemption date and the amount of cash required is therefore not predictable, failure to approve a conversion could significantly affect our available cash reserves, and limit our ability to sufficiently fund ongoing operations, and our business, financial condition and results of operations would be adversely affected.

On July 23, 2010, we issued a new class of preferred stock designated as Series A Special Stock (Series A Shares) to finance the acquisition of KC Distance Learning, Inc. (KCDL) from KCDL Holdings LLC, an affiliate of Learning Group LLC. These 2.75 million Series A Shares are eligible for conversion into K12 common stock on a one-for-one basis upon approval of the conversion rights by our shareholders. If converted and outstanding for the full fiscal year ended June 30, 2010, the Series A Shares would have increased our total dilutive shares outstanding by approximately 9.2%. We plan to hold a special shareholders meeting before the end of calendar year 2010 at which our shareholders will vote on approving these rights of conversion and voting rights for the holders of this Series A Shares. If such approval is not obtained by July 23, 2011, the holders of the Series A Shares will have the right to require us to redeem the Series A Shares for cash at the higher of the then-current market price or $22.95 but in no event will we be required to redeem more than half of the Series A Shares during any 12-month period. The aggregate redemption liability (if fully exercised) will not be less than $63.1 million of cash. In addition, if we fail to redeem the Series A Shares on a timely basis, a penalty at an annualized rate of 8% of the redemption price will be assessed until the default is cured, and there will also be a rate increase of 1% imposed annually on the penalty amount should the default period extend beyond one year. In addition, if our shareholders do not approve the rights of conversion and voting rights, the stockholders agreement we signed with KCDL Holdings LLC and certain of its affiliates will impose obligations on us not to impair the operation of our business beginning on May 23, 2011 to make it more likely that the redemption amounts will be paid.

Pursuant to our joint venture agreement with Middlebury College, there is a risk that Middlebury College might exercise its right to require us to purchase its ownership interest in our joint venture at fair market value which could adversely affect our financial condition.

A key provision in our joint venture agreement with Middlebury College is its right beginning on April 14, 2015 and upon 180 days advance notice, to require us to purchase all, but not a portion of, its ownership interest in our joint venture at fair market value and based on an independent appraisal. We have the right to pay the redemption cost in cash, stock or a combination thereof, at our option. It is uncertain when or whether Middlebury College would elect to exercise this right and therefore, we cannot at this time determine the form of the redemption payment and therefore the exact impact to our financial condition or dilution to shareholders.

Mergers, acquisitions and joint ventures present many risks, and we may not realize the financial and strategic goals that formed the basis for the transaction.

We intensified our corporate development activities in FY 2010 to expand our business, which included our recent acquisition of KCDL and our joint venture with Middlebury College. We expect to continue to pursue and consummate similar transactions in the future using cash, stock, debt, asset contributions or any combination thereof. We may face risks in connection with these or other future transactions, including the possibility that we may not realize the anticipated cost and revenue synergies or further the strategic purpose of the acquisition if our forecasts do not materialize. The pursuit of acquisitions may divert the resources that could otherwise be used to support and grow our existing lines of business. Acquisitions may also create multiple and overlapping product lines that are offered, priced and supported differently, which could cause customer confusion and delays. Customers may decline to renew their contracts or contracts of acquired business might not allow us to recognize revenues on the same basis. These transactions may also divert our management's attention and our ongoing business may be disrupted by acquisition, transition or integration activities. In addition, we may have difficulty separating, transitioning and integrating an acquired company's systems and the associated costs in doing so may be higher than we forecasted.

There may also be other adverse effects on our business, operating results or financial condition associated with the expansion of our business through acquisitions. We may fail to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company or technology, which could result in unexpected accounting treatment, unexpected increases in taxes due or a loss of anticipated tax benefits. Our use of cash to pay for acquisitions may limit other potential uses of our cash, including stock repurchases, dividend payments and retirement of outstanding indebtedness. If we issue a significant amount of equity for future acquisitions, existing stockholders may be diluted and earnings per share may decrease. We may pay more than the acquired company or assets are ultimately worth and we may have underestimated our costs in continuing the support and development of an acquired company's products. Our operating results may be adversely impacted by liabilities that we assume from an acquired company or by relationships of an acquired company that we would not have otherwise entered into, the termination or modification of which may be costly, disruptive to our business, or lead to litigation.

We may be unable to obtain required approvals from governmental authorities on a timely basis, if it all, which could, among other things, delay or prevent us from completing a transaction, otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition or have other adverse effects on our current business and operations. We may face contingencies related to intellectual property, financial disclosures, and accounting practices or internal controls. Finally, we may not be able to retain key executives of an acquired company.

The occurrence of any of these risks could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or several concurrent acquisitions.

We have had a material weakness in internal control over financial reporting with respect to complex, non-routine and non-recurring transactions in the past and cannot assure you that additional material weaknesses will not be identified in the future. Although this material weakness did not result in a restatement of our financial statements for prior periods, our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.

Our independent registered public accounting firm has identified, and management agreed, that a material weakness existed in our internal control over financial reporting for the period ended June 30, 2010. See "Item 9A. Controls and Procedures" herein.

The material weakness in our internal control over financial reporting related to our accounting for complex transactions that are non-routine and non-recurring. We cannot assure you that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional significant deficiencies or material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated under Section 404. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of our financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

If we fail to remain profitable or achieve further marketplace acceptance for our products and services, our business, financial condition and results of operations will be adversely affected.

The virtual public schools we serve began enrolling students in the 2001-02 school year. As a result, we have a relatively limited operating history upon which to evaluate our business and prospects. We first achieved positive income from operations in the fiscal year ending June 30, 2006. Prior to that period, we sustained cumulative net losses totaling approximately $90 million. There can be no assurance that we will remain profitable, or that our products and services will achieve further marketplace acceptance. Our marketing efforts may not generate a sufficient number of student enrollments to sustain our business plan; our capital and operating costs may exceed planned levels; and we may be unable to develop and enhance our service offerings to meet the demands of virtual public schools and students to the extent that such demands and preferences change. For example, the current recession in the U.S. economy has led to lower tax revenues and reductions in state educational budgets which may negatively impact a virtual charter school's offerings and student enrollments. If we are not successful in managing our business and operations, our financial condition and results of operations will be adversely affected.

Regulatory frameworks on the accessibility of technology are continually evolving due to legislative and administrative developments and the rapid evolution of technology, which could result in increased product development costs and compliance risks.

Our online curriculum is made available to students through computers and other display devices connected to the Internet. This curriculum includes a combination of software applications that include graphics, pictures, videos, animations, sounds, and interactive content that present challenges to people with disabilities. A number of states have considered or are considering how electronic and information technology procured with state funds should be made accessible to persons with such disabilities. To the extent they enact laws and regulations to require greater accessibility, we might have to modify our curriculum offerings to satisfy those requirements. In addition, to the extent that we enter into federal government contracts, similar requirements could be imposed on us under Section 508 of the Rehabilitation Act of 1974. We expect that we will continue to modify and improve our curriculum so that it can be made available to the widest audience possible. However, if requirements or technology evolves in such a way as to accelerate or alter the need to make all curriculum accessible, we could incur significant product development costs on an accelerated basis. A failure to meet required accessibility needs could also result in loss or termination of significant contracts or in potential legal liability.

The schools we contract with and serve are governed by independent governing bodies that may shift their priorities or change objectives in ways adverse to us.

We contract with and provide a majority of our products and services to virtual public schools governed by independent boards or similar governing bodies. While we typically share a common objective at the outset of our business relationship, over time our interests could diverge. If these independent boards of the schools we serve subsequently shift their priorities or change objectives, and as a result reduce the scope or terminate their relationship with us, our ability to generate revenues would be adversely affected.

Our contracts with the virtual public schools we serve are subject to periodic renewal, and each year several of these agreements are set to expire. If we are unable to renew several such contracts or if a single significant contract expires during a given year, our business, financial condition, results of operations and cash flow could be adversely affected.

We have contracts to provide our full range of products and services to virtual public schools in 27 states and the District of Columbia. Several of these contracts are scheduled to expire in any given year. For example, such contracts in six states are scheduled to expire in fiscal year 2011 although the contracts in three of those six states are annual contracts that contain automatic renewal provisions. We usually begin to engage in renewal negotiations during the final year of these contracts. In order to renew these contracts, we have to enter into negotiations with the independent boards of these virtual public schools. Historically we have been successful in renewing these contracts, but such renewals typically contain revised terms, which may be more or less favorable then the terms of the original contract. For example, a school in Pennsylvania reduced the term of its contract from five years to three years when renewing its contract in 2006, but when renewing again in 2009, extended the term to 10 years. Similarly, a school in Colorado increased the term of its contract from five years to 10 years upon renewal in 2009 and a school in Arizona increased the term of its contract from five years to 20 years upon renewal in 2010. While we have no reason to believe that schools with valid charters will not continue to renew their contracts upon expiration, we recognize that each renegotiation is unique and, if we are unable to renew several such contracts or one significant contract expiring during a given year, or if such renewals have significantly less favorable terms than existing contracts, or an underlying charter is revoked or not renewed, our business, financial condition, results of operations and cash flow could be adversely affected.

We generate significant revenues from two virtual public schools, and the termination, revocation, expiration or modification of our contracts with these virtual public schools could adversely affect our business, financial condition and results of operation.

In fiscal year 2010, we derived more than 10% of our revenues from each of the Ohio Virtual Academy and the Agora Cyber Charter School in Pennsylvania. In aggregate, these schools accounted for 28% of our total revenues. If our contracts with any of these virtual public schools are terminated, the charters to operate any of these schools are not renewed or are revoked, enrollments decline substantially, funding is reduced, or more restrictive legislation is enacted, our business, financial condition and results of operations could be adversely affected.

Highly qualified teachers are critical to the success of our learning system. If we are not able to continue to recruit, train and retain quality certified teachers, our curriculum might not be effectively delivered to students, compromising their academic performance and our reputation with the virtual public schools we serve. As a result, our brand, business and operating results may be adversely affected.

Effective teachers are critical to maintaining the quality of our learning system and assisting students with their daily lessons. Teachers in virtual public schools must be state certified and have strong interpersonal communications skills to be able to effectively instruct students in a virtual school setting. They must also possess the technical skills to use our technology-based learning system. There is a limited pool of teachers with these specialized attributes and the virtual public schools we serve must provide competitive compensation packages to attract and retain such qualified teachers.

The teachers in most virtual public schools we serve are not our employees and the ultimate authority relating to those teachers resides with the governing body overseeing the schools. However, under many of our service agreements with virtual public schools, we have responsibility to recruit, train and manage these teachers. We must also provide continuous training to virtual public school teachers so that they can stay abreast of changes in student demands, academic standards and other key trends necessary to teach online effectively. We may not be able to recruit, train and retain enough qualified teachers to keep pace with our growth while maintaining consistent teaching quality in the various virtual public schools we serve. Shortages of qualified teachers or decreases in the quality of our instruction, whether actual or perceived, would have an adverse effect on our business.

If student performance falls, NCLB standards are not achieved, or parent and student satisfaction declines, a significant number of students may not remain enrolled in a virtual public school that we serve, and our business, financial condition and results of operations will be adversely affected.

The success of our business depends on a family's decision to have their child continue his or her education in a virtual public school that we serve. This decision is based on many factors, including student achievement and parent and student satisfaction. Students may perform significantly below state averages or the virtual school may fail to meet the standards of the No Child Left Behind Act (NCLB). Not all of the virtual public schools we serve meet the Adequate Yearly Progress requirements of NCLB, as large numbers of new enrollments from students underperforming in traditional schools can lower overall results or the underperformance of any one subgroup can lead to the entire school failing to achieve Adequate Yearly Progress, although serving this at-risk segment is an important aspect of our mission to educate any child regardless of circumstance. We expect that, as our enrollments increase and the portion of students that have not used our learning system for multiple years increases, the average performance of all students using our learning system may decrease, even if the individual performance of other students improves over time. Moreover, Congress may amend the NCLB statute in ways that positively or negatively impact the schools we serve. Finally, parent and student satisfaction may decline as not all parents and students are able to devote the substantial time and energy necessary to complete our curriculum. A student's satisfaction may also suffer if his or her relationship with the virtual school teacher does not meet expectations. If a student's performance or satisfaction declines, students may decide not to remain enrolled in a virtual public school that we serve and our business, financial condition and results of operations will be adversely affected.

We may not be able to effectively manage the operations and financial risk associated with the management of virtual high schools. Our failure to do so could substantially impede our growth and profitability.

Our continued expansion into virtual high schools presents us with a number of challenges and an evolving array of risks that could affect our financial condition and results of operations. We are continuing to develop new proprietary high school curriculum, and we are currently using third-party platforms and some third-party curriculum in our high school offering. In fiscal year 2010, total average high school enrollments increased 43.5% over the prior year and constituted approximately 21.9% of our total average virtual public school and hybrid school enrollments. If the quality of our proprietary curriculum, third-party curriculum or platforms is unsatisfactory, student enrollments could decline. In addition, our inability to scale high school operations or achieve productivity improvements could reduce our operating margins.

We plan to create new products, expand distribution channels, and pilot innovative educational programs to enhance academic performance. If we are unable to effectively manage these initiatives or they fail to gain acceptance, our business, financial condition, results of operations and cash flows would be adversely affected.

As we create new products and distribution channels, expand our existing distribution channels and pilot new educational programs, we expect to face challenges distinct from those we currently encounter, including:

- our development of public hybrid schools which will produce different operational challenges than those we currently encounter. In addition to the online component, hybrid schools may require us to lease facilities for classrooms, staff classrooms with teachers, provide meals, adhere to local safety and fire codes, purchase additional insurance and fulfill many other responsibilities;
- our further expansion into international markets may require us to conduct our business differently than we do in the United States or in existing countries. For example, we may attempt to establish, invest in or acquire a traditional brick and mortar school in another country. Additionally, we may have difficulty training and retaining qualified teachers or generating sufficient demand for our products and services in international markets. International opportunities will also produce different operational, tax and currency challenges than those we currently encounter;
- our use of our curriculum in classrooms will produce challenges with respect to adapting our curriculum for effective use in a traditional classroom setting;
- our entry into the operation of brick and mortar schools, as well as flexible learning centers used on a full-time basis by students accessing our curriculum online under the supervision of certified teachers and supporting instructors, will necessitate different management skills and present additional risks compared to those in our core virtual school business;
- our participation in summer foreign language instruction camps through Middlebury Interactive Languages LLC, our joint venture with Middlebury College which could generate new legal liabilities and financial consequences associated with our responsibility for students housed on leased college campuses on a 24-hour basis over the duration of the camp; and
- our continual efforts to innovate and pilot new programs to enhance student learning may not always succeed or may encounter unanticipated opposition, such as what we experienced in 2008 in connection with a limited pilot to outsource essay reviews overseas, which the Company thereafter discontinued.

Our failure to manage these new distribution channels, or any new distribution channels we pursue, may have an adverse effect on our business, financial condition, results of operations and cash flows.

Increasing competition in the market segments that we serve could lead to pricing pressures, reduced operating margins, loss of market share, departure of key employees and increased capital expenditures.

We face varying degrees of competition from several discrete education providers because our learning system integrates all the elements of the education development and delivery process, including curriculum development, textbook publishing, teacher training and support, lesson planning, testing and assessment, and school performance and compliance management. We compete with companies that provide online curriculum and support services to K-12 virtual public schools. Additionally, for-profit post-secondary and supplementary education providers are attempting to enter this space and offer online school curriculum and services in competition with us. In certain jurisdictions and states where we currently serve virtual public schools, we expect intense competition from existing providers and new entrants. Our competitors may adopt similar curriculum delivery, school support and marketing approaches, with different pricing and service packages that may have greater appeal than our offerings. If we are unable to successfully compete for new business, win and renew contracts or maintain current levels of academic achievement, our revenue growth and operating margins may decline. Price competition from our current and future competitors could also result in reduced revenues, reduced margins or the failure of our product and service offerings to achieve or maintain more widespread market acceptance.

We may also face competition from publishers of traditional educational materials that are substantially larger than we are and have significantly greater financial, technical and marketing resources. As a result, they may be able to devote more resources to develop products and services that are superior to our platform and technologies. We may not have the resources necessary to acquire or compete with technologies being developed by our competitors, which may render our online delivery format less competitive or obsolete. These new and well-funded entrants may also seek to attract our key executives as employees based on their acquired expertise in virtual education where such specialized skills are not widely available.

Our future success will depend in large part on our ability to maintain a competitive position with our curriculum and our technology, as well as our ability to increase capital expenditures to sustain the competitive position of our product and retain our talent base. We cannot assure you that we will have the financial resources, technical expertise, marketing, distribution or support capabilities to compete effectively.

If demand for increased options in public schooling does not continue or if additional jurisdictions do not authorize or adequately fund virtual public schools, our business, financial condition and results of operations could be adversely affected.

Over the previous three fiscal years, we entered into service agreements for fully-managed virtual public schools in 10 new states bringing our total to 27 states and the District of Columbia for the 2010-11. If the demand for virtual public schools does not increase, if additional jurisdictions do not authorize new virtual schools, if enrollment caps are not removed or raised, or if the funding of such schools is inadequate, our business, financial condition and results of operations could be adversely affected.

Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter-to-quarter and adversely impact our working capital and liquidity throughout the year.

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to the number of months in a fiscal quarter that our virtual public schools are fully operational and serving students. In the typical academic year, our first and fourth fiscal quarters have fewer than three full months of operations, whereas our second and third fiscal quarters will have three complete months of operations. We ship learning kits to students in the beginning of the school year, our first fiscal quarter, generally resulting in higher learning kit revenues and margins in the first fiscal quarter relative to the other quarters. In aggregate, the seasonality of our revenues has generally produced higher revenues in the first quarter of our fiscal year.

Our operating expenses are also seasonal. Instructional costs and services increase in the first fiscal quarter primarily due to the costs incurred to ship learning kits at the beginning of the school year. These instructional costs may increase significantly quarter-to-quarter as school operating expenses increase. The majority of our selling and marketing expenses are incurred in the first and fourth fiscal quarters, as our primary enrollment season is July through September.

We expect quarterly fluctuations in our revenues and operating results to continue. These fluctuations could result in volatility and adversely affect our cash flow. As our business grows, these seasonal fluctuations may become more pronounced. As a result, we believe that sequential quarterly comparisons of our financial results may not provide an accurate assessment of our financial position.

Our revenues are based in part on our estimate of the total funds each school will receive in a particular school year and our estimate of the full year expenses to be incurred by each school. As a result, differences between our quarterly estimates and the actual funds received and expenses incurred could have an adverse impact on our results of operations and cash flows.

We recognize revenues from certain of our fees ratably over the course of our fiscal year. To determine the pro rata amount of revenues to recognize in a fiscal quarter, we estimate the total funds each school will receive in a particular school year. Additionally, we take responsibility for any operating expenses incurred at most of the virtual public schools we serve. Because these expenses may impair our ability to collect the full amount invoiced in a period and therefore collection cannot reasonably be assured, we reduce revenues by the estimated pro rata amount of the school operating loss. We review our estimates of total funds and operating expenses periodically, and we revise as necessary, amortizing any adjustments over the remaining portion of the fiscal year. Actual school funding received and school operating expenses incurred may vary from our estimates or revisions and could adversely impact our results of operation and cash flows.

The continued development of our product and service brands is important to our business. If we are not able to maintain and enhance these brands, our business and operating results may suffer.

Enhancing brand awareness is critical to attracting and retaining students, and for serving additional virtual public schools, and school districts and we intend to spend significant resources to accomplish that objective. These efforts include sales and marketing directed to targeted locations as well as the national marketplace, the educational community at large, key political groups, image-makers and the media. We believe that the quality of our curriculum and management services has contributed significantly to the success of our brands. As we continue to increase enrollments and extend our geographic reach, maintaining quality and consistency across all of our services and products may become more difficult to achieve, and any significant and well-publicized failure to maintain this quality and consistency will have a detrimental effect on our brands. We cannot provide assurances that our new sales and marketing efforts will be successful in further promoting our brands in a competitive and cost effective manner. If we are unable to further enhance our brand recognition and increase awareness of our products and services, or if we incur excessive sales and marketing expenses, our business and results of operations could be adversely affected.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand.

Our patent, trademarks, trade secrets, copyrights, domain names and other intellectual property rights are important assets for us. For example, we have been granted two patents relating to the hardware and network infrastructure of our online school, including the system components for creating and administering assessment tests and our lesson progress tracker. Additionally, we are the copyright owner of the courses comprising our proprietary curriculum.

Various events outside of our control pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed or made available through the Internet. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

Although we seek to obtain patent protection for our innovations, it is possible that we may not be able to sufficiently protect some of these innovations. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable.

We also seek to maintain certain intellectual property as trade secrets. This secrecy could be compromised by outside parties, or by our employees intentionally or accidentally, which would cause us to lose the competitive advantage resulting from these trade secrets. Third parties may acquire domain names that are substantially similar to our domain names leading to a decrease in the value of our domain names and trademarks and other proprietary rights.

We may be sued for infringing the intellectual property rights of others and such actions would be costly to defend, could require us to pay damages and could limit our ability or increase our costs to use certain technologies in the future.

Companies in the Internet, technology, education, curriculum and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. As we grow, the likelihood that we may be subject to such claims also increases. Regardless of the merits, intellectual property claims are time-consuming and expensive to litigate or settle. In addition, to the extent claims against us are successful, we may have to pay substantial monetary damages or discontinue any of our products, services or practices that are found to be in violation of another party's rights. We also may have to seek a license and make royalty payments to continue offering our products and services or following such practices, which may significantly increase our operating expenses.

We may be subject to legal liability resulting from the actions of third parties, including independent contractors, business partners, or teachers, which could cause us to incur substantial costs and damage our reputation.

We may be subject, directly or indirectly, to legal claims associated with the actions of or filed by our independent contractors, business partners, or teachers. In the event of accidents or injuries or other harm to students, we could face claims alleging that we were negligent, provided inadequate supervision or were otherwise liable for their injuries. Additionally, we could face claims alleging that our independent curriculum contractors or teachers infringed the intellectual property rights of third parties. A liability claim against us or any of our independent contractors, business partners, or teachers could adversely affect our reputation, enrollment and revenues. Even if unsuccessful, such a claim could create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of management.

Unauthorized disclosure or manipulation of student, teacher and other sensitive data, whether through breach of our network security or otherwise, could expose us to costly litigation or could jeopardize our contracts with virtual public schools.

Maintaining our network security and internal controls over access rights is of critical importance because our Student Administration Management System (SAMS) stores proprietary and confidential student and teacher information, such as names, addresses, and other personal information. Individuals and groups may develop and deploy viruses, worms and other malicious software programs that attack or attempt to infiltrate SAMS.

If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, third parties may receive or be able to access student records and we could be subject to liability or our business could be interrupted. Penetration of our network security could have a negative impact on our reputation and could lead virtual public schools and parents to choose competitive offerings. As a result, we may be required to expend significant resources to provide additional protection from the threat of these security breaches or to alleviate problems caused by these breaches. Additionally, we run the risk that employees or vendors could illegally disclose confidential educational information.

We rely on the Internet to enroll students and to deliver our products and services to children, which exposes us to a growing number of legal risks and increasing regulation.

We collect information regarding students during the online enrollment process, and a significant amount of our curriculum content is delivered over the Internet. As a result, specific federal and state laws that could have an impact on our business include the following:

- the Children's Online Privacy Protection Act, which restricts the distribution of certain materials deemed harmful to children and imposes additional restrictions on the ability of online companies to collect personal information from children under the age of 13;
- the Family Educational Rights and Privacy Act, which imposes parental or student consent requirements for specified disclosures of student information, including online information;
- the Communications Decency Act, which provides website operators immunity from most claims arising from the publication of third-party content; and
- numerous state cyberbullying laws which require schools to adopt policies on harassment through the Internet or other electronic communications.

In addition, the laws applicable to the Internet are still developing. These laws impact pricing, advertising, taxation, consumer protection, quality of products and services, and are in a state of change. New laws may also be enacted, which could increase the costs of regulatory compliance for us or force us to change our business practices. As a result, we may be exposed to substantial liability, including significant expenses necessary to comply with such laws and regulations.

System disruptions and vulnerability from security risks to our online computer networks could impact our ability to generate revenues and damage our reputation, limiting our ability to attract and retain students.

The performance and reliability of our technology infrastructure is critical to our reputation and ability to attract and retain virtual public schools, parents and students. Any sustained system error or failure, or a denial of service (DNS) attack, could limit our users' access to our learning system, and therefore, damage our ability to generate revenues or provide sufficient documentation to comply with state laws requiring proof that students completed the required number of hours of instruction. Our technology infrastructure could be vulnerable to interruption or malfunction due to events beyond our control, including natural disasters, terrorist activities and telecommunications failures.

We utilize a single logistics vendor for the management, receiving and shipping of all of our learning kits and printed educational materials. In addition, we utilize another vendor for the reclamation and redeployment of our student computers. Both of these partnerships depend upon execution on the part of us and the vendors. Any material failure to execute properly for any reason, including damage or disruption to either of the vendor's facilities would have an adverse effect on our business, financial condition and results of operations.

Substantially all of the inventory for our learning kits and printed materials is located in one warehouse facility operated by a third-party logistics vendor which handles receipt, assembly, and shipping of all physical learning materials. If this logistics vendor were to fail to meet its obligations to deliver learning materials to students in a timely manner, or if such shipments are incomplete or contain assembly errors, our business and results of operations could be adversely affected. We contracted with a new materials logistics vendor in 2009, and if we encounter any significant problems with this vendor's performance would adversely affect our business and results of operations. In addition, we provide computers for a substantial number of our students. Execution failures which interfere with the reclamation or redeployment of computers may result in additional costs. Furthermore, a natural disaster, fire, power interruption, work stoppage or other unanticipated catastrophic event, especially during the period from May through September when we have received most of the curriculum materials for the school year and have not yet shipped such materials to students, could significantly disrupt our ability to deliver our products and operate our business. If any of our material inventory items were to experience any significant damage, we would be unable to meet our contractual obligations and our business would suffer.

Any significant interruption in the operations of our data center could cause a loss of data and disrupt our ability to manage our network hardware and software and technological infrastructure.

We host our products and serve all of our students from a third-party data center facility. Our risk mitigation plan may not be able to prevent a significant interruption in the operation of this facility or the loss of school and operational data due to a natural disaster, fire, power interruption, act of terrorism or other unanticipated catastrophic event. Any significant interruption in the operation of this facility, including an interruption caused by our failure to successfully expand or upgrade our systems or manage our transition to utilizing the expansions or upgrades, could reduce our ability to manage our network and technological infrastructure, which could result in lost sales, enrollment terminations and impact our brand reputation.

Additionally, we do not control the operation of this facility and must rely on a third-party to provide the physical security, facilities management and communications infrastructure services related to our data center. Although we believe we would be able to enter into a similar relationship with another third-party should this relationship fail or terminate for any reason, our reliance on a third-party vendor exposes us to risks outside of our control. If this third-party vendor encounters financial difficulty such as bankruptcy or other events beyond our control that causes it to fail to secure adequately and maintain its hosting facilities or provide the required data communications capacity, students of the virtual public schools we serve may experience interruptions in our service or the loss or theft of important customer data.

Any significant interruption in the operations of our call center could disrupt our ability to respond to service requests and process orders and to deliver our products in a timely manner.

Our primary call center operations are housed in five facilities, one in Virginia, one in Pennsylvania, one in Oregon and two through a vendor located in Kentucky and Texas. We have limited call center operations in Arizona and Utah. To mitigate operating risk in certain high volume queues, we have the ability to reroute calls to other facilities if a certain facility is unable to temporarily service calls. This plan may not be able to prevent a significant interruption in the operation of any of the facilities due to natural disasters, accidents, failures of our fulfillment provider. However, we have the ability to respond to a service interruption to lessen its impact on customers. Any significant interruption in the operation of any primary facility, including an interruption caused by our failure to successfully expand or upgrade our systems or to manage these expansions or upgrades, could reduce our ability to respond to service requests, receive and process orders and provide products and services, which could result in lost and cancelled sales, and damage to our brand reputation.

Capacity limits on some of our technology, transaction processing systems and network hardware and software may be difficult to project and we may not be able to expand and upgrade our systems in a timely manner to meet significant unexpected increased demand.

As the number of virtual public schools we serve increases and our student base grows, the traffic on our transaction processing systems and network hardware and software will rise. We may be unable to accurately project the rate of increase in the use of our transaction processing systems and network hardware and software. In addition, we may not be able to expand and upgrade our systems and network hardware and software capabilities to accommodate significant unexpected increased use. If we are unable to appropriately upgrade our systems and network hardware and software in a timely manner, our operations and processes may be temporarily disrupted.

We may be unable to keep pace with changes in technology as our business and market strategy evolves.

We will need to respond to technological advances and emerging industry standards in a cost-effective and timely manner in order to remain competitive. The need to respond to technological changes may require us to make substantial, unanticipated expenditures. There can be no assurance that we will be able to respond successfully to technological change.

We may be unable to attract and retain skilled employees.

Our success depends in large part on continued employment of senior management and key personnel who can effectively operate our business. If any of these employees leave us and we fail to effectively manage a transition to new personnel, or if we fail to attract and retain qualified and experienced professionals on acceptable terms, our business, financial conditions and results of operations could be adversely affected.

Our success also depends on our having highly trained financial, technical, recruiting, sales and marketing personnel. We will need to continue to hire additional personnel as our business grows. A shortage in the number of people with these skills or our failure to attract them to our Company could impede our ability to increase revenues from our existing products and services and to launch new product offerings, and would have an adverse effect on our business and financial results.

We may not be able to effectively manage our growth, which could impair our ability to operate profitably.

We have experienced significant expansion since our inception. This has sometimes strained our managerial, operational, financial and other resources, and this situation could be exacerbated as we pursue more acquisitions, develop new distribution channels and create new offerings. Moreover, a substantial increase in our enrollment or the addition of new schools in a short period of time could further strain our current resources and increase capital expenditures, without an immediate increase in revenues. Our failure to successfully manage our growth in a cost efficient manner, or add and retain personnel to adequately support our growth could disrupt our business and decrease profitability.

We may need additional capital in the future, but there is no assurance that funds will be available on acceptable terms.

We may need to raise additional funds in order to achieve growth or fund other business initiatives. This financing may not be available in sufficient amounts or on terms acceptable to us and may be dilutive to existing stockholders. Additionally, any securities issued to raise funds may have rights, preferences or privileges senior to those of existing stockholders. If adequate funds are not available or are not available on acceptable terms, our ability to expand, develop or enhance services or products, or respond to competitive pressures will be limited.

Our curriculum and approach to instruction may not achieve widespread acceptance, which would limit our growth and profitability.

The curriculum and approach to instruction that we offer are based on the structured delivery, clarification, verification and practice of lesson subject matter. Our goal is to make students proficient at the fundamentals and to instill confidence in a subject prior to confronting new and complex concepts. While our curriculum is aligned with state standards in the jurisdictions where we manage virtual public schools and these schools offer accredited diplomas, this approach is not accepted by all academics and educators, who may favor less formalistic methods. Accordingly, some academics and educators are opposed to the principles and methodologies associated with our approach to learning, and have the ability to negatively influence the market for our products and services.

Although we do not currently transact a material amount of business in a foreign country, we intend to continue our expansion into international markets, which will subject us to additional economic, operational, legal and political risks that could increase our costs and make it difficult for us to continue to operate profitably.

We are engaged in growing our international business in a manner that will leverage our current product and service offerings. The addition of international operations may require significant expenditure of financial and management resources and result in increased administrative and compliance costs. As a result of such expansion, we will be increasingly subject to the risks inherent in conducting business internationally, including:

- foreign currency fluctuations, which could result in reduced revenues and increased operating expenses;
- potentially longer payment and sales cycles;

- difficulty in collecting accounts receivable;
- the effect of applicable foreign tax structures or taxes that may be duplicative of those imposed in the United States, notwithstanding steps taken by the Company to address such matters;
- tariffs and trade barriers;
- general economic and political conditions in each country;
- inadequate intellectual property protection in foreign countries;
- uncertainty regarding liability for information retrieved and replicated in foreign countries;
- the difficulties and increased expenses in complying with a variety of U.S. and foreign laws, regulations and trade standards, including the Foreign Corrupt Practices Act and Treasury regulations; and
- unexpected changes in applicable laws and regulatory requirements.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

The Company's headquarters are located in approximately 104,000 square feet of office space in Herndon, Virginia. The property is leased until May 2022. The Company leases approximately 59,000 square feet in multiple locations under individual leases that expire between July 2010 and June 2015.

ITEM 3. *LEGAL PROCEEDINGS*

In the ordinary conduct of our business, we are subject to lawsuits, arbitrations and administrative proceedings from time to time.

In June 2010, the shareholders of Aventa Learning, Inc. (Aventa) filed a lawsuit against KC Distance Learning, Inc. which is currently pending in the U.S. District Court for the Western District of Washington, *Axtman et al. v. KC Distance Learning, Inc.* (Case No. 2:10-cv-01022-JLR). The lawsuit alleges, among other things, that KCDL did not honor the terms of an earn-out provision contained in an asset purchase agreement after certain assets of Aventa were acquired by KCDL in 2007. In addition, the plaintiffs allege breach of contract and misrepresentation claims, and seek the remedy of rescission for alleged violation of the Securities Act of Washington. On July 23, 2010, we acquired all of the shares of KCDL, which is now our wholly-owned subsidiary. On August 31, 2010, the plaintiffs amended their complaint to add K12 Inc. as a co-defendant in this matter, reflecting the change in ownership. Pursuant to the Agreement and Plan of Merger between K12 Inc. and KCDL Holdings LLC (Seller), Seller agreed to assume responsibility to defend this lawsuit and to fully indemnify K12 Inc. for any liability, including rescission. In addition, K12 Inc. obtained a guarantee from Seller's parent company, Learning Group LLC, from any losses related to this litigation. In our view, the outcome of this litigation will not have a material adverse effect on the financial condition or results of operations of K12 Inc. or any of our subsidiaries.

ITEM 4. *(REMOVED AND RESERVED)*

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning our executive officers as of June 30, 2010:

Name	Age	Position
Ronald J. Packard	47	Chief Executive Officer, Founder and Director
Harry T. Hawks	57	Executive Vice President and Chief Financial Officer
Bruce J. Davis	47	Executive Vice President, Worldwide Business Development
George B. Hughes, Jr.	51	Executive Vice President, School Services
John P. Olsen	43	Executive Vice President, Operations
Celia M. Stokes	46	Executive Vice President and Chief Marketing Officer
Howard L. Allentoff	48	Senior Vice President, Human Resources
Howard D. Polsky	58	General Counsel and Secretary

Ronald J. Packard, Chief Executive Officer, Founder and Director

Ronald J. Packard founded K12 in 2000. Previously, Mr. Packard served as Vice President of Knowledge Universe and he served as Chief Executive Officer of Knowledge Schools, a provider of early childhood education and after school companies. Mr. Packard has also held positions at McKinsey & Company and Goldman Sachs in mergers and acquisitions. Additionally, Mr. Packard serves on the Digital Learning Council and he formerly served on the Advisory Board of the Department of Defense Schools from 2002 to 2008, and is a member of the Fairfax Education Foundation Board of Directors. Previously, Mr. Packard served as a director of Academy 123 and Zumbox. Mr. Packard holds B.A. degrees in Economics and Mechanical Engineering from the University of California at Berkeley, an M.B.A. from the University of Chicago, and he was a Chartered Financial Analyst.

Harry T. Hawks, Executive Vice President and Chief Financial Officer

Mr. Hawks joined us in May 2010, and serves as Executive Vice President and Chief Financial Officer. From 1992 until joining us, Mr. Hawks served as Executive Vice President and Chief Financial Officer of Hearst Television formerly known as Hearst-Argyle Television, an NYSE-listed company formed by the merger of Hearst Broadcasting and Argyle Television in 1997, and its predecessor Argyle Television. Prior to Argyle Television, Mr. Hawks served as President of Cumberland Capital Corporation, a venture capital and merchant banking company which he co-founded, from 1987 to 1992. Prior to Cumberland Capital, he held various corporate finance positions with leading financial institutions, including Thomson McKinnon Securities and Bank of Montreal. Mr. Hawks has been involved in numerous local, national and international not-for-profit education and youth organizations, including serving as a trustee and treasurer for The Stanwich School and currently serves on the board of the endowment fund for the Gladney Center. Mr. Hawks holds a B.S. in Business Administration (Finance) and an M.B.A. from Louisiana State University.

Bruce J. Davis, Executive Vice President, Worldwide Business Development

Mr. Davis joined us in January 2007, and serves as Executive Vice President, Worldwide Business Development. From 2005 until joining us, Mr. Davis was Sr. Vice President of Business Development for Laureate Education Inc. with a focus on the Middle East region. From 2003 to 2004, Mr. Davis was a strategic advisor to Discovery Communications where he developed plans for Discovery's entry into the education video market and the creation of the United Streaming product. From 1994 to 2002, Mr. Davis held various positions with Sylvan Learning Systems including Principal at Sylvan Ventures, Chief Operating Officer of Prometric and Vice President of International Operations. From 1985 to 1991, Mr. Davis was a Manager of Information Systems Strategy at Deloitte and Touche where he managed its practice office in Egypt. Mr. Davis holds a B.S. in Computer Science from Loyola University and an M.B.A. from Columbia University.

George B. (Chip) Hughes, Jr., Executive Vice President, School Services

Mr. Hughes joined us in July 2007, and serves as Executive Vice President, School Services. From 1997 until joining us, Mr. Hughes was a co-founder and Managing Director of Blue Capital Management, L.L.C., a middle-market private equity firm. Mr. Hughes previously served as a Partner of McKinsey & Company, Inc., a global management consulting firm, in McKinsey's Los Angeles and New Jersey offices, where he was a member of the firm's Strategy and Health Care practices. Mr. Hughes serves on the Board of Councilors of the College of Letters, Arts & Sciences at the University of Southern California. Previously he served on the National Board and the Executive Committee of Recording for the Blind & Dyslexic, and he was a member of the Board of Trustees at Big Brothers of Greater Los Angeles and of Big Brothers Big Sisters of Morris, Bergen, and Passaic Counties (New Jersey). Mr. Hughes holds a B.A. in Economics from the University of Southern California and an M.B.A. from Harvard University.

John P. Olsen, Executive Vice President, Operations

Mr. Olsen joined us in March 2004, and serves as Executive Vice President, Operations. Prior to joining us, Mr. Olsen was Vice President of Performance Improvement for America Online's Broadband, Premium, and Advanced Technology Services from 2002 to 2004 and he previously served as a management consultant at Diamond Technology Partners where he practiced in the telecommunications and consumer products industries from 1999 to 2002. Prior to Diamond Technology Partners, he served in the United States Navy as a Supply Officer from 1989 to 1997. Mr. Olsen holds a B.S. from the United States Naval Academy and an M.B.A from the University of Michigan. He currently serves on the Board of Trustees of Sierra Nevada College and is a Trustee of the Naval Academy Foundation.

Celia M. Stokes, Executive Vice President and Chief Marketing Officer

Ms. Stokes joined us in March 2006, and serves as Executive Vice President and Chief Marketing Officer. Before joining us, Ms. Stokes served as Vice President of Marketing at Independence Air from 2003 to 2006. Previously, Ms. Stokes ran her own marketing firm providing consulting services to organizations such as Fox TV, PBS, the National Gallery of Art, JWalter Thompson, and ADP. From 1993 to 1998, Ms. Stokes served in successive roles leading to Vice President of Marketing at Bell Atlantic and at a joint venture of Bell Atlantic and two other Regional Bell Operating Companies. From 1990 to 1993, Ms. Stokes was Manager of Marketing at Software AG, and from 1988 to 1990, was Client Group Manager at Targeted Communications, an Ogilvy & Mather Direct company. Ms. Stokes holds a B.A. in Economics from the University of Virginia.

Howard L. Allentoff, Senior Vice President, Human Resources

Dr. Allentoff joined us in December 2008 and serves as Senior Vice President of Human Resources. From 2003 until joining the Company, he was Consultant and President of Strategic People Solutions where he assisted companies of all types in both strategic and operational human resources issues, process improvement, organizational development, communication and project management. Prior to Strategic People Solutions, Dr. Allentoff worked at Blackboard as the company's first Vice President of Human Resources from 2002 to 2003. He previously served in other human resources consulting roles as well as in corporate human resources environments at Prometric (formerly of Sylvan and Thomson Learning), Ward Machinery and Westinghouse. Dr. Allentoff holds a B.S. in Psychology from the University of Maryland, College Park as well both M.S. and Ph.D. degrees in Industrial & Organizational Psychology from Auburn University.

Howard D. Polsky, General Counsel and Secretary

Mr. Polsky joined us in June 2004, and serves as General Counsel and Secretary. Mr. Polsky previously held the position of Vice President and General Counsel of Lockheed Martin Global Telecommunications from 2000 to 2002. Prior to its acquisition by Lockheed Martin, Mr. Polsky worked at COMSAT Corporation from 1992 to 2000, initially serving as Vice President and General Counsel of COMSAT's largest operating division, and subsequently serving on the executive management team as Vice President of Federal Policy and Regulation. From 1983 to 1992, Mr. Polsky was a partner at Wiley, Rein & Fielding, and was an associate at Kirkland & Ellis from 1979 to 1983. Mr. Polsky began his legal career at the Federal Communications Commission. Mr. Polsky received a B.A. in Government from Lehigh University, and a J.D. from Indiana University.

PART II

ITEM 5. ***MARKET FOR REGISTRANT'S COMMON EQUITY,RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

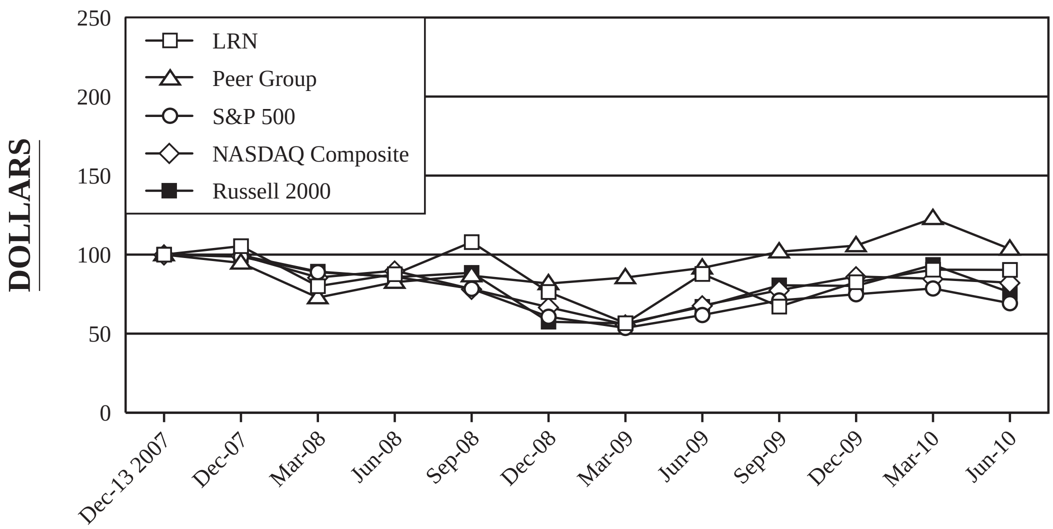
The Company's common stock, par value $0.0001 per share, is traded on the New York Stock Exchange (NYSE) under the symbol "LRN." Set forth below are the high and low sales prices for our common stock, as reported on the NYSE. As of September 10, 2010, there were approximately 58 registered holders of common stock.

	High	Low
Quarter ended:		
September 30, 2009	$21.99	$15.28
December 31, 2009	20.73	15.65
March 31, 2010	24.40	18.26
June 30, 2010	25.83	21.81

Stock Performance Graph

The graph below matches the cumulative ten-quarter total return of holders of K12 Inc.'s common stock with the cumulative total returns of the S&P 500 index, the NASDAQ Composite index, the Russell 2000 index and a customized peer group of twenty two companies. The graph assumes that the value of the investment in the company's common stock, in each index, and in the peer group (including reinvestment of dividends) was $100 on December 13, 2007 and tracks it through June 30, 2010.

COMPARISON OF TEN QUARTER CUMULATIVE TOTAL RETURN
Among K12 Inc., S&P 500 Index, NASDAQ Composite Index, Russell 2000 Index and a Peer Group



	13-Dec-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
LRN	100.00	105.38	80.04	87.62	107.94	76.37	56.62	87.78	67.13	82.57	90.47	90.35
Peer Group	100.00	94.73	72.80	82.57	86.68	81.70	85.51	91.58	101.80	105.73	122.92	103.57
S&P 500	100.00	98.65	88.87	86.00	78.36	60.69	53.61	61.77	71.02	74.92	78.57	69.25
Nasdaq Composite	100.00	99.39	85.55	89.81	78.24	66.71	55.73	67.79	77.50	86.17	84.76	82.24
Russell 2000	100.00	99.55	89.26	85.76	88.50	57.50	56.47	67.01	80.59	80.21	93.50	76.13

All prices reflect closing prices on last day of trading at the end of each calendar quarter except December 13, 2007.

(1) This graph is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference in any filing by us under the Securities Act of 1933, as amended (Securities Act), or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

(2) The stock price performance shown on the graph is not necessarily indicative of future price performance. Information used in the graph was obtained from a source we believe to be reliable, but we do not assume responsibility for any errors or omissions in such information.

Peer Group

American Public Education Inc., Apollo Group Inc., Archipelago Learning, Inc., Blackboard, Inc., Bridgepoint Education Inc., Capella Education Company, Career Education Corp., Corinthian Colleges, Inc., Devry Inc., Education Management Corporation, Grand Canyon Education Inc., ITT Educational Services, Inc., Lincoln Educational Services Co., McGraw-Hill Companies, Inc., New Oriental Education and Technology Group, Pearson Education, Renaissance Learning, Inc., Rosetta Stone Inc., Scientific Learning Corporation, Scholastic, Strayer Education Inc., and Universal Technical Institute.

Dividend Policy

We have never declared or paid any cash dividends on our common stock and we currently do not anticipate paying any cash dividends for the foreseeable future. Instead, we anticipate that all of our earnings on our common stock will be used to provide working capital, to support our operations, and to finance the growth and development of our business, including potentially the acquisition of, or investment in, businesses, technologies or products that complement our existing business. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including, but not limited to, our future earnings, capital requirements, financial condition, future prospects, applicable Delaware law, which provides that dividends are only payable out of surplus or current net profits and other factors our board of directors might deem relevant.

Stock-based Incentive Plan Information

The following table provides certain information as of June 30, 2010, with respect to our equity compensation plans under which common stock is authorized for issuance:

Equity Compensation Plan Information
as of June 30, 2010

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders(1)	3,913,847	$16.81	841,754
Equity compensation plans not approved by security holders	—	—	—
Total	3,913,847	$16.81	841,754

(1) Includes shares under the 2007 Equity Incentive Award Plan.

The 2007 Equity Incentive Award Plan (2007 Plan) adopted in November 2007 contains an "evergreen provision" that allows for an annual increase in the number of shares available for issuance under the 2007 Plan on July 1 of each year during the ten-year term of the 2007 Plan, beginning on July 1, 2008. The annual increase in the number of shares shall be equal to the least of:

- 4% of our outstanding common stock on the applicable July 1;
- 2,745,098 shares; or
- a lesser number of shares as determined by our Board of Directors.

Sales of unregistered securities

None.

ITEM 6. *SELECTED FINANCIAL DATA*

The following table sets forth our selected consolidated statement of operations, balance sheet and other data as of the dates and for the periods indicated. You should read this data together with "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, included elsewhere in this Annual Report. The selected consolidated statement of operations data for each of the years in the three-year period ended June 30, 2010, and the selected consolidated balance sheet data as of June 30, 2010 and 2009, have been derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report. The selected consolidated statements of operations data for the years ended June 30, 2007 and 2006, and selected consolidated balance sheet data as of June 30, 2008, 2007 and 2006, have been derived from our audited consolidated financial statements not included in this Annual Report. The pro forma net income per common share amounts for the years ended June 30, 2008 and June 30, 2007 were derived by eliminating the one-time tax benefit of $27.0 million from the reversal of the deferred tax valuation allowance in 2008 and by giving effect to the automatic conversion of all of our outstanding shares of our preferred stock into common stock immediately prior to the completion of our initial public offering. Our historical results are not necessarily indicative of future operating results.

	Year Ended June 30,				
	2010	2009	2008	2007	2006
	(In thousands)				
Consolidated Statement of Operations Data:					
Revenues	$384,470	$315,573	$226,235	$140,556	$116,902
Cost and expenses					
Instructional costs and services	222,029	196,976	131,282	76,064	64,828
Selling, administrative, and other operating expenses	117,398	86,683	72,393	51,159	41,660
Product development expenses	9,576	9,575	9,550	8,611	8,568
Total costs and expenses	349,003	293,234	213,225	135,834	115,056
Income from operations	35,467	22,339	13,010	4,722	1,846
Interest expense, net	(1,331)	(982)	(295)	(639)	(488)
Income before income tax (expense) benefit and noncontrolling interest	34,136	21,357	12,715	4,083	1,358
Income tax (expense) benefit	(13,249)	(9,628)	21,058	(218)	—
Net income	20,887	11,729	33,773	3,865	1,358
Add net loss attributable to noncontrolling interest	638	586	—	—	—
Net income — K12 Inc.	21,525	12,315	33,773	3,865	1,358
Dividends on preferred stock	—	—	(3,066)	(6,378)	(5,851)
Preferred stock accretion	—	—	(12,193)	(22,353)	(18,697)
Net income (loss) attributable to common stockholders	$ 21,525	$ 12,315	$ 18,514	$ (24,866)	$ (23,190)

	Year Ended June 30,				
	2010	2009	2008	2007	2006
	(In thousands except share and per share data)				
Net income (loss) attributable to common stockholders per share:					
Basic	$ 0.72	$ 0.43	$ 1.18	$ (12.42)	$ (11.73)
Diluted(1)	$ 0.71	$ 0.42	$ 1.10	$ (12.42)	$ (11.73)
Basic (pro forma)(2)	$ n/a	$ n/a	$ 0.27	$ 0.18	n/a
Diluted (pro forma)(2)	$ n/a	$ n/a	$ 0.26	$ 0.18	n/a
Weighted average shares used in computing per share amounts:					
Basic	29,791,973	28,746,188	15,701,278	2,001,661	1,977,195
Diluted(1)	30,248,683	29,639,974	16,850,909	2,001,661	1,977,195
Basic (pro forma)(2)	n/a	n/a	24,989,323	21,881,316	n/a
Diluted (pro forma)(2)	n/a	n/a	26,138,954	21,888,941	n/a
Other Data:					
Net cash provided by (used in) operating activities	$ 55,523	$ (6,855)	$ 15,534	$ 5,563	$ 3,625
Depreciation and amortization	$ 25,761	$ 20,835	$ 12,568	$ 7,404	$ 4,986
Stock-based compensation expense	$ 5,934	$ 2,790	$ 1,464	$ 218	$ —
EBITDA(3)	$ 61,228	$ 43,174	$ 25,578	$ 12,126	$ 6,832
Capital Expenditures:					
Capitalized curriculum development costs	$ 13,904	$ 13,931	$ 11,669	$ 8,683	$ 655
Purchases of property and equipment and capitalized software and development costs	$ 10,357	$ 13,939	$ 6,476	$ 5,366	$ 10,842
New capital lease obligations(4)	$ 12,194	$ 16,044	$ 10,564	$ 8,052	$ —
Total capital expenditures	$ 36,455	$ 43,914	$ 28,709	$ 22,101	$ 11,497

	As of June 30,				
	2010	2009	2008	2007	2006
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 81,751	$ 49,461	$ 71,682	$ 1,660	$ 9,475
Total assets	$307,882	$240,676	$197,324	$ 61,212	$ 48,485
Total short-term debt	$ 12,247	$ 11,274	$ 6,520	$ 1,500	$ —
Total long-term obligations	$ 8,365	$ 11,128	$ 6,641	$ 7,135	$ 4,025
Redeemable noncontrolling interest	$ 17,374	$ —	$ —	$ —	$ —
Convertible redeemable preferred stock	$ —	$ —	$ —	$ 229,556	$ 200,825
Total K12 Inc. stockholders' equity (deficit)	$221,851	$182,286	$150,288	$(197,807)	$(173,451)
Working capital	$149,344	$111,048	$ 97,379	$ 9,730	$ 16,475

(1) Diluted net income per common share does not include nor give effect to possible conversion of 2,750,000 non-voting shares of the Series A Special Stock issued in the acquisition of KCDL subsequent to year end. Upon approval from shareholders, these shares are eligible to convert into common stock on a one-for-one basis. If these shares were issued and outstanding for the year ended June 30, 2010, they would have increased our total dilutive shares outstanding by 9.2%. Furthermore, the table above does not give pro forma affect to the combined financial results of K12 Inc. and KCDL.

(2) Pro forma net income per common share eliminates the one-time tax benefit of $27.0 million from the reversal of the deferred tax asset valuation allowance and gives effect to the automatic conversion of all of our outstanding shares of preferred stock into common stock immediately prior to the completion of our initial public offering. The pro forma net income per common share assumes the completion of the initial offering on June 30, 2007 and the conversion of all of our outstanding shares of preferred stock into 19,879,675 shares of common stock.

(3) EBITDA consists of net income (loss), minus interest income, plus interest expense, plus income tax expense, minus income tax benefit, plus depreciation and amortization and noncontrolling interest. Interest income consists primarily of interest earned on short-term investments or cash deposits. Interest expense primarily

consists of interest expense for capital leases, long-term and short-term borrowings. We use EBITDA in addition to income from operations and net income as a measure of operating performance. However, EBITDA is not a recognized measurement under U.S. generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, net income (loss) as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as capital expenditures, tax payments, interest payments, or other working capital.

We believe EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company's operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired. Our management uses EBITDA:

- as an additional measurement of operating performance because it assists us in comparing our performance on a consistent basis;
- in presentations to the members of our board of directors to enable our board to have the same measurement basis of operating performance as is used by management to compare our current operating results with corresponding prior periods and with the results of other companies in our industry; and,
- on an adjusted basis in determining compliance with the terms of our credit agreement.

The following table provides a reconciliation of net income to EBITDA:

	Year Ended June 30,				
	2010	2009	2008	2007	2006
			(In thousands)		
Net income-K12 Inc.	$21,525	$12,315	$ 33,773	$ 3,865	$1,358
Interest expense, net	1,331	982	295	639	488
Income tax expense (benefit)	13,249	9,628	(21,058)	218	—
Depreciation and amortization	25,761	20,835	12,568	7,404	4,986
Noncontrolling interest	(638)	(586)	—	—	—
EBITDA	$61,228	$43,174	$ 25,578	$12,126	$6,832

(4) New capital lease obligations are primarily for student computers and related equipment.

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. 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 this 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 consolidated financial statements and related notes included in this 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 year ended June 30, 2010.
- *Key Aspects and Trends of Our Operations* — a discussion of items and trends that may impact our business in the upcoming year.
- *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 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, the impact of inflation, and quantitative and qualitative disclosures about market risk.

Executive Summary

We are a technology-based education company. We offer proprietary curriculum and educational services designed to facilitate individualized learning for students in kindergarten through 12th grade, or K-12. Our mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since our inception, we have invested more than $175 million to develop curriculum and an online learning platform that promotes mastery of core concepts and skills for students of all abilities. This learning system combines a cognitive research-based curriculum with an individualized learning approach well-suited for virtual public schools, online public district programs, public charter schools, hybrid programs and private schools that combine varying degrees of online and traditional classroom instruction, and other educational applications.

We increased total average enrollments in the virtual public schools we serve from 54,962 in fiscal year 2009 to 66,811 in fiscal year 2010, a growth rate of 21.6%. These enrollments exclude students in our direct-to-consumer, private school and international channels as well as our pilot programs. Over the same period, we increased revenues from $315.6 million to $384.5 million, a growth rate of 21.8%, increased operating income from $22.3 million to operating income of $35.5 million, a growth rate of 58.8%, and increased net income-K12 Inc. from $12.3 million to net income-K12 Inc. of $21.5 million, a growth rate of 74.8%. Also over the same timeframe, we increased EBITDA, a non-GAAP measure (see reconciliation on page 51), from $43.2 million to $61.2 million, a growth rate of 40.8%.

We deliver our learning system to students primarily through virtual public schools and are building an institutional business with sales directly to school districts. Many states have embraced virtual public schools as a means to provide families with a publicly funded alternative to a traditional classroom-based education. We offer virtual schools our proprietary curriculum, online learning platform and varying levels of academic and management services, which can range from targeted programs to complete turnkey solutions. Additionally, without the requirement of a physical classroom, virtual schools can be scaled quickly to accommodate a large dispersed student population, and allow more capital resources to be allocated towards teaching, curriculum and technology rather than towards a physical infrastructure.

For the 2010-11 school year, we will manage schools in 27 states and the District of Columbia. For the most part, these schools are able to enroll students on a statewide basis. Most of these enrollments are in virtual public schools. We are serving a growing number of hybrid schools the first of which opened in Chicago in 2006. A hybrid school is a virtual public school that combines the benefits of face-to-face time for students and teachers in a traditional classroom setting along with the flexibility and individualized learning advantages of online instruction. In July 2010, through our acquisition of KC Distance Learning, Inc. (KCDL), we have added the iQ Academies that serve statewide virtual public schools in six states where we also serve other schools. Also in July 2010, we extended our involvement with traditional classroom settings to the full operational management of a brick and mortar school. Specifically, the Delaware Department of Education contracted with us to assume responsibility for all aspects of the operation of the Moyer Charter School, and authorized us to serve up to 460 students in grades 6-12. This contract furthers the use of our learning systems and instructional methods in a traditional classroom setting.

We are serving a growing number of students in programs that typically only accept enrollment from their own district. These district-based alternatives are a response to demand from school districts. We have established a dedicated sales team to focus on this sector, and through our acquisition of KC Distance Learning, Inc. (KCDL) in July 2010, we have added to this team as well as expanded our course portfolio. The services we provide to these districts are designed to assist them in launching their own distance learning programs and vary according to the needs of the individual school districts and may include teacher training programs, administrator support and our student account management system. With our services, districts can offer programs that allow students to participate full-time, as their primary school, or part-time, supplementing their education with a single elective or core course.

In addition, parents can purchase our curriculum and learning solutions directly to facilitate or supplement their children's education. In 2008 we launched the K^{12} International Academy, a private school that we operate using our curriculum. This school is accredited and enables us to deliver our learning system to students in the United States and worldwide. This school is positioned as a private international school enabling students to interact with others from more than 59 countries. The K^{12} International Academy has a branch facility in Dubai, operated under a joint venture. The purpose of the joint venture is to develop and manage the distribution of our learning system in the Gulf Cooperating Countries. In 2010, we opened sales offices in Singapore and Switzerland to expand the reach of the K^{12} International Academy in those regions.

In April 2010, we formed a joint venture with Middlebury College known as Middlebury Interactive Languages LLC (MIL) to develop online foreign language courses. We contributed substantially all of the assets in our Power-Glide Language Courses Inc. (Power-Glide), subsidiary, along with certain intellectual property licenses and cash for a 60% interest in the joint venture. As a majority-owned subsidiary, we will consolidate the financial statements of MIL into our financial statements. Middlebury contributed a license to use its school name, its Middlebury-Monterey Language Academy business and cash for a 40% interest in the joint venture. We offer these MIL courses in our virtual public schools and believe they have wide applicability in online learning. This new venture will create innovative, online language programs for pre-college students and will leverage Middlebury's recognized experience in foreign language instruction and K^{12}'s expertise in online education. Language faculty from Middlebury will work with K^{12} to develop and manage the academic content of the Web-based language courses, which K^{12} will offer through its online education programs. The new courses will use features such as animation, music, videos and other elements that immerse students in new languages. The first courses, beginner French and Spanish for high school students, will be offered for the 2010-11 school year. The joint venture will also expand the Middlebury-Monterey Language Academy, a language immersion summer program for middle and high school students. MMLA offers Arabic, Chinese, French, German and Spanish at its summer four-week residential session at four college campuses.

In July 2010, we acquired all of the stock of KC Distance Learning, Inc. (KCDL), a provider of online curriculum and public and private virtual education, for approximately $63 million in 2.75 million non-voting shares of a new class of preferred stock (Series A Shares). If approved by a shareholder vote, these shares are eligible to convert to common stock on a one-for-one basis. If converted and outstanding for the full fiscal year ended June 30, 2010, the Series A Shares would increase our total dilutive shares outstanding by approximately 9.2%. The KCDL businesses include: Aventa Learning (online curriculum and instruction), the iQ Academies (statewide virtual public charter schools for middle and high school); and The Keystone School (international online private school). Aventa Learning offers to schools and school districts over 140 core, elective and AP® courses in grades 6-12, from credit recovery courses to full-scale virtual school programs, as well as instructional services. Aventa Learning is accredited by the Northwest Association of Accredited Schools (NAAS). The Keystone School is an online private school for middle and high school students, which is also accredited by the NAAS. It was established in 1974 and has served over 250,000 students from 84 countries. The school enrolls both full-time and part-time students and its course offerings are supported by certified teachers. The iQ Academies are statewide online public schools that partner with school districts or public charter schools to serve middle and high school students. iQ Academies currently operate in Kansas, Minnesota, Nevada, Texas, Washington, and Wisconsin.

With the formation of MIL and the addition of KCDL, we believe we have improved our growth potential and the ability to scale our business even further. We also continue to invest in our logistics, technological infrastructure and financial systems to allow us to more effectively operate a large and growing company that will be able to better serve the educational needs of students domestically and internationally.

Our History

We were founded in 2000 to utilize the advances in technology to provide children access to a high-quality public school education regardless of their geographic location or socio-economic background. Given the geographic flexibility of technology-based education, we believed that the pursuit of this mission could help address the growing concerns regarding the regionalized disparity in the quality of public school education, both in the United States and abroad. The convergence of these concerns and rapid advances in Internet technology created the opportunity to make a significant impact by deploying a high quality learning system on a flexible, online platform.

In September 2001, after 18 months of research and development of our curriculum, we introduced our kindergarten through 2nd grade offering. We initially launched our learning system in virtual public schools in Pennsylvania and Colorado, serving approximately 900 students in the two states combined. We added new grades and more states over the past seven years. We have also developed and launched hybrid programs that combine face-to-face time in the classroom with online instruction. For the 2009-10 school year, we operated in 25 states as set forth in the table below. For the 2010-11 school year, we have been approved to operate in Massachusetts and Michigan bringing the total states were we operate to 27.

The following table sets forth the enrollment, grade level, and new state by school year for virtual public schools and hybrid schools:

School Year	Approximate Total Average Enrollment	Grades Offered	# of States Served	New States
SY 2001 - 2002	900	K - 2^{nd}	2	Colorado, Pennsylvania,
SY 2002 - 2003	5,900	K - 5^{th}	7	Arkansas, California, Idaho, Minnesota, Ohio
SY 2003 - 2004	11,200	K - 7^{th}	11	Arizona, Florida, Utah, Wisconsin
SY 2004 - 2005	15,100	K - 8^{th}	12	Kansas
SY 2005 - 2006	20,200	K - 9^{th}	13	Texas
SY 2006 - 2007	27,000	K - 10^{th}	15	Illinois, Washington,
SY 2007 - 2008	40,800	K - 12^{th}	17	Georgia, Nevada
SY 2008 - 2009	55,000	K - 12^{th}	21	Hawaii, Indiana, Oregon, South Carolina
SY 2009 - 2010	67,000	K - 12^{th}	25	Alaska, Oklahoma, Virginia, Wyoming
SY 2010 - 2011	TBD	K - 12^{th}	27	Massachusetts, Michigan

These enrollment trends will become less meaningful as we grow the other channels of our business including district sales, private schools, direct-to-consumer and international.

Key Aspects and Trends of Our Operations

Revenues

We generate a significant portion of our revenues from the sale of curriculum, management and technology services to virtual public schools including charter and hybrid schools and are typically supported by contracts of between one to twenty years in duration. In each of the past five years, more than 90% of our revenues have been derived from this source. We anticipate that these revenues will continue to represent the bulk of our total revenues over the next 12-24 months, although we expect this percentage to decline over the longer term as we expand into new distribution channels. These underlying contracts provide for our support of the student enrollment process, and we execute marketing and recruiting programs designed to create awareness and generate enrollments for many of these schools. We earn our revenues by providing each student with access to our online lessons and learning kits, often including the use of a personal computer. In addition, we provide a variety of management, technology and academic support services to these schools, ranging from turnkey end-to-end management solutions to targeted programs to meet a school's specific needs. We also generate revenues from sales of our curriculum and services through other channels, including public school districts, private schools, direct-to-consumer, and international. We have also piloted our curriculum in a traditional brick and mortar classroom environment.

Factors affecting our revenues include:

(i) the number of enrollments;

(ii) the nature and extent of the management services provided to the schools and school districts;

(iii) state or district per student funding levels and attendance requirements;

(iv) prices for our products and services; and

(v) growth in our other distribution channels such as direct-to-consumer, private schools and international.

We define an enrollment as a full-time student using our provided courses as their primary curriculum regardless of the nature and extent of the management services we provide to the virtual public school. Generally, students will take five or six courses, except for some kindergarten students who may participate in half-day programs. We count each half-day kindergarten student as an enrollment.

School sessions generally begin in August or September and end in May or June. We consider the duration of a school year to be 10 months. To ensure that all virtual public school and hybrid schools are reflected in our measure of enrollments, we consider the number of students on the last day of September to be our opening enrollment level, and the number of students enrolled on the last day of May to be our ending enrollment level. To provide comparability, we do not consider enrollment levels for June, July and August as most schools are not open during these months. For each period, average enrollments represent the average of the month-end enrollment levels for each month that has transpired between September and the end of the period, up to and including the month of May. We continually evaluate our enrollment levels by state, by school and by grade. We track new student enrollments and withdrawals throughout the year.

We believe that the number of enrollments depends upon the following:

- the number of states and school districts in which we operate;
- the restrictive terms of local laws or regulations including enrollment caps;
- the appeal of our curriculum and instructional model to students and families;
- the specific local requirements including credit recovery, special needs;
- the effectiveness of our program in delivering favorable academic outcomes;
- the quality of the teachers working in the virtual public schools we serve; and
- the effectiveness of our marketing and recruiting programs.

In fiscal year 2010, we increased total average enrollments by 11,850, or 21.6% to 66,811, as compared to total average fiscal year 2009 enrollments of 54,962. We did this by a process that combines replacing students who have withdrawn and adding new enrollments to attain our rate of growth. We continually evaluate our trends in revenues by monitoring the number of enrollments in total, by state, by school and by grade, assessing the impact of changes in funding levels and the pricing of our curriculum and educational services.

We also sell our courses directly to consumers. In our direct-to-consumer channel, consumers typically purchase from one to six courses in a year, however, we do not monitor the progress of these students in the same way as we do in virtual public schools. Our online private school, the K^{12} International Academy can enroll students on a full or part-time basis. In addition, the brands we acquired from KCDL serve students full-time and with single courses. We have not included the enrollment from these channels in our enrollment totals; however we expect them to have a greater impact on revenues going forward.

Our annual growth in revenues may be materially affected by changes in the level of management services we provide to certain schools. Currently a significant portion of our enrollments are associated with virtual public schools to which we provide turnkey management services. We are responsible for the complete management of these schools and therefore, we recognize as revenues the funds received by the schools, up to the level of costs incurred. These costs are substantial, as they include the cost of teacher compensation and other ancillary school expenses. Accordingly, enrollments in these schools generate substantially more revenues than enrollments in other schools where we provide limited or no management services. In these situations, our revenues are limited to invoiced amounts and are independent of the total funds received by the school from a state or district. As a result, changes in the number of enrollments associated with schools operating under turnkey arrangements relative to total enrollments may have a disproportionate impact on growth in revenues relative to the growth in enrollments.

The percentage of enrollments associated with turnkey management service schools, or managed schools, was 85% for the years ended June 30, 2010 and 2009. This was primarily attributable to the added emphasis we have placed on sales to school districts that resulted in growth of these enrollments of 22.7%, a similar rate as the growth in enrollments at managed schools. Changes in the mix of enrollments associated with turnkey management services compared with limited management services may change the average revenues per enrollment and accordingly impact total revenues. As we renew our existing management contracts, the extent of the management services we provide may change. Our turnkey management contracts have terms from one to twenty years. For fiscal year 2011, we are providing turnkey management services to new schools in Massachusetts and Michigan and have also added several contracts to provide our curriculum and limited services to individual school districts. As we continue to build our institutional business and increase our sales to school districts, the trend in enrollment mix may continue to shift toward these programs.

In fiscal year 2010, we derived more than 10% of our revenues from each of the Ohio Virtual Academy and the Agora Cyber Charter School in Pennsylvania. In aggregate, these schools accounted for 28% of our total revenues. We provide our full turnkey management solution pursuant to our contract with the Ohio Virtual Academy, which terminates on June 30, 2017. We provide our full turnkey solution to the Agora Cyber Charter School (Agora), pursuant to a contract with the school that expires on June 30, 2015. Each of the contracts with these schools provides for termination of the agreement if the school ceases to hold a valid and effective charter from the charter-issuing authority in their respective states or if there is a material reduction in the per enrollment funding level. The annual revenues generated under each of these contracts represent a material portion of our total revenues in fiscal year 2010 and we expect this to continue in fiscal year 2011. In October 2009, as part of a settlement agreement, the Pennsylvania Department of Education (PDE) terminated its charter revocation proceeding against Agora. The settlement agreement also included the dismissal of the two lawsuits brought against us by Agora and The Cynwyd Group, as well as all other related litigation involving Agora, Cynwyd and the PDE.

Our annual revenue growth is impacted by changes in state or district per enrollment funding levels. Due to the recession, many states have reduced per enrollment funding for public education affecting many of the virtual public schools we serve. While the American Recovery and Reinvestment Act of 2009 (ARRA) has provided additional funds to states, it has not fully offset the state funding reductions. Thus, the net impact to funding was negative in many states and had a negative effect on our revenue and income for our fiscal years 2009 and 2010. Our financial results reflect annual school revenues and expenses, including ARRA funds, state funding reductions and expense reductions that we undertook in order to mitigate the impact of the funding reductions that have occurred. In August 2010, the U.S. government passed the Education Jobs and Medicaid Assistance Act providing $10 billion in federal aid for schools. At this time, many states still have budget issues and the specific level of federal funding for the coming years is not yet known so it is possible we could experience lower per enrollment funding in the future.

We evaluate the combined pricing of our curriculum and educational services annually against market conditions and state funding levels and change them as we deem appropriate. We do not expect our price changes to have a significant impact on revenues as they are encompassed within changes in per enrollment funding levels.

Instructional Costs and Services Expenses

Instructional costs and services expenses include expenses directly attributable to the educational products and services we provide. The virtual public schools we manage are the primary drivers of these costs, including teacher and administrator salaries and benefits and expenses of related support services. Instructional costs also include fulfillment costs of student textbooks and materials, depreciation and reclamation costs of computers provided for student use, and the cost of any third-party online courses. In addition, we include in instructional costs the amortization of capitalized curriculum and related systems. We measure, track and manage instructional costs and services as a percentage of revenues and on a per enrollment basis as these are key indicators of performance and operating efficiency.

As a percentage of revenues, instructional costs and services expenses decreased to 57.8% for the year ended June 30, 2010, as compared to 62.4% for the same period in the prior year. This decrease as a percentage of revenues was primarily attributable to the lower fulfillment costs for materials and computers, increased productivity at the schools we serve, and leverage of fixed school infrastructure costs. This decrease in expenses was partially offset by an increase in the percentage of high school enrollments relative to total enrollments from 19% to 22%, as high school enrollments have higher costs as a percentage of revenues due to increased teacher and related services costs.

In the near term, we expect high school enrollments to grow as a percentage of total enrollments. Our high school offering requires increased instructional costs as a percentage of revenues compared to our kindergarten to 8th grade offering. This is due to the following: (i) generally lower student-to-teacher ratios; (ii) higher compensation costs for some teaching positions requiring subject-matter expertise; (iii) ancillary costs for required student support services including college placement, SAT preparation and guidance counseling; and (vi) use of third-party courses to augment our proprietary curriculum. Over time, we anticipate partially offsetting these factors by obtaining productivity gains in our high school instructional model, replacing third-party high school courses with proprietary content, leveraging our school infrastructure and obtaining purchasing economies of scale.

We have deployed and are continuing to develop new delivery models, including hybrid schools, where students receive face-to-face instruction in a learning center to complement their online instruction, and other programs that utilize a brick and mortar facility full-time, including our operational management of the Moyer Charter School. These models necessitate additional costs including facilities related costs and additional administrative support, which are generally not required to operate typical virtual public schools. In addition, development costs may include instructional research and curriculum development. As a result, instructional costs as a percentage of revenues may be higher than our fully virtual kindergarten through eighth grade offering. In addition, we are pursuing expansion into new states. If we are successful, we will incur start-up costs and other expenses associated with the initial launch of a virtual public school, which may result in increased instructional costs as a percentage of revenues.

Selling, Administrative and Other Operating Expenses

Selling, administrative and other operating expenses include the salaries, benefits and related costs of employees engaged in business development, sales and marketing, and administrative functions. In addition, we include rent expense for our corporate headquarters and stock compensation expense. We also include litigation settlement costs, and transaction and due diligence expenses related to mergers and acquisitions. We track selling, administrative and other operating expenses as a percentage of revenues to measure performance and efficiency of these areas. In addition, we quantify sales and marketing efficiency including the number of new enrollment prospects for virtual public schools, our ability to convert these prospects into enrollments, and our cost effectiveness of conversion. We also review various call center statistics as indicators of operating efficiency and customer service including call handle rates, waiting time and customer satisfaction. For fiscal year 2010, our selling, administrative and other operating expenses as a percentage of revenues were 30.5%, representing an increase of 3.1% compared to the prior year. This increase was primarily attributable to increases in student recruiting and enrollment, personnel costs including the expansion of our institutional sales force, professional services, acquisition due diligence and closing expenses, and litigation settlement costs. Excluding acquisition due diligence expenses and legal settlement costs incurred in fiscal year 2010, this increase would have been 2.4%. We believe we will be able to gain scale integrating the selling and administrative functions of KCDL. We continue to invest in our logistics, technological infrastructure and financial systems to allow us to more effectively operate a large and growing company that will be able to better serve the educational needs of students domestically and internationally.

Product Development Expenses

Product development expenses include research and development costs and overhead costs associated with the management of both our curriculum development and internal systems development teams. In addition, product development expenses include the amortization of internal systems and any related impairment charges. We measure and track our product development expenditures on a per course or project basis to measure and assess our development efficiency. In addition, we monitor employee utilization rates to evaluate our workforce efficiency. We plan to invest in additional curriculum development and related software in the future, primarily to produce additional high school courses, world language courses, new releases of existing courses and to upgrade our content management system and online school. We capitalize most of the costs incurred to develop our curriculum, beginning with application development, through production and testing into capitalized curriculum development costs. We capitalize the costs incurred to develop internal systems into property, equipment and capitalized software development costs.

We account for impairment of capitalized curriculum development costs in accordance with Statement of Financial Accounting Standard No. 144 (SFAS No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, (codified in ASC 360). See "Critical Accounting Policies and Estimates." There were no impairment charges for the year ended June 30, 2010. We recorded impairment charges on capitalized curriculum of $0.3 million for the year ended June 30, 2009. There were no impairment charges for the years ended June 30, 2008.

Other Factors That May Affect Comparability Year To Year

Stock Based Compensation Expense. The adoption of Statement of Financial Accounting Standard No. 123R, *"Share Based Payments"* (SFAS No. 123R), (codified in ASC 718), requires that we recognize an expense for stock options granted beginning July 1, 2006. We incurred approximately $5.9 million, $2.8 million and $1.5 million in stock based compensation expense for the years ended June 30, 2010, 2009 and 2008, respectively. We expect stock based compensation expense to increase in the future as we grant additional stock options and restricted stock awards.

Income Tax Expense. In the period from our inception through fiscal year 2005, we incurred significant operating losses that resulted in a net operating loss carryforward for tax purposes. However, in each of the three years ending June 30, 2008, we generated increasing enrollments, revenue and pre-tax income. As a result, in fiscal year 2008, we determined it was more likely than not that substantially all of our net deferred tax asset would be utilized. For the year ended June 30, 2008, we recognized a net income tax benefit of $21.1 million. This reflects the net effect of a $27.0 million tax benefit from the reversal of the valuation allowance on net deferred tax assets and an income tax expense of $5.9 million, or 46.6% of pretax income. Income tax expense for the year ended June 30, 2009 was $9.6 million, or 45.0% of pretax income. For the year ended June 30, 2010, income tax expense was $13.2 million, or 38.8% of pretax income. The tax rate of 38.8% reflects our use of research and development tax credits which expired in December 2009. Without the benefit of these tax credits, the tax rate would have been 43.1%.

Public Funding and Regulation. Our public school customers are financed with federal, state and local government funding. Budget appropriations for education at all levels of government are determined through a political process and impacted by general economic conditions, and, as a result, our revenues may be affected by changes in appropriations. Decreases in funding could result in an adverse affect on our financial condition, results of operations and cash flows.

Competition. Providing online education for grades K-12 is becoming increasingly competitive and attracting significant new entrants. As this competition intensifies, it could negatively effect our growth, revenues and operating margins. With the introduction of new technologies and entrants, we expect this competition to intensify.

Critical Accounting Policies and Estimates

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. In the preparation of our consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements. Our critical accounting policies have been discussed with the audit committee of our board of directors.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

In accordance with SEC Staff Accounting Bulletin No. 104 (SAB No. 104), (codified in ASC 605), we recognize revenues when the following conditions are met: (1) persuasive evidence of an arrangement exists; (2) delivery of physical goods or rendering of services is complete; (3) the seller's price to the buyer is fixed or determinable; and (4) collection is reasonably assured. Once these conditions are satisfied, the amount of revenues we record is determined in accordance with Emerging Issues Task Force (EITF 99-19), *Reporting Revenue Gross as a Principal versus Net as an Agent,* (codified in ASC 605).

We generate almost all of our revenues through long-term contracts with virtual public schools and public hybrid schools. These schools are generally funded by state or local governments on a per student basis. Under these contracts, we are responsible for providing each enrolled student with access to our OLS or high school learning platform, our online lessons, learning kits, teachers and student support services required for their complete education. In most cases, we are also responsible for providing complete management, technology and educational services required for the operation of the school. The revenues derived from these long-term agreements are primarily dependent upon the number of students enrolled, the extent of the management services contracted for by the school, and the level of funding provided to the school for each student.

We have determined that the elements of our contracts are valuable to schools in combination, but do not have standalone value. While we have sold some of these elements in various combinations or bundles to schools and school districts, the value of each element across these combinations is indeterminable and we have concluded that we do not have sufficient objective and reliable evidence of fair value for each element. As a result, the elements within our multiple-element contracts do not qualify for treatment as separate units of accounting. Accordingly, we account for revenues received under multiple element arrangements as a single unit of accounting and recognize the entire arrangement based upon the approximate rate at which we incur the costs associated with each element.

While we have concluded that the elements of our contracts do not have standalone value, we invoice schools in accordance with the established contractual terms and rates. Generally, this means that for each enrolled student, we invoice their school on a per student basis for the following items: (1) access to our online school and online lessons; (2) learning kits; and (3) student personal computers. We also invoice for management and technology services. We apply SAB No. 104 to each of these items as follows:

- *Access to the Online School and Online Lessons.* Our OLS revenues come primarily from contracts with charter schools and school districts. Students are provided access to the OLS and online lessons at the start of the school year for which they have enrolled. On a per student basis, we invoice schools an upfront fee at the beginning of the school year or at the time a student enrolls and a monthly fee for each month during the school year in which the student is enrolled. A school year generally consists of 10 months. The upfront fee is initially recorded as deferred revenue and is recognized as revenues ratably over the remaining months of the current school year. If a student withdraws prior to the end of a school year, any remaining deferred revenue related to the upfront fee is recognized ratably over the remaining months of the school year. The monthly fees are recognized in the month in which they are earned.

  The majority of our enrollments occur at the beginning of the school year in August or September, depending upon the state. Because upfront fees are generally charged at the beginning of the school year, the balance in our deferred revenue account tends to be at its highest point at the end of the first quarter.

  Generally, the balance will decline over the course of the year and all deferred revenue related to virtual public schools will be fully recognized by the end of our fiscal year on June 30.

- *Learning Kits.* Our learning kit revenues come primarily from contracts with virtual public schools. The lessons in our online school are meant to be used in conjunction with selected printed materials, workbooks, laboratory materials and other manipulative items which we provide to students. We generally ship all learning kits to a student when their enrollment is approved and invoice the schools in full or over the school year for the materials. Once materials have been shipped, our efforts are substantially complete. Therefore, we recognize revenues upon shipment. Because learning kits revenues are recognized near the time of enrollment in its entirety, we generate a majority of these revenues in our first fiscal quarter which coincides with the start of the school year. Shipments for virtual public schools that occur in the fourth fiscal quarter that are for the upcoming school year are recorded in deferred revenues. We may also reclaim materials for schools at the end of the school year or when a student withdraws from the school. We will invoice a reclamation fee for this service and recognize the revenue in the period it is performed. We have improved our ability to reclaim materials which has contributed to cost savings and efficiencies in our fulfillment operations.

- *Student Personal Computers.* In most of our contracts with managed virtual public schools, we are responsible for fulfilling school policies ensuring that each enrolled student has the ability to access our online school. To accomplish this, we provide many families with the use of a personal computer, complete technical support through our call center, and reclamation services when a student withdraws or a computer needs to be exchanged. Schools are invoiced for each enrolled student or family to whom we have provided a personal computer. This may include an upfront fee at the beginning of the school year or at the time a student enrolls, a monthly fee for each month during the school year in which the student is enrolled, and a reclamation fee when a student withdraws from the school. A school year generally consists of 10 months. The upfront fee is initially recorded as deferred revenue and is recognized as revenues ratably over the remaining months of the current school year. If a student withdraws prior to the end of a school year, any remaining deferred revenue related to the upfront fee is recognized ratably over the remaining months of the school year. All deferred revenue will be recognized by the end of our fiscal year, June 30. The monthly fees are recognized in the month in which they are earned.

- *Management, Technology and Educational Services.* Under most of our statewide virtual public school contracts, we provide the boards of these schools we serve with turnkey management and technology services. We take responsibility for all academic and fiscal outcomes. This includes responsibility for all aspects of the management of the schools, including monitoring academic achievement, teacher recruitment and training, compensation of school personnel, financial management, enrollment processing and provisioning of curriculum, equipment and required services. Management and technology fees are generally determined based upon a percentage of the funding received by the virtual public school. We generally invoice schools for management and technology services in the month in which they receive such funding.

We recognize the revenues from management, technology and educational services ratably over the course of our fiscal year. We use 12 months as a basis for recognition because administrative offices of the school remain open for the entire year. Quarter-to-quarter, we estimate the total funds that each school will receive in a particular school year, and recognize as revenue our pro rata fees associated with the estimated funding. Our management and technology service fees are generally a contracted percentage of yearly school revenues. We review our estimates of funding periodically, and revise as necessary, amortizing any adjustments over the remaining portion of the fiscal year. Actual school funding may vary from these estimates or revisions, and the impact of these differences could have a material impact on our results of operations. Since the end of the school year coincides with the end of our fiscal year, we are generally able to base our annual revenues on actual school revenues.

We closely monitor the financial performance of the schools to which we provide turnkey management services. Under the contracts with these schools, we generally take responsibility for any operating expenses that they may incur in a given school year. These expenses include our charges for products and services. In some cases, the school operating expenses may exceed the revenues earned by the school resulting in an operating loss for the school. A school operating loss may result from a combination of cost increases or funding reductions attributable to the following:

1) costs associated with new schools including the initial hiring of teachers, administrators and the establishment of school infrastructure;
2) school requirements to establish contingency reserves;
3) one-time costs such as a legal claim;
4) funding reductions due to the inability to qualify specific students for funding;

5) regulatory or academic performance thresholds which may restrict the ability of a school to fund all expenses;

6) inadequate school funding in particular states; and/or

7) burdensome regulation creating excessive costs.

We consider an individual school operating loss to estimate any impairment of collection, and our recognized revenue reflects this impairment. The fact that a school has an operating loss in one year does not necessarily mean we anticipate losing money on the entire contract. We recognize the impact of a school operating loss by estimating the full year revenues and full year operating expenses of the school at the beginning of the fiscal year. We amortize the estimated school operating loss against recognized revenues based upon the percentage of actual revenues in the period to total estimated revenues for the fiscal year. We periodically review our estimates of full year school revenues and full year school operating expenses and amortize the net impact of any changes to these estimates over the remainder of our 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 our results of operations. Since the end of the school year coincides with the end of our fiscal year, we are generally able to base our annual revenues on actual school revenues and use actual costs incurred in our calculation of school operating losses. In aggregate, the operating losses of the schools we manage have grown substantially. We expect school operating losses to decline in some schools as their enrollment increases and they obtain scale. In aggregate, we expect school operating losses to continue to grow due to start up costs in new states, additional investment in educational programs, and the higher costs associated with our high school offering.

The amount of revenues we record is determined in accordance with EITF 99-19. For the schools where we provide turnkey management services, we have determined that we are the primary obligor for substantially all expenses of the school. Accordingly, we report revenues on a gross basis by recording the associated per student revenues received by the school from its funding state or school district up to the expenses incurred by the school. Revenues are recognized when the underlying expenses are incurred by the school. For the contracts where we provide individually selected services for the school or school district, we invoice on a per course, per student, or per service basis and recognize revenues in accordance with SAB No. 104. Under these contracts, where we do not assume responsibility for a school operating loss, we record revenues on a net basis.

We also generate a small percentage of our revenues through the sale of our online courses and learning kits directly to consumers. Online course sales are generally month to month subscriptions or for periods of 12 months and customers have the option of paying a discounted amount in full upfront or paying in monthly installments. Payments are generally made with charge cards. For those customers electing to pay these subscription fees in their entirety upfront, we record the payment as deferred revenue and amortize the revenues over the life of the subscription. For customers paying monthly, we recognize these payments as revenues in the month earned. Revenues for learning kits are recognized when shipped. We currently generate revenues from private schools, including the K^{12} International Academy. These revenues are recognized based upon the products or services provided as described above.

Capitalized Curriculum Development Costs

Our curriculum is primarily developed by our employees and to a lesser extent, by independent contractors. Generally, our courses cover traditional subjects and utilize examples and references designed to remain relevant for long periods of time. The online nature of our curriculum allows us to incorporate user feedback rapidly and make ongoing corrections and improvements. For these reasons, we believe that our courses, once developed, have an extended useful life, similar to computer software. We also create textbooks and other offline materials. Our curriculum is integral to our learning system. Our customers do not acquire our curriculum or future rights to it.

Due to the similarity in development stages and long economic life of curriculum to computer software, we capitalize curriculum development costs incurred during the application development stage in accordance with Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, (codified in ASC 350). SOP 98-1 provides guidance for the treatment of costs associated with computer software development and defines those costs to be capitalized and those to be expensed. Costs that qualify for capitalization are external direct costs, payroll, and payroll-related costs. Costs related to general and administrative functions are not capitalizable and are expensed as incurred. We capitalize curriculum development costs when the projects under development reach technological feasibility. Many of our new courses leverage off of proven delivery platforms and are primarily content, which has no technological hurdles. As a result, a significant portion of our courseware development costs qualify for capitalization due to the concentration of our development efforts on the content of the courseware. Technological feasibility is established when we have completed all planning, designing, coding, and testing activities necessary to establish that a course can be produced to meet its design specifications. Capitalization ends when a course is available for general release to our customers, at which time amortization of the capitalized costs begins. Capitalized costs are recorded in capitalized curriculum development costs. The period of time over which these development costs will be amortized is generally five years. This is consistent with the capitalization period used by others in our industry and corresponds with our product development lifecycle. Included in capitalized curriculum development is the November 2007 purchase of a perpetual license of curriculum for $3 million. The purchase agreement includes a provision for future royalty payments. This curriculum will be included as part of our high school offering and will be amortized over five years.

Software Developed or Obtained for Internal Use

We develop our own proprietary computer software programs to provide specific functionality to support both our unique education offering and the student and school management services. These programs enable us to develop courses, process student enrollments, meet state documentation requirements, track student academic progress, deliver online courses to students, coordinate and track the delivery of course-specific materials to students and provide teacher support and training. These applications are integral to our learning system and we continue to enhance existing applications and create new applications. Our customers do not acquire our software or future rights to it.

We capitalize software development costs incurred during the development stage of these applications in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (codified in ASC 350). These capitalized development costs are included in property, equipment and capitalized software and are generally amortized over three years.

Impairment of Long-lived Assets

Long-lived assets include property, equipment, capitalized curriculum and software developed or obtained for internal use. In accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144) (codified in ASC 360), *Accounting for the Impairment or Disposal of Long-Lived Assets*, we review our recorded long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We determine the extent to which an asset may be impaired based upon our expectation of the asset's future usability as well as on a reasonable assurance that the future cash flows associated with the asset will be in excess of its carrying amount. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between fair value and the carrying value of the asset. There was no impairment for the years ended June 30, 2010, 2009 and 2008.

Accounting for Stock-based Compensation

Effective July 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R using the prospective transition method, which requires us to apply the provisions of SFAS No. 123R only to awards granted, modified, repurchased or cancelled after the effective date. Under this transition method, stock based compensation expense recognized beginning July 1, 2006 is based on the fair value of stock awards as of the grant date. As we had used the minimum value method for valuing its stock options under the disclosure requirements of SFAS No. 123, all options granted prior to July 1, 2006 continue to be accounted for under APB No. 25.

We use the Black-Scholes option pricing model method to calculate the fair value of stock options. The use of option valuation models requires the input of highly subjective assumptions, including the expected stock price volatility and the expected term of the option.

We account for equity instruments issued to non-employees, primarily non-employee Directors, in accordance with the provisions of SFAS No. 123R and EITF 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*.

Deferred Tax Asset Valuation Allowance

We account for income taxes as prescribed by Statement of Financial Accounting Standards No. 109 (SFAS No. 109), *Accounting for Income Taxes* (codified in ASC 740). SFAS No. 109 prescribes the use of the asset and liability method to compute the differences between the tax bases of assets and liabilities and the related financial amounts, using currently enacted tax laws. If necessary, a valuation allowance is established, based on the weight of available evidence, to reduce deferred tax assets to the amount that is more likely than not to be realized. Realization of the deferred tax assets, net of deferred tax liabilities, is principally dependent upon achievement of sufficient future taxable income. We exercise significant judgment in determining our provisions for income taxes, our deferred tax assets and liabilities and our future taxable income for purposes of assessing our ability to utilize any future tax benefit from our deferred tax assets. However, our ability to forecast sufficient future taxable income is subject to certain market factors that we may not be able to control such as a material reduction in per pupil funding levels, legislative budget cuts reducing or eliminating the products and services we provide and government regulation.

From inception through fiscal year 2005, we had generated significant losses. However, in the three years ending June 30, 2008 we generated increasing operating profit. In addition, our revenues are dependent, among other things, upon the number of student enrollments. During the recruiting season for fall 2008, we received enrollment applications that would provide for additional growth for fiscal year 2009. When considering this positive evidence of future profitability, we believed that our recent history of generating positive pre-tax income is sustainable and is expected to continue to grow as a result of the increasing revenues primarily from virtual public schools. Consequently, as we believed that it is more likely than not that we would be able to utilize substantially all of our net deferred tax asset, we reversed approximately $27.0 million of the valuation allowance on our net deferred tax asset for the year ended June 30, 2008.

Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to examination by tax authorities in the ordinary course of business. We periodically assess the likelihood of adverse outcomes resulting from these examinations to determine the impact on our deferred taxes and income tax liabilities and the adequacy of our provision for income taxes. Changes in income tax legislation, statutory income tax rates, or future taxable income levels, among other things, could materially impact our valuation of income tax assets and liabilities and could cause our income tax provision to vary significantly among financial reporting periods.

As of June 30, 2010, we had federal net operating loss carryforwards of $35.9 million that expire between 2020 and 2030 if unused. We maintain a valuation allowance on net deferred tax assets of $0.8 million as of June 30, 2010 related to state income taxes as we believe it is more likely than not that we will not be able to utilize these deferred tax assets. Due to these net operating loss carryforwards, we do not expect to pay federal income taxes in the next twelve months.

Goodwill and Other Intangibles

We record as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. Finite-lived intangible assets acquired in business combinations subject to amortization are recorded at their fair value in accordance with ASU Topic 350. Finite-lived intangible assets include the trade name customer contracts and non-compete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives. As of June 30, 2010 and 2009, finite-lived intangible assets are recorded at $14.2 million and $0.2 million, respectively and accumulated amortization of $0.4 million and $0.2 million, respectively. Amortization expense for the years ended June 30, 2010, 2009 and 2008 were $0.2 million, $0.1 million and $0.1 million, respectively. Future amortization of intangible assets is not yet determinable until a final allocation is completed identifying the finite-lived intangibles and corresponding useful life contributed to the Middlebury Interactive Languages venture. As of June 30, 2010 and 2009, indefinite-lived intangible assets, which consist of a domain name, are recorded for both years at $0.3 million.

Statements of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, (codified in ASC 350), prescribes a two-step process for impairment testing of goodwill and intangibles with indefinite lives, which is performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. 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. We have elected to perform our annual assessment on May 31st of each year. For the year ended June 30, 2010, 2009, and 2008 no impairment to goodwill or indefinite-lived intangible assets was recorded.

Consolidation of Noncontrolling Interest

Our consolidated financial statements reflect the results of operations of our Middle East and Middlebury Interactive Languages joint ventures. Earnings or losses attributable to our partner are classified as "net income or net loss attributable to noncontrolling interest" in our consolidated statements of operations. Net income or net loss attributable to noncontrolling interest adjusts our consolidated net results of operations to reflect only our share of the after-tax earnings or losses of an affiliated company. Income taxes attributable to minority interest are determined using the applicable statutory tax rates in the jurisdictions where such operations are conducted.

Redeemable Noncontrolling Interest

In the formation of our joint venture with Middlebury College, at any time after the fifth (5th) anniversary of the agreement, Middlebury may give written notice of its irrevocable election to sell all (but not less than all) of its Membership Interest to the Company (put right). The purchase price for Middlebury's Membership Interest shall be its fair market value and the Company may, in its sole discretion, pay the purchase price in cash or shares of the Company's common stock. The agreement also includes a provision whereby, if certain milestones are not met related to expanding the business by June 2014, Middlebury will have the option to repurchase certain contributed assets at their fair market value.

The transaction resulted in a change in ownership interest of the subsidiary that did not result in loss of control and was accounted for as an equity transaction in accordance with the provisions of ASC 810 (formerly SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*). The assets contributed by Middlebury were initially recorded at their fair value. The intangible assets contributed by Middlebury were estimated at a fair value of $14.0 million as determined by us and represents a preliminary allocation which is subject to change upon completion of a valuation with the assistance of a third party valuation firm.

Given the provision of the put right, the redeemable noncontrolling interest is redeemable outside of our control and it is recorded outside of permanent equity at its redemption value fair value in accordance with EITF Topic D-98, *Classification and Measurement of Redeemable Securities*. We will adjust the redeemable noncontrolling interest to redemption value on each balance sheet date with changes in redemption value recognized as an adjustment to retained earnings, or in the absence of retained earnings, by adjustment to additional paid-in-capital.

Results of Operations

The following table sets forth total average enrollment data for our virtual public schools and hybrid schools for each of the periods indicated and excludes enrollments from our direct-to-consumer, private school, and international channels and our pilot programs:

	Years Ended June 30,		
	2010	2009	2008
Total Average Enrollments	66,811	54,962	40,859
Managed Enrollments as percentage of total enrollments	85.3%	85.4%	82.0%
Non-managed Enrollments as a percentage of total enrollments	14.7%	14.6%	18.0%
Total average enrollments	100.0%	100.0%	100.0%
High School enrollments as a percentage of total	21.9%	18.5%	13.5%
K-8 enrollments as a percentage of total enrollments	78.1%	81.5%	86.5%
Total average enrollments	100.0%	100.0%	100.0%

The following table sets forth statements of operations data for each of the periods indicated:

	Years Ended June 30,		
	2010	2009	2008
		(In thousands)	
Revenues	$384,470	$315,573	$226,235
Cost and expenses			
Instructional costs and services	222,029	196,976	131,282
Selling, administrative, and other operating expenses	117,398	86,683	72,393
Product development expenses	9,576	9,575	9,550
Total costs and expenses	349,003	293,234	213,225
Income from operations	35,467	22,339	13,010
Interest expense, net	(1,331)	(982)	(295)
Income before income tax (expense) benefit and noncontrolling interest	34,136	21,357	12,715
Income tax (expense) benefit	(13,249)	(9,628)	21,058
Net income	20,887	11,729	33,773
Add net loss attributable to noncontrolling interest	638	586	—
Net Income — K12 Inc.	$ 21,525	$ 12,315	$ 33,773

The following table presents our selected consolidated statement of operations data expressed as a percentage of our total revenues for the periods indicated:

	Year Ended June 30,		
	2010	2009	2008
Revenues	100.0%	100.0%	100.0%
Cost and expenses			
Instructional costs and services	57.8	62.4	58.0
Selling, administrative, and other operating expenses	30.5	27.5	32.0
Product development expenses	2.5	3.0	4.2
Total costs and expenses	90.8	92.9	94.2
Income from operations	9.2	7.1	5.8
Interest expense, net	(0.3)	(0.3)	(0.1)
Income before income tax (expense) benefit and noncontrolling interest	8.9	6.8	5.7
Income tax (expense) benefit	(3.4)	(3.1)	9.3
Net income	5.5	3.7	15.0
Add net loss attributable to noncontrolling interest	0.1	0.2	0.0
Net income — K12 Inc.	5.6%	3.9%	15.0%

Comparison of Years Ended June 30, 2010 and 2009

Revenues. Our revenues for the year ended June 30, 2010 were $384.5 million, representing an increase of $68.9 million, or 21.8%, as compared to revenues of $315.6 million for the same period in the prior year. Total average enrollments increased 21.6% to 66,811 for the year ended June 30, 2010 from 54,962 for the same period prior year. The increase in average enrollments was primarily attributable to 19.8% enrollment growth in existing states. New school openings in Alaska, Oklahoma, Virginia, and Wyoming contributed approximately 1.8% to enrollment growth. In new and existing states combined, high school enrollments contributed approximately 8.1%

to enrollment growth and K-8 enrollments contributed approximately 13.5% to overall enrollment growth. For the year ended June 30, 2010, high school enrollments increased 43.5% as compared to the same period in the prior year. Additionally, high school enrollments constituted approximately 21.9% of our enrollments for the year ended June 30, 2010 as compared to 18.5% for the same period in the prior year. K-8 enrollments increased 16.6% for the year ended June 30, 2010 as compared to the same period in the prior year. Additionally, K-8 enrollments constituted approximately 78.1% of our enrollments for the year ended June 30, 2010 as compared to 81.5% for the same period in the prior year. Also contributing to the growth in revenues were other distribution channels including private schools and direct-to-consumer.

Instructional Costs and Services Expenses. Instructional costs and services expenses for the year ended June 30, 2010 were $222.0 million, representing an increase of $25.1 million, or 12.7% as compared to instructional costs and services of $197.0 million for the same period in the prior year. This increase was primarily attributable to a $25.5 million increase in expenses to operate and manage the schools, partially offset by a $0.4 million decrease in costs to supply curriculum, books, educational materials and computers to students, including depreciation and amortization. As a percentage of revenues, instructional costs decreased to 57.8% for the year ended June 30, 2010, as compared to 62.4% for the same period in the prior year. This decrease as a percentage of revenues was primarily attributable to the lower fulfillment costs for materials and computers, increased volume in reclaimed materials, increased productivity at the schools we serve, and leverage of fixed school infrastructure costs. This decrease in expenses was partially offset by an increase in the percentage of high school enrollments relative to total enrollments from 18.5% to 21.9%, as high school enrollments have higher costs as a percentage of revenues due to increased teacher and related services costs.

Selling, Administrative, and Other Operating Expenses. Selling, administrative, and other operating expenses for the year ended June 30, 2010 were $117.4 million, representing an increase of $30.7 million, or 35.4%, as compared to selling, administrative and other operating expenses of $86.7 million for the same period in the prior year. This increase is primarily attributable to increases in personnel costs including benefits and stock compensation expense, the expansion of our institutional sales force, student recruiting and enrollment costs, professional services, acquisition due diligence and transaction related costs, and litigation settlement costs. As a percentage of revenues, selling, administrative, and other operating expenses increased to 30.5% for the year ended June 30, 2010 as compared to 27.5% for the same period in the prior year primarily due to increases in personnel costs including the expansion of our institutional sales force, student recruiting, professional services, and acquisition due diligence and transaction related costs.

Product Development Expenses. Product development expenses for the years ended June 30, 2010 and 2009 were $9.6 million. Employee compensation combined with contract labor was relatively stable. We continued to add to our high school course catalogue, including credit recovery programs, and completed our new elementary math program containing custom math sequences to meet state specific needs. As a percentage of revenues, product development expenses decreased to 2.5% for the year ended June 30, 2010 as compared to 3.0% for the same period in the prior year as we were able to leverage these costs over a larger revenue base.

Net Interest Expense. Net interest expense for the year ended June 30, 2010 was $1.3 million, as compared to net interest expense of $1.0 million for the same period in the prior year. The increase is primarily due to lower interest income as a result of declining interest rates for the year ending June 30, 2010 as compared to the same period in the prior year.

Income Taxes. Income tax expense for the year ended June 30, 2010 was $13.2 million or 38.8% of income before income taxes, as compared to an income tax expense of $9.6 million, or 43.7% of income before taxes, for the same period in the prior year. The decrease in rate is primarily attributable to tax credits recognized in the year ended June 30, 2010 for research and development activities in the current and prior periods. Without these credits, income tax expense for the year ended June 30, 2010 would have been $14.7 million or 43.1% of income before taxes.

Noncontrolling interest. Net loss attributable to noncontrolling interest for the year ended June 30, 2010 and 2009 was $0.6 million. Noncontrolling interest reflects the after-tax losses attributable to shareholders in our joint venture in the Middle East and Middlebury Interactive Languages.

Comparison of Years Ended June 30, 2009 and 2008

Revenues. Our revenues for the year ended June 30, 2009 were $315.6 million, representing an increase of $89.3 million, or 39.5%, as compared to revenues of $226.2 million for the same period in the prior year. Total average enrollments increased 34.5% to 54,962 for the year ended June 30, 2009 from 40,859 for the same period prior year. The increase in average enrollments was primarily attributable to 29.9% enrollment growth in existing states. New school openings in Hawaii, Indiana, Oregon, and South Carolina contributed approximately 4.6% to enrollment growth. In new and existing states combined, high school enrollments contributed approximately 11.4% to enrollment growth and K-8 enrollments contributed approximately 23.1% to overall enrollment growth. For the year ended June 30, 2009, high school enrollments increased 84.0% as compared to the same period in the prior year. Additionally, high school enrollments constituted approximately 18.5% of our enrollments for the year ended June 30, 2009 as compared to 13.5% for the same period in the prior year. K-8 enrollments increased 26.8% for the year ended June 30, 2009 as compared to the same period in the prior year. Additionally, K-8 enrollments constituted approximately 81.5% of our enrollments for the year ended June 30, 2009 as compared to 86.5% for the same period in the prior year. Also contributing to the growth in revenues was the increase in the percentage of enrollments associated with managed schools, which generate higher revenue per enrollment than non-managed school enrollments. The percentage of enrollments associated with managed schools increased to 85.4% for the year ended June 30, 2009 from 82.0% for the same period in the prior year.

Instructional Costs and Services Expenses. Instructional costs and services expenses for the year ended June 30, 2009 were $197.0 million, representing an increase of $65.7 million, or 50.0% as compared to instructional costs and services of $131.3 million for the year ended June 30, 2008. This increase was primarily attributable to a $47.9 million increase in expenses to operate and manage the schools and a $17.8 million increase in costs to supply curriculum, books, educational materials and computers to students, including depreciation and amortization. As a percentage of revenues, instructional costs increased to 62.4% for the year ended June 30, 2009, as compared to 58.0% for the year ended June 30, 2008. This increase as a percentage of revenues is primarily attributable to four factors: 1) an increase in the percentage of managed school enrollments relative to total enrollments from 82.0% to 85.4%. Managed school enrollments generate more revenue than those associated with non-managed schools, but have higher instructional costs as a percentage of revenues; 2) an increase in the percentage of high school enrollments relative to total enrollments from 13.5% to 18.5%. High school enrollments have higher costs as a percentage of revenues due to increased teacher and related services costs; 3) incremental freight charges due to expedited student materials shipments and fuel surcharges, partially offset by reduced costs of student materials and computers; and 4) start-up costs associated with the commencement of school operations in four new states and two new schools in existing states.

Selling, Administrative, and Other Operating Expenses. Selling, administrative, and other operating expenses for year ended June 30, 2009 were $86.7 million, representing an increase of $14.3 million, or 19.7%, as compared to selling, administrative and other operating expenses of $72.4 million for the same period in the prior year. This increase is primarily attributable to a $6.2 million increase in student recruiting costs, a $1.6 million increase in professional services, and a $6.5 million increase in other expenses. As a percentage of revenues, selling, administrative, and other operating expenses decreased to 27.5% for the year ended June 30, 2009 as compared to 32.0% for the same period in the prior year primarily due to greater leverage on our corporate overhead and fixed selling resources. Partially offsetting this leverage were increased investments in demand generating activities and our international expansion efforts.

Product Development Expenses. Product development expenses for the years ended June 30, 2009 and 2008 were $9.6 million. Employee compensation as well as contract labor costs increased, but were offset by greater utilization of these resources to develop curriculum assets. We continued to add to our high school course catalogue and to our elementary math and remedial reading programs. As a percentage of revenues, product development expenses decreased to 3.0% for the year ended June 30, 2009 as compared to 4.2% for the same period in the prior year as we were able to leverage these costs over a larger revenue base.

Net Interest Expense. Net interest expense for the year ended June 30, 2009 was $1.0 million, as compared to net interest expense of $0.3 million for the same period in the prior year. The increase is due to growth in our capital lease obligations partially offset by reduced borrowings under our revolving line of credit. In addition, although our average cash balances were higher for the year ended June 30, 2009, the significant decline in interest rates resulted in lower interest income.

Income Taxes. Income tax expense for the year ended June 30, 2009 was $9.6 million, or 45.0% of income before income taxes, as compared to an income tax benefit of $21.1 million for the same period in the prior year. The income tax benefit for the year ended June 30, 2008 reflects a $27.0 million tax benefit as we were able to reverse the valuation allowance on net deferred tax assets generated by our net operating losses that were fully reserved in prior periods. Had that reversal not occurred, we would have recorded an income tax expense of $5.9 million, or 46.6% of income before income taxes for the year ended June 30, 2008.

Noncontrolling interest. Net loss attributable to noncontrolling interest for the year ended June 30, 2009 was $0.6 million, reflecting losses attributable to shareholders in our joint venture in the Middle East. There was no minority interest for the year ended June 30, 2008.

Quarterly Results of Operations

The following table sets forth domestic enrollment data of virtual public schools or hybrid schools for the eight most recent quarters, as well as the percentage of total enrollments in various categories including: managed enrollments or enrollments in schools where we provide turn-key management services, non-managed enrollments or enrollments in programs that use our curriculum and limited other services.

The enrollments below do not include students in our direct-to-consumer, private school, international channels or pilot programs.

	Three Months Ended							
	Jun-10	**Mar-10**	**Dec-09**	**Sep-09**	**Jun-09**	**Mar-09**	**Dec-08**	**Sep-08**
Total Average Enrollments	63,508	67,560	67,354	69,542	52,563	56,022	55,076	56,233
Managed Enrollments as percentage of total enrollments	85.0%	85.5%	85.0%	85.6%	85.1%	85.7%	85.3%	85.4%
Non-managed Enrollments as a percentage of total enrollments	15.0%	14.5%	15.0%	14.4%	14.9%	14.3%	14.7%	14.6%
Total average enrollments	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
High School enrollments as a percentage of total	21.1%	22.0%	21.6%	23.4%	16.9%	18.6%	18.6%	20.9%
K-8 enrollments as a percentage of total enrollments	78.9%	78.0%	78.4%	76.6%	83.1%	81.4%	81.4%	79.1%
Total average enrollments	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The following tables set forth selected unaudited quarterly consolidated statement of operations data for the eight most recent quarters, as well as each line item expressed as a percentage of total revenues. The information for each of these quarters has been prepared on the same basis as the audited consolidated financial statements included in this Annual Report and, in the opinion of management, includes all adjustments necessary for the fair presentation of the results of operations for such periods. This data should be read in conjunction with the audited consolidated financial statements and the related notes included in this annual report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	For the Three Months Ended,							
	Jun-10	Mar-10	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08
	(In thousands)							
Revenues	$88,321	$96,627	$93,197	$106,325	$72,166	$77,164	$77,618	$88,625
Cost and expenses								
Instructional costs and services	55,868	56,479	51,589	58,093	44,375	47,868	50,312	54,421
Selling, administrative, and other operating expenses	32,329	26,843	24,899	33,327	25,494	19,467	18,887	22,835
Product development expenses	1,999	2,924	2,415	2,238	2,560	2,415	2,405	2,195
Total costs and expenses	90,196	86,246	78,903	93,658	72,429	69,750	71,604	79,451
Income (loss) from operations	(1,875)	10,381	14,294	12,667	(263)	7,414	6,014	9,174
Interest (expense) income, net	(289)	(361)	(324)	(357)	(464)	(361)	(264)	107
Income (loss) before income tax (expense) benefit and noncontrolling interest	(2,164)	10,020	13,970	12,310	(727)	7,053	5,750	9,281
Income tax benefit (expense)	427	(3,927)	(4,381)	(5,368)	13	(3,490)	(2,365)	(3,786)
Net income (loss)	(1,737)	6,093	9,589	6,942	(714)	3,563	3,385	5,495
Add (less) net loss (income) attributable to noncontrolling interest	412	36	49	141	48	(16)	135	419
Net income (loss) — K12 Inc.	$ (1,325)	$ 6,129	$ 9,638	$ 7,083	$ (666)	$ 3,547	$ 3,520	$ 5,914

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

	For the Three Months Ended,							
	Jun-10	Mar-10	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost and expenses								
Instructional costs and services	63.2	58.5	55.4	54.6	61.5	62.1	64.8	61.4
Selling, administrative, and other operating expenses	36.6	27.8	26.7	31.3	35.3	25.2	24.4	25.7
Product development expenses	2.3	3.0	2.6	2.1	3.6	3.1	3.1	2.5
Total costs and expenses	102.1	89.3	84.7	88.0	100.4	90.4	92.3	89.6
Income (loss) from operations	(2.1)	10.7	15.3	12.0	(0.4)	9.6	7.7	10.4
Interest (expense) income, net	(0.4)	(0.3)	(0.3)	(0.3)	(0.6)	(0.5)	(0.3)	0.1
Income (loss) before income tax (expense) benefit and noncontrolling interest	(2.5)	10.4	15.0	11.7	(1.0)	9.1	7.4	10.5
Income tax benefit (expense)	0.5	(4.1)	(4.7)	(5.0)	0.0	(4.5)	(3.1)	(4.3)
Net income (loss)	(2.0)	6.3	10.3	6.7	(1.0)	4.6	4.3	6.2
Add (less) net loss (income) attributable to noncontrolling interest	0.5	0.0	0.0	0.1	0.1	0.0	0.2	0.5
Net income (loss) — K12 Inc.	(1.5)%	6.3%	10.3%	6.8%	(0.9)%	4.6%	4.5%	6.7%

Discussion of Quarterly Results of Operations

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to virtual public schools we serve and the number of months the schools are fully operational and serving students in a fiscal quarter. While school administrative offices are generally open year round, a school typically serves students during a 10 month academic year. A school's academic year typically begins in August or September, our first fiscal quarter, and finishes in May or June, our fourth fiscal quarter. Consequently, our first and fourth fiscal quarters reflect fewer than three months of full virtual public school operations when compared to the second and third fiscal quarters.

In the first fiscal quarter, we ship materials to students for the beginning of the school year. New students will enroll after the start of the school year, but in significantly smaller numbers. This generally results in higher materials revenues and margin in the first quarter versus other quarters. In the first and fourth fiscal quarters, online curriculum and computer revenues are generally lower as these revenues are primarily earned during the school academic year which may provide for only one or two months of these revenues in these quarters versus the second and third fiscal quarters. Management and technology service revenues are recognized ratably over the course of our fiscal year. The combined effect of these factors results in higher revenues in the first fiscal quarter than in the subsequent quarters.

Operating expenses are also seasonal. Instructional costs and services expenses increase in the first fiscal quarter primarily due to the costs incurred to ship student materials at the beginning of the school year. Instructional costs may increase significantly quarter-to-quarter as school operating expenses increase. For example, enrollment growth will require additional teaching staff, thereby increasing salary and benefits expense. School events may be seasonal, (e.g. professional development, proctored exam related expenses, and community events,) impacting the quarterly change in instructional costs. The majority of our recruiting and enrollment expenses are incurred in the first and fourth fiscal quarters, as our primary enrollment season is July through September. A significant portion of our overhead expenses does not vary with the school year or enrollment season.

Discussion of Seasonality of Financial Condition

Certain accounts in our balance sheet are subject to seasonal fluctuations. As our enrollments and revenues grow, we expect these seasonal trends to be amplified. The bulk of our materials are shipped to students prior to the beginning of the school year, usually in July or August. In order to prepare for the upcoming school year, we generally build up inventories during the fourth quarter of our fiscal year. Therefore, inventories tend to be at the highest levels at the end of our fiscal year. In the first quarter of our fiscal year, inventories tend to decline significantly as materials are shipped to students. In our fourth quarter, inventory purchases and the extent to which we utilize early payment discounts will impact the level of accounts payable.

Accounts receivable balances tend to be at the highest levels in the first quarter of our fiscal year as we begin billing for all enrolled students and our billing arrangements include upfront fees for many of the elements of our offering. These upfront fees result in seasonal fluctuations to our deferred revenue balances. Generally, deferred revenue balances related to the schools tend to be highest in the first quarter, when the majority of students enroll. Since the deferred revenue is amortized over the course of the school year, which ends in June, the balance is typically at its lowest at the end of our fiscal year. Generally, deferred revenues from virtual public schools have not been a source of liquidity as most schools receive their funding over the course of the year. In the fourth quarter of fiscal year 2010, we recorded deferred revenues for early materials shipments for the upcoming school year and we also received an early payment for the upcoming school year however that is not typical.

The deferred revenue related to our direct-to-consumer business results from advance payments for twelve month subscriptions to our online school. These advance payments are amortized over the life of the subscription and tend to be highest at the end of the fourth quarter and first quarter, when the majority of subscriptions are sold. Also at the end of the fourth quarter, we will record deferred revenues for the Middlebury summer language program as students typically prepay for attending the programs that conclude in July.

Liquidity and Capital Resources

We financed our capital expenditures including capitalized curriculum development costs, purchases of property and equipment, capitalized software development costs, and purchases of student computers, during the year ended June 30, 2010 primarily through cash flow from operations and capital lease financing. As of June 30, 2010, 2009 and 2008, we had cash and cash equivalents of $81.8 million, $49.5 million and $71.7 million, respectively. As of June 30, 2010, our cash balance included $12.1 million associated with our joint ventures.

We have a $35 million revolving credit agreement with PNC Bank (Credit Agreement) that expires in December 2012. Pursuant to the terms of the Credit Agreement, the proceeds of the term loan facility are to be used for general corporate purposes. Because of the seasonality of our business and timing of funds received, the school expenditures are higher in relation to funds received in certain periods during the year. The Credit Agreement provides the ability to fund these periods until cash is received from the schools.

Borrowings under the Credit Agreement bear interest based upon the term of the borrowings. Interest is charged, at our option, either at: (i) the higher of (a) the rate of interest announced by PNC Bank from time to time as its "prime rate" and (b) the federal funds rate plus 0.5%; or (ii) the applicable London interbank offered rate (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 the applicable margin for such loans, which ranges between 1.50% and 2.00%, based on the leverage ratio (as defined in the Credit Agreement). We pay a quarterly commitment fee on the unused portion of the credit agreement . The line of credit includes a $5.0 million letter of credit facility. Issuances of letters of credit reduce the availability of permitted borrowings under the Credit Agreement.

Borrowings under the Credit Agreement are secured by substantially all of our assets. 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 its subsidiaries, or make capital expenditures above specified limits and engage in other matters customarily restricted in senior secured credit facilities. We must also maintain a maximum debt leverage ratio. These covenants are subject to certain qualifications and exceptions. Through June 30, 2010, we were in compliance with these covenants. As of June 30, 2010, no borrowings were outstanding on the line of credit and approximately $2.1 million was reserved for a letter of credit.

In August 2010, we entered into an $18 million equipment lease line of credit for new purchases with PNC Equipment Finance, LLC that expires on March 31, 2011. The interest rate on new borrowings is set at the time of borrowing based upon interest rates in the Federal Reserve Statistical Release H.15.

For the year ended June 30, 2010, we borrowed $12.2 million to finance the purchase of student computers and other equipment at an interest rate of approximately 5.0%. These leases include a 36-month payment term with a bargain purchase option at the end of the term. Accordingly, we include this equipment in property and equipment and the related liability in capital lease obligations. In addition, we have pledged the assets financed with the equipment lease line to secure the amounts outstanding.

A substantial portion of our revenues are generated through our contractual arrangements with virtual public schools. The virtual public schools are generally funded on a per student basis by their state and local governments and the timing of funding varies by state. Due to the recession, many states have reduced per enrollment funding for public education affecting many of the virtual public schools we serve. While the American Recovery and Reinvestment Act of 2009 (ARRA) has provided additional funds to states, it has not fully offset the state funding reductions. Thus, the net impact to funding was negative in many states and had a negative effect on our revenue and income for our fiscal years 2009 and 2010. Our financial results reflect annual school revenues and expenses, including ARRA funds, state funding reductions and expense reductions that we undertook in order to mitigate the impact of the funding reductions that have occurred. At this time, many states still have budget issues and the specific level of federal funding for the coming years is not yet known so it is possible we could experience lower per enrollment funding in the future. Funding receipts by an individual school may vary over the year and may be in arrears. On rare occasions, we have experienced delayed payments. Because our receivables represent obligations indirectly due from governments, we have not historically had an issue with non-payment and believe the risk of non-payment is minimal although we cannot guarantee this will continue.

Our cash requirements consist primarily of day-to-day operating expenses, capital expenditures and contractual obligations with respect to facility leases, capital equipment leases and other operating leases. We expect capital expenditures to increase for the next year including expenditures for additional courses, new releases of existing courses, foreign language courses developed in our MIL joint venture, and internal systems enhancements to support our growth and the integration of KCDL. We also expect expenditures for computers to support virtual school enrollments to increase with enrollment growth. We expect to be able to fund these capital expenditures with cash on hand, cash generated from operations, capital lease financing or advances under our line of credit. We lease all of our office facilities. We expect to make future payments on existing leases from cash generated from operations. We believe that the combination of funds currently available and funds to be generated from operations will be adequate to finance our ongoing operations for the foreseeable future. In addition, 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.

Redemption Right of Middlebury College

In the formation of our joint venture with Middlebury College (Middlebury), at any time after the fifth (5th) anniversary of the agreement, Middlebury may give written notice of its irrevocable election to sell all (but not less than all) of its Membership Interest to us (put right). Given the put right is redeemable outside of our control it is recorded outside of permanent equity at its estimated redemption value. The purchase price for Middlebury's Membership Interest shall be its fair market value and we may, in our sole discretion, pay the purchase price in cash or shares of our common stock. We will record the redemption value of the redeemable noncontrolling interest on each balance sheet date in accordance with EITF Topic D-98 and any changes to the redemption value should be recognized as adjustments to retained earnings, or in the absence of retained earnings, by adjustment to additional paid-in capital. As of June 30, 2010, the redeemable noncontrolling interest was $17.4 million. The agreement also includes a provision whereby, if certain milestones are not met related to expanding the business by June 2014, Middlebury will have the option to repurchase certain contributed assets at their fair market value.

Redemption Right of Series A Special Stock

In July 2010, we acquired all of the stock of KC Distance Learning, Inc. (KCDL), a provider of online curriculum and public and private virtual education, by issuing to its parent company KCDL Holdings LLC, 2.75 million shares of a new class of stock designated as Series A Special Stock, which had a value at closing of $63 million. This transaction occurred after our fiscal year ended and therefore is not reflected on our balance sheet as of June 30, 2010. KCDL Holdings, Inc. is an affiliate of the Learning Group, LLC, a related party. Our board of directors obtained an opinion from an independent financial advisor that the consideration paid in the acquisition was fair from a financial point of view to K12 and its stockholders. The holders of the Series A Shares initially have no voting rights and no rights of conversion with respect to the Series A Shares; however, we have agreed to convene a meeting of our stockholders to obtain their approval to permit the conversion of the Series A Shares into common stock on a one-for-one basis and for the right to vote on all matters presented to K12 shareholders, other than for the election and removal of directors, for which holders of the Series A Shares shall have no voting rights. In the event that the K12 stockholders do not approve the voting rights and rights of conversion of the Series A Shares by the first anniversary of the closing of the acquisition, the Series A Shares will be redeemable at the option of the holder or K12 at a price per share of the greater of $22.95 or the price per share of the K12 common stock at the date of redemption. Learning Group LLC and certain of its affiliates have agreed to vote their shares of K12 common stock (representing approximately 17% of our common stock) in favor of the rights of conversion and voting rights of Series A Shares pursuant to a voting agreement. The aggregate redemption liability (if fully exercised) will not be less than $63 million of cash.

Given the voting agreement entered into with the Learning Group LLC and the NYSE voting requirements, we believe it is likely that the shareholder vote will be successful. However, if the vote to permit conversion is not approved, we may have to redeem the Series A Shares with cash. Based upon our current cash balances and operating and capital expenditures forecasts, we believe the combination of funds currently available, funds to be generated from operations, and access to financing will be adequate to finance the redemption should it occur.

Operating Activities

Net cash provided by operating activities for the year ended June 30, 2010 was $55.5 million compared to net cash used by operating activities for same period in the prior year of $6.9 million.

The increase in cash provided by operating activities was primarily due to an increase in net income of $9.3 million, lower inventory purchases as we are benefiting from more efficient purchasing, a greater use of reclaimed student materials, and improved coordination with suppliers. The change in accounts payables increased cash primarily from the timing and lower level of inventory purchases as compared to the prior year. Collections of accounts receivable included receipts of Agora that were delayed in the prior year. Deferred revenues increased cash due to early payments from one school and for our Middlebury summer language program, as well as early shipments of student materials for the upcoming school year. Cash also increased from the change in deferred income taxes driven by an increase in pre-tax income.

Net cash used in operating activities for the year ended June 30, 2009 was $6.9 million as compared to net cash provided by operating activities for the year ended June 30, 2008 of $15.5 million.

The decrease in accounts payable was primarily due to an earlier inventory purchasing cycle and utilization of early payment discounts. The increase in accounts receivable was primarily due to growth in revenues and the timing of customer receipts including delayed receipts from Agora. These amounts were partially offset by a change in adjustments for deferred income taxes primarily due to the reversal of the valuation allowance on deferred tax assets in fiscal year 2008.

Investing Activities

Net cash used in investing activities for the year ended 2010, 2009 and 2008 was \$25.1 million, \$30.4 million and \$18.5 million, respectively.

Net cash used in investing activities for the year ended June 30, 2010 was primarily due to investment in capitalized curriculum of \$13.9 million, primarily related to the production of high school courses and elementary school math courses; investment of \$10.4 million in property and equipment, including internally developed and purchased software, and cash placed in escrow of \$0.8 million.

Net cash used in investing activities for the year ended June 30, 2009 was primarily due to investment in capitalized curriculum of \$13.9 million, primarily related to the production of high school courses and elementary school math courses, investment of \$13.9 million in property and equipment, including internally developed and purchased software, and cash placed in escrow of \$2.5 million.

Net cash used in investing activities for the year ended June 30, 2008 was primarily due to investment in capitalized curriculum of \$11.7 million, primarily related to the production of high school courses, including the purchase of a perpetual license of curriculum for \$3.0 million, and an investment of \$6.5 million in property and equipment, including internally developed and purchased software.

In addition to the investing activities above, in fiscal year 2010, 2009 and 2008, we financed through capital leases purchases of computers and software primarily for use by students, in the amounts of \$12.2 million, \$16.0 million and \$10.6 million, respectively.

Financing Activities

Net cash provided by financing activities for the year ended June 30, 2010, 2009 and 2008 was \$1.9 million, \$15.0 million and \$73.0 million, respectively.

For the year ended June 30, 2010, net cash provided by financing activities primarily consists of the proceeds from the exercise of stock options of \$8.5 million, proceeds received from the minority interest contribution of \$3.4 million, and the excess tax benefit from stock compensation expense of \$3.9 million. These amounts were partially offset by payments on capital leases and notes payable totaling \$14.0 million. As of June 30, 2010, there were no borrowings outstanding on our \$35 million line of credit.

For the year ended June 30, 2009, net cash provided by financing activities primarily consists of the proceeds from the exercise of stock options of \$9.8 million, proceeds received from the minority interest contribution of \$5.0 million, proceeds from notes payable of \$3.1 million, and the excess tax benefit from stock compensation expense of \$7.0 million. These amounts were partially offset by payments on capital leases and notes payable totaling \$9.9 million.

Net cash provided by financing activities for the year ended June 30, 2008 was \$73.0 million. This was primarily due to the net proceeds from our IPO and private placement transaction.

In December, 2007, we completed the initial public offering of our common stock in which we sold and issued 4,450,000 shares of our common stock, at an issue price of \$18.00 per share. We raised a total of \$80.1 million in gross proceeds from the IPO, or approximately \$70.5 million in net proceeds after deducting underwriting discounts and commissions of \$5.6 million and other offering costs of \$4.0 million.

Concurrently with the closing of the IPO and at the initial public offering price, we sold 833,333 shares of common stock at the initial public offering price of \$18.00 per share for an aggregate purchase price of \$15.0 million to a non-U.S. person, in a private placement transaction outside the United States in reliance upon Regulation S under the Securities Act of 1933.

Also concurrently with the closing of the IPO, the holders of Redeemable, Convertible Series C Preferred stock were paid a cash dividend of \$6.4 million. The amount of the declared dividend was equal to the pro rata amount of the annual cumulative dividend that would have normally accrued on January 2, 2008.

For the year ended June 30, 2008, net cash used for the repayment of short term debt was $1.5 million and cash used for the repayment of capital leases and bank overdraft was $4.8 million and $1.6 million, respectively.

Contractual Obligations

Our contractual obligations consist primarily of leases for office space, capital leases for equipment and other operating leases. The following summarizes our long-term contractual obligations as of June 30, 2010:

	For Years Ended June 30,						
	Total	2011	2012	2013	2014	2015	Thereafter
	(In thousands)						
Contractual Obligations at June 30, 2010							
Capital leases(1)	$19,666	$11,726	$ 6,584	$1,356	$ —	$ —	$ —
Operating leases	44,787	3,917	3,815	3,721	3,543	3,602	26,189
Long term obligations(1)	2,009	1,339	670	—	—	—	—
Total	$66,462	$16,982	$11,069	$5,077	$3,543	$3,602	$26,189

(1) Includes interest expense.

Under most contracts, we provide the virtual public schools we manage with turnkey management services and take responsibility for any school operating losses that the school may incur. These individual school operating losses, if they occur, are recorded at the time as a reduction in revenues. Potential school operating losses are not included as a commitment or obligation in the above table as they cannot be determined at this time and many not even occur.

Off-Balance Sheet Arrangements

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 that are material to investors.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for any of the years in the three year period ended June 30, 2010. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued ASC 805 (formerly SFAS 141R (revised 2007), *Business Combinations*) which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The Company adopted ASC 805 as of July 1, 2009. The adoption of ASC 805 did not have a material impact on its financial condition, results of operations, and disclosures.

In March 2008, FASB issued ASC 815 (formerly SFAS No. 161, *Disclosures About Instruments and Hedging Activities — amendment of FASB Statement No. 133*). ASC 815 changes the disclosure requirements for derivative instruments and hedging activities. The Company adopted ASC 815 as of July 1, 2009. As ASC 815 relates only to disclosure, the adoption of ASC 815 did not have a material effect on its consolidated financial statements.

In June 2008, the FASB issued ASC 815 (formerly EITF 07-05, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*). ASC 815 provides guidance in assessing whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock for purposes of determining whether the appropriate accounting treatment falls under the scope of ASC 815 subtopic 10, *"Accounting For Derivative Instruments and Hedging Activities"* and/or ASC 815 subtopic 40, *"Accounting For Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.*" The Company adopted ASC 815 as of July 1, 2009. The adoption of ASC 815 did not have a material impact on its financial condition, results of operations, and disclosures.

In June 2009, the FASB issued ASC 860 (formerly SFAS 166, *Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140*), which requires additional information regarding transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. ASC 860 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. ASC 860 is effective for fiscal years beginning after November 15, 2009. ASC 860 is effective for the Company on July 1, 2010. The Company is currently evaluating the impact that the adoption of ASC 860 will have on our financial condition, results of operations, and disclosures.

In June 2009, the FASB issued ASC 810 (formerly SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*), which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. ASC 810 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASC 810 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. ASC 810 also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. ASC 810 is effective for fiscal years beginning after November 15, 2009 and is effective for the Company on July 1, 2010. The Company is currently evaluating the impact that the adoption of ASC 810 will have on our financial condition, results of operations, and disclosures.

In July 2009, the FASB issued ASC 105 (formerly SFAS No. 168, *the FASB Accounting Standards Codification*tm *and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162*). With the issuance of ASC 105, the FASB Accounting Standards Codification (Codification) becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the Securities and Exchange Commission (SEC). The Codification does not change current U.S. GAAP, but changes the referencing of financial standards, and is intended to simplify user access to authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Company adopted ASC 105 which was effective for the Company's first quarter of 2010. The adoption of ASC 105 did not have any impact on our consolidated financial condition or results of operations.

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force,* Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration and the use of the relative selling price method is required. The new guidance eliminated the residual method of allocating arrangement consideration to deliverables and includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010. ASU 2009-13 is effective for the Company on July 1, 2010. Early adoption is permitted however the Company chosen not to adopt early. The Company is currently evaluating the impact that the adoption of ASU 2009-13 will have on our financial condition, results of operations, and disclosures.

In January 2010, the FASB issued ASU 2010-06, *Fair Value measurements and Disclosures*, which requires new disclosures for transfers in and out of Level 1 and Level 2 and activity in Level 3 of the fair value hierarchy. ASU 2010-06 requires separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and a description of the reasons for the transfers. In the reconciliation for fair value measurements using Level 3 inputs, a reporting entity should present separately information about purchases, sales, issuances and settlements. ASU 2010-06 is effective for new disclosures and clarification of existing disclosures for interim and annual periods beginning after December 15, 2009 except for disclosures about purchases, sales, issuances and settlements in the Level 3 activity rollfoward. The provisions of ASU 2010-06 related to new disclosures and clarification of existing disclosures was adopted by the Company beginning January 1, 2010. As ASU 2010-06 relates only to disclosure, the adoption of these provisions did not have a material impact on its financial condition, results of operations, and disclosures. The provisions of ASU 2010-06 related to Level 3 rollforward activity are effective for fiscal years beginning after December 31, 2010 and will be effective for the Company on July 1, 2011. The Company is currently evaluating the impact that the adoption of ASU 2010-06 will have on our financial condition, results of operations, and disclosures.

ITEM 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

At June 30, 2010 and June 30, 2009, we had cash and cash equivalents totaling $81.8 million and $49.5 million, respectively. 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 June 30, 2010, a 1% gross increase in interest rates earned on cash would result in $0.8 million annualized increase in interest income.

Our short-term debt obligations under our revolving credit facility are subject to interest rate exposure, however as we had no outstanding balance on this facility as of June 30, 2010, fluctuations in interest rates would not have a material impact on our interest expense.

Foreign Currency Exchange Risk

We currently operate in a foreign country, 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. However, we are pursuing opportunities in international markets. 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.

PART II

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
K12 Inc.
Herndon, Virginia

We have audited the accompanying consolidated balance sheets of K12 Inc. and subsidiaries (the Company) as of June 30, 2010 and 2009, and the related consolidated statements of operations, redeemable convertible preferred stock and equity (deficit), and cash flows for each of the three years in the period ended June 30, 2010. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of K12 Inc. and subsidiaries at June 30, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2010**,** in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As described in Note 3 of the notes to the consolidated financial statements, effective July 1, 2009, the Company adopted new rules regarding the accounting for non-controlling interests.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), K12 Inc. and subsidiaries' internal control over financial reporting as of June 30, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated September 13, 2010 expressed an adverse opinion thereon.

/s/ BDO USA, LLP

Bethesda, Maryland
September 13, 2010

K12 INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2010	June 30, 2009
	(In thousands, except per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 81,751	$ 49,461
Restricted cash and cash equivalents	3,343	2,500
Accounts receivable, net of allowance of $1,363 and $1,055 at June 30, 2010 and June 30, 2009, respectively	71,184	53,032
Inventories, net	26,193	32,052
Current portion of deferred tax asset	4,672	3,888
Prepaid expenses	8,849	9,177
Other current assets	7,286	2,087
Total current assets	203,278	152,197
Property, equipment and capitalized software development costs, net	40,713	37,860
Capitalized curriculum development costs, net	39,860	31,649
Deferred tax asset, net of current portion	5,912	14,619
Intangible assets	14,081	284
Goodwill	1,825	1,825
Deposits and other assets	2,213	2,242
Total assets	$ 307,882	$ 240,676
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current liabilities		
Accounts payable	$ 12,691	$ 10,366
Accrued liabilities	8,840	7,829
Accrued compensation and benefits	10,563	8,291
Deferred revenue	9,593	3,389
Current portion of capital lease obligations	10,996	10,240
Current portion of notes payable	1,251	1,034
Total current liabilities	53,934	41,149
Deferred rent, net of current portion	2,217	1,699
Capital lease obligations, net of current portion	7,710	9,222
Notes payable, net of current portion	655	1,906
Total liabilities	64,516	53,976
Commitments and contingencies		
Redeemable noncontrolling interest	17,374	—
Equity:		
K12 Inc. stockholders' equity		
Common stock, par value $0.0001; 100,000,000 shares authorized; 30,441,412 and 29,290,486 shares issued and outstanding at June 30, 2010 and June 30, 2009, respectively	3	3
Additional paid-in capital	361,344	343,304
Accumulated deficit	(139,496)	(161,021)
Total K12 Inc. stockholders' equity	221,851	182,286
Noncontrolling interest	4,141	4,414
Total equity	225,992	186,700
Total liabilities, redeemable noncontrolling interest and equity	$ 307,882	$ 240,676

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

K12 INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended June 30,		
	2010	2009	2008
	(In thousands, except per share data)		
Revenues	$ 384,470	$ 315,573	$ 226,235
Cost and expenses			
Instructional costs and services	222,029	196,976	131,282
Selling, administrative, and other operating expenses	117,398	86,683	72,393
Product development expenses	9,576	9,575	9,550
Total costs and expenses	349,003	293,234	213,225
Income from operations	35,467	22,339	13,010
Interest expense, net	(1,331)	(982)	(295)
Income before income tax (expense) benefit and noncontrolling interest	34,136	21,357	12,715
Income tax (expense) benefit	(13,249)	(9,628)	21,058
Net income	20,887	11,729	33,773
Add net loss attributable to noncontrolling interest	638	586	—
Net income — K12 Inc.	21,525	12,315	33,773
Dividends on preferred stock	—	—	(3,066)
Preferred stock accretion	—	—	(12,193)
Net income attributable to common stockholders	$ 21,525	$ 12,315	$ 18,514
Net income attributable to common stockholders per share:			
Basic	$ 0.72	$ 0.43	$ 1.18
Diluted	$ 0.71	$ 0.42	$ 1.10
Weighted average shares used in computing per share amounts:			
Basic	29,791,973	28,746,188	15,701,278
Diluted	30,248,683	29,639,974	16,850,909

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

K12 INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND EQUITY (DEFICIT)

	K12 Inc Stockholders									
	Redeemable Convertible Series C Preferred Stock		Redeemable Convertible Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
	(In thousands, except share data)									
Balance, June 30, 2007	9,776,756	$ 91,122	10,102,899	$ 138,434	2,041,604	$ 1	$ —	$(197,808)	$ —	$(197,807)
Exercise of stock options	—	—	—	—	221,914	—	1,510	—	—	1,510
Stock based compensation expense	—	—	—	—	—	—	1,464	—	—	1,464
Accretion of Preferred Stock	—	5,164	—	7,029	—	—	(5,958)	(6,235)	—	(12,193)
Series C 10% Stock Dividend	—	1,671	—	—	—	—	—	(1,671)	—	(1,671)
Issuance of stock related to acquisition of Power-Glide	—	—	—	—	186,266	—	2,660	—	—	2,660
Conversion of Preferred Stock	(9,776,756)	(97,957)	(10,102,899)	(145,463)	19,879,675	2	238,406	5,011	—	243,419
Issuance of common stock — Reg S transaction	—	—	—	—	833,333	—	15,000	—	—	15,000
Initial public offering, net of transaction costs and expense	—	—	—	—	4,450,000	—	70,539	—	—	70,539
Payment of Series C cash dividend	—	—	—	—	—	—	—	(6,406)	—	(6,406)
Exercise of stock warrants on cashless provision	—	—	—	—	332,034	—	—	—	—	—
Net income	—	—	—	—	—	—	—	33,773	—	33,773
Balance, June 30, 2008	—	—	—	—	27,944,826	3	323,621	(173,336)	—	150,288
Exercise of stock options	—	—	—	—	1,344,993	—	9,895	—	—	9,895
Stock based compensation expense	—	—	—	—	—	—	2,790	—	—	2,790
Excess tax benefit from stock-based compensation	—	—	—	—	—	—	6,998	—	—	6,998
Exercise of stock warrants on cashless provision	—	—	—	—	667	—	—	—	—	—
Noncontrolling interest contribution									5,000	5,000
Net income	—	—	—	—	—	—	—	12,315	(586)	11,729
Balance, June 30, 2009	—	—	—	—	29,290,486	3	343,304	(161,021)	4,414	186,700
Exercise of stock options	—	—	—	—	936,195	—	8,486	—	—	8,486
Issuance of restricted stock awards	—	—	—	—	225,946	—	—	—	—	—
Forfeiture of restricted stock awards	—	—	—	—	(24,953)	—	—	—	—	—
Exercise of stock warrants	—	—	—	—	6,173	—	50	—	—	50
Exercise of stock warrants on cashless provision	—	—	—	—	7,565	—	—	—	—	—
Stock based compensation expense	—	—	—	—	—	—	5,934	—	—	5,934
Excess tax benefit from stock-based compensation	—	—	—	—	—	—	3,935	—	—	3,935
Accretion of redeemable noncontrolling interests to estimated redemption value	—	—	—	—	—	—	(365)	—	—	(365)
Net income(1)	—	—	—	—	—	—	—	21,525	(273)	21,252
Balance, June 30, 2010	—	$ —	—	$ —	30,441,412	$ 3	$361,344	$(139,496)	$4,141	$ 225,992

(1) Net income attributable to noncontrolling interests exclude $0.4 million due to the redeemable noncontrolling interest related to Middlebury Interactive Languages, which is reported outside of permanent equity in the consolidated balance sheet at June 30, 2010 (See Note 11).

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

K12 INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,		
	2010	2009	2008
	(In thousands)		
Cash flows from operating activities			
Net income	$ 20,887	$ 11,729	$ 33,773
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	25,761	20,835	12,568
Stock based compensation expense	5,934	2,790	1,464
Excess tax benefit from stock based compensation	(3,935)	(6,998)	—
Deferred income taxes	11,858	9,584	(21,093)
Provision for (reduction of) doubtful accounts	308	(403)	867
Provision for inventory obsolescence	1,019	149	407
(Reduction of) provision for student computer shrinkage and obsolescence	(178)	243	162
Impairment of capitalized curriculum development cost	—	261	—
Changes in assets and liabilities:			
Accounts receivable	(18,460)	(21,999)	(15,322)
Inventories	4,840	(11,529)	(7,275)
Prepaid expenses	327	(5,529)	(2,403)
Other current assets	(5,199)	(1,859)	47
Deposits and other assets	30	(1,828)	(104)
Accounts payable	2,326	(4,022)	7,375
Accrued liabilities	1,012	3,145	1,557
Accrued compensation and benefits	2,271	(1,758)	3,828
Deferred revenue	6,203	275	(273)
Deferred rent	519	59	(44)
Net cash provided by (used in) operating activities	55,523	(6,855)	15,534
Cash flows from investing activities			
Purchase of property,and equipment including capitalized software development costs	(10,357)	(13,939)	(6,476)
Purchase of domain name	—	(16)	(250)
Cash invested in restricted cash and cash equivalents	(843)	(2,500)	—
Acquisition of Power-Glide	—	—	(119)
Capitalized curriculum development costs	(13,904)	(13,931)	(11,669)
Net cash used in investing activities	(25,104)	(30,386)	(18,514)
Cash flows from financing activities			
Cash received from issuance of common stock, net of underwriters commission	—	—	74,493
Cash received from issuance of common stock — Regulation S transaction	—	—	15,000
Deferred initial public offering costs	—	—	(3,954)
Net (repayments on) borrowings from revolving credit facility	—	—	(1,500)
Repayments on capital lease obligations	(12,945)	(9,133)	(4,767)
Repayments on notes payable	(1,029)	(804)	(180)
Proceeds from notes payable	—	3,135	408
Net proceeds from noncontrolling interest contribution	3,374	5,000	—
Proceeds from exercise of stock options	8,486	9,824	1,485
Proceeds from exercise of stock warrants	50	—	—
Excess tax benefit from stock based compensation	3,935	6,998	—
Payment of cash dividend — Preferred Stock	—	—	(6,406)
Bank overdraft	—	—	(1,577)
Net cash provided by financing activities	1,871	15,020	73,002
Net change in cash and cash equivalents	32,290	(22,221)	70,022
Cash and cash equivalents, beginning of year	49,461	71,682	1,660
Cash and cash equivalents, end of year	$ 81,751	$ 49,461	$ 71,682

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

K12 Inc.

Notes to Consolidated Financial Statements

1. Description of the Business

K12 Inc. and its subsidiaries (K12 or the Company) are a technology-based education company. The Company offers proprietary curriculum and educational services created for individualized delivery to students in kindergarten through 12th grade, or K-12. The K12 proprietary curriculum is research-based and combines content with innovative technology to allow students to receive an outstanding education regardless of geographic location or socio-economic background. In contracting with a virtual public school, the Company typically provides students with access to the K12 online curriculum, offline learning kits, use of a personal computer and provides management services. As of June 30, 2010, the Company served schools in 25 states and the District of Columbia. The Company expanded into four new states for fiscal year 2010 which includes Wyoming, Oklahoma, Alaska and Virginia, and has added two new states, Massachusetts and Michigan in fiscal year 2011. In addition, the Company sells access to its on-line curriculum and offline learning kits directly to individual consumers.

2. Basis of Presentation

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

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions affecting the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions, including those related to allowance for doubtful accounts, inventory reserves, amortization periods, the allocation of purchase price to the fair value of net assets and liabilities acquired in connection with business combinations, fair values used in asset impairment evaluations, valuation of long-lived assets, fair value of redeemable noncontrolling interest, contingencies, income taxes and stock-based compensation expense. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Revenue Recognition and Concentration of Revenues

Revenues are principally earned from long-term contractual agreements to provide on-line curriculum, books, materials, computers and management services to public charter schools and school districts. In addition to providing the curriculum, books and materials, under most contracts, the Company is responsible to the virtual public schools for all aspects of the management of 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 virtual public schools that occur in the fourth fiscal quarter that are for the upcoming school year are recorded in deferred revenues.

Where the Company has determined that they are 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 (formerly Emerging Issues Task Force (EITF) 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*). As a result of being the primary obligor, amounts recorded as revenues and instructional costs and services for the years ended June 30, 2010, 2009 and 2008 were $106.6 million, $92.8 million and $62.2 million, respectively. For contracts in which the Company is not the primary obligor, the Company records revenue based on its net fees earned per the contractual agreement.

The Company generates revenues under contracts with virtual public schools which include multiple elements. These elements include providing each of a school's students with access to the Company's on-line school and the on-line component of lessons; offline learning kits which include books and materials designed to complement and supplement the on-line 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; all management and technology services required to operate a virtual public school.

The Company has determined that the elements of our contracts are valuable to schools in combination, but do not have standalone value. While we have sold some of these elements in various combinations or bundles to schools and school districts, the value of each element across these combinations is indeterminable and we have concluded that we do not have sufficient objective and reliable evidence of fair value for each element. As a result, the elements within our multiple-element contracts do not qualify for treatment as separate units of accounting. Accordingly, the Company accounts for revenues received under multiple element arrangements as a single unit of accounting and recognize the entire arrangement based upon the approximate rate at which we incur the costs associated with each element.

Under the contracts with the schools where the Company provides turnkey management services, the Company has generally agreed to absorb any school operating losses of the schools in a given school year. These school operating losses represent the excess of costs over revenues incurred by the virtual public schools as reflected on their financial statements. The costs include Company charges to the schools. These school operating losses may reduce the Company's ability to collect invoices in full. Accordingly, the Company's amount of recognized revenue reflects this reduction. For the years ended June 30, 2010, 2009 and 2008, the Company's revenue included a reduction for these school operating losses of $32.6 million, $28.3 million and $9.1 million, respectively.

Other revenues are generated from individual customers who prepay and have access for 12 or 24 months to curriculum via the Company's Web site. The Company recognizes these revenues pro rata over the maximum term of the customer contract, which is either 12 or 24 months. Revenues from associated offline learning kits are recognized upon shipment.

During the years ended June 30, 2010, 2009 and 2008, approximately 97%, 94% and 97%, respectively, of the Company's revenues were recognized from virtual public schools. In fiscal year 2010 and 2009, we had contracts with two schools that each individually represented 14% of revenues. In fiscal year 2008, we had contracts with two schools that individually represented 14% and 12% of revenues. As of June 30, 2010 and 2009, approximately 15% and 23%, respectively of accounts receivable was attributable to a contract with one school.

Shipping and Handling costs

Shipping and handling costs are expensed when incurred and are classified as cost of goods sold in the accompanying consolidated statements of operations. Shipping and handling charges are invoiced to the customer and are included in revenues.

Research and Development Costs

All research and development costs are expensed as incurred including patent application costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 2, *Accounting for Research and Development Costs*, (codified in ASC 730).

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash on hand and cash held in money market and demand deposit accounts. For purposes of the statements of cash flows, the Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Company maintains funds in accounts in excess of FDIC insurance limits.

Restricted Cash and Cash Equivalents

Restricted cash consists of cash held in escrow pursuant to an agreement with a virtual public school that the Company manages and a purchase agreement with an inventory supplier. The Company established an escrow account for the benefit of the school's sponsoring school district in the event a future claim is made and for the benefit of one of the Company's inventory suppliers for delivery of materials purchased on behalf of the Company.

Allowance for Doubtful Accounts

The Company maintains an allowance for uncollectible accounts primarily for estimated losses resulting from the inability, failure or refusal of individual customers to make required payments. These losses have been within management's expectations. The Company analyzes accounts receivable, historical percentages of uncollectible accounts and changes in payment history when evaluating the adequacy of the allowance for uncollectible accounts. Management believes that an allowance for doubtful accounts of $1.4 million and $1.1 million as of June 30, 2010 and 2009, respectively, is adequate. However, actual write-offs might exceed the recorded allowance.

Inventory

Inventory consists primarily of schoolbooks and curriculum materials, a majority of which are supplied to virtual public schools and utilized directly by students. Inventory represents 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 at June 30, 2010 and 2009 was $1.9 million and $0.9 million, respectively.

Other Current Assets

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

Property, Equipment and Capitalized Software Development Costs

Property, equipment and capitalized software development costs 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 for fixed assets under capital leases). Amortization of assets capitalized under capital lease arrangements is included in depreciation expense. Property and equipment are depreciated over the following lives:

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

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 (formerly Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for 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.

The Company develops software for internal use. Software development costs incurred during the application development stage are capitalized in accordance with ASC 350 (formerly Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*). The Company amortizes these costs over the estimated useful life of the software which is generally three years.

Software development costs incurred totaled \$9.3 million, \$9.8 million and \$5.5 million for the years ended June 30, 2010, 2009 and 2008, respectively. These amounts are recorded on the accompanying consolidated balance sheet as part of property, equipment and capitalized software development costs, net of amortization and impairment charges. Amortization expense for the years ended June 30, 2010, 2009 and 2008 were \$3.9 million, \$2.6 million and \$1.2 million, respectively. The estimated aggregate amortization expense for each of the three succeeding years ending June 30, 2011, 2012 and 2013 is \$6.9 million, \$5.6 million and \$3.6 million, respectively.

Capitalized Curriculum Development Costs

The Company internally develops curriculum, which is primarily provided as web content and accessed via the Internet. The Company also creates textbooks and other offline materials.

The Company capitalizes curriculum development costs incurred during the application development stage in accordance with ASC 350. ASC 350 provides guidance for the treatment of costs associated with computer software development and defines those costs to be capitalized and those to be expensed. Costs that qualify for capitalization are external direct costs, payroll and payroll-related costs. Costs related to general and administrative functions are not capitalizable and are expensed as incurred. We capitalize curriculum development costs when the projects under development reach technological feasibility. Many of our new courses leverage off of proven delivery platforms and are primarily content, which has no technological hurdles. As a result, a significant portion of our courseware development costs qualify for capitalization due to the concentration of our development efforts on the content of the courseware.

Technological feasibility is established when we have completed all planning, designing, coding, and testing activities necessary to establish that a course can be produced to meet its design specifications. Capitalization ends when a course is available for general release to our 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. This is consistent with the capitalization period used by others in our industry and corresponds with our product development lifecycle.

Total capitalized curriculum development costs incurred were $13.9 million, $13.9 million and $11.7 million for the years ended June 30, 2010, 2009 and 2008, respectively. These amounts are recorded on the accompanying consolidated balance sheet, net of amortization and impairment charges. Amortization and impairment charges are recorded in product development expenses on the accompanying consolidated statement of operations. Amortization expense for the years ended June 30, 2010, 2009 and 2008 were $5.7 million, $3.4 million and $2.2 million, respectively. The estimated aggregate amortization expense for each of the five succeeding years ending June 30, 2011, 2012, 2013, 2014 and 2015 is $7.9 million, $7.6 million, $6.1 million, $5.5 million and $2.7 million, respectively.

Noncontrolling Interest

Earnings or losses attributable to other stockholders of a consolidated affiliated company are classified separately as “noncontrolling interest” in the Company’s consolidated statements of operations. Noncontrolling interest reflects only its 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 consolidated balance sheet reflects noncontrolling interest within the equity section of the consolidated balance sheet rather than in the mezzanine section of the consolidated balance sheet, except for redeemable noncontrolling interest. Noncontrolling interest is classified separately in the Company’s statements of equity.

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

Goodwill and Intangibles

We record as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. Finite-lived intangible assets acquired in business combinations subject to amortization are recorded at their fair value in accordance with ASU Topic 350. Finite-lived intangible assets include trade names and non-compete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives. As of June 30, 2010 and 2009, finite-lived intangible assets are recorded at $14.2 million and $0.2 million, respectively and accumulated amortization of $0.4 million and $0.2 million, respectively. Amortization expense for the years ended June 30, 2010, 2009 and 2008 were $0.2 million, $0.1 million and $0.1 million, respectively. Future amortization of intangible assets is not yet determinable until a final allocation is completed identifying the finite-lived intangibles and corresponding useful life contributed to the Middlebury Interactive Languages venture (see Note 11). As of June 30, 2010 and 2009, indefinite-lived intangible assets, which consist of a domain name, are recorded for both years at $0.3 million.

In accordance with ASC 360 (formerly SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) 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. There was no impairment for the years ended June 30, 2010, 2009 and 2008.

ASC 350 (formerly SFAS 142, *Goodwill and Other Intangible Assets*) prescribes a two-step process for impairment testing of goodwill and intangibles with indefinite lives, which is performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. Goodwill and intangible assets deemed to have an indefinite life are tested for impairment on an annual basis, or earlier when events or changes in circumstances suggest the carrying amount may not be fully recoverable. The Company has elected to perform its annual assessment on May 31st. For the years ended June 30, 2010, 2009 and 2008 no impairment to goodwill or indefinite-lived intangible assets was recorded.

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. Impairment charges related to capitalized curriculum development were $0.3 million for the year ended June 30, 2009. There was no impairment for the years ended June 30, 2010 and 2008.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*, (formerly SFAS No. 109, *Accounting for 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.

Sales Taxes

Sales tax collected from customers is excluded from revenues. Collected but unremitted sales tax is included as part of accrued liabilities in the accompanying consolidated balance sheets. Revenues do not include sales tax as the Company considers itself a pass-through conduit for collecting and remitting sales tax.

Stock-Based Compensation

The Company adopted ASC 718 (formerly SFAS 123(R), *Share-Based Payment (Revised 2004*) as of July 1, 2006. The Company adopted ASC 718 using the prospective application method. ASC 718 eliminates the intrinsic value method that was previously used by the Company as an alternative method of accounting for stock-based compensation. ASC 718 requires an entity to recognize the grant date fair value of stock options and other equity-based compensation issued to employees in the consolidated statement of operations. The Company applied ASC 718 to all new awards granted after July 1, 2006.

Advertising and Marketing Expenses

Advertising and marketing costs consist primarily of print media and brochures and are expensed when incurred.

Net Income Per Common Share

The Company calculates net income per share in accordance with ASC 260 (formerly SFAS 128, *Earnings Per Share*). Under ASC 260, basic net income per common share is calculated by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted net income per common share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The potentially dilutive securities consist of convertible preferred stock, stock options and warrants.

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur assuming conversion or exercise of all dilutive unexercised stock options and warrants. The dilutive effect of stock options was determined using the treasury stock method. Under the treasury stock method, the proceeds received from the exercise of stock options, 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 are not included in the computation of diluted earnings per share when they are antidilutive.

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

	Year Ended June 30,		
	2010	2009	2008
	(In thousands except shares and per share data)		
Net income available to common shareholders — basic and diluted	$ 21,525	$ 12,315	$ 18,514
Weighted average common shares outstanding — basic	29,791,973	28,746,188	15,701,278
Dilutive effect of common stock equivalents	456,710	893,786	1,149,631
Weighted average common shares outstanding — diluted(1)	30,248,683	29,639,974	16,850,909
Net income per common share:			
Basic	$ 0.72	$ 0.43	$ 1.18
Diluted	$ 0.71	$ 0.42	$ 1.10

The basic and diluted weighted average common shares outstanding for the year ended June 30, 2008 reflect the weighted average effect of the conversion of preferred stock to common stock upon the closing of the initial public offering on December 18, 2007. The number of shares of common stock outstanding at June 30, 2010 is 30,441,412.

As of June 30, 2010, 2009 and 2008, the shares of common stock issuable in connection with convertible preferred stock, stock options, and warrants of 1,048,749, 1,001,259 and 378,300, respectively, were not included in the diluted loss per common share calculation since their effect was anti-dilutive.

Reclassifications

Certain prior year amounts related to other current assets have been reclassified to conform to the current year presentation.

Fair Value Measurements

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

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

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

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

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

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

The following table summarizes certain fair value information at June 30, 2010 for assets and liabilities measured at fair value on a recurring basis. The redeemable noncontrolling interest is a result of the Company's venture with Middlebury College to form a new entity, Middlebury Interactive Languages (see Note 11). 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.

	Fair Value Measurements Using:			
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Redeemable Noncontrolling Interest	$17,374	$—	$—	$17,374
Total	$17,374	$—	$—	$17,374

The following table presents activity related to our fair value measurements categorized as Level 3 of the valuation hierarchy, valued on a recurring basis, for the fiscal year ended June 30, 2010. There have been no transfers in or out of Level 3 of the hierarchy for the period presented.

	Year Ended June 30, 2010		
	Fair Value June 30, 2009	Purchases, Issuances, and Settlements	Fair Value June 30, 2010
		(In thousands)	
Redeemable Noncontrolling Interest	$—	$17,374	$17,374
Total	$—	$17,374	$17,374

The fair value of the redeemable noncontrolling interests as of June 30, 2010 was $17.4 million based on the fair value of the contributed assets at the date of formation (see Note 11) adjusted for cumulative earnings. The fair value was determined by management in accordance with EITF Topic D-98, *Classification and Measurement of Redeemable Securities* and represents a preliminary allocation which is subject to change upon completion of a valuation with assistance from a third-party valuation firm. In determining the preliminary fair value of the redeemable noncontrolling interest, the Company incorporated a number of assumptions and estimates including utilizing various valuation methodologies including an income-based approach and relief of royalty.

Retrospective Implementation of New Accounting Standards

The consolidated financial statements and footnotes reflect adjustments required for the retrospective application of a new accounting pronouncement that became effective for the Company on July 1, 2009. ASC Section 810-10-65, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51,* requires reclassification of the Company's minority interest to noncontrolling interest component of total equity and that the noncontrolling interest in the Company's operating results be presented as an allocation of the Company's operating results.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued ASC 805 (formerly SFAS 141R (revised 2007), *Business Combinations*) which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The Company adopted ASC 805 as of July 1, 2009. The adoption of ASC 805 did not have a material impact on its financial condition, results of operations, and disclosures.

In March 2008, FASB issued ASC 815 (formerly SFAS No. 161, *Disclosures About Instruments and Hedging Activities — amendment of FASB Statement No. 133*). ASC 815 changes the disclosure requirements for derivative instruments and hedging activities. The Company adopted ASC 815 as of July 1, 2009. As ASC 815 relates only to disclosure, the adoption of ASC 815 did not have a material effect on its consolidated financial statements.

In June 2008, the FASB issued ASC 815 (formerly EITF 07-05, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*). ASC 815 provides guidance in assessing whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock for purposes of determining whether the appropriate accounting treatment falls under the scope of ASC 815 subtopic 10, "*Accounting For Derivative Instruments and Hedging Activities*" and/or ASC 815 subtopic 40, "*Accounting For Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*." The Company adopted ASC 815 as of July 1, 2009. The adoption of ASC 815 did not have a material impact on its financial condition, results of operations, and disclosures.

In June 2009, the FASB issued ASC 860 (formerly SFAS 166, *Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140*), which requires additional information regarding transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. ASC 860 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. ASC 860 is effective for fiscal years beginning after November 15, 2009. ASC 860 is effective for the Company on July 1, 2010. The Company is currently evaluating the impact that the adoption of ASC 860 will have on our financial condition, results of operations, and disclosures.

In June 2009, the FASB issued ASC 810 (formerly SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*), which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. ASC 810 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASC 810 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. ASC 810 also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. ASC 810 is effective for fiscal years beginning after November 15, 2009 and is effective for the Company on July 1, 2010. The Company is currently evaluating the impact that the adoption of ASC 810 will have on our financial condition, results of operations, and disclosures.

In July 2009, the FASB issued ASC 105 (formerly SFAS No. 168, *the FASB Accounting Standards Codification*tm *and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162*). With the issuance of ASC 105, the FASB Accounting Standards Codification (Codification) becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the Securities and Exchange Commission (SEC). The Codification does not change current U.S. GAAP, but changes the referencing of financial standards, and is intended to simplify user access to authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Company adopted ASC 105 which was effective for the Company's first quarter of 2010. The adoption of ASC 105 did not have any impact on its consolidated financial condition or results of operations.

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration and the use of the relative selling price method is required. The new guidance eliminated the residual method of allocating arrangement consideration to deliverables and includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010. ASU 2009-13 is effective for the Company on July 1, 2010. Early adoption is permitted, however the Company chose not to adopt early. The Company is currently evaluating the impact that the adoption of ASU 2009-13 will have on our financial condition, results of operations, and disclosures.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures,* which requires new disclosures for transfers in and out of Level 1 and Level 2 and activity in Level 3 of the fair value hierarchy. ASU 2010-06 requires separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and a description of the reasons for the transfers. In the reconciliation for fair value measurements using Level 3 inputs, a reporting entity should present separately information about purchases, sales, issuances and settlements. ASU 2010-06 is effective for new disclosures and clarification of existing disclosures for interim and annual periods beginning after December 15, 2009 except for disclosures about purchases, sales, issuances and settlements in the Level 3 activity rollfoward. The provisions of ASU 2010-06 related to new disclosures and clarification of existing disclosures was adopted by the Company beginning January 1, 2010. As ASU 2010-06 relates only to disclosure, the adoption of these provisions did not have a material impact on its financial condition, results of operations, and disclosures. The provisions of ASU 2010-06 related to Level 3 rollforward activity are effective for fiscal years beginning after December 31, 2010 and will be effective for the Company on July 1, 2011. The Company is currently evaluating the impact that the adoption of ASU 2010-06 will have on our financial condition, results of operations, and disclosures.

4. Property, Equipment and Capitalized Software Development

Property, equipment and capitalized software consist of the following at:

	June 30, 2010	June 30, 2009
Student computers	$ 53,127	$ 45,072
Capitalized software and web site development costs	30,036	20,559
Computer hardware	9,863	8,354
Computer software	6,514	6,129
Leasehold improvements	2,734	2,695
Furniture and fixtures	1,106	1,067
Office equipment	943	923
	104,323	84,799
Less accumulated depreciation and amortization	(63,610)	(46,939)
	$ 40,713	$ 37,860

The Company recorded depreciation expense related to property and equipment and amortization of capitalized software development costs reflected in selling, administrative and other operating expenses of $4.0 million, $4.0 million and $2.6 million during the years ended June 30, 2010, 2009 and 2008, respectively. Depreciation expense of $15.0 million, $12.3 million and $7.0 million related primarily to computers leased to students and amortization of software development reflected in instructional costs and services was recorded during the years ended June 30, 2010, 2009 and 2008, respectively. Amortization expense of $1.1 million, $1.1 million and $0.8 million related to capitalized software development reflected in product development expenses was recorded during the years ended June 30, 2010, 2009 and 2008, respectively.

In the course of its normal operations, the Company incurs maintenance and repair expenses. Those are expensed as incurred and amounted to $1.2 million, $0.9 million and $0.5 million for the years ended June 30, 2010, 2009 and 2008, respectively.

5. Income Taxes

The provision for income taxes is based on earnings reported in the 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 year.

Deferred tax assets and liabilities result primarily from temporary differences in book versus tax basis accounting. Deferred tax assets and liabilities consist of the following:

	Year Ended June 30, 2010	2009
Deferred tax assets:		
Net operating loss carryforward	$ 12,737	$ 24,213
Accrued expenses	4,387	1,866
Stock compensation expense	3,479	1,669
Property and equipment	2,926	1,633
Reserves	2,759	2,120
Federal tax credits	2,078	—
Other assets	478	479
Deferred rent	373	248
Deferred revenue	67	103
Charitable contributions carryforward	80	78
Total deferred tax assets	29,364	32,409
Deferred tax liabilities:		
Capitalized software and website development costs	(7,497)	(5,759)
Capitalized curriculum development	(6,980)	(6,574)
Returned materials	(2,532)	(822)
Investment in Middlebury Interactive Languages	(951)	—
Total deferred tax liabilities	(17,960)	(13,155)
Deferred tax asset	11,404	19,254
Valuation allowance	(820)	(747)
Net deferred tax asset	$ 10,584	$ 18,507

The Company maintains a valuation allowance on net deferred tax assets of $0.8 million and $0.7 million as of June 30, 2010 and 2009, respectively related to state and foreign income tax net operating losses as the Company believes it is more likely than not that it will not be able to utilize these deferred tax assets. The Company has not provided for U.S. deferred income taxes on undistributed earnings from our non-U.S. subsidiaries because such earnings are considered to be permanently reinvested.

With the implementation of FASB ASC 718, *Compensation — Stock Compensation*, the amount of the NOL carryforward related to stock-based compensation expense is not recognized until the stock-based compensation tax deductions reduce taxes payable. Accordingly, the NOL's reported in gross deferred tax asset do not include the component of the NOL related to excess tax deductions over book compensation cost related to stock-based compensation. The tax benefit from the excess tax benefits from the stock-based compensation of $3.9 million and $6.9 million was recorded to capital in excess of par value for years ended June 30, 2010 and 2009, respectively. At June 30, 2010, the Company has available federal net operating loss carryforwards of $35.9 million of which $4.1 million is attributable to stock option deductions for which no deferred tax asset is recorded that expire between 2023 and 2029 if unused.

At June 30, 2010, the Company has available Research and Development Credits of $2.2 million that will expire between 2021 and 2029 if unused. As of June 30, 2010, the Company has available AMT credits of $0.2 million that do not expire.

For the years ended June 30, 2010 and 2009, the Company has evaluated whether a change in the Company's ownership of outstanding classes of stock as defined in Internal Revenue Code Section 382 could prohibit or limit the Company's ability to utilize its net operating losses. As a result of this study, the Company has concluded it is more likely than not that the Company will be able to fully utilize its net operating losses subject to the Section 382 limitation.

The related components of the income tax expense (benefit) for the years ended June 30, 2010, 2009 and 2008 are as follows:

	Year Ended June 30,		
	2010	2009	2008
Current:			
Federal	$ 3,540	$6,413	$ —
State	1,629	610	35
Foreign	—	19	—
Total current	5,169	7,042	35
Deferred:			
Federal	7,610	2,421	(20,081)
State	470	165	(1,012)
Total deferred	8,080	2,586	(21,093)
Total income tax expense (benefit)	$13,249	$9,628	$(21,058)

The provision for income taxes can be reconciled to the income tax that would result from applying the statutory rate to the net income before income taxes as follows:

	Year Ended June 30,		
	2010	2009	2008
U.S. federal tax at statutory rates	35.0%	35.0%	35.0%
Permanent items	3.3	6.0	7.8
State taxes, net of federal benefit	4.0	3.9	3.6
Research and development tax credits	(4.3)	—	—
Other	0.8	(0.6)	—
Change in valuation allowance	—	—	(212.2)
Provision for income taxes	38.8%	44.3%	(165.8)%

Tax Uncertainties

Effective July 1, 2007, the Company adopted the provisions of ASC 740-10 which applies to all tax position related to income taxes (formerly known as FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes"*). ASC 740-10 provides a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. ASC 740-10 clarifies accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. If the probability for sustaining a tax position is greater than 50%, then the tax position is warranted and recognition should be at the highest amount which would be expected to be realized upon ultimate settlement.

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. At June 30, 2010 and 2009, the company had no interest or penalties accrued.

The Company did not have any unrecognized tax benefits and there was no effect on its financial condition or results of operations from ASC 740-10 at June 30, 2009. During fiscal year June 30, 2010, the Company adjusted its research and development credit carryforward on its June 30, 2009 return to claim the correct current and prior credits. At that time, the Company established an ASC 740-10 reserve related to the research and development credits.

	Year Ended June 30, 2010
Balance at beginning of the year	$ —
Additions for prior year tax positions	221
Additions for current year tax positions	40
Balance at end of the year	$261

The Company or one of its subsidiaries files income tax returns in the U.S. federal, foreign and various states jurisdictions. Given the net operating losses generated in prior years, the statute of limitations for all tax years beginning with the period ended December 31, 2000 are still open.

The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months. Further, it is anticipated that the effective tax rate impact of any unrecognized tax benefits will be immaterial.

6. Lease Commitments and Notes Payable

Capital leases

As of June 30, 2010 and 2009, computer equipment and software under capital leases are recorded at a cost of $38.8 million and $34.5 million, respectively and accumulated depreciation of $22.9 million and $17.6 million, respectively. The Company's equipment lease line of credit with Hewlett-Packard Financial Services Company ("HPFSC") expired on August 31, 2010. Prior borrowings under the HPFSC equipment lease line had interest rates ranging from 4.96% to 8.83% and included a 36-month payment term with a $1 purchase option at the end of the term. The Company has pledged the assets financed with the HPFSC equipment lease line to secure the amounts outstanding. The Company entered into a guaranty agreement with HPFSC to guarantee the obligations under this equipment lease and financing agreement.

The Company entered into a new three-year equipment lease line of credit with PNC Equipment Finance, LLC effective August 2010 for new purchases. The equipment lease line expires on March 31, 2011. The interest rate on new advances under the PNC equipment lease line is set at the time the funds are advanced based upon interest rates in the Federal Reserve Statistical Release H.15. Payment terms are 36 months with a $1 purchase option at the end of the term.

Notes payable

The Company has purchased computer software licenses and maintenance services through unsecured notes payable arrangements with various vendors at interest rates ranging up to 6.1% and payment terms of three years. There are no covenants associated with these notes payable arrangements.

The following is a summary as of June 30, 2010 of the present value of the net minimum lease payments on capital leases and notes payable under the Company's commitments:

	Capital Leases	Notes Payable	Total
2011	$ 11,726	$ 1,339	$ 13,065
2012	6,584	670	7,254
2013	1,356	—	1,356
Total minimum lease payments	19,666	2,009	21,675
Less amount representing interest (imputed interest rate of 6.6%)	(960)	(103)	(1,063)
Net minimum lease payments	18,706	1,906	20,612
Less current portion	(10,996)	(1,251)	(12,247)
Present value of net minimum payments, less current portion	$ 7,710	$ 655	$ 8,365

Operating leases

The Company has fixed non-cancelable operating leases with terms expiring through 2022. Office leases generally contain renewal options and certain leases provide for scheduled rate increases over the lease terms.

In August 2010, the Company amended their operating lease for non-owned facilities whereby the Company agreed to consolidate various operating leases and subleases into a single lease and extending the term of the lease until May 2022. An existing operating sublease that is currently under a month-to-month lease is expected to be amended to the August 2010 operating lease under similar lease terms. The irrevocable letters of credit totaling $2.3 million from the prior operating lease and sublease were reduced to $0.3 million under the new lease. The August 2010 lease commenced in June 2010. Rent expense was $4.0 million, $2.9 million and $2.5 million for the years ended June 30, 2010, 2009 and 2008, respectively.

Future minimum lease payments under noncancelable operating leases with initial terms of one year or more are as follows:

	Year Ending June 30,
2011	$ 3,917
2012	3,815
2013	3,721
2014	3,543
2015	3,602
Thereafter	26,189
Total future minimum lease payments	$44,787

7. Line of Credit

The Company has a $35 million revolving credit agreement with PNC Bank (the Credit Agreement) that expires in December 2012. Pursuant to the terms of the Credit Agreement, the proceeds of the term loan facility are to be used for general corporate purposes. Because of the seasonality of our business and timing of funds received, the school expenditures are higher in relation to funds received in certain periods during the year. The Credit Agreement provides the ability to fund these periods until cash is received from the schools.

Borrowings under the Credit Agreement bear interest based upon the term of the borrowings. Interest is charged, at the Company's option, either at: (i) the higher of (a) the rate of interest announced by PNC Bank from time to time as its "prime rate" and (b) the federal funds rate plus 0.5%; or (ii) the applicable London interbank offered rate (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 the applicable margin for such loans, which ranges between 1.50% and 2.00%, based on the leverage ratio (as defined in the Credit Agreement). The Company pays a quarterly commitment fee on the unused portion of the credit agreement . The line of credit includes a $5.0 million letter of credit facility. Issuances of letters of credit reduce the availability of permitted borrowings under the Credit Agreement.

Borrowings under the Credit Agreement are secured by substantially all of The Company's assets. 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 its subsidiaries, or make capital expenditures above specified limits and engage in other matters customarily restricted in senior secured credit facilities. The Company must also maintain a maximum debt leverage ratio. These covenants are subject to certain qualifications and exceptions. Through June 30, 2010, the Company was in compliance with these covenants. As of June 30, 2010, no borrowings were outstanding on the line of credit and approximately $2.1 million was reserved for a letter of credit.

8. Warrants

As of June 30, 2010 and 2009, there were zero and 20,050 outstanding warrants, respectively, to purchase an equivalent number of shares of common stock. These warrants were issued in March 2003 at a price of $8.16 per share in conjunction with promissory notes issued by the Company for funds borrowed from existing shareholders. These warrants were due to expire in December 2009 and as of December 31, 2009, the remaining shareholders exercised all of their outstanding stock purchase warrants for a net issuance of 13,738 shares of common stock after 6,312 warrants were relinquished through a cashless exercise.

Warrant activity during the year ended June 30, 2010 was as follows:

	Warrants	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, June 30, 2008	21,299	$8.16	1.70	$284
Granted	—	—		
Exercised	(1,249)	8.16		
Canceled	—	—		
Outstanding, June 30, 2009	20,050	8.16	0.70	268
Granted	—	—		
Exercised	(20,050)	8.16		
Canceled	—	—		
Outstanding, June 30, 2010	—	$ —	—	$ —

9. Equity Transactions

Reverse Stock Split

On October 30, 2007, the Board approved a 1-for-5.1 reverse split of the Company's common stock. On October 31, 2007, the reverse split was further approved by a majority of the shareholders. The stock split was effective on November 2, 2007. In conjunction with these actions, the number of authorized shares of common stock was adjusted to 33,362,500. All share and per share amounts related to common stock, options and common stock warrants included in the consolidated financial statements have been retroactively adjusted for all periods presented to give effect to the stock split.

Amended and Restated Certificate of Incorporation

On October 30, 2007, the Board approved an amendment and restatement of the Company's Second Amended and Restated Certificate of Incorporation, which was adopted by the majority of the shareholders of the Company on October 31, 2007 (the "Third Amended and Restated Certificate of Incorporation" or "Certificate"). The Certificate authorizes the Company to issue 100,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock. The Certificate became effective on December 18, 2007, upon its filing with the Secretary of State of the State of Delaware. This Certificate superseded the Company's previous Certificate of Incorporation. The Redeemable Convertible Series B and Series C Preferred Stock are no longer authorized effective December 18, 2007.

Series C Dividend

On November 5, 2007, the Company's Board unanimously declared a cash dividend to the holders of Redeemable Convertible Series C Preferred stock effective immediately prior to and contingent upon the closing of an Initial Public Offering (the "IPO") and payable from the proceeds of the offering.

Concurrently with the closing of the IPO, the holders of Redeemable Convertible Series C Preferred stock were paid a cash dividend of $6.4 million. The amount of the declared dividend was equal to the pro rata amount of the annual ten percent cumulative dividend that would have normally accrued on January 2, 2008 under the provisions of the preferred stock agreement.

Prior to declaration of the cash dividend, the Company accrued $5.0 million toward the annual cumulative dividend which was reversed in the recording of the cash dividend.

On November 16, 2007, PNC Bank consented to waive the restriction of dividends in its credit agreement with the Company for the purposes of this dividend. The PNC agreement amended certain other covenants.

Private Placement of Shares

On November 6, 2007, the Company entered into an agreement to sell to a non-U.S. person in a transaction outside the United States in reliance upon Regulation S under the Securities Act of 1933, as amended (Securities Act), concurrently with and contingent upon the closing of the IPO and at the IPO price, $15,000,000 worth of shares of the Company's common stock. On December 18, 2007, the Company closed on its initial public offering and issued 833,333 shares to this investor at the offering price of $18.00 per share.

Initial Public Offering

In December 2007, the Company completed the IPO of its common stock in which it sold and issued 4,450,000 shares of its common stock, at an issue price of $18.00 per share. The Company raised a total of $80.1 million in gross proceeds from the IPO, or approximately $71.0 million in net proceeds after deducting underwriting discounts and commissions of $5.6 million and other offering costs of $3.5 million. Upon the closing of the IPO, all shares of convertible preferred stock outstanding automatically converted into an aggregate of 19,879,675 shares of common stock.

10. Stock Option Plan

The Company adopted a Stock Option Plan (the Plan) in May 2000. Under the Plan, employees, outside directors and independent contractors are able to participate in the Company's future performance through the awards of nonqualified stock options to purchase common stock. In December 2003, the Board increased the total number of common stock shares reserved and available for grant and issuance pursuant to the Plan to 2,549,019 shares. In November 2007, the Board adopted the 2007 Plan increasing the number of common stock shares reserved to 4,213,921 shares plus the increases in the shares pursuant to the "evergreen provision" that may be issued under the 2007 Plan over the course of its ten-year term. Each stock option is exercisable pursuant to the vesting schedule set forth in the stock option agreement granting such stock option, generally over four years. No stock option shall be exercisable after the expiration of its option term. The Company has granted stock options under the 2007 Plan. The Company has also granted stock options to executive officers under stand-alone agreements outside the Plan. Options granted under stand-alone agreements totaled 1,441,168 as of June 30, 2010. Under both the Plan and the 2007 Plan, there have been no grants of nonqualified stock options to independent contractors.

Effective July 1, 2006, the Company adopted the fair value recognition provisions of ASC 718 using the prospective transition method which requires the Company to apply the provisions of ASC 718 only to awards granted, modified, repurchased or cancelled after July 1, 2006. Equity-based compensation expense for all equity-based compensation awards granted after July 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of ASC 718. The Company recognizes these compensation costs on a straight-line basis over the requisite service period, which is generally the vesting period of the award.

The Company uses the Black-Scholes option pricing model method to calculate the fair value of stock options. The use of option valuation models requires the input by management of highly subjective assumptions, including the expected stock price volatility, the expected life of the option term and forfeiture rate. These assumptions are utilized by the Company in determining the estimated fair value of stock options.

The fair value of our service and performance based stock options was estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended June 30,		
	2010	2009	2008
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	51%	48%	46%
Risk-free interest rate	2.04% to 2.43%	1.81% to 3.11%	2.69% to 4.95%
Expected life of the option term (in years)	5.12	5.12	4.64 - 5.76
Forfeiture rate	20% to 30%	20% to 30%	20% to 30%

The fair value of the options granted for the years ended June 30, 2010, 2009 and 2008 was $6.5 million, $6.6 million and $5.3 million, respectively. This amount will be expensed over the expected vesting.

Dividend yield — The Company has never declared or paid dividends on its common stock and has no plans to do so in the foreseeable future.

Expected volatility — Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. Since the Company's common shares have recently been publicly traded and therefore does not have sufficient historical data, the basis for the standard option volatility calculation is derived from known publicly traded comparable companies. The annual volatility for these companies is derived from their historical stock price data.

Risk-free interest rate — The assumed risk free rate used is a zero coupon U.S. Treasury security with a maturity that approximates the expected term of the option.

Expected life of the option term — This is the period of time that the options granted are expected to remain unexercised. Options granted during the year have a maximum term of eight years. The Company estimates the expected life of the option term based on an average life between the dates that options become fully vested and the maximum life of options granted.

Forfeiture rate — This is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. The Company uses a forfeiture rate that is based on historical forfeitures at various classification levels with the Company.

Stock option activity including stand-alone agreements during the year ended June 30, 2010 and 2009 are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, June 30, 2008	4,766,849	$11.20	5.19	$49,167
Granted	835,500	22.49		
Exercised	(1,344,993)	7.28		
Forfeited or canceled	(163,148)	16.27		
Outstanding, June 30, 2009	4,094,208	14.59	5.16	28,516
Granted	950,700	18.85		
Exercised	(936,195)	9.07		
Forfeited or canceled	(194,866)	17.21		
Outstanding, June 30, 2010	3,913,847	$16.81	5.06	$24,911
Stock options exercisable at June 30, 2010	1,825,010	$12.90	4.21	$17,464

Stock options outstanding at June 30, 2010 included 773,761 stock options related to performance based options. During the year ended June 30, 2010, performance based options vested were 188,876. There were no performance based options granted or forfeited during the year ended June 30, 2010. Stock options exercisable at June 30, 2010 included 574,876 stock options related to performance based options. Vesting of performance based options is contingent on meeting various company-wide performance goals.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last day of the year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2010. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.

The total intrinsic value of options exercised for the years ended June 30, 2010, 2009 and 2008 was $10.7 million, $19.4 million and $3.7 million, respectively.

As of June 30, 2010, there was $9.6 million of total unrecognized compensation expense related to unvested stock options granted under the Stock Option Plans adopted in May 2000 and November 2007. The cost is expected to be recognized over a weighted average period of 2.9 years. During the years ended June 30, 2010, 2009 and 2008, the Company recognized $5.2 million, $2.8 million and $1.5 million of stock based compensation expense. The total income tax benefit recognized in the statement of operations related to stock options exercised during the years ended June 30, 2010, 2009 and 2008 was $3.9 million, $6.9 million and $1.4 million, respectively.

Restricted Stock Awards

In July 2009 the Restricted Stock Award ("RSA") program was approved pursuant to the 2007 Plan. Under the Plan, employees, outside directors and independent contractors are able to participate in the Company's future performance through the awards of restricted stock. Each RSA vests pursuant to the vesting schedule set forth in the restricted stock agreement granting such RSA's, generally over three years. Under the 2007 Plan, there have been no awards of restricted stock to independent contractors.

Restricted stock award activity during the year ended June 30, 2010 was as follows:

	Shares	Weighted-Average Fair Value
Nonvested, June 30, 2009	—	$ —
Granted	225,946	18.29
Vested	(16,007)	17.46
Forfeited or canceled	(22,089)	17.46
Nonvested, June 30, 2010	187,850	$18.46

The fair value of restricted stock awards granted for the year ended June 30, 2010 was $3.1 million. As of June 30, 2010, there was $3.0 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 2.49 years. The total fair value of shares vested during the year ended June 30, 2010 was $0.3 million. During the year ended June 30, 2010, the Company recognized $0.7 million of stock based compensation expense related to restricted stock awards.

11. Redeemable Noncontrolling Interest

In April 2010, a subsidiary of the Company entered into an agreement to establish a venture with Middlebury College ("Middlebury") to form a new entity named Middlebury Interactive Languages LLC ("MIL") effective May 2010. The Company's investment into this venture consisted of $4.0 million in cash and contributed assets, including substantially all of its foreign languages subsidiary, in return for a 60% ownership interest including control over day to day operations. Middlebury's investment in the venture consisted of $4.0 million in cash, $0.6 million in assumed liabilities and contributed assets, including a license to use its trademark and a foreign language instruction summer camps business, in return for a 40% ownership interest. The purpose of the venture is to create and distribute innovative, high-quality online language courses under the trademark Middlebury and other marks. Transaction expenses incurred by the Company related to this transaction included in selling, administrative and other operating expenses were $0.2 million.

At any time after the fifth (5th) anniversary of the agreement, Middlebury may give written notice of its irrevocable election to sell all (but not less than all) of its Membership Interest to the Company ("put right"). The purchase price for Middlebury's Membership Interest shall be its fair market value and the Company may, in its sole discretion, pay the purchase price in cash or shares of the Company's common stock. The agreement also includes a provision whereby, if certain milestones are not met related to expanding the business by June 2014, Middlebury will have the option to repurchase certain contributed assets at their fair market value.

The transaction resulted in a change in ownership interest of the subsidiary that did not result in loss of control and was accounted for by the Company as an equity transaction in accordance with the provisions of ASC 810 (formerly SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*). The assets contributed by Middlebury were initially recorded at their fair value. The intangible assets contributed by Middlebury were estimated at a fair value of $14.0 million as determined by management and represents a preliminary allocation which is subject to change upon completion of a valuation with the assistance of a third party valuation firm.

Given the provision of the put right, the redeemable noncontrolling interest is redeemable outside of the Company's control and it is recorded outside of permanent equity at its redemption value fair value in accordance with EITF Topic D-98, *Classification and Measurement of Redeemable Securities.* The Company will adjust the redeemable noncontrolling interest to redemption value on each balance sheet date with changes in redemption value recognized as an adjustment to retained earnings, or in the absence of retained earnings, by adjustment to additional paid-in-capital.

The following is a summary of the activity of the redeemable noncontrolling interest for the year ended June 30, 2010:

	Year Ended June 30, 2010
Initial recording of redeemable noncontrolling interest	$17,374
Net loss	(365)
Adjustment to redemption value	365
Balance of redeemable noncontrolling interest at June 30, 2010	$17,374

12. 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.

Aventa Learning

In June 2010, the shareholders of Aventa Learning, Inc. (Aventa) filed a lawsuit against KC Distance Learning, Inc. which is currently pending in the U.S. District Court for the Western District of Washington, *Axtman et al. v. KC Distance Learning, Inc.* (Case No. 2:10-cv-01022-JLR). The lawsuit alleges, among other things, that KCDL did not honor the terms of an earn-out provision contained in an asset purchase agreement after certain assets of Aventa were acquired by KCDL in 2007. In addition, the plaintiffs allege breach of contract and misrepresentation claims, and seek the remedy of rescission for alleged violation of the Securities Act of 1933, as amended (Securities Act). On July 23, 2010, we acquired all of the shares of KCDL, which is now our wholly-owned subsidiary. On August 31, 2010, the plaintiffs amended their complaint to add K12 Inc. as a co-defendant in this matter, reflecting the change in ownership. Pursuant to the Agreement and Plan of Merger between K12 Inc. and KCDL Holdings LLC (Seller), Seller agreed to assume responsibility to defend this lawsuit and to fully indemnify K12 Inc. for any liability, including rescission. In addition, K12 Inc. obtained a guarantee from Seller's parent company, Learning Group LLC, from any losses related to this litigation. In our view, the outcome of this litigation will not have a material adverse effect on the financial condition or results of operations of K12 Inc. or any of our subsidiaries.

Employment Agreements

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

On July 12, 2007, the Company’s board of directors approved an amended and restated employment agreement for an executive officer. The amended and restated agreement extends the term of employment until January 1, 2011 and amended certain elements of compensation including salary, stock options and severance.

The Company maintains an annual cash performance bonus program that is intended to reward executive officers based on our performance and the individual named executive officer’s contribution to that performance. In determining the performance-based compensation awarded to each named executive officer, the Company may generally evaluate the Company’s and the executive’s performance in a number of areas, which could include revenues, operating earnings, student retention, efficiency in product and systems development, marketing investment efficacy, new enrollment and developing company leaders.

Vendor Payment Commitments

In April 2007, the Company entered into a master services and license agreement with a third party that provides for the Company to license their proprietary computer system. The agreement was effective through July 2010. In exchange for the license of the computer system, the Company agreed to pay a service fee per enrollment. In the event the fees paid over the term of the agreement do not exceed $1 million (the minimum commitment fee), the Company agrees to pay the difference between the actual fees paid and the minimum commitment fee. As of June 30, 2010, the actual fees paid have exceeded the minimum commitment fee. In August 2010, the agreement was renewed for a two year period ending August 2012 and includes a minimum commitment fee of $2.5 million over the term of the agreement. In the event the fees paid over the term of the agreement do not exceed $2.5 million, the Company agrees to pay the difference between the actual fees paid and the minimum commitment fee.

13. Related Party Transactions

In April 2010, the Company entered into a license agreement with an affiliate of the Company in the amount of $1.2 million of which $1.0 million was paid to the affiliate with the remaining balance paid in July 2010. Affiliates of the Company also rendered $0.1 million, $0.1 million and $0.4 million of professional services to the Company during the years ended June 30, 2010, 2009 and 2008, respectively. These costs include administrative operations, consulting and curriculum development services, other operating charges and the purchase of our domain name.

14. Employee Benefits

The Company is party to a Section 401(k) Salary Deferral Plan (the 401(k) Plan). Under the 401(k) Plan, employees at least 18 years of age having been employed for at least 30 days may voluntarily contribute up to 15% of their compensation. The 401(k) Plan provides for a matching Company contribution of 25% of the first 4% of each participant’s compensation, which begins following six months of service and vests after three years of service. Under the 401(k) Plan, the Company expensed $0.4 million, $0.3 million and $0.2 million during each of the years ended June 30, 2010, 2009 and 2008, respectively.

15. Supplemental Disclosure of Cash Flow Information

	Year Ended June 30, 2010	2009	2008
Cash paid for interest	$ 1,282	$ 1,428	$ 1,256
Cash paid for taxes	$ 872	$ 65	$ 161
Supplemental disclosure of non-cash investing and financing activities:			
New capital lease obligations	$12,194	$16,044	$ 10,564
Cash receipts in transit from exercise of stock options	$ —	$ 691	$ 25
Issuance of stock options related to earn-out provision of Power-Glide acquisition	$ —	$ 71	$ —
Net working capital contributed to Middlebury Interactive Languages venture	$ 3,374	$ —	$ —
Intangible assets contributed to Middlebury Interactive Languages venture	$14,000	$ —	$ —
Business Combination:			
— Net working capital	$ —	$ —	$ (190)
— Property and equipment	$ —	$ —	$ 33
— Capitalized curriculum development costs	$ —	$ —	$ 2,263
— Intangible assets	$ —	$ —	$ 189
— Deferred tax liabilities	$ —	$ —	$ (936)
— Goodwill	$ —	$ —	$ 2,691
— Assumed liabilities	$ —	$ —	$ 1,271
— Issuance of common stock	$ —	$ —	$ 2,660
Conversion of preferred stock to common stock upon initial public offering	$ —	$ —	$238,408
Purchase of perpetual license agreement/accrued liabilities	$ 250	$ —	$ 150

16. Quarterly Results of Operations (Unaudited)

The unaudited consolidated interim financial information presented should be read in conjunction with other information included in our consolidated financial statements. The following unaudited consolidated financial information reflects all adjustments necessary for the fair presentation of the results of interim periods. The following tables set forth selected unaudited quarterly financial information for each of our last eight quarters.

	2010			
	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009	Sep 30, 2009
Consolidated Quarterly Statements of Income				
Revenues	$ 88,321	$ 96,627	$ 93,197	$ 106,325
Cost and expenses				
Instructional costs and services	55,868	56,479	51,589	58,093
Selling, administrative, and other	32,329	26,843	24,899	33,327
Product development expenses	1,999	2,924	2,415	2,238
Total costs and expenses	90,196	86,246	78,903	93,658
Income (loss) from operations	(1,875)	10,381	14,294	12,667
Interest expense, net	(289)	(361)	(324)	(357)
Income (loss) before income taxes and noncontrolling interest	(2,164)	10,020	13,970	12,310
Income tax benefit (expense)	427	(3,927)	(4,381)	(5,368)
Net income (loss)	(1,737)	6,093	9,589	6,942
Add net loss attributable to noncontrolling interest	412	36	49	141
Net income (loss) — K12 Inc.	$ (1,325)	$ 6,129	$ 9,638	$ 7,083
Net income (loss) attributable to common stockholders per share:				
Basic	$ (0.04)	$ 0.20	$ 0.33	$ 0.24
Diluted	$ (0.04)	$ 0.20	$ 0.32	$ 0.24
Weighted average shares used in computing per share amounts:				
Basic	30,195,130	29,951,327	29,648,674	29,378,074
Diluted	30,195,130	30,352,974	29,974,642	29,948,550

	2009			
	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008	Sep 30, 2008
Consolidated Quarterly Statements of Income				
Revenues	$ 72,166	$ 77,164	$ 77,618	$ 88,625
Cost and expenses				
Instructional costs and services	44,375	47,868	50,312	54,421
Selling, administrative, and other	25,494	19,467	18,887	22,835
Product development expenses	2,560	2,415	2,405	2,195
Total costs and expenses	72,429	69,750	71,604	79,451
Income (loss) from operations	(263)	7,414	6,014	9,174
Interest expense, net	(464)	(361)	(264)	107
Income (loss) before income taxes and noncontrolling interest	(727)	7,053	5,750	9,281
Income tax benefit (expense)	13	(3,490)	(2,365)	(3,786)
Net income (loss)	(714)	3,563	3,385	5,495
Add (less) net loss (income) attributable to noncontrolling interest	48	(16)	135	419
Net income (loss) — K12 Inc.	$ (666)	$ 3,547	$ 3,520	$ 5,914
Net income (loss) attributable to common stockholders per share:				
Basic	$ (0.02)	$ 0.12	$ 0.12	$ 0.21
Diluted	$ (0.02)	$ 0.12	$ 0.12	$ 0.20
Weighted average shares used in computing per share amounts:				
Basic	29,000,514	27,449,893	28,749,126	28,487,440
Diluted	29,000,514	28,780,389	29,682,250	29,499,102

17. Subsequent Events

In July 2010, the Company acquired all of the stock of KC Distance Learning, Inc. (KCDL), a provider of online curriculum and public and private virtual education, by issuing to its parent company KCDL Holdings LLC, 2,750,000 shares of a new class of stock designated as Series A Special Stock, which had a value at closing of $63.1 million. KCDL Holdings, Inc. is an affiliate of the Learning Group, LLC, a related party. The Company's board of directors obtained an opinion from an independent financial advisor that the consideration paid in the acquisition was fair from a financial point of view to K12 and its stockholders. The holders of the Series A Shares initially have no voting rights and no rights of conversion with respect to the Series A Shares; however, the Company has agreed to convene a meeting of its stockholders to obtain their approval to permit conversion of the Series A Shares into common stock on a one-for-one basis and for the right to vote on all matters presented to K12 shareholders, other than for the election and removal of directors, for which holders of the Series A Shares shall have no voting rights. In the event that the K12 stockholders do not approve the voting rights and permit conversion of the Series A Shares by the first anniversary of the closing of the acquisition, the Series A Shares will be redeemable at the option of the holder or K12 at a price per share of the greater of $22.95 or the price per share of the K12 common stock at the date of redemption. Learning Group LLC and certain of its affiliates have agreed to vote their shares of K12 common stock (representing approximately 17% of our common stock) in favor of the rights of conversion and voting rights of Series A Shares pursuant to a voting agreement. The aggregate redemption liability (if fully exercised) will not be less than $63.1 million of cash. Within sixty days of the acquisition date, the Company will make a payment in the amount of $3.3 million to KCDL Holdings, Inc. representing trade payables assumed in the acquisition. The KCDL businesses include: Aventa Learning (online curriculum and instruction), the iQ Academies (statewide virtual public charter schools for middle and high school); and The Keystone School (international online private school). The Company is still evaluating the purchase accounting and therefore an estimate of the financial impact cannot be made at this time.

In August 2010, the Company entered into an $18 million equipment lease line of credit with PNC Bank for new purchase. The equipment lease line expires on March 31, 2011. The interest rate on new advances under the equipment lease line is set at the time the funds are advanced based upon interest rates in the Federal Reserve Statistical Release H.15. Payment terms are 36 months with a $1 purchase option at the end of the term.

In August 2010, we entered into agreements with Oracle Corporation (Oracle) to license a suite of software applications that we will deploy throughout our organization to further automate important functions such as accounting, financial management, and procurement. We expect to implement this solution over the course of fiscal year 2011 with the assistance of Oracle.

SCHEDULE II

K12 INC

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED JUNE 30, 2010, 2009 AND 2008

1. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Deductions from Allowance	Balance at End of Period
June 30, 2010	$1,055,261	502,723	195,454	$1,362,890
June 30, 2009	$1,458,372	423,571	826,682	$1,055,261
June 30, 2008	$ 588,971	917,730	48,329	$1,458,372

2. INVENTORY RESERVE

	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Deductions Shrinkage and Obsolescence	Balance at End of Period
June 30, 2010	$884,094	1,085,270	65,916	$1,903,448
June 30, 2009	$734,827	149,267	—	$ 884,094
June 30, 2008	$327,608	781,104	373,885	$ 734,827

3. COMPUTER RESERVE (1)

	Balance at Beginning of Period	Additions (Deductions) Charged to Cost and Expenses	Deductions Shrinkage and Obsolescence	Balance at End of Period
June 30, 2010	$1,022,147	(178,271)	—	$ 843,876
June 30, 2009	$ 778,789	243,358	—	$1,022,147
June 30, 2008	$ 616,361	162,428	—	$ 778,789

(1) A reserve account is maintained against potential shrinkage and obsolescence for those computers provided to our students. The reserve is calculated based upon several factors including historical percentages, the net book value and remaining useful life.

4. INCOME TAX VALUATION ALLOWANCE

	Balance at Beginning of Period	Additions to Net Deferred Tax Assets Allowance	Deductions in Net Deferred Tax Asset Allowance	Balance at End of Period
June 30, 2010	$ 746,726	73,487	—	$820,213
June 30, 2009	$ 610,954	135,772	—	$746,726
June 30, 2008	$29,925,898	—	29,314,944	$610,954

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE*

None.

ITEM 9A. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, management has evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding our required disclosure. In designing and evaluating our 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 was required to apply its judgment in evaluating and implementing possible controls and procedures.

As described below, a material weakness was identified in our internal control over financial reporting relating to our accounting for complex transactions that are non-routine and non-recurring. Rule 12b-2 and Rule 1-02 of Regulation S-X define a material weakness as a deficiency, or a combination of deficiencies, in ICFR such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the material weakness, our chief executive officer and chief financial officer have concluded that, as of June 30, 2010, the end of the period covered by this report, our disclosure controls and procedures were not effective at a reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting refers to a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our board of directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, internal control over financial reporting cannot prevent or detect all misstatements, whether unintentional errors or fraud. However, these inherent limitations are known features of the financial reporting process, therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management evaluated the effectiveness of our internal control over financial reporting as of June 30, 2010 using the framework set forth in the report of the Treadway Commission's Committee of Sponsoring Organizations (COSO), "Internal Control — Integrated Framework".

Our independent registered public accounting firm identified a material weakness in our ICFR concerning our accounting for complex transactions that are non-routine and non-recurring.

As a result of the material weakness in our ICFR concerning our accounting for complex transactions that are non-routine and non-recurring, management has concluded that our internal control over financial reporting was ineffective as of June 30, 2010. Our independent registered public accounting firm, BDO USA, LLP has issued an adverse opinion on the effectiveness of our internal control over financial reporting as of June 30, 2010.

BDO USA, LLP discovered the material weakness in our ICFR concerning our accounting for complex transactions that are non-routine and non-recurring during its audit of our financial statements as of June 30, 2010, while reviewing management's assessment of the accounting for a complex transaction that was non-routine and non-recurring. Our initial accounting determination did not consider the impact of put and repurchase provisions in one of our transaction agreements concerning a non-controlling interest of the seller that require treating the non-controlling interest as a redeemable instrument. This material weakness resulted in three audit adjustments to our balance sheet at June 30, 2010: (1) adjustment of the initial recording of the redeemable non-controlling interest to redemption value at the time of the transaction; (2) reclassification of the non-controlling interest from the equity section to the mezzanine section of our balance sheet although there was no effect on our income statement or statement of cash flows and no prior periods were effected; and (3) adjustment of the redeemable non-controlling interest to redemption value at June 30, 2010.

To address the material weakness in our ICFR concerning our accounting for complex, non-routine and non-recurring transactions, we performed additional analysis and other post-closing procedures to ensure that our consolidated financial statements for the period covered by this report were prepared in accordance with generally accepted accounting principles. These procedures included: making the aforementioned audit adjustments to our balance sheet at June 30, 2010; adding a control that changed the procedure for determining the accounting treatment of complex, non-routine and non-recurring transactions; and undertaking additional internal training of our finance staff as to proper accounting for complex, non-routine and non-recurring transactions. Accordingly, management believes that the financial statements included in this report fairly present in all material respects the company's financial position, results of operations and cash flows for the periods presented.

In addition, management is undertaking improvements in our internal control over financial reporting and our accounting procedures and practices generally. Specifically, management has approved the addition of several new positions to our finance and accounting staff which we are in the process of filling from internal resources and outside recruitment efforts (including the possibility of using outside temporary help firms), we have targeted potential new hires for recruitment, we have engaged a "Big Four" accounting firm to provide consulting services to our finance and accounting staff regarding process improvement opportunities, best practices and relevant training, and we are in the process of implementing an enterprise-wide financial management solution from Oracle Corporation to improve our overall accounting function. In addition, as noted above, we are arranging for additional internal training of our finance staff as to GAAP requirements and SEC guidance in connection with accounting for complex, non-routine and non-recurring transactions. Finally, as previously disclosed, on May 5, 2010, our new Chief Financial Officer commenced his employment with the Company and he brings to us substantial public company reporting experience in enterprises significantly larger than us. Management believes the measures that have been implemented to remediate the material weakness in our ICFR concerning our accounting for complex, non-routine and non-recurring transactions have had a material impact on our internal control over financial reporting since June 30, 2010, and anticipates that these measures and other ongoing enhancements will continue to have a material impact on our internal control over financial reporting in future periods.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting for the period ended June 30, 2010 other than on May 5, 2010, our new Chief Financial Officer commenced his employment with the Company as noted above.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
K12 Inc.
Herndon, Virginia

We have audited K12 Inc. and subsidiaries' (the Company) internal control over financial reporting as of June 30, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). K12 Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding management's failure to design and maintain controls over the accounting for complex non-routine transactions has been identified and described in management's assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2010 financial statements, and this report does not affect our report dated September 13, 2010 on those financial statements.

In our opinion, K12 Inc. and subsidiaries did not maintain, in all material respects, effective internal control over financial reporting as of June 30, 2010, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of K12 Inc. and subsidiaries as of June 30, 2010 and 2009, and the related consolidated statements of operations, redeemable convertible preferred stock and equity (deficit), and cash flows for each of the three years in the period ended June 30, 2010 and our report dated September 13, 2010 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Bethesda, Maryland
September 13, 2010

ITEM 9B. ***OTHER INFORMATION***

None

PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

Information relating to directors and officers of K12 is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 11. ***EXECUTIVE COMPENSATION***

Information regarding compensation of officers and directors of K12 is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

Information regarding ownership of K12 common stock is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 13. ***CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE***

Information regarding certain relationships, related transactions with K12, and director independence is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

Information regarding principal accountant fees and services is incorporated by reference to our proxy statement for our annual stockholders meeting.

PART IV

ITEM 15. ***EXHIBITS, FINANCIAL STATEMENT SCHEDULES***

(a)(1) *All financial statements.* The information required by this item is incorporated herein by reference to the financial statements and notes thereto listed in Item 8 of Part II and included in this Annual Report.

(a)(2) *Financial statement schedules.* All financial statement schedules are omitted because the required information is included in the financial statements and notes thereto listed in Item 8 of Part II and included in this Annual Report.

(b) *Exhibits.*

An index to exhibits has been filed as part of this Annual Report and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ RONALD J. PACKARD

Name: Ronald J. Packard
Title: Chief Executive Officer

Date: September 13, 2010

POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Ronald J. Packard, Harry T. Hawks and Howard D. Polsky, and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RONALD J. PACKARD Ronald J. Packard	Chief Executive Officer *(Principal Executive Officer)*	September 13, 2010
/s/ HARRY T. HAWKS Harry T. Hawks	Executive Vice President and Chief Financial Officer *(Principal Financial Officer and Principal Accounting Officer)*	September 13, 2010
/s/ ANDREW H. TISCH Andrew H. Tisch	Chairman of the Board and Director	September 13, 2010
/s/ GUILLERMO BRON Guillermo Bron	Director	September 13, 2010
/s/ NATHANIEL A. DAVIS Nathaniel A. Davis	Director	September 13, 2010
/s/ STEVEN B. FINK Steven B. Fink	Director	September 13, 2010

Signature	Title	Date
/s/ JANE M. SWIFT Jane M. Swift	Director	September 13, 2010
/s/ THOMAS J. WILFORD Thomas J. Wilford	Director	September 13, 2010
/s/ MARY H. FUTRELL Mary H. Futrell	Director	September 13, 2010

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Third Amended and Restated Certificate of Incorporation of K12 Inc. (Incorporated by reference to Exhibit 3.1 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended December 31, 2007).
3.2	Amended and Restated Bylaws of K12 Inc. (Incorporated by reference to Exhibit 3.2 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended December 31, 2007).
4.1	Form of stock certificate of common stock (Incorporated by reference to Exhibit 4.1 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.2	Amended and Restated Stock Option Plan and Amendment thereto (Incorporated by reference to Exhibit 4.2 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.3	Form of Stock Option Contract — Employee (Incorporated by reference to Exhibit 4.3 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.4	Form of Stock Option Contract — Director (Incorporated by reference to Exhibit 4.4 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.5	Form of Second Amended and Restated Stockholders Agreement (Incorporated by reference to Exhibit 4.5 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.6	Form of Common Stock Warrant Agreement (Incorporated by reference to Exhibit 4.6 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.7	K12 Inc. 2007 Equity Incentive Award Plan (Incorporated by reference to Exhibit 4.8 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.8	K12 Inc. 2007 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.9 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.9	Form of Indemnification Agreement for Non-Management Directors and for Officers of K12 Inc. (Incorporated by reference to Exhibit 10.1 to K12's Annual Report on Form 10-Q for the quarter ended September 30, 2008).
4.10	Form of Director's Indemnification Agreement (Incorporated by reference to Exhibit 10.1 to K12's Current Report on Form 8-K filed on October 22, 2008).
10.1	Revolving Credit Agreement and Certain Other Loan Documents by and among K12 Inc., School Leasing Corporation, American School Supply Corporation and PNC Bank, N.A. (Incorporated by reference to Exhibit 10.1 to K12's Registration Statement on Form S-1, File No. 333-144894).
10.2*	Amended and Restated Stock Option Agreement of Ronald J. Packard dated as of July 12, 2007 (Incorporated by reference to Exhibit 10.5 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.3	Stock Option Agreement of Bruce J. Davis (Incorporated by reference to Exhibit 10.6 to K12's Registration Statement on Form S-1, File No. 333-144894).
10.4*	Employment Agreement of Ronald J. Packard (Incorporated by reference to Exhibit 10.9 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.5	Employment Agreement of Bruce J. Davis (Incorporated by reference to Exhibit 10.11 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).

Exhibit No.	Description of Exhibit
10.6	Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated December 7, 2005 (Incorporated by reference to Exhibit 10.13 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.7	Sublease by and between France Telecom Long Distance USA, LLC, and K12 Inc., dated December 9, 2005 (Incorporated by reference to Exhibit 10.14 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.8	Employment Agreement of Celia Stokes (Incorporated by reference to Exhibit 10.15 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.9	Employment Agreement of Howard D. Polsky (Incorporated by reference to Exhibit 10.16 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.10*	Stock Option Agreement between K12 Inc. and Ronald J. Packard dated as of July 12, 2007 (Incorporated by reference to Exhibit 10.17 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.11	First Amendment to Employment Agreement of Howard D. Polsky (Incorporated by reference to Exhibit 10.18 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.12	Amendment No. 1 to Revolving Credit Agreement (Incorporated by reference to Exhibit 10.19 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.13	Stock Subscription Agreement between K12 Inc. and KB Education Investments Limited, dated November 6, 2007 (Incorporated by reference to Exhibit 10.20 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.14	Second Amended and Restated Educational Products and, Administrative, and Technology Services Agreement between the Ohio Virtual Academy and K12 Ohio LLC (Incorporated by reference to Exhibit 10.21 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.15	First Amendment to Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated as of November 30, 2006. (Incorporated by reference to Exhibit 10.21 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.16	Second Amendment to Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated as of March 26, 2007. (Incorporated by reference to Exhibit 10.22 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.17	Sublease by and between DIECA Communications Inc. and K12 Inc., dated June 25, 2008. (Incorporated by reference to Exhibit 10.23 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.18	Employment Agreement of Harry T. Hawks (Incorporated by reference to Exhibit 10.1 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended March 31, 2010).
21.1	Subsidiaries of K12 Inc.
23.1	Consent of BDO USA, LLP.
24.1	Power of Attorney (included in signature pages).
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer and 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.

* Portions omitted pursuant to a request for confidential treatment. The omitted information has been filed separately with the Securities and Exchange Commission.

Strengthening the promise of education…

by providing a continuum of online learning options and educational services to help address pressing challenges:

Engaging Course Catalog for Families and Public and Private Schools

Honors | AP | World Languages | Electives | College Credit | Core Courses

---

Individualized Learning for Diverse Students or Unique Needs

Advanced Learners | Special Needs | Dropout Prevention | Credit Recovery

---

Flexible Scheduling Solutions for Targeted Student Groups

Working Students | Student Athletes and Performers | Teenage Moms | Dropout Recovery

---

Augmenting School District Resources and Teaching Staff

Online Schools | Blended Online/Classroom Programs | Expanded Course Curricula

Summer School | School Management Services | Teacher Training

Executive Management

Ronald J. Packard
Chief Executive Officer and Founder

Harry T. Hawks
Executive Vice President and Chief Financial Officer

Bruce J. Davis
Executive Vice President, Worldwide Business Development

George B. (Chip) Hughes, Jr.
Executive Vice President, School Services

John P. Olsen
Executive Vice President, Operations

Celia M. Stokes
Executive Vice President and Chief Marketing Officer

Howard L. Allentoff
Senior Vice President, Human Resources

Howard D. Polsky
General Counsel and Corporate Secretary

Board of Directors

Andrew H. Tisch, Chairman
Co-Chairman of the Board and Chairman of Executive Committee, Loews Corporation

Ronald J. Packard
Director, Chief Executive Officer, and Founder, K12 Inc.

Craig R. Barrett
Retired Chairman and CEO, Intel Corporation

Guillermo Bron
Chairman of the Board, United Pan Am Financial Corp.

Nathaniel A. Davis
Former CEO, XM Satellite Radio

Steven B. Fink
Former Chairman of the Board, Leapfrog Enterprises, Inc.

Mary H. Futrell
Dean, Graduate School of Education and Human Development, George Washington University

Jane M. Swift
Former Governor of the Commonwealth of Massachusetts

Thomas J. Wilford
President and Director, Alscott, Inc.

Company Directory

Transfer Agent
Registrar & Transfer Company
10 Commerce Drive
Cranford, NJ 07016
Phone: 800.368.5948 or 908.497.2300
Corporate Website: www.rtco.com

Independent Auditor
BDO USA, LLP
Bethesda, MD

Legal Counsel
Latham & Watkins, LLP
Washington, DC

Stock Exchange Listing
Listed on the New York Stock Exchange under the symbol LRN

Annual Meeting
The annual meeting of K12 Inc. shareholders will be held at the offices of Latham & Watkins, LLP, 555 Eleventh Street, NW, Suite 1000, Washington, DC 20004 on Thursday, December 16, 2010 at 10 AM (ET).

Investor Inquiries
Keith T. Haas
Senior Vice President, Finance and Investor Relations
703.483.7077
khaas@K12.com

Online Information
For corporate reports and company news, visit K12.com.

Annual Report Design by Curran & Connors, Inc. / www.curran-connors.com

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended June 30, 2011

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

For the transition period from to

Commission File Number 001-33883

K12 Inc.

(Exact name of registrant as specified in its charter)

Delaware	**95-4774688**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2300 Corporate Park Drive Herndon, VA 20171	**(703) 483-7000**
(Address of principal executive offices) (Zip Code)	*(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.0001 par value	**New York Stock Exchange (NYSE)**

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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.

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

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant as of December 31, 2010 was approximately $712,835,000.

The number of shares of common stock outstanding as of October 3, 2011: 36,278,564.

DOCUMENTS INCORPORATED BY REFERENCE:

The registrant has incorporated by reference into Part III of this Form 10-K specific portions of its proxy statement for the registrant's 2011 Annual Meeting of Stockholders.

TABLE OF CONTENTS

CERTAIN DEFINITIONS

Unless the context requires otherwise, all references in this Annual Report on Form 10-K (Annual Report) to "K12", "K^{12}", "Company", "we", "our", and "us" refer to K12 Inc. and its consolidated subsidiaries.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We have tried, whenever possible, to identify these forward-looking statements using words such as "anticipates," "believes," "estimates," "continues," "likely," "may," "opportunity," "potential," "projects," "will," "expects," "plans," "intends" and similar expressions to identify forward looking statements, whether in the negative or the affirmative. These statements reflect our current beliefs and are based upon information currently available to us. Accordingly, such forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties, factors and contingencies include, but are not limited to: our potential inability to further develop, maintain and enhance our products and brands; the reduction of per pupil funding amounts at the schools we serve; reputation harm resulting from poor performance or misconduct by operators in any school in our industry and in any school in which we operate; challenges from virtual public school or hybrid school opponents; failure of the schools we serve to comply with regulations resulting in a loss of funding or an obligation to repay funds previously received; discrepancies in interpretation of legislation by regulatory agencies that may lead to payment or funding disputes; termination of our contracts with schools due to a loss of authorizing charter; failure to enter into new contracts or renew existing contracts with schools; risks associated with entering into and executing mergers, acquisitions and joint ventures; failure to successfully integrate mergers, acquisitions and joint ventures; inability to recruit, train and retain quality teachers and employees; uncertainty regarding our ability to protect our proprietary technologies; risks of new, changing and competitive technologies; and increased competition in our industry.

Forward-looking statements reflect our management's expectations or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial conditions may differ, possibly materially, from the anticipated results and financial conditions indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this Annual Report. A discussion of factors that could cause actual conditions, events or results to differ materially from those expressed in any forward-looking statements appears in "Part 1 — Item 1A — Risk Factors."

Readers are cautioned not to place undue reliance on forward-looking statements in this Annual Report or that we make from time to time, and to consider carefully the factors discussed in "Part 1 — Item 1A — Risk Factors" of this Annual Report in evaluating these forward-looking statements. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise.

PART I

ITEM 1. *BUSINESS*

This business overview is intended to assist in understanding our company, growth strategy, recent significant transactions, products and services, distribution channels and key functional areas.

- *Our Company* — a description of our company, including operational and financial highlights for the year ended June 30, 2011
- *Our Growth Strategy* — a discussion of the high level strategies we are pursuing to make our learning system universally available
- *Recent Acquisitions, Partnerships, Strategic Investments, and Equity Private Placement* — a summary of recent significant transactions we completed to execute on our growth strategy and enhance our business
- *Products and Services* — our educational philosophy and overview of our curriculum, online school platform, school management systems, and academic and management services
- *Distribution Channels* — an overview of how we categorize and deliver our products and services to address our customers' specific requirements
- *Our Market* — a description of the education market and the competitive environment in which the Company operates
- *Key Functional Areas* — an overview of our critical business functions including public affairs, marketing, operations and technology

Our Company

We are a technology-based education company. We offer proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. Our mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since our inception, we have invested more than $240 million to develop and, to a lesser extent, acquire curriculum and online learning platforms that promote mastery of core concepts and skills for students of all abilities. This learning system combines our curriculum and offerings with an individualized learning approach well-suited for virtual public schools, hybrid schools, school district online programs, public charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. We are also expanding our offering of foreign languages with Middlebury Interactive Languages (MIL), our joint venture with Middlebury College. This year, we also expanded our international business by making an investment in a 20% ownership interest in Web International Education Group, Ltd., a company providing English instruction to young adults in China, and also are investing in the post-secondary market through Capital Education LLC, our wholly owned subsidiary.

Fiscal year 2011 was a transformational year for the Company. We increased revenues to $522.4 million, from $384.5 million, a growth rate of 35.9%. Organic revenue growth, or excluding revenues from acquisitions and new initiatives, was 23.7%. We made three acquisitions during the year that, combined, enhance our online public school offering and provide our Institutional Business and Private School distribution channels with meaningful scale. In aggregate, acquisitions contributed 10.4% to revenue growth in fiscal year 2011. We also launched several new initiatives including MIL, Capital Education, and the management of two new facility-based learning programs. These initiatives contributed 1.8% to revenue growth. New distribution channels now position us to achieve diversified sources of revenue. In addition, through our organic development efforts and acquisitions, we have amassed a library of over 600 electronic courses spanning all grades K-12.

While our organic revenue growth was profitable, we incurred substantial expenses related to acquisition transactions and integration activities and incurred operating losses in our new initiatives. In addition, we incurred expenses related to infrastructure enhancements, primarily financial systems and process improvements, which will allow us to support our planned future growth. As a result of these activities and initiatives, in fiscal year 2011 operating income declined to $24.2 million, from $35.5 million, a decrease of 31.8%, net income to shareholders declined to $12.8 million, from $21.5 million, a decrease of 40.5% and EBITDA, a non-GAAP measure (see reconciliation of net income to EBITDA in Item 6., Selected Financial Data), increased to $67.1 million, from $61.2 million, an increase of 9.6%.

As with a traditional public school, a virtual public school or hybrid school must comply with state education regulations. The fundamental difference between traditional public schools and virtual public schools is that students attend virtual public schools and hybrid schools primarily over the Internet instead of traveling to a physical classroom. In their online learning environment, students receive assignments, complete lessons, and obtain instruction from certified teachers with whom they interact online, telephonically, in virtual classroom environments, and sometimes face-to-face. As of 2011, the majority of states have embraced virtual public schools or hybrid schools as a means to provide families with a publicly-funded alternative to a traditional classroom-based education. For parents who believe their child is not thriving and for whom relocating or attending a private school is not an option, virtual public schools and hybrid schools can provide a compelling choice. From an education policy standpoint, virtual public schools and hybrid schools often represent a savings to the taxpayers when compared with traditional public schools because they are generally funded at a lower per pupil level than the per pupil state average as reported by the U.S. Department of Education. Finally, because parents are not required to pay tuition to attend a public school, virtual public schools and hybrid schools make our learning system an attractive alternative within the public school system.

Our proprietary curriculum, online learning platform and varying levels of academic and management services, which can range from individual courses to complete turnkey online schools, are offered to our charter school, school district and private school partners. Virtual public schools and hybrid schools under turnkey management contracts (Managed Schools) accounted for approximately 85% of our revenue in fiscal year 2011. For the 2011-12 school year, we will manage schools in 29 states and the District of Columbia. In July 2010, through our acquisition of KC Distance Learning, Inc. (KCDL), we have added iQ Academies and now manage these programs in five states where we also manage other virtual public schools. These managed schools generally are able to enroll students on a statewide basis. We are serving a growing number of hybrid schools, the first of which opened in Chicago in 2006. A hybrid school is a virtual public school that combines the benefits of face-to-face time for students and teachers in a traditional classroom setting along with the flexibility and individualized learning advantages of online instruction.

We are serving a growing number of schools and school districts enabling them to offer our course catalogue to students either full-time or on an individual course basis. We have established a dedicated sales team to focus on this sector and, through our acquisition of KCDL in July 2010 and The American Education Corporation (AEC) in December 2010, we increased the size and expertise of our sales team, added a reseller network, and expanded our course portfolio. The services we provide to these districts are designed to assist them in launching their own distance learning programs and vary according to the needs of the individual school districts and may include teacher training programs, administrator support and our student account management system. With our services, 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 or credit recovery options. For the 2010-11 school year, we served school districts or individual schools in all 50 states.

We manage 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. In 2008, we launched the K^{12} International Academy, a private school that we operate using our curriculum. This school is accredited and enables us to offer students worldwide the same full-time education programs that we provide to the virtual public schools and hybrid schools we manage, including the option to enroll in individual courses. This school is organized as a private international school and enrolled students can interact with their classmates from more than 60 countries. Through our acquisition of KCDL, we have added The Keystone School, a private school that has been serving students for over 35 years and offers online and correspondence courses. In January 2011, we announced a partnership with the George Washington University to launch an online private high school, the George Washington University Online High School (GWUOHS). The program offers our college preparatory curriculum and is designed for high school students who are seeking a challenging academic experience and aspire to attend top colleges and universities. In April 2011, we acquired the operations of the International School of Berne (IS Berne), a traditional private school located in Berne, Switzerland serving students in grades Pre-K through 12. IS Berne is an International Baccalaureate school in its 50th year of operation.

We provide educational services to post-secondary institutions through our subsidiary, Capital Education LLC. Programs are designed for colleges and universities seeking to build or expand their online presence. Our services include course development and distribution through a proprietary learning management platform, hosting and technical support, student advisory services and program administration.

We made an investment for a 20% ownership interest in Web International Education Group Ltd. (Web), a provider of English language training in China. This strategic investment also gives us the option to acquire the remainder of the company within a period of five years. Web serves learners of all ages including university students, government workers, and employees of international companies. Web currently has an extensive network of learning centers throughout China. The investment will primarily be used by Web to expand its learning center network into more cities in China. Web education centers are outfitted with learning labs that include modern computer terminals and internet connections. Students can access our curriculum and other electronic learning resources from the Web centers.

Across our educational programs, families come from a broad range of social, economic and academic backgrounds. They share the desire for individualized instruction so as to maximize their child's potential. Examples include, but are not limited to, families with: (i) students seeking to learn faster or slower than they could in a "one size fits all" traditional classroom; (ii) safety, social and health concerns about their local school; (iii) students with disabilities who are underserved in traditional classrooms; (iv) students with geographic or travel constraints; and (v) student-athletes and performers who are not able to attend regularly scheduled classes. Our individualized learning approach allows students to optimize their academic performance and, therefore, their chances of achieving their goals.

Our Growth Strategy

We believe our strengths in developing engaging and effective curriculum and providing technology-based services provide us with a sustainable competitive advantage to serve the increasing demands for online education. Our growth strategy consists of leveraging the investment we have already made in our curriculum and learning system to serve adjacent markets and to diversify our risk profile. This strategy consists of the following components:

Increase Enrollments at Existing Virtual Public Schools and Hybrid Schools. In the 2011-12 school year, we will manage virtual public schools or hybrid schools in 29 states. We plan to continue to drive increased enrollments at these schools through targeted marketing efforts and referrals. In a number of states where we contract with virtual public schools and hybrid schools, regulations limit student enrollment or enrollment growth. We intend to work with schools, legislators, state departments of education, educators and parents to find solutions that will remove enrollment restrictions and allow access for every child.

Expand Virtual Public School and Hybrid School Presence into Additional States. The flexibility and comprehensiveness of our learning system allows us to efficiently adapt our curriculum to meet the individual educational standards of any state with minimal capital investment. We will continue to assist states in establishing virtual public schools and hybrid schools and to contract with them to provide our curriculum, online learning platform and related services.

Accelerate Sales to Schools and School Districts. We have increased our distribution capacity to schools and school districts by direct hiring of additional sales representatives, acquiring a sales team through our acquisition of KCDL and acquiring distributor relationships through our acquisition of AEC. We intend to combine these resources to increase sales in this distribution channel.

Add Enrollments in our Private Schools. We currently operate three different online private schools that we believe appeal to a broad range of students and families. We look to drive increased enrollments in these schools by increasing awareness and through targeted marketing programs.

Pursue International Opportunities to Offer Our Learning System. In addition to our Middle East joint venture created in 2008, we believe our investment in Web International Education Group, Ltd. provides us with a foundation to offer our educational products and services to students in the large and growing Chinese education market. We also believe there is strong worldwide demand for high-quality, online education from U.S. families living abroad, expatriate families and foreign students who seek a U.S.-style of education, and the schools and school systems that serve them in their local market. Our ability to operate virtually is not constrained by the need for a physical classroom or local teachers, which makes our learning system ideal for use internationally.

Develop Additional Channels Through Which to Deliver our Learning System. We plan to evaluate other delivery channels on a routine basis and to pursue opportunities where we believe there is likely to be significant demand for our offering, such as direct classroom instruction, hybrid classroom models, supplemental educational offerings, and individual products packaged and sold directly to parents and students.

Pursue Strategic Partnerships and Acquisitions. We operate a joint venture with Middlebury College, known as Middlebury Interactive Languages LLC (MIL), to develop online foreign language courses. We intend to pursue additional opportunities with highly-respected partners like Middlebury College where we can be a valued added partner by leveraging our expertise in curriculum development and educational services to serve more students. For example, our partnership with Blackboard Inc. provides our unique developmental math and English courses to students in higher education institutions. We will also continue to pursue acquisitions at attractive valuations that complement our existing educational offering and business capabilities.

Recent Acquisitions, Partnerships, Strategic Investments, and Equity Private Placement

During the last 18 months, we completed several strategic transactions to accelerate our growth, expand our course catalogue and service offering, extend our distribution capabilities, and strengthen our balance sheet. With these initiatives, we continue to execute our growth strategy and to scale our business even further.

Formation of Middlebury Interactive Languages LLC

In April 2010, we formed a joint venture with Middlebury College, known as MIL, to develop online foreign language courses. We contributed substantially all of the assets in our Power-Glide Language Courses Inc. (Power-Glide) subsidiary, along with certain intellectual property licenses and cash for a 60% interest in the joint venture. As a majority-owned subsidiary, we consolidate the financial statements of MIL into our financial statements. Middlebury College contributed a license to use its school name, its Middlebury-Monterey Language Academy (MMLA) business and cash for a 40% interest in the joint venture. We offer these MIL courses in our virtual public schools and hybrid schools and to school districts and believe they have wide applicability in online learning. MIL creates innovative, online language programs for pre-college students and leverages Middlebury College's recognized experience in foreign language instruction and our expertise in online education. Language faculty from Middlebury collaborates with MIL to develop and manage the academic content of the Web-based language courses. The new courses use features such as animation, music, videos and other elements that immerse students in new languages. The first courses completed include beginner French and Spanish for high school students. The joint venture also plans to expand MMLA to include a language immersion summer program for middle and high school students. MMLA offers Arabic, Chinese, French, German, Italian and Spanish at its summer four-week residential sessions held at college campuses.

Acquisition of KC Distance Learning, Inc.

In July 2010, we acquired all of the stock of KCDL, a provider of online curriculum and public and private virtual education, by issuing to its parent company, KCDL Holdings LLC, 2,750,000 shares of a new class of stock designated as Series A Special Stock, which had a value at closing of $63.1 million. In January 2011, we held a Special Meeting at which our common stockholders approved conversion and voting rights for the holders of the Series A Special Stock. As a result, the holders now have the right to convert those shares into common stock on a one-for-one basis and to vote on all matters presented to K12 common shareholders, other than for the election and removal of directors, for which the holders have no voting rights unless converted to common.

KCDL included three distribution channels that overlap with our existing operations: Aventa Learning (online curriculum and instruction), The Keystone School (international online and correspondence private school), and the iQ Academies (statewide virtual public charter schools for middle and high school). Aventa Learning offers to schools and school districts over 140 core, elective and advanced placement (AP) courses in grades 6-12, from credit recovery courses to full-scale virtual school programs, as well as instructional services. Aventa Learning is accredited by the Northwest Association of Accredited Schools (NAAS). The Keystone School is an online private school for middle and high school students, which is also accredited by the NAAS. It was established in 1974 and has served over 250,000 students around the world. The school enrolls both full-time and part-time students and its course offerings are supported by certified teachers. The iQ Academies are statewide online public schools that partner with school districts or public charter schools to serve middle and high school students. iQ Academies currently operate in California, Kansas, Minnesota, Washington, and Wisconsin.

Formation of Capital Education LLC

In July 2010, we acquired certain assets, including a catalog of over 200 courses and eight issued patents, of Cardean Learning Group LLC through a subsidiary, Capital Education LLC, a provider of online services to post-secondary institutions. The programs offered by Capital Education are designed for colleges and universities seeking to build or expand their online presence, and we have already executed contracts with three universities. Services include course development and distribution through a proprietary learning management platform, hosting and technical support, student advisory services and program administration.

Partnership with Blackboard Inc.

In October 2010, we announced a partnership with Blackboard Inc. (Blackboard) to develop a solution that delivers our adaptive courses through Blackboard Learn, Blackboard's leading online teaching and learning platform. The combination is intended to reduce the cost of delivering remediation instruction while enabling community colleges and higher education institutions to offer a wider range of both self-paced and teacher-led online programs.

Acquisition of The American Education Corporation

In December 2010, we acquired the stock of The American Education Corporation (AEC) for a total cash purchase price of $24.5 million, after certain adjustments. AEC is a leading provider of research-based core curriculum instructional software for kindergarten through adult learners. The acquisition increases our portfolio of innovative, high quality instructional and curriculum used by school districts all over the country.

Investment in Web International Education Group, Ltd.

In January 2011, we invested $10 million in cash in Web International Education Group Ltd. (Web). This strategic investment gives us a 20% minority interest in Web, with the option to acquire the remainder of the company within a period of five years. Web is a provider of English language training for learners of all ages throughout China, including university students, government workers, and employees of international companies. Web has an extensive network of learning centers throughout China. The proceeds of the investment are intended to be used to expand Web's learning center network into more cities in China. Web centers include learning labs that are outfitted with modern computers and connections to the internet. They can be used to access our curriculum products and other electronic educational services.

Creation of the George Washington University Online High School

In January 2011, we announced the creation of a partnership with the George Washington University to launch an online private high school, the George Washington University Online High School (GWUOHS). The private school will serve students in the U.S. and in countries around the world. The program offers K^{12}'s college preparatory curriculum and is designed for high school students who are seeking a challenging academic experience and aspire to attend top colleges and universities. The online school will cooperate extensively with the George Washington University School of Education to define academic programs and teaching methodologies. The program includes extensive college and career counseling that is unique among online high-school programs.

Acquisition of International School of Berne

In April, 2011, we finalized our acquisition of the operations of the International School of Berne (IS Berne), a traditional private school located in Berne, Switzerland serving students in grades Pre-K through 12. IS Berne is an International Baccalaureate school in its 50th year of operation. Our purchase provided us with the right to operate IS Berne and substantially all of its assets excluding real estate.

Investment by Technology Crossover Ventures in K12 Inc.

In April 2011, we completed a private placement sale of 4 million shares of restricted Common Stock at a price of $31.46 per share to Technology Crossover Ventures (TCV). The proceeds of $125.8 million are unrestricted and may be used for acquisitions, strategic investments and general corporate purposes. Under the terms of the transaction, our Board of Directors (Board) appointed a director nominated by TCV to the Board to hold office until the next annual meeting of stockholders. Additionally, we granted TCV the right to participate on a pro-rata basis in any subsequent private offerings of Common Stock by the Company, subject to certain exclusions such as issuances in connection with acquisitions or employee equity plans. In addition, TCV was granted the right to demand registration of the shares of restricted Common Stock it acquired in the transaction.

Acquisition of Assets from Kaplan Virtual Education

In July 2011, we completed the purchase of certain K-12 assets and Insight School management contracts of Kaplan Virtual Education (KVE), a subsidiary of Kaplan, Inc. KVE assets included online public schools in eight states serving students in grades 6-12. KVE also operated three online private schools serving similar grades. The acquisition will allow us to serve more students with multiple curriculum platforms, leverage the Insight School brand to create a differentiated product offering for “at-risk” students and leverage our existing virtual academy operations. Kaplan K-12 assets are being integrated with our online charter school and private school operations. As part of the acquisition agreement, Kaplan Inc. has agreed not to engage in similar efforts in the K-12 marketplace for a period of 3 years.

Products and Services

Educational Philosophy

With the acquisition of several product portfolios, our focus is on offering best in class solutions for our customers at each entry point in the market. As we work on integrating these portfolios into our content management system, we will upgrade them so that they adhere and reflect the relevant aspects of our educational philosophy and guiding principles. We intend to leverage these portfolios across our educational solutions and distribution channels.

For our K^{12} branded offering, the design, development and delivery of our products and services, or learning system, are grounded in the following set of guiding principles:

- *Apply “Tried and True” Educational Approaches for Instruction.* Our learning system is designed to utilize both “tried” and “true” methods to drive academic success. “True” methodologies are based on cognitive research regarding the way in which individuals learn. We also supplement our learning system with teaching tools and methodologies that have been tested, or “tried,” and proven to be effective. This “tried and true” philosophy allows us to benefit from both decades of research about learning and effective methods of teaching.
- *Employ Technology Appropriately for Learning.* While all of our courses are delivered primarily through an online platform and generally include a significant amount of online content, we employ technology only where we feel it is appropriate and can enhance the learning process. In addition to online content, our curriculum includes a rich mix of course materials, including engaging textbooks and hands-on materials such as phonics kits and musical instruments. Furthermore, our teachers utilize

telephonic contact as well as email and virtual electronic classrooms. We believe our balanced use of technology and more traditional approaches help to maximize the effectiveness of our learning system.

- *Base Learning Objectives on "Big Ideas."* We refer to "big ideas" as the key, subconscious frameworks that serve as the foundation to a student's future understanding of a subject matter. For example, an understanding of waves is fundamental to a physicist's understanding of quantum mechanics; therefore, we teach 1st graders the fundamentals of waves. We use these "big ideas" to organize the master objectives of every course we develop.
- *Assess Every Objective to Ensure Mastery.* Ongoing assessments are the most effective way to evaluate a student's mastery of a lesson or concept. To facilitate effective assessment, our curriculum establishes clear objectives for each lesson. Throughout a course, each student's progress is assessed at a point when each objective is expected to be mastered, providing direction for appropriate pacing. These periodic and well-timed assessments reinforce learning and promote mastery of a topic before a student moves to the next lesson or course.
- *Facilitate Flexibility to Accommodate Variances in Ability.* We believe that each student should be challenged appropriately. Generally, adequate progress for most students is to complete one academic year's curriculum within a nine-month school year. Each individual student may take greater or fewer instructional hours and more or less effort than the average student to achieve this progress. Our learning system is designed to facilitate this flexibility in order to ensure that the appropriate amount of time and effort is allocated to each lesson.
- *Prioritize Important, Complex Objectives.* We have developed a clear understanding of those subjects and concepts that are difficult for students. Greater instructional effort is focused on the most important and difficult concepts and skills. We use existing research, feedback from parents and students and experienced teacher judgments to determine these priorities, and to modify our learning system to guide the allocation of each student's time and effort.
- *Ensure Fundamental Content Soundness.* Our credentialed subject matter experts (SMEs) or "Content Specialists" bring their own scholarly and teaching backgrounds to course design and development and are required to maintain relationships with and awareness of guidelines from nearly 40 national and international subject-area associations.

Our Products

Curriculum

K12 now has the largest digital curriculum portfolio for the K-12 online market. The K12 curriculum consists of the online lessons, learning kits and lesson guides. We offer an extensive catalogue of proprietary courses designed to teach concepts to students from kindergarten through 12th grade, as well as curriculum for use in post-secondary online programs. A single year-long K-12 course generally consists of 120 to 180 unique instructional lessons. Each lesson is designed to last approximately 45 to 60 minutes, although students are able to work at their own pace. With the acquisition of the curriculum portfolio of KCDL (Aventa), The American Education Corporation (A+), and Kaplan Virtual Education (Virtual Sage and Insight), we now have over 600 courses across elementary, middle, and high school, including world languages (123 K-8 core courses and 493 high school courses). This combined portfolio contains over 66,000 unique hours of instructional content (of which over 16,000 instructional hours are new for School Year 2011-2012) and over 700,000 engaging media modules.

Online Lessons. Our K12 online lessons or curricula are accessed through a proprietary Online School (OLS) platform for K-8 students and the eCollege platform for high school students, as well as a number of other common industry platforms for students who access Aventa and A+ curricula. Each online lesson provides the roadmap for the entire lesson including direction to specific online and offline materials, online lesson content and a summary of the major objectives for the lesson. Lessons utilize a combination of innovative technologies including flash animations, audio, video and other online interactivity, educational games, coordinated textbooks and hands-on materials and individualized feedback to create an engaging, responsive and highly effective curriculum. Each lesson also contains an online assessment to ensure that students have mastered the material and are ready to proceed to the next lesson, allowing them to work at their own pace. Pronunciation guides for key words and references to suggested additional resources, specific to each lesson and each student's assessment, are also included.

Learning Kits. Many of our courses utilize a series of learning kits in conjunction with the online lessons to help maximize the effectiveness of our learning system. In addition to receiving access to our online lessons through the Internet, each student receives a shipment of materials, including award-winning textbooks, art supplies, laboratory supplies (e.g. microscopes and scales) and other reference materials which are incorporated throughout our curriculum. This approach is consistent with our guiding principle to utilize technology where appropriate in our learning system. Most of the textbooks we use are proprietary textbooks that are written to be engaging to students and to complement the online experience. Through fiscal year 2011, we have also converted 21 K12 textbooks across 35 courses into an electronic format enabling us to offer options to enhance the student experience without physical books. We believe that our ability to effectively combine online lessons and materials is a competitive advantage.

Lesson Guides. Our courses are generally paired with a lesson guide. Lesson guides work in coordination with the online lessons and include the following: overview information for learning coaches, lesson objectives, lesson outlines and activities, answer keys to student exercises and suggestions for explaining difficult concepts to students.

K-8 Courses

From kindergarten through 8th grade, our courses are categorized into six major subject areas: English and Language Arts, Mathematics, Science, History, Art and Music, and World Languages. Our proprietary curriculum includes all of the courses that students need to complete their core kindergarten through 8th grade education. These courses focus on developing fundamental skills and teaching the key knowledge building blocks or schemas that each student will need to master the major subject areas, meet state standards and complete more advanced coursework. Unlike a traditional classroom education, our learning system offers the flexibility for each student to take courses at different grade levels in a single academic year, providing flexibility for students to progress at their own level and pace within each subject area.

The first phase of our K12 2nd generation Elementary Language Arts program is designed to deliver increased interactivity and make instruction even more engaging while integrating rewards, interactive practice, and a virtual world. Our Fundamentals of Geometry and Algebra course completes our proprietary K-8 Math offering. These courses support students at various skill levels via targeted, timely remediation, embody the Common Core State Standards, and include significant media integration. In addition, the flexibility of our learning system allows us to tailor our curriculum to state specific requirements. For example, we have developed 44 courses specifically created for the public school standards in 11 states. In addition to the ongoing evolution of our K-5 Math+ program, we have also created over 80 custom Math+ sequences to serve specific state needs. We continued the migration of K12 K-8 courses from our legacy Content Management System (CMS) to our new, proprietary CMS.

High School Courses

The curriculum available to students in each of the high school grades is much broader and varies from student to student, largely as a result of the increased flexibility in course selection required for high school students. Public Speaking, AP Biology and AP World History highlight the list of new high school course offerings this year. Students also are able to select from a wide range of electives. We have also created alternate kit-free Science labs for all formerly kit-based High School Science labs in order to provide a more flexible and robust lab program across our Physical Science, Earth Science, Biology, Chemistry, and Physics courses. While providing schools with additional materials flexibility, this new approach to science labs integrates diverse modalities into our science curriculum and promotes conceptual mastery. Our proprietary core curriculum accounts for approximately 90% of our high school course enrollments.

Aventa and The Keystone School Curriculum. With our acquisition of KCDL, we also offer curriculum marketed under the Aventa and The Keystone School brand names. The Aventa curriculum development team has been fully integrated into our Product Development organization, improving efficiency in the use of resources and course capabilities.

Aventa courses are written to national academic standards and each of Aventa's 22 AP courses has been reviewed and approved by The College Board. Aventa's Online Courses are developed by subject matter experts, designed by multimedia teams and delivered by highly qualified high school instructors. Aventa classes are primarily delivered over the Internet and use a variety of interactive elements to keep students engaged throughout. A deep understanding of K-12 pedagogy, as well as the human factors associated with online technology, is integrated into Aventa's product development.

Students with different learning styles, post-high school plans and diverse educational backgrounds enroll in The Keystone School. Most students seek to earn a high school diploma, but many enroll in supplemental courses and transfer the credits they earn to their resident high school. Keystone's classic high school program, known as Keystone Independent is for students in grades 9-12 who excel in an independent learning environment and students with parents taking an active role in their child's education. More than 80 courses are available in this program both online and in printed correspondence formats. Keystone's newest program, known as Keystone Comprehensive is for students in grades 11-12 seeking additional support, interaction and feedback to help them succeed. More than 50 online courses, including exclusive college preparatory courses, are available in this program.

A+ With the acquisition of The American Education Corporation, we have gained the A+ courseware which is currently in use in over 5,000 public and private K-12 schools, charter schools, colleges, correctional institutions, centers of adult literacy, military education programs, and after-school learning centers. The A+nyWhere Learning System provides an integrated offering of instructional software and assessment for Reading, Mathematics, Language Arts, Science, Writing, History, Government, Economics and Geography for grade levels K-12. In addition, AEC provides assessment testing and instructional content for the General Educational Development (GED) test. AEC products are designed to provide for LAN, WAN and Internet delivery options and support Windows and Macintosh platforms. Spanish-language versions are available for Mathematics and Language Arts for grade levels 1-6.

Kaplan Virtual Education. Through the acquisition of the Kaplan Virtual Education assets including Virtual Sage and Insight, we have gained 137 unique courses, 230 semesters of content, and more than 6,000 lessons of content. This asset acquisition expands our ability to offer an array of online curriculum for a wide range of school solutions.

Middlebury Interactive Languages. We offer online foreign language courses and summer foreign language instruction programs through our joint venture with Middlebury College, Middlebury Interactive Languages LLC. In addition to our existing powerspeak[12] language courses, this venture offers innovative, online language programs for pre-college students. The new courses use instructional tools such as animation, music, videos and other elements that immerse students in new languages. Beginner French and Spanish for high school students are now available and additional courses are in development. The joint venture will also expand the Middlebury-Monterey Language Academy (MMLA), a foreign language immersion summer program for middle and high school students. MMLA offers Arabic, Chinese, French, German, Italian and Spanish at its four-week summer residential sessions at multiple college campuses.

Innovative Learning Applications

In order to continue to enhance the user experience and instructional methods of our learning system, we strive to develop new technologies and learning applications and adapt our curriculum to new technology devices and platforms.

- *Mobile Learning:* We have created tools that allow for more rapid mobile and tablet development across platforms for deeper market penetration. More than 12 mobile applications were delivered in 2011 with over 160,000 downloads since 2010. We continue to deploy innovative educational tools for the mobile environment. With the explosion of mobile devices, our mobile applications will create the ability for a student to learn "on-the-go," allowing for more continuous learning and mastery of content. We offer applications for the iPhone, Android phone, and Android tablet marketplaces, adapting many of our award-winning curriculum features for the mobile application space.

- *Interactive Games:* An active educational games initiative is delivering new methods for teaching, practice, and review of K-12 concepts using a variety of game types and features, e.g. narrative/immersive styles, in-game methods for motivation such as rewards, persistent data, complex algorithms, etc. These games make use of extensive research and educational best practices, as well as address targeted learning objectives and common misconceptions. We have delivered seven interactive games during fiscal year 2011 and an innovative review and practice portal called *Noodleverse*. *Noodleverse* includes over 1,200 activities and is designed for K-2 families in conjunction with the new Language Arts program. Currently, several other game projects are underway.
- *Virtual Labs:* We have delivered alternatives for customers who desire different materials-related strategies. This includes converting over 55 existing materials-based high school Science labs into highly interactive Virtual Labs and video lab simulations that meet state standards and still maintain teaching the original learning objectives. For example, in high school Chemistry we have developed a virtual laboratory on chromatography, in which students separate a number of inks into their component pigments. This laboratory is performed at a lab bench with all the materials and with the same procedures high school students would use in a physical chemistry laboratory.
- *Engaging Videos:* We continue to explore opportunities to enhance student engagement through strategic use of relevant multimedia. Multimedia is not applied gratuitously, but is specifically targeted as appropriate for the subject matter. For example, our video on photosynthesis, for high school Biology, allows students to witness the set up, procedure and data in a classic experiment in which an aquatic plant is subject to light and produces oxygen bubbles. The clarity of the video and the presentation to the student of real data (which they then use in their analysis) makes this video lab a multimedia experience that is coupled with a scientific method.
- *eBook & Digital Book Distribution:* Through fiscal year 2011, we have converted 21 K12 textbooks across 35 courses into an electronic format, including textbooks, reference guides, literature readers, and lab manuals. This digital delivery ability enables us to offer options to our customers via interactive online books that enhance the student's reading experience, reinforce the student's learning approach, and create a new method for delivering book and print materials. Each offline book is converted into an electronic book format with a custom user interface to be viewed via a standard web browser or a commercially available electronic reader (Kindle, Nook, etc.).

Online School Platform — Learning Management System

For our K12 curriculum customers, we launched a learning management system, our Online School (OLS) platform for the 2010-11 school year. The new OLS is a significant step forward in our ongoing effort to provide the most engaging and productive learning experience for our students and customers. The new platform is an adaptive, intuitive, web-based software platform that provides access to our online lessons, our lesson planning and scheduling tools, as well as our progress tracking tool which serves a key role in assisting parents and teachers in managing each student's progress. The new OLS is also the central structure through which students, parents, teachers and administrators interact using Kmail and Class Connect (our integrated synchronous session scheduler). Because the OLS is a web-based platform, students, parents and teachers can access our online tools and lessons through the OLS from anywhere with an Internet connection. We license a third-party learning management platform for use in our high school program.

- *Lesson Planning and Scheduling Tools.* In a school year, a typical student will complete between 800 and 1,200 lessons across six or more subject areas. Our lesson planning and scheduling tools enable teachers and parents to establish an individualized plan for each student to complete his or her lessons. These tools are designed to dynamically update the lesson plan as a student progresses through each lesson and course, allowing flexibility to increase or decrease the pace at which the student advances through the curriculum while ensuring that the student progresses towards completion in the desired time frame. For example, the schedule can easily be adapted to accommodate a student who desires to attend school six days a week, a student who is interested in studying during the winter holidays to take time off during the spring, or a student who chooses to complete two math lessons a day for the first month of the school year and delay art lessons until the second month of the school year. Moreover, changes can be made to the schedule at any point during the school year and the remainder of the student's schedule will automatically be adjusted in the OLS. Unlike a traditional classroom education, our learning system offers the flexibility for each student to take courses at different grade levels in a single academic year, providing flexibility for students to progress at their own level and pace within each subject area. The curriculum includes assessments built into every lesson to guide and tailor the pace of progress to each child's needs.

- *Progress Tracking Tools.* Once a schedule has been established, the OLS delivers lessons based upon the specified parameters of the school and the teacher. Each day, a student is initially directed to a home page listing the schedule for that particular day and begins the school day by selecting one of the listed lessons. As each lesson is completed, the student returns to the day's schedule to proceed to the next subject. If a student does not complete a lesson by the end of the day on which it was originally scheduled, the lesson will be rescheduled to the next day and will resume at the point where the student left off. Our progress tracking tool allows students, parents and teachers to monitor student progress. In addition, information collected by our progress tracking tool regarding student performance, attendance and other data is transferred to our proprietary management system for use in providing administrative support services. This instructional program includes several processes and educational techniques that embrace proactive intervention. As a result, we can provide high quality instruction and intervention equal to student needs.

- *Assessment Tracking Tools:* Meaningful assessment and feedback are critical to efficient and successful learning. Assessments embedded into our lessons help the parent, teacher, and student verify that the student is achieving important learning objectives. A student does not progress to the next lesson in a course until he has mastered the assessment at the end of the previous lesson. Teachers can easily view assessment data for their students in the OLS so that they can proactively provide additional instruction to students when needed. Our assessment tools also help us improve the program by providing information on the effectiveness of specific instructional activities and the curriculum.

Our program makes use of a variety of formative and summative assessment instruments:

- Lesson assessments are used to verify mastery of the objectives for that lesson and to determine whether further study of the lesson is necessary.

- Unit assessments show whether or not the student has retained key learning objectives for the unit, and identify specific objectives students may need to review before moving on.

- Semester assessments verify student mastery of key learning objectives for the semester.

Independent third-party assessments are used in most of our managed schools to pinpoint specific individual student strengths and weaknesses relative to state content standards. These results enable the teacher to develop a highly-personalized individual learning plan for each student. Students are tested via an online, adaptive test at the beginning and end of the school year to provide a measure of individual student growth demonstrating the value-added gains of the school program.

School Management Systems

The Student Administration Management System (SAMS) is our proprietary Student Information System. SAMS is integrated with the OLS and several other proprietary systems including our Online Enrollment System that allows parents to complete school enrollment forms online and our Order Management System (OMS) that generates orders for learning kits and computers to be delivered to students. SAMS stores student-specific data and is used for a variety of functions, including enrolling students in courses, assigning progress marks and grades, tracking student demographic data, and generating student transcripts. In 2008, we launched TotalView, a suite of online applications that provides administrators, teachers, parents and students a unified view of student progress, attendance, communications, and learning kit shipment tracking. TotalView includes a sophisticated means of documenting student engagement in required classroom activities, identification of those students struggling with grade level state content standards, and previous year's performance on state tests. TotalView also includes Kmail, our internal communications system. Through Kmail, administrators and teachers can communicate electronically with learning coaches and students. In 2009, TotalView was enhanced to include an enrollment processing and tracking tool that allows us to closely monitor and manage the enrollment process for new students. Over the past two school years, we have enhanced TotalView with additional functionality to better support the operation of the virtual public schools and hybrid schools.

Student Community Tools

We place a strong emphasis on the importance of building a sense of community in the schools we manage. We offer tools that foster communication and interaction among families and school personnel within schools and across the larger K^{12} community. In the fall of 2008, we launched thebigthinK^{12}, online community for enrolled high school students (age 13 and over), parents, teachers, school administrative staff and our staff. Among the many activities, schools share announcements, calendars and important documents with families, while students participate in online clubs with students from around the world. Built using a third party platform, thebigthinK^{12}'s capabilities include discussion boards, blogs, collaborative documents, document sharing, calendars, RSS feeds, polls, profiles and private messaging. The community is also professionally monitored by an independent third party. The Parents' Lounge, added in July of 2010, provides an extension of the community where parents share support and resources with other parents who have common needs and interests, find K^{12} families near them, and collaborate with teachers and parents on how to make the most of a K^{12} education.

Our Services

We provide a wide array of services to students and their families as well as directly to virtual public schools, hybrid schools, traditional schools and school districts. Our services can be categorized broadly into academic support services and management and technology services.

Academic Support Services

Teachers and Related Services. Teachers are critical to the educational success of students in schools. Teachers in the virtual public schools and hybrid schools that we manage are often employed by the school, with the ultimate authority over these teachers residing with the school's governing body. Under our service agreements, we often recruit, train and provide management support for these teachers. Historically, we have seen significant demand for teaching positions in the virtual public schools and hybrid schools that we manage.

We use a rigorous evaluation program for making hiring recommendations to the schools we serve. We generally recruit teachers who, at a minimum, are state certified and meet each state's requirements for designation as a "Highly Qualified Teacher," and generally have at least three years of teaching experience. We also seek to recruit teachers who have the skill set necessary to be successful in a virtual environment. Teaching in a virtual public school or hybrid school is characterized by enhanced one-on-one student-teacher and parent-teacher interaction, so these teachers must have strong interpersonal communications skills. Additionally, a virtual public school or hybrid school teacher must be creative in finding ways to effectively connect with their students and integrate themselves into the daily lives of the students' families. We assess these teacher characteristics using a customized online assessment as part of the hiring process.

New teachers participate in our comprehensive training program during which, among other things, they are introduced to our educational philosophy, our curriculum and our OLS and other technology applications, and are provided strategies for communicating and connecting with students and their families in a virtual environment. We also provide ongoing professional development opportunities for teachers so that they may stay abreast of changing educational standards, key learning trends, and sound pedagogical strategies which we believe enhance their teaching abilities and effectiveness.

In addition to our compliance with state-mandated testing programs, we have instituted a student progress testing program in cooperation with a third party provider of standardized testing services. The results of this testing helps us manage the quality of our academic programs using widely recognized services from an industry-leading third party.

Gifted and Special Education Services. We believe that our individualized learning system is able to effectively address the educational needs of gifted and special education students because it is self-paced and employs flexible teaching methods. For students requiring special attention, we employ a national director who is an expert on the delivery of special education services in a virtual public school or hybrid school environment and who oversees the special education programs at the schools we serve. We direct and facilitate the development and implementation of "individualized education plans" for students with special needs. Our special education program is compliant with the Federal Individuals with Disabilities Education Act and all state special education requirements. Each special needs student is assigned a certified special education teacher who arranges for any required ancillary services, including speech and occupational therapy, and any required assistive technologies, such as special computer displays or speech recognition software. We support gifted and talented students through our advanced learner program. Advanced learners are able to participate in a wide variety of enrichment seminars, clubs, and mentoring opportunities both at the school and national level. Gifted students are connected to each other across state boundaries through learning circles, book clubs, and other special-interest activities. In addition, parent sessions allow for the discussion of topics specific to parents of advanced students.

Supporting At-Risk Learners. We have a commitment to closing the achievement gap for those students who enter our virtual public schools or hybrid schools behind their same-age peers. To that end, we conduct both summative and formative assessments during the course of the school year in order to identify those students needing specific remedial support as well as measure the effectiveness of those supports. Student growth and progress is reported to administrators, teachers, parents and students regularly.

Student Support Services. We provide students attending virtual public schools or hybrid schools that we manage and their families with a variety of support services to ensure that we effectively meet their educational needs and goals. We offer support to address any questions or concerns that students and their parents have during the course of their matriculation. We plan and coordinate social events to offer students opportunities to meet and socialize with their school peers. Finally, in connection with our high school offering, each student is assigned a homeroom teacher, an advisor and/or a guidance counselor who assists them with academic issues, college and career planning and other support as needed.

Management Services

Turnkey Services. For most of our statewide virtual public schools and hybrid schools, we provide turnkey management services. In these circumstances, we take responsibility for all aspects of the management of the schools, including monitoring academic achievement, teacher hiring and training, compensation of school personnel, financial management, enrollment processing and provision of curriculum, equipment and required services. In 2007, the Commission on International and Trans-regional Accreditation (CITA), a leading worldwide education accreditation agency, thoroughly evaluated our school management services and we ultimately received its prestigious accreditation. CITA has since been absorbed by AdvancED, the parent company of North Central Accreditation Association Commission on Accreditation and School Improvement (NCA CASI) and Southern Association of Colleges and Schools Commission on Accreditation and School Improvement (SACS CASI), with our full corporate accreditation transferring to AdvancED.

Compliance and Tracking Services. Operating a virtual public school or hybrid school entails most of the compliance and regulatory requirements of a traditional public school. We have developed management systems and processes designed to ensure that schools we serve are in compliance with all applicable requirements, including tracking appropriate student information and meeting various state and federal reporting requirements. For example, we collect enrollment related information, monitor attendance and administer proctored state tests. As we have expanded into new states, our processes have grown increasingly robust, and we believe our compliance and tracking processes provide us with a distinct competitive advantage.

Financial Support Services. For the schools we manage, we oversee the preparation of the annual budget and coordinate with the school's directors to determine their annual objectives. In addition, we implement an internal control framework, develop policies and procedures, provide accounting services and payroll administration, oversee all federal entitlement programs, arrange for external audits and ensure all state and local compliance reporting is met.

Facility, Operations and Technology Support Services. We generally operate administrative offices and all other facilities on behalf of the schools we manage. We provide these schools with a complete technology infrastructure. In addition, we provide a comprehensive help desk solution for students and school staff to address their computer or other technical issues.

Human Resources Support Services. We are actively involved in hiring virtual public school and hybrid school administrators, teachers and staff, through a thorough interview and orientation process. To better facilitate the hiring process, we review and analyze the profiles of teachers that have been highly effective in our learning system to identify the attributes desired in future new hires. While many schools employ teachers directly, we also help negotiate and secure employment benefits and payroll services for school staff on behalf of the schools and administer employee benefit plans for school employees. Additionally, we assist the schools we serve in drafting and implementing administrative policies and procedures.

Distribution Channels

We distribute our products and services to virtual public schools, hybrid schools, traditional schools, school districts, private schools, public charter schools, and directly to consumers primarily in the U.S. We are also expanding internationally and developing other programs. We have substantially combined the functional capabilities of our acquired and organic assets into an integrated marketing, sales and service organization aligned with our distribution channels. Additionally, we are well underway in combining the unique capabilities of our portfolio of content and technology assets to develop new, comprehensive solutions that address the emerging needs of students, parents, teachers and administrators both in the US and abroad. The table below summarizes the funding source, function and current scale of these channels for fiscal year 2012. Funding is defined as public (state, local, and/or federal) or private (individual or non-public).

	Funding	Function	Scale
Online Public Schools *(e.g. Virtual Charter Schools & Hybrid Schools)*	Public	Manage	29 states
Institutional Business *(e.g. Sales to School Districts, Public Schools, Private Schools)*	Public & Private	Vendor	50 states
Online Private Schools *(K^{12} International Academy, GWUOHS, Keystone)*	Private	Manage	3 proprietary schools with students in 80 countries
Consumer Sales *(e.g. home schoolers and supplemental course sales)*	Private	Retailer	50 states & worldwide
Post-secondary *(Capital Education)*	Public & Private	Vendor	3 universities
International Channels *(e.g. school associations)*	Private	Vendor	45 countries

Virtual Public Schools and Hybrid Schools

We derive most of our revenues from virtual public schools to which we provide access to our course catalogue, student computers and a variety of management, technology and academic support services. In these schools, students attend class primarily over the Internet with offline learning materials instead of traveling to a physical classroom. Students receive assignments, complete lessons, and obtain instruction from certified teachers with whom they interact online, telephonically, in virtual classroom environments, and sometimes face-to-face. For parents who believe their child is not thriving in their current public school and for whom relocating or private school is not an option, or for students and families who require time or location flexibility in their schooling, virtual public schools and hybrid schools can provide a compelling choice.

For the 2011-12 school year, we will provide turnkey management services to virtual public schools or hybrid schools (Managed Schools) in 29 states. For these schools, we take responsibility for all aspects of the management of the schools, including monitoring academic achievement, teacher recruitment and training, compensation of school personnel, financial management, enrollment processing and procurement of curriculum, equipment and other required services. In July 2010, through our acquisition of KCDL, we have added the iQ Academies and currently manage statewide virtual public schools in five states where we also manage other schools.

A hybrid school is a virtual public school that combines online and face-to-face instruction. Hybrid schools are designed to have a mixture of online and traditional instruction for students. In contrast to a typical school, hybrid schools can provide a greater array of available courses, increased opportunities for self-paced, individualized instruction, and greater scheduling flexibility. Hybrid schools bring students and teachers together more often than a purely online program. We manage hybrid schools in California, Illinois, Indiana and Hawaii. Examples of different types of hybrid schools we manage are as follows:

Chicago Virtual Charter School: In partnership with Chicago Public Schools, we launched this hybrid program for the 2006-07 school year and we now serve students in grades K-8 and high school. Students enrolled in this program get the full benefits of our online offering and also participate in classes with their teachers and classmates at a learning center one or more days a week.

The Hoosier Academies: This program was authorized in Indiana by Ball State University in 2008 and serves students in grades K-8 and high school. Students attend a learning center in Muncie or Indianapolis one or two days a week to complement our online offering. At the learning center, teachers and students meet for instruction, discussion and lessons. Sessions at the learning center may utilize our curriculum on interactive whiteboards for an engaging learning environment.

SF Flex: SF Flex is a unique school model we launched in Fall 2010. In this program located in downtown San Francisco, high school students attend a learning center five days a week. It leverages all the capabilities of a virtual school with the advantages of a safe, supervised environment. The model is designed to allow students to access and engage their individualized online lessons in an open study lab. The school is staffed with teachers and support staff that engage the students individually or in small group study breakout sessions.

Schools and School Districts (Institutional Business)

We are serving a growing number of institutions enabling them to offer our products and services to their students, usually in the form of an array of full-time virtual programs, semester courses and supplemental solutions, teacher training, teaching services, and other support services. These institutions include public schools, school districts, private schools and charter schools.

We have a dedicated sales team to focus on this sector and have increased the size and expertise of this distribution channel with our acquisition of KCDL and AEC. Our sales team is focused on geographic regions and is supported by our call center, marketing resources, and a dedicated client services team. With our acquisition of AEC, we gained access to a reseller network that includes more than 15 independent distribution partners.

We provide a continuum of offerings that range from full-time, turnkey online programs, to blended programs, to individual course and credit recovery solutions. We make available our complete K^{12}, Aventa, A+

and MIL course catalogues. For example, our foreign language offering, powerspeaK^{12} and our Aventa AP courses are popular choices for districts seeking to broaden their course catalog. We expect further expansion of the foreign language business through our joint venture, Middlebury Interactive Languages.

For the 2010-11 school year, we served school districts or individual schools in all 50 states, including those where the regulatory environment restricts or prohibits state-wide online programs. Based upon school districts' and academic administrators' growing acceptance of online learning and desire for cost efficient educational solutions, we believe that the direct-to-district distribution channel offers further growth potential.

Private Schools

We operate the K^{12} International Academy, an online private school that serves students in the U.S. and throughout the world. Through K^{12} International Academy, students may study in an academic program that ultimately leads to an accredited high school diploma. Students may also enroll part-time. The school utilizes the same curriculum, systems, and teaching practices that we provide to the virtual public schools and hybrid schools we manage in the U.S. In addition, this school provides a unique international community including clubs and events that enrich the student experience by allowing students to interact with peers from over 60 countries. The school is accredited by the Southern Association of Colleges and Schools (SACS) and AdvancED, and is recognized by the Commonwealth of Virginia as a degree granting institution of secondary learning.

In July 2010, we acquired The Keystone School as part of our acquisition of KCDL. The Keystone School (Keystone) is a private school that has been an innovator in home education and distance learning for over 35 years. Students attend The Keystone School for middle and high school on a full or part time basis. Keystone has served over 250,000 students through online courses with teacher support as well as print correspondence course programs. Keystone is accredited by the Northwest Association of Accredited Schools (NAAS).

In January 2011, we announced a partnership with the George Washington University to launch an online private high school, the George Washington University Online High School (GWUOHS). The private school will serve students in the U.S. and in countries around the world. The program offers K^{12}'s college preparatory curriculum and is designed for high school students who are seeking a challenging academic experience and aspire to attend top colleges and universities.

In April 2011, we finalized our acquisition of the operations of the International School of Berne (IS Berne), a traditional school located in Berne, Switzerland serving students in grades Pre-K through 12. IS Berne is an International Baccalaureate school in its 50th year of operation.

Consumer

Our curriculum is sold to customers who desire to educate their children outside of the public school system or to supplement their child's existing public school education. Customers of our consumer product have the option of purchasing a complete grade-level curriculum or individual subjects depending on their child's needs. Typical applications include summer school course work, home schooling and a means to experience our approach to online education prior to enrolling in a virtual public school or hybrid school.

Post-secondary

We provide online services to post-secondary institutions through Capital Education. The programs are designed for colleges and universities seeking to broaden their reach and build or expand their online presence by leveraging our extensive catalog of over 200 courses. Services include course development and distribution through a proprietary learning management platform, hosting and technical support, student advisory services and program administration. We currently provide services for multiple programs at three universities in the United States. We will continue to add programs for existing clients and add new clients over the coming years to not only serve higher education, but also expand higher education opportunities for high school students in our public and private virtual programs.

We also deliver our curriculum to address the remediation needs of higher education institutions with a partnership with Blackboard Inc. We deliver our adaptive courses through Blackboard Learn, the leading online teaching and learning platform. The combination will reduce the cost of delivering remediation opportunities while enabling higher education institutions to offer a wider range of both self-paced and teacher led opportunities online.

International

Beyond our business in the United States, we are pursuing international opportunities where we believe there is significant demand for a quality online education. Our principal customers are expatriate families and foreign students who wish to study in English. We currently operate a school in Dubai to reach and support students in the Gulf Cooperating Countries. We operate this through a joint venture with a local partner. In fiscal year 2010, we opened an office in Singapore to provide customer support services for our K12 International Academy program in Asia. Further expansion in Asia was made in fiscal year 2011 with our strategic investment in Web. We also acquired a private World IB school in Berne, Switzerland to extend our footprint into Europe. Moreover, we have entered into partnerships with English-speaking international private schools in other countries to enhance their offerings with our high school courses accompanied by teacher support. Upon completion, students receive a transcript from the K12 International Academy, an accredited school, indicating the completion of courses that help them meet their local graduation requirements.

Other Programs

To allow us to meet the needs of more students, we have applied our curriculum and management services in different academic settings.

Brick and Mortar Classroom Pilots: By the close of fiscal year 2011, we had piloted select grades and subjects of our curriculum in traditional brick and mortar classrooms in many states. These programs utilize a projector and interactive whiteboard with our curriculum and emphasize our math, science and technology and may also offer our art and history courses. The result is an engaging, interactive lesson environment for students. Additionally, many district customers use our curriculum and instructional services to supplant or supplement the traditional brick and mortar classroom model using a variety of technology solutions. These pilots inform our own brick and mortar solutions development including textbook replacement strategies. Although our in-class offering business is still in a developmental stage, we believe that this distribution channel can become an important part of our Institutional Business.

Our Market

Through our many distribution channels, we serve the US market for K-12 education and are expanding our offerings internationally. The U.S. market for K-12 education is large and the acceptance of online learning continues to grow. For example

- According to the National Center for Education Statistics (NCES), a division of the U.S. Department of Education, approximately 50 million students attended K-12 public schools during the 2010-11 school year. In addition, according to National Home Education Research, approximately two million students are home schooled and, according to the NCES, approximately six million students are enrolled in private schools. Many of these students will take an online course and a small percentage will enroll in a full-time online program.
- According to the NCES, the public school system alone encompassed more than 98,000 schools and approximately 14,000 districts during the 2008-09 school year.
- The NCES estimates that total spending in the K-12 market was $650 billion for the 2009-10 school year.
- According to the International Association for K-12 Online Learning (iNACOL), as of August 2010, 48 states had established a significant form of online learning initiative. Also according to iNACOL, in 2010, over 4 million K-12 students participated in a formal online learning program, online learning enrollments are growing by 46% a year and the growth rate is accelerating.

Parents and lawmakers are demanding increased standards and accountability in an effort to improve academic performance in U.S. public schools. As a result, each state is now required to establish performance standards and to regularly assess student progress relative to these standards. We expect continued focus on academic standards, assessments and accountability in the future. The precise forms of accountability will be debated as part of the reauthorization of the federal Elementary and Secondary Education Act (ESEA), which could occur as soon as 2011. The Obama Administration has issued a Blueprint for ESEA Reauthorization and we view the focus on quality curriculum in this initiative to achieve the goal of college-ready students as a positive step and one that is consistent with the rigor of our academic programs and curriculum.

Many parents and educators are also seeking alternatives to traditional classroom-based education that can help improve academic achievement. Demand for these alternatives is evident in the growing number of choices available to parents and students. For example, charter schools emerged in 1988 to provide an alternative to traditional public schools. Currently, there are over 5,000 charter schools operating in 41 states and the District of Columbia with an estimated enrollment of over 1.7 million students according to the Center for Education Reform. Similarly, acceptance of online learning initiatives, including not only virtual public schools but also online testing and Internet-based professional development, has become widespread. In addition, the current presidential administration has supported charter school growth by linking the removal of restrictions on the growth of charter schools to federal stimulus funding, including "Race to the Top" grants. As a result, many states that have placed enrollment caps or other limitations on charter schools, including online charter schools, are in the process of eliminating or revising such restrictions. In 2011, six states, Florida, Indiana, Michigan, Oregon, Tennessee, and Utah, passed legislation which expanded online learning opportunities.

Competition

We face varying degrees of competition from a variety of education companies because our learning system encompasses many components of the educational development and delivery process. We compete primarily with companies that provide online curriculum and school support services to K-12 virtual public schools, hybrid schools and school districts. These companies include Advanced Academics (DeVry, Inc), Connections Academy, LLC (recently announced to be acquired by Pearson PLC), White Hat Management, LLC, and National Network of Digital Schools Management Foundation Inc. among others. We also face competition from online and print curriculum developers. The online curriculum providers include Apex Learning Inc., Archipelago Learning, Inc., Compass Learning, OdysseyWare, Plato Learning, Inc., Renaissance Learning, Inc., and traditional textbook publishers include McGraw-Hill Companies, Pearson plc and Houghton Mifflin Harcourt. We also compete with institutions such as The Laurel Springs School (Nobel Learning Communities, Inc.), and the National Connections Academy for online private school students. Additionally, we expect increased competition from charter school management organizations (CMOs), state-run online programs such as Florida Virtual-School, and post-secondary and supplementary education providers that have sought to establish a presence in the K-12 virtual school sector, including DeVry, Inc.

We believe that the primary factors on which we compete are:

- extensive experience in, and understanding of, K-12 virtual schooling;
- track record of academic results and customer satisfaction;
- quality of curriculum and online delivery platform;
- qualifications and experience of teachers;
- comprehensiveness of school management and student support services; and
- cost of the solution.

We are unable to provide meaningful data with respect to our market share. At a minimum, we believe that we serve the market for K-12 education, and in almost all jurisdictions, in which we operate, we currently serve far less than 1% of the public school students in the geographic area in which virtual school or hybrid school enrollments are drawn. Defining a more precise relevant market upon which to base a share estimate would not be meaningful due to significant limitations on the comparability of data among jurisdictions. For example, some providers to K-12 virtual public schools serve only the high school segment; others serve the elementary and middle school segment, and a few serve both. Furthermore, some school districts offer their own virtual programs. Parents in search of an alternative to their local public school also have a number of substitutable choices beyond virtual public schools or hybrid schools including private schools, charter schools, home schooling, and blended public schools. In addition, our integrated learning system consists of components that face competition from many different education industry segments, such as traditional textbook publishers, test and assessment firms and private education management companies. Finally, our learning system is designed to operate domestically and internationally over the Internet, and thus the geographic addressable market is global and indeterminate in size.

Key Functional Areas

Public Affairs, School Development, Recruitment and Marketing

We seek to increase public awareness of the educational and fiscal benefits of full-time online and hybrid instructional models. We receive numerous inquiries from school districts, legislators, charter school boards, and community leaders, state departments of education, educators and parents who express the desire to have a choice in public school options. Our public affairs and school development groups work together with these interested parties to identify and pursue opportunities to expand the use of our products and services in new jurisdictions.

Our student recruitment and marketing team is responsible for promoting our corporate brand; generating new student enrollments; managing the direct-to-consumer business; conducting market and customer research; defining, packaging and pricing our product offerings across distribution channels; and enhancing the experience of students and families enrolled in the schools we serve. This team employs a variety of strategies designed to better understand and address the requirements of our target markets.

Operations

The learning kits that accompany our online lessons are an essential component of many of our courses. A student enrolling in one of our courses receives multiple textbooks, art supplies, laboratory supplies (e.g. microscopes and scales) and other reference materials designed to enhance the learning experience. We package these books and materials into course-specific learning kits. Because each student's curriculum is customized, the combination of kits for each student must also be customized. In fiscal year 2011, we assembled approximately 5.1 million items into more than 480,000 kits.

Over our ten years of operation, we believe that we have gained significant experience in the fulfillment of school supplies and materials. We have developed strong relationships with partners allowing us to source goods at favorable price, quality and service levels. Through our fulfillment partner, we store our inventory, build our learning kits and ship the kits to students. We have invested in systems, including our Order Management System, to automatically translate the curriculum selected by each enrolled student into an order to build the corresponding individualized learning kit. As a result, we believe we have an end-to-end warehousing and fulfillment operation that will cost-effectively scale as the business grows in scope and complexity.

For many of our virtual public school and hybrid school customers, we attempt to reclaim any materials that are not consumed during the course of the school year. These items, once returned to our fulfillment center, are refurbished and included in future learning kits. This reclamation process allows us to maintain lower materials costs.

Our fulfillment activities are highly seasonal, and are centered around the start of school in August or September. Accordingly, approximately 65% of our annual materials inventory is received between March and May and approximately 65% of shipments to customers occur between June and September.

In order to ensure that students in virtual public schools and hybrid schools have access to our OLS, we often provide students with a computer and all necessary support. We source computers and ship them to students when they enroll and reclaim the computers at the end of a school year or upon termination of their enrollment or withdrawal from the school in which they are enrolled.

Technology

Our online learning systems, along with our back office support systems are built on our proprietary Service Oriented Architecture (SOA) to ensure high availability and redundancy. The flexibility and security enabled by our SOA are the core principles of our systems' foundation.

Service Oriented Architecture. All of our systems leverage our SOA that is built on top of Enterprise Java. The SOA allows us to develop iterative solutions expeditiously to meet both present and future market needs. Our high availability and scalability are also facilitated by this architecture. The SOA also enables seamless integration with third-party solutions in our platform with ease and efficiency.

Availability and Redundancy. Our SOA allows for primary and secondary equipment to be utilized at all network and application tiers. Each application layer is load balanced across multiple servers, which, along with our sophisticated network management capabilities, allows for additional hardware to be inserted into our network providing us with optimal scalability and availability as evidenced by our greater than 99% uptime with our ever growing user base. We regularly backup critical data and store this backup data at an offsite location.

Security. Our security measures and policies include dividing application layers into multiple zones controlled by firewall technology. Sensitive communications are encrypted between client and server and our server-to-server accessibility is strictly controlled and monitored.

Physical Infrastructure. We utilize leading vendors including Cisco, F5, Oracle, Sun, Microsoft, Dell, Intel, and NetApp to provide a foundation for our SOA. Our systems are housed offsite in data centers that provide robust, redundant network backbone, power, and geographically separated disaster recovery. In fiscal year 2011, a secondary data center, geographically separated from our primary, was setup with enterprise virtualization technology in support of future plans to operate as a business continuity site with secured near real time data replication and as a host to our production systems. We vigilantly monitor our physical infrastructure for security, availability, and performance.

Oracle eBusiness Suite. In 2011, we commenced implementation of the Oracle eBusiness Suite to provide operational efficiencies and to support scalable, global growth across all departments and business lines. Deployed modules include: Core Financials (General Ledger, Accounts Receivable, Accounts Payable, Fixed Assets, Cash Management, AGIS), Manufacturing (Inventory, Cost Management, Bills of Material), Purchasing, iProcurement, iSupplier and iExpense. Our eBusiness Suite is hosted by Oracle OnDemand, a full-service data center with 24/7 support that includes site redundancy and disaster recovery services.

Other Information

Intellectual Property

Since our inception, we have invested more than $240 million to develop, and to a lesser degree, acquire our proprietary curriculum, education software and online learning systems. We continue to invest in our intellectual property as we develop more courses for new grades and expand into adjacent education markets, both in the U.S. and overseas. Through acquisitions, we have also acquired curriculum, patents and trademarks that expand our portfolio of educational products and services. In addition, we continue to add features and tools to our proprietary learning platform and support systems to assist teachers and students and improve educational outcomes. These intellectual property assets are critical to our success and we avail ourselves of the full protections provided under the patent, copyright, trademark and trade secrets laws. We also routinely utilize confidentiality and licensing agreements with our employees, the virtual public schools, hybrid schools, traditional schools, school districts and private schools that we serve, individual consumers, contractors and other businesses and persons with which we have commercial relationships. We will also serve certain foreign jurisdictions from network servers located outside of those countries for additional physical protection of our intellectual property.

Our patent portfolio includes issued patents and pending applications directed towards various aspects of our educational products and offerings. In particular, the first family of patent applications we filed in the U.S. and in foreign countries was directed towards the first generation of our system and method of virtual schooling and includes two patents as well as numerous pending patent applications. Further, two U.S. patents were recently issued for our systems and methods of online foreign language instruction. We also acquired eight issued patents in connection with our asset acquisition of the Cardean Learning Group LLC. Finally, we have submitted patent applications in the U.S. and in foreign countries for aspects of our basal science program and the second generation of our virtual school application.

We own the copyright to the lessons contained in the courses that comprise our proprietary curriculum and we continue to register this growing lesson portfolio with the U.S. Copyright Office. Through our acquisition of KCDL, we acquired copyright ownership of 140 Aventa courses, and through our acquisition of AEC and Kaplan, we acquired copyright ownership of 149 and 138 courses, respectively.

We have obtained federal and state registrations for numerous trademarks that are related to our offerings and we have applied to the U.S. Patent and Trademark Office to register certain new trademarks. As a result of the acquisitions we have made, we also own U.S. and foreign trademarks and a portfolio of domain names.

We grant licenses to individuals to use our software in order to access our online learning systems. Similarly, schools are granted a license to use our online learning systems in order to access SAMS and our other systems. These licenses are intended to protect our ownership and the confidentiality of the embedded information and technology contained in our software and systems. We also own many of the trademarks and service marks that we use as part of the student recruitment and branding services we provide to schools. Those marks are licensed to the schools for use during the term of the products and services agreements.

Our employees, contractors and other parties with access to our confidential information sign agreements that prohibit the unauthorized use or disclosure of our proprietary rights, information and technology.

Employees

As of June 30, 2011, we had approximately 2,500 employees including 1,150 teachers. In addition, there are approximately 2,400 teachers who are employed by virtual public schools or hybrid schools that we manage under turnkey solution contracts with those schools. None of our employees are union employees; however, certain virtual public schools and hybrid schools we serve employ unionized teachers. We believe that our employee relations are good.

Available Information

Our Company's Internet address is www.K12.com. We make available, free of charge through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), soon after they are electronically filed with the Securities and Exchange Commission (SEC). In addition, our earnings conference calls are web cast live via our website. In addition to visiting our website, you may read and copy public reports we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC 20549, or at www.sec.gov. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Information contained on our website is expressly not incorporated by reference into this Annual Report.

REGULATION

We and the virtual public schools and hybrid schools that purchase our curriculum and management services are subject to regulation by each of the states in which we operate, including Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kansas, Louisiana, Massachusetts, Michigan, Minnesota, Nevada, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Washington, Wisconsin, Wyoming and the District of Columbia. The state laws and regulations that directly impact our business are those that authorize or restrict our ability to operate virtual public schools and hybrid schools, and those that restrict virtual public school and hybrid school growth and funding. In addition, there are state laws and regulations that are applicable to virtual public schools and hybrid schools that indirectly affect our business insofar as they affect these virtual public schools and hybrid schools' ability to operate and receive funding. Finally, to the extent a virtual school or hybrid school obtains federal funds, such as through a grant program or financial support dedicated for the education of low-income families, these schools then become subject to additional federal regulation. Federal funding and other regulations also apply to the colleges and universities to which we provide learning management systems and curriculum.

State Laws Authorizing or Restricting Virtual Public Schools and Hybrid Schools. The authority to operate a virtual public school or hybrid school is dependent on the laws and regulations of each state. Laws and regulations vary significantly from one state to the next and are constantly evolving. In states that have implemented specific legislation to support virtual public schools and hybrid schools, the schools are able to operate under these statutes. Other states provide for virtual public schools and hybrid schools under existing charter school legislation or provide that school districts and/or state education agencies may authorize them. Some states do not currently have legislation that provides for virtual public schools and hybrid schools or have requirements that effectively prohibit virtual public schools and hybrid schools and, as a result, may require new legislation before virtual public schools and hybrid schools can open in the state. According to a September 2009 update of state online learning policies by the International Association for K-12 Online Learning (iNACOL), there are 45 states that have either adopted legislation or formal rules or have created programs for the purpose of providing statewide supplemental and/or full-time online learning opportunities. We currently serve virtual public schools, hybrid schools or school district-led programs in 29 states plus the District of Columbia. While a few states do not currently have either a state-led program or significant state-level policies for online education, the absence of such conditions has not precluded us from applying to serve, and in certain cases serving, schools in some of those states.

Obtaining new legislation in these remaining states can be a protracted and uncertain process despite their limited number. When determining whether to pursue expansion into new states in which the laws are ambiguous, we research the relevant legislation and political climate and then make an assessment of the perceived likelihood of success before deciding to commit resources. Specifically, we take into account numerous factors including, but not limited to, the regulations of the state educational authorities, whether the overall political environment is amenable to school choice, whether current funding levels for virtual school and hybrid schools enrollments are adequate and accessible, and the presence of non-profit and for-profit competitors in the state.

State Laws and Regulations Applicable to Virtual Public Schools and Hybrid Schools. Virtual public schools and hybrid schools that purchase our curriculum and management services are often governed and overseen by a non-profit or a local or state education agency, such as an independent charter school board, local school district or state education authority. We generally receive funds for products and services rendered to operate virtual public schools or hybrid schools under detailed service agreements with that governing authority. Virtual public schools and hybrid schools are typically funded by state or local governments on a per student basis. A virtual school or hybrid school that fails to comply with the state laws and regulations applicable to it may be required to repay these funds and could become ineligible for receipt of future state funds.

To be eligible for state funding, some states require that virtual public schools and hybrid schools be organized under not-for-profit charters exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. The schools must then be operated exclusively for charitable educational purposes, and not for the benefit of private, for-profit management companies. The board or governing authority of the not-for-profit virtual school or hybrid school must retain ultimate accountability for the school's operations to retain its tax-exempt status. It may not delegate its responsibility and accountability for the school's operations. Our service agreements with these virtual public schools and hybrid schools are therefore structured to ensure the full independence of the not-for-profit board and preserve its ability to exercise its fiduciary obligations to operate a virtual public school or hybrid school.

Laws and regulations affect many aspects of operating a virtual public school or hybrid school. They can dictate the content and sequence of the curriculum, the requirements to earn a diploma, use of approved textbooks, the length of the school year and the school day, the assessment of student performance, and any accountability requirements. In addition, a virtual public school or hybrid school may be obligated to comply with states' requirements to offer programs for specific populations, such as students at risk of dropping out of school, gifted and talented students, non-English speaking students, pre-kindergarten students, and students with disabilities. Tutoring services and the use of technology may also be regulated. Other state laws and regulations may affect the school's compulsory attendance requirements, treatment of absences and make-up work, and access by parents to student records and teaching and testing materials. Additionally, states have various requirements concerning the reporting of extensive student data that may apply to the school. A virtual public school or hybrid school may have to comply with state requirements that school campuses report various types of data as performance indicators of the success of the program.

States have laws and regulations concerning certification, training, experience and continued professional development of teachers and staff with which a virtual public school or hybrid school may be required to comply. There are also numerous laws pertaining to employee salaries and benefits, statewide teacher retirement systems, workers' compensation, unemployment benefits, and matters related to employment agreements and procedures for termination of school employees. A virtual public school and hybrid school must also comply with requirements for performing criminal background checks on school staff, reporting criminal activity by school staff and reporting suspected child abuse.

As with any public school, virtual public schools and hybrid schools must comply with state laws and regulations applicable to governmental entities, such as open meetings laws, which may require the board of trustees of a virtual public school and hybrid school to hold its meetings open to the public unless an exception in the law allows an executive session. Failure to comply with these requirements may lead to personal civil and/or criminal penalties for board members or officers. Virtual public schools and hybrid schools must also comply with public information or open records laws, which require them to make school records available for public inspection, review and copying unless a specific exemption in the law applies. Additionally laws pertaining to records privacy and retention and to standards for maintenance of records apply to virtual public schools and hybrid schools.

Other types of regulation applicable to virtual public schools and hybrid schools include restrictions on the use of public funds, the types of investments made with public funds, the collection of and use of student fees, and controlling accounting and financial management practices.

There remains uncertainty about the extent to which virtual public schools and hybrid schools we serve may be required to comply with state laws and regulations applicable to traditional public schools because the concept of virtual public schools and hybrid schools is relatively new. Although we receive state funds indirectly, according to the terms of each service agreement with the local public school entity, our receipt of state funds subjects us to extensive state regulation and scrutiny. States regularly conduct audits of these schools some of which are still pending, to verify enrollment, attendance, fiscal accountability, special education services, and other regulatory issues. While we may believe that a virtual public school or hybrid school we serve is compliant with state law, an agency's different interpretation of law in a particular state could result in non-compliance, potentially affecting funding.

Regulations Restricting Virtual Public School and Hybrid School Growth and Funding. As a new public schooling alternative, some state and regulatory authorities have elected to proceed cautiously with virtual public schools and hybrid schools while providing opportunities for taxpayer families seeking this alternative. Regulations that control the growth of virtual public schools and hybrid schools range from setting caps on statewide student enrollments, to prescribing the number of schools in a state, to limiting the percentage of time students may receive instruction online. Funding regulations can also have this effect.

Regulations that hinder our ability to serve certain jurisdictions include: restrictions on student eligibility, such as mandating attendance at a traditional public school prior to enrolling in a virtual public school or hybrid school; caps on the total number of students in a virtual public school and hybrid school; restrictions on grade levels served; geographic limitations on enrollments; fixing the percentage of per pupil funding that must be paid to teachers; mandating teacher: student ratios; state-specific curriculum requirements; and limits on the number of charters that can be granted in a state.

Funding regulations for virtual public schools and hybrid schools can take a variety of forms. These regulations include: (i) attendance — some state daily attendance rules were designed for traditional classroom procedures and applying them to track daily attendance and truancy in an online setting can cause disputes to arise over interpretation and funding; (ii) enrollment eligibility— some states place restrictions on the students seeking to enroll in virtual public schools and hybrid schools , resulting in lower aggregate funding levels; and (iii) teacher contact time — some states have regulations that specify minimum levels of teacher-student face-to-face time, which can create logistical challenges for statewide virtual public schools and hybrid schools, reduce funding and eliminate some of the economic, academic and technological advantages of virtual learning.

Federal and State Grants. We have worked with certain entities to secure public and grant funding that flows to virtual public schools and hybrid schools that we serve. These grants are awarded to the not-for-profit entity that holds the charter of the virtual public school or hybrid school on a competitive basis in some instances and on an entitlement basis in other instances. Grants awarded to public schools and programs — whether by a federal or state agency or nongovernmental organization — often include reporting requirements, procedures, and obligations.

Foreign Regulation. Schools we acquired or operate in other countries are subject to local laws and regulations. We oversee and rely on each the administrators of each school on a continuous basis and seek the advice of local legal and regulatory experts as-needed.

Federal Laws Applicable to Virtual Public Schools and Hybrid Schools

Five primary federal laws are directly applicable to the day-to-day provision of educational services we provide to virtual public schools and hybrid schools:

- *No Child Left Behind Act (NCLB).* Through the funding of the Title I programs for disadvantaged students under NCLB, the federal government requires public schools to develop a state accountability system based on academic standards and assessments developed by the state, which are applicable to all public school students. Each state must determine a proficiency level of academic achievement based on the state assessments, and must determine what constitutes adequate yearly progress (AYP) toward that goal. NCLB has a timeline to ensure that no later than the 2013-14 school year, all students, including those in all identified subgroups (such as economically disadvantaged, limited English proficient and minority students), will meet or exceed the state proficient level of academic achievement on state assessments. The progress of each school is reviewed annually to determine whether the school is making adequate yearly progress. If a Title I school does not make adequate yearly progress as defined in the state’s plan, the local education agency (LEA) is required to identify the school as needing school improvement, and to provide all students enrolled in the school with the option to transfer to another public school served by the LEA, which may include a virtual public school or a hybrid school. The LEA must develop a school improvement plan for each school identified as needing improvement in consultation with parents, staff and outside experts and this plan must be implemented not later than the beginning of the next full school year. If the school does not make adequate yearly progress in subsequent years, the school transfer option remains open to students and other corrective action must be taken ranging from providing supplemental education services to the students who remain in the school to taking corrective action including, but not limited to, replacing school staff, implementing a new curriculum, appointing outside experts to advise the school, extending the school year or the school day, reopening the school as a public charter school with a private management company or turning over the operation of the school to the state educational agency.

Another provision of NCLB requires public school programs to ensure that all teachers are highly qualified. A highly qualified teacher means one who has: (1) obtained full state certification or licensure as a teacher and who has not had certification or licensure requirements waived on an emergency, temporary or provisional basis; (2) obtained a bachelor's degree; and (3) demonstrated competence in the academic subject the teacher teaches. All teacher aides working in a school supported with Title I funds must be highly qualified which means the person must have a high school diploma or its equivalent and one of the following: completed at least two years of study in an institution of higher education, obtained an associate's or higher degree, or met a rigorous standard of quality demonstrated through a formal state or local assessment. Virtual public schools or hybrid schools using our products and services may be required to meet these requirements for any persons who perform instructional services.

Virtual public schools or hybrid schools that receive Title I funding and use our products and services may be required to provide parents of Title I students with a variety of notices regarding the teachers and teachers' aides that teach their children. In addition, if these schools serve limited English proficient (LEP) children, they may be required to provide a variety of notices to the parents regarding the identification of the student as LEP and certain information about the instruction to be provided to the student, as well as the right to remove or refuse to enroll the student in the LEP program. Finally, these schools may also be required annually to develop, with input from parents of Title I students, and implement a written policy on parental involvement in the education of their children, to hold annual meetings with these parents and to provide these parents with assistance in various areas to help the parents to work with their children to improve student achievement.

Under NCLB, even schools that do not receive Title I funding must provide certain notices to parents. For example, schools may be required to provide a school report card and identify whether any school has been identified as needing improvement and for how long. Parents also must be provided data that will be used to determine adequate yearly progress. Virtual public schools or hybrid schools may be contacted by military recruiters who have the right to access the names, addresses and telephone numbers of secondary school students for military recruiting purposes. Additionally, virtual public schools and hybrid schools may be required to notify parents that they have the option to request that this information not be released to military recruiters or to institutions of higher education.

- *Individuals with Disabilities Education Act (IDEA).* The IDEA is implemented through regulations governing every aspect of the special education of a child with one or more of the specific disabilities listed in the act. The IDEA created a responsibility on the part of a school to identify students who may qualify under the IDEA and to perform periodic assessments to determine the students' needs for services. A student who qualifies for services under the IDEA must have in place an individual education plan, which must be updated at least annually, created by a team consisting of school personnel, the student, and the parent. This plan must be implemented in a setting where the child with a disability is educated with non-disabled peers to the maximum extent appropriate. The act provides the student and parents with numerous procedural rights relating to the student's program and education, including the right to seek mediation of disputes and make complaints to the state education agency. The schools we manage are responsible for ensuring the requirements of this act are met. The virtual public schools and hybrid schools could be required to comply with requirements in the act concerning teacher certification and training. We, the virtual public school or the hybrid school could be required to provide additional staff, related services and supplemental aids and services at our own cost to comply with the requirement to provide a free appropriate public education to each child covered under the IDEA. If we fail to meet this requirement, we, the virtual public school or hybrid school could lose federal funding and could be liable for compensatory educational services, reimbursement to the parent for educational service the parent provided, and payment of the parent's attorney's fees.

- *Section 504 of the Rehabilitation Act of 1973.* A virtual public school or hybrid school receiving federal funds is subject to Section 504 of the Rehabilitation Act of 1973 (Section 504) insofar as the regulations implementing the act govern the education of students with disabilities as well as personnel and parents. Section 504 prohibits discrimination against a person on the basis of disability in any program receiving federal financial assistance if the person is otherwise qualified to participate in or receive benefit from the program. Students with disabilities not specifically listed in the IDEA may be entitled to specialized instruction or related services pursuant to Section 504 if their disability substantially limits a major life activity. There are many similarities between the regulatory requirements of Section 504 and the IDEA; however this is a separate law which may require a virtual public school or hybrid school to provide a qualified student with a plan to accommodate his or her disability in the educational setting. If a school fails to comply with the requirements and the procedural safeguards of Section 504, it may lose federal funds even though these funds flow indirectly to the school through a local board. In the case of bad faith or intentional wrongdoing, some courts have awarded monetary damages to prevailing parties in Section 504 lawsuits.

- *Family Educational Rights and Privacy Act.* Virtual public schools and hybrid schools are subject to the Family Educational Rights and Privacy Act which protects the privacy of a student's educational records and generally prohibits a school from disclosing a student's records to a third-party without the parent's prior consent. The law also gives parents certain procedural rights with respect to their minor children's education records. A school's failure to comply with this law may result in termination of its eligibility to receive federal education funds.

- *Communications Decency Act.* The Communications Decency Act of 1996 (CDA) provides protection for online service providers against legal action being taken against them because of certain actions of others. For example, the CDA states that no provider or user of an interactive computer service shall be treated as the publisher or speaker of any data given by another provider of information content. Further, Section 230 of the CDA grants interactive online services of all types, broad immunity from tort liability so long as the information at issue is provided or posted by a third party. As part of our technology services offering, we provide an online school platform on which teachers and students may communicate. We also conduct live classroom sessions using Internet-based collaboration software and we offer certain online community platforms for students and parents. While the CDA affords us with some protection from liability associated with the interactive online services we offer, there are exceptions to the CDA that could result in successful actions against us that give rise to financial liability.

If we fail to comply with other federal laws, including federal civil rights laws not specific to education programs, we could be determined ineligible to receive funds from federal programs or face criminal or civil penalties. Finally, there are also other federal laws and regulations that affect other aspects of our business such as the identify theft rules adopted by the Federal Trade Commission and for which we have adopted policies to ensure compliance.

ITEM 1A. *RISK FACTORS*

Risks Related to Government Funding and Regulation of Public Education

Most of our revenues depend on per pupil funding amounts remaining near the levels existing at the time we execute service agreements with the virtual public schools and hybrid schools we serve. If those funding levels are materially reduced due to economic conditions or political opposition, new restrictions adopted or payments delayed, our business, financial condition, results of operations and cash flows could be adversely affected.

The public schools we contract with are financed with government funding from federal, state and local taxpayers. Our business is primarily dependent upon those funds. Budget appropriations for education at all levels of government are determined through the political process, which may also be affected by conditions in the economy at large, such as the current severe recession in the U.S. that began in 2008 and persists, and by budgetary pressures experienced by state and local governments. As a result, funding for the virtual public schools and hybrid schools we serve has and may continue to decline. The political process and general economic conditions create a number of risks that could have an adverse affect on our business including the following:

- Legislative proposals can and have resulted in budget or program cuts for public education, including the virtual public schools, hybrid schools and school districts we serve, and therefore have reduced and could potentially limit or eliminate the products and services those schools purchase from us, causing our revenues to decline. From time to time, proposals are introduced in state legislatures that single out virtual public schools and hybrid schools for disparate treatment. For example, in 2011, the Governor of Arizona proposed significant cuts in the state education budget for Arizona Online Instruction (AOI) that would have impacted the per pupil funding for the Arizona Virtual Academy. The proposed AOI funding cuts were not enacted in the final version of the budget that was passed by the Arizona legislature due to public demand to maintain the quality of the AOI program. Other examples include laws that alter eligibility and attendance criteria or other funding conditions that could decrease our revenues and limit our ability to grow.

- Economic conditions could reduce state education funding for all public schools, and could be disproportionate for the virtual public schools and hybrid schools we serve. Our annual revenue growth is impacted by changes in federal, state and district per enrollment funding levels. Due to the budgetary problems arising from the economic recession, many states have reduced per enrollment funding for public education affecting many of the public schools we serve. While the American Recovery and Reinvestment Act of 2009 and Education Jobs and Medicaid Assistance Act of 2010 have provided additional federal funds to states, they have not fully offset the state funding reductions. Our financial results reflect the state funding reductions, federal funds provided, and expense reductions that we undertook in order to mitigate the impact of these budget constraints. Notwithstanding this additional aid, net reductions in school funding have negatively affected both revenue and income for our last three fiscal years. At this time, many states still have budget issues. The specific level of federal, state and district funding for the coming years is not yet known, and taken as a whole, it is reasonable to believe that a number of the public schools we serve could experience lower per enrollment funding in the future.
- As a public company, we are required to file periodic financial and other disclosure reports with the Securities and Exchange Commission, or the SEC. This information may be referenced in the legislative process, including budgetary considerations, related to the funding of alternative public school options, including virtual public schools and hybrid schools. The disclosure of this information by a for-profit education company, regardless of parent satisfaction and student academic achievement, may nonetheless be used by opponents of virtual public schools and hybrid schools to propose funding reductions.
- From time to time, government funding to schools is not provided when due, which sometimes causes the affected schools to delay payments to us for our products and services. These payment delays have occurred in the past and can deprive us of significant working capital until the matter is resolved, which could hinder our ability to implement our growth strategies and conduct our business. In 2009, for example, the Pennsylvania Department of Education (PDE) withheld monthly payments for the Agora Cyber Charter School for products and services we provided as a subcontractor due to the PDE's investigation of the Agora Board of Trustees' compliance with its charter, even though the PDE had no complaints against us. The Pennsylvania Department of Education subsequently paid to us all amounts that had been withheld.

The poor performance or misconduct by operators of other virtual public schools, public school district virtual leaning programs or hybrid schools could tarnish the reputation of all the school operators in our industry, which could have a negative impact on our business.

As a non-traditional form of public education, virtual school and hybrid school operators will be subject to scrutiny, perhaps even greater than that applied to traditional public schools or charter schools. Not all virtual public school, school district virtual learning program or hybrid school operators will have successful academic programs or operate efficiently, and new entrants may not perform well either. Such underperforming operators could create the impression that virtual schooling is not an effective way to educate students, whether or not our learning system achieves solid performance. Moreover, some virtual school and hybrid school operators have been subject to governmental investigations alleging the misuse of public funds or financial irregularities. These allegations have attracted significant adverse media coverage and have prompted legislative hearings and regulatory responses. Although these investigations have focused on specific companies and individuals, or even entire industries in the case of misleading practices by for-profit higher education companies, they may negatively impact public perceptions of virtual public school, school district virtual learning program or hybrid school providers generally, including us. The precise impact of these negative public perceptions on our current and future business is difficult to discern, in part because of the number of states in which we operate and the range of particular malfeasance or performance issues involved. We have incurred significant lobbying costs in several states advocating against harmful legislation which, in our opinion, was aggravated by negative media coverage of particular virtual school or hybrid school operators. If these few situations, or any additional misconduct, cause all virtual public school, school district virtual learning program and hybrid school providers to be viewed by the public and/or policymakers unfavorably, we may find it difficult to enter into or renew contracts to operate virtual or hybrid schools. In addition, this perception could serve as the impetus for more restrictive legislation, which could limit our future business opportunities. Finally, as we seek to provide online courses and supporting systems to higher education institutions, allegations of abuse of federal financial aid funds and other statutory violations against for-profit higher education companies, could negatively impact our opportunity to succeed in this market through increased regulation and decreased demand.

Opponents of virtual public schools and hybrid schools have sought to challenge the establishment and expansion of such schools through the judicial process. If these interests prevail, it could damage our ability to sustain or grow our current business or expand in certain jurisdictions.

We have been, and will likely continue to be, subject to lawsuits filed against virtual public schools and hybrid schools by those who do not share our belief in the value of this form of public education. Whether or not we are a named party to these lawsuits, legal claims have involved challenges to the constitutionality of authorizing statutes, methods of instructional delivery, funding provisions and the respective roles of parents and teachers. For example, in *Illinois v. Chicago Virtual Charter School*, 06 CH 20955 (Cook County) (July 11, 2009), the Chicago Teacher's Union and other plaintiffs claimed that the instructional model of the Chicago Virtual Charter School violated the prohibition against home-based charter schools under Illinois law. The Court did not agree and dismissed the claims on summary judgment. Most recently, in May 2011, the Georgia Supreme Court ruled in *Gwinnett County School District v. Cox et al.* (Case No. S10A1773) that the Georgia State legislature exceeded its authority by creating a commission to authorize public charter schools that compete with local public school districts. Although the Georgia Cyber Academy online charter school we serve (GCA) was established under a different charter school statute that was not at issue in the case, a potential increase in funding for students who attend GCA was negatively affected.

The failure of the virtual public schools and hybrid schools we serve to comply with applicable government regulations could result in a loss of funding and an obligation to repay funds previously received, which could adversely affect our business, financial condition and results of operations.

Once authorized by law, virtual public schools and hybrid schools are generally subject to extensive regulation. These regulations cover specific program standards and financial requirements including, but not limited to: (i) student eligibility standards; (ii) numeric and geographic limitations on enrollments; (iii) prescribed student:teacher ratios and teacher funding allocations from per pupil funding; (iv) state-specific curriculum requirements; and (v) restrictions on open-enrollment policies by and among districts. State and federal funding authorities conduct regular program and financial audits of virtual public schools and hybrid schools, including the virtual public schools and hybrid schools we serve, to ensure compliance with applicable regulations. If a virtual public school or hybrid school we serve is found to be noncompliant, it can be barred from receiving additional funds and could be required to repay funds received during the period of non-compliance, which could impair that school's ability to pay us for services in a timely manner, if at all. Additionally, the indemnity provisions in our standard service agreements with virtual public schools and hybrid schools may require us to return any contested funds on behalf of the school. For example, a School Year 2006-07 audit of a fully-managed virtual school we serve in Washington State involved the quality of documentation, and interpretation of the rules governing such documentation, maintained by the school district for statewide enrollments and student-teacher contacts. Without any admissions of liability the audit was concluded in November 2010 with the school district agreeing to reimburse the state for a significantly-reduced portion of the originally disputed amount to be paid over a period of four years. Pursuant to our management agreement, we agreed to indemnify the school district for these payments.

Virtual public schools and hybrid schools are relatively new, and enabling legislation therefore is often ambiguous and subject to discrepancies in interpretation by regulatory authorities, which may lead to disputes over our ability to invoice and receive payments for services rendered.

Statutory language providing for virtual public schools and hybrid schools is sometimes interpreted by regulatory authorities in ways that may vary from year to year making compliance subject to uncertainty. More issues normally arise during our first few school years of doing business in a state because the enabling legislation often does not address specific issues, such as what constitutes proper documentation for enrollment eligibility in a virtual school or hybrid school. We normally work through these issues and come to an agreement with the regulatory authorities on these details, although from time to time, there are changes to the regulators' approach to determining the eligibility of virtual school or hybrid school students for funding purposes. Another example may be differing interpretations on what constitutes a student's substantial completion of a semester in a public school. These regulatory uncertainties may lead to disputes over our ability to invoice and receive payments for services rendered, which could adversely affect our business, financial condition and results of operations.

The operation of virtual public schools and hybrid schools depends on the maintenance of the authorizing charter and compliance with applicable laws. If these charters are not renewed, our contracts with these schools would be terminated.

In many cases, virtual public schools and hybrid schools operate under a charter that is granted by a state or local authority to the charter holder, such as a community group or an established not-for-profit corporation, which typically is required by state law to qualify for student funding. In fiscal year 2011, approximately 85% of our revenues were derived from virtual public schools and hybrid schools operating under a charter. The service agreement for these schools is with the charter holder or the charter board. Non-profit charter schools qualifying for exemption from federal taxation under Internal Revenue Code Section 501(c)(3) as charitable organizations must also operate in accordance with Internal Revenue Service rules and policies to maintain that status and their funding eligibility. In addition, all state charter school statutes require periodic reauthorization. While none of the virtual public schools or hybrid schools we serve have failed to maintain their authorizing charter, if a virtual public school or hybrid school we serve fails to maintain its tax-exempt status and funding eligibility, or if its charter is revoked for non-performance or other reasons that may be due to actions of the independent charter board completely outside of our control, our contract with that school would be terminated. For example, in July 2009, the Pennsylvania Department of Education instituted charter revocation proceedings against the Agora Cyber Charter School based on allegations of charter violations and non-compliance with state charter school and other laws by the independent charter board, even though the PDE had no complaints against us. However, the charter was renewed for five years on June 30, 2010, following PDE approval of a new board and management contract with us.

Actual or alleged misconduct by our senior management and directors would make it more difficult for us to enter into new contracts or renew existing contracts.

If any of our directors, officers, key employees or school officials are accused or found to be guilty of serious crimes, including the mismanagement of public funds, the schools we serve could be barred or discouraged from entering into or renewing service agreements with us. As a result, our business and revenues would be adversely affected.

New laws or regulations not currently applicable to for-profit education companies in the K-12 sector could be enacted and negatively impact our operations and financial results

As the provision of online K-12 public education matures, novel issues may arise that could lead to the enactment of new laws or regulations similar to, or in addition to, laws or regulations applicable to other areas of education and education at different levels. For example, for-profit education companies that own and operate post-secondary colleges depend in significant respect on student loans provided by the federal government to cover tuition expenses, and federal laws prohibit incentive compensation for success in securing enrollments or financial aid to any person engaged in student recruiting or admission activities. In contrast, while students in virtual public K-12 charter schools are entitled to a free public education with no federal or state loans necessary for tuition, similar laws could be enacted that make for-profit management companies serving such schools subject to similar restrictions

Risks Related to Our Business and Our Industry

Mergers, acquisitions and joint ventures present many risks, and we may not realize the financial and strategic goals that formed the basis for the transaction.

We intensified our corporate development activities in fiscal year 2011 to expand our business, which included our acquisitions of KCDL, The American Education Corporation, the International School of Berne, our joint venture with Middlebury College, our investment in the Web International Education Group Ltd., our partnership with George Washington University Online High School, and our purchases of the assets of Cardean Learning Group LLC and Kaplan Virtual Education. We expect to continue to pursue and consummate similar transactions in the future using cash, stock, debt, asset contributions or any combination thereof. We may face risks in connection with these or other future transactions, including the possibility that we may not realize the anticipated cost and revenue synergies or further the strategic purpose of any acquisition if our forecasts do not materialize. The pursuit of acquisitions may divert the resources that could otherwise be used to support and grow our existing lines of business. Acquisitions may also create multiple and overlapping product lines that are offered, priced and supported differently, which could cause customer confusion and delays in service. Customers may decline to renew their contracts or the contracts of acquired businesses might not allow us to recognize revenues on the same basis. These transactions may also divert our management's attention and our ongoing business may be disrupted by acquisition, transition or integration activities. In addition, we may have difficulty separating, transitioning and integrating an acquired company's systems and the associated costs in doing so may be higher than we anticipate.

There may also be other adverse effects on our business, operating results or financial condition associated with the expansion of our business through acquisitions. We may fail to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company or technology, which could result in unexpected accounting treatment, unexpected increases in taxes due or a loss of anticipated tax benefits. Our use of cash to pay for acquisitions may limit other potential uses of our cash, including investment in other areas of our business, stock repurchases, dividend payments and retirement of outstanding indebtedness. If we issue a significant amount of equity for future acquisitions, existing stockholders may be diluted and earnings per share may decrease. We may pay more than the acquired company or assets are ultimately worth and we may have underestimated our costs in continuing the support and development of an acquired company's products. Our operating results may be adversely impacted by liabilities that we assume from an acquired company or by relationships of an acquired company that we would not have otherwise entered into, the termination or modification of which may be costly, disruptive to our business, or lead to litigation.

We may be unable to obtain required approvals from governmental authorities on a timely basis, if it all, which could, among other things, delay or prevent us from completing a transaction, otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition or have other adverse effects on our current business and operations. We may face contingencies related to intellectual property, financial disclosures, and accounting practices or internal controls. Finally, we may not be able to retain key executives of an acquired company.

The occurrence of any of these risks could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or several concurrent acquisitions.

We are implementing a new company-wide enterprise resource planning (ERP) system. The implementation process is complex and involves a number of risks that may adversely affect our business and results of operations.

We are currently replacing our multiple legacy business systems at different sites with a new company-wide, integrated ERP system to handle various business, operating and financial processes. The new system will enhance a variety of important functions, such as order entry, invoicing, accounts receivable, accounts payable, financial consolidation, and internal and external financial and management reporting matters. ERP implementations are complex and time-consuming projects that involve substantial expenditures on system hardware and software and implementation activities that often continue for several years. Such an integrated, wide-scale implementation also requires transformation of business and financial processes in order to reap the benefits of the ERP system. Significant efforts are required for requirements identification, functional design, process documentation, data conversion, user training and post implementation support. Problems in any of these areas could result in operational issues including delayed billing and accounting errors and other operational issues. System delays or malfunctioning could also disrupt our ability to timely and accurately process and report results of our operations, financial position and cash flows, which could impact our ability to timely complete important business processes such as the evaluation of our internal controls and attestation activities pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

Until the new ERP system is fully implemented, we expect to incur significant additional selling, general and administrative expenses and capital expenditures to implement and test the system, and there can be no assurance that other issues relating to the ERP system will not occur or be identified. Our business and results of operations may be adversely affected if it experiences operating problems and/or cost overruns during the ERP implementation process or if the ERP system and the associated process changes, do not function as expected or give rise to the expected benefits.

We have had a material weakness in internal control surrounding the project management of our new Oracle eBusiness Suite system which delayed the year-end close from being completed in a timely manner. Following the initial Oracle eBusiness Suite system implementation that went live on April 1, 2011, no assurance can be provided that additional problems will not be encountered with the new system, or that planned enhancements and updates will not result in additional material weaknesses in the future. However, the inability going forward to maintain effective internal controls until the Oracle eBusiness Suite system implementation is completed could result in material misstatements and require us to restate our financial statements, cause investors to lose confidence in our ability to report accurate and timely financial information, and have a negative effect on our stock price.

Management has identified that a material weakness existed in our internal control over financial reporting for the period ended June 30, 2011. See “Item 9A. Controls and Procedures” herein.

The material weakness in our internal control over financial reporting related to the processes surrounding the project management of our ERP implementation. Management determined that the design of the system implementation plan was insufficiently comprehensive which caused delays and ultimately prevented the year-end close from being completed in a timely manner. We cannot assure you that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional significant deficiencies or material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated under Section 404. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of our financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

Pursuant to our joint venture agreement with Middlebury College, there is a risk that Middlebury College might exercise its right to require us to purchase its ownership interest in our joint venture at fair market value which could adversely affect our financial condition.

A key provision in our joint venture agreement with Middlebury College is its right beginning on April 14, 2015 and upon 180 days advance notice, to require us to purchase all, but not a portion of, its ownership interest in our joint venture at fair market value and based on an independent appraisal. We have the right to pay the redemption cost in cash, stock or a combination thereof, at our option. It is uncertain when or whether Middlebury College would elect to exercise this right and therefore, we cannot at this time determine the form of the redemption payment and therefore the exact impact to our financial condition or dilution to shareholders.

If we fail to remain profitable or achieve further marketplace acceptance for our products and services, our business, financial condition and results of operations will be adversely affected.

The virtual public schools and hybrid schools we serve began enrolling students in the 2001-02 school year. We first achieved positive income from operations in the fiscal year ending June 30, 2006. Prior to that period, we sustained cumulative net losses totaling approximately $90 million. There can be no assurance that we will remain profitable, or that our products and services will achieve further marketplace acceptance. Our marketing efforts may not generate a sufficient number of student enrollments to sustain our business plan; our capital and operating costs may exceed planned levels; and we may be unable to develop and enhance our service offerings to meet the demands of virtual public schools, hybrid schools and students to the extent that such demands and preferences change. For example, the current recession in the U.S. economy has led to lower tax revenues and reductions in state educational budgets which may negatively impact a virtual charter school's offerings and student enrollments. If we are not successful in managing our business and operations, our financial condition and results of operations will be adversely affected.

Regulatory frameworks on the accessibility of technology are continually evolving due to legislative and administrative developments and the rapid evolution of technology, which could result in increased product development costs and compliance risks.

Our online curriculum is made available to students through computers and other display devices connected to the Internet. This curriculum includes a combination of software applications that include graphics, pictures, videos, animations, sounds, and interactive content that present challenges to people with disabilities. A number of states have considered or are considering how electronic and information technology procured with state funds should be made accessible to persons with such disabilities. To the extent they enact laws and regulations to require greater accessibility, we might have to modify our curriculum offerings to satisfy those requirements. In addition, to the extent that we enter into federal government contracts, similar requirements could be imposed on us under Section 508 of the Rehabilitation Act of 1974. We expect that we will continue to modify and improve our curriculum so that it can be made available to the widest audience possible. However, if requirements or technology evolves in such a way as to accelerate or alter the need to make all curriculum accessible, we could incur significant product development costs on an accelerated basis. A failure to meet required accessibility needs could also result in loss or termination of significant contracts or in potential legal liability.

The schools we contract with and serve are governed by independent governing bodies that may shift their priorities or change objectives in ways adverse to us, or react negatively to acquisitions or other transactions.

We contract with and provide a majority of our products and services to virtual public schools and hybrid schools governed by independent boards or similar governing bodies. While we typically share a common objective at the outset of our business relationship, over time our interests could diverge, such as may result from an acquisition that includes another online public school that seeks to enroll students from the same geographic territory. If these independent boards of the schools we serve subsequently shift their priorities or change objectives, and as a result reduce the scope or terminate their relationship with us, our ability to generate revenues would be adversely affected if an alternative virtual public school or hybrid school we serve is not available to enroll the affected students.

Our contracts with the virtual public schools and hybrid schools we serve are subject to periodic renewal, and each year several of these agreements are set to expire. If we are unable to renew several such contracts or if a single significant contract expires during a given year, our business, financial condition, results of operations and cash flow could be adversely affected.

We have contracts to provide our full range of products and services to virtual public schools and hybrid schools in 29 states and the District of Columbia. Several of these contracts are scheduled to expire in any given year. For example, such contracts in four states are scheduled to expire in fiscal year 2012 although the contracts in two of those four states are annual contracts that contain automatic renewal provisions. We usually begin to engage in renewal negotiations during the final year of these contracts. In order to renew these contracts, we have to enter into negotiations with the independent boards of these virtual public schools and hybrid schools. Historically we have been successful in renewing these contracts, but such renewals typically contain revised terms, which may be more or less favorable than the terms of the original contract. For example, a school in Pennsylvania reduced the term of its contract from five years to three years when renewing its contract in 2006, but when renewing again in 2009, extended the term to 10 years. Similarly, a school in Colorado increased the term of its contract from five years to 10 years upon renewal in 2010 and a school in Arizona increased the term of its contract from five years to 20 years upon renewal in 2010. While we have no reason to believe that schools with valid charters will not continue to renew their contracts upon expiration, we recognize that each renegotiation is unique and, if we are unable to renew several such contracts or one significant contract expiring during a given year, or if such renewals have significantly less favorable terms than existing contracts, or an underlying charter is revoked or not renewed, our business, financial condition, results of operations and cash flow could be adversely affected.

We generate significant revenues from two virtual public schools, and the termination, revocation, expiration or modification of our contracts with these virtual public schools could adversely affect our business, financial condition and results of operation.

In fiscal year 2011, we derived approximately 13% of our revenues from each of the Ohio Virtual Academy and the Agora Cyber Charter School in Pennsylvania. In aggregate, these schools accounted for approximately 26% of our total revenues. If our contracts with any of these virtual public schools are terminated, the charters to operate any of these schools are not renewed or are revoked, enrollments decline substantially, funding is reduced, or more restrictive legislation is enacted, our business, financial condition and results of operations could be adversely affected.

Highly qualified teachers are critical to the success of our learning system. If we are not able to continue to recruit, train and retain quality certified teachers, our curriculum might not be effectively delivered to students, compromising their academic performance and our reputation with the virtual public schools and hybrid schools we serve. As a result, our brand, business and operating results may be adversely affected.

Effective teachers are critical to maintaining the quality of our learning system and assisting students with their daily lessons. Teachers in virtual public schools and hybrid schools must be state certified and have strong interpersonal communications skills to be able to effectively instruct students in a virtual school setting. They must also possess the technical skills to use our technology-based learning system. There is a limited pool of teachers with these specialized attributes and the virtual public schools and hybrid schools we serve must provide competitive compensation packages to attract and retain such qualified teachers.

The teachers in most virtual public schools and hybrid schools we serve are not our employees and the ultimate authority relating to those teachers resides with the governing body overseeing the schools. However, under many of our service agreements with virtual public schools and hybrid schools, we have responsibility to recruit, train and manage these teachers. We must also provide continuous training to virtual public school and hybrid school teachers so that they can stay abreast of changes in student demands, academic standards and other key trends necessary to teach online effectively. We may not be able to recruit, train and retain enough qualified teachers to keep pace with our growth while maintaining consistent teaching quality in the various virtual public schools and hybrid schools we serve. Shortages of qualified teachers or decreases in the quality of our instruction, whether actual or perceived, would have an adverse effect on our business.

If student performance falls, if NCLB standards are not achieved, if teachers or administrators tamper with state test scoring, or if parent and student satisfaction declines, a significant number of students may not remain enrolled in a virtual public school or hybrid school that we serve, or charters may not be renewed, and our business, financial condition and results of operations will be adversely affected.

The success of our business depends on a family's decision to have their child continue his or her education in a virtual public school or hybrid school that we serve. This decision is based on many factors, including student achievement and parent and student satisfaction. Students may perform significantly below state averages or the virtual school or hybrid school may fail to meet the standards of the No Child Left Behind Act (NCLB). Not all of the virtual public schools and hybrid schools we serve meet the Adequate Yearly Progress (AYP) requirements of NCLB, as large numbers of new enrollments from students underperforming in traditional schools can lower overall results or the underperformance of any one subgroup can lead to the entire school failing to achieve Adequate Yearly Progress, although serving this at-risk segment is an important aspect of our mission to educate any child regardless of circumstance. We expect that, as our enrollments increase and the portion of students that have not used our learning system for multiple years increases, the average performance of all students using our learning system may decrease, even if the individual performance of other students improves over time. This effect may also be exacerbated if students enrolled in schools that we acquire are predominately below state proficiency standards. Moreover, Congress may amend the NCLB statute in ways that positively or negatively impact the schools we serve. Students in the virtual public schools and hybrid schools we serve are required to periodically complete standardized state testing and the results of this testing has an impact on teacher compensation and school funding. Furthermore, if a school experiences repeated poor standardized test results, the NCLB requires that a series of escalating remediation actions must be taken at the school, ultimately leading to closure of the school if the remediation actions are not successful. Further, teachers or school administrators may engage in altering student test scores in order to achieve these objectives and avoid the consequences of failing to meet AYP or state proficiency standards. Finally, parent and student satisfaction may decline as not all parents and students are able to devote the substantial time and energy necessary to complete our curriculum. A student's satisfaction may also suffer if his or her relationship with the virtual school or hybrid school teacher does not meet expectations. If a student's performance or satisfaction declines, students may decide not to remain enrolled in a virtual public school or hybrid school that we serve and our business, financial condition and results of operations will be adversely affected.

We plan to create new products, expand distribution channels, and pilot innovative educational programs to enhance academic performance. If we are unable to effectively manage these initiatives or they fail to gain acceptance, our business, financial condition, results of operations and cash flows would be adversely affected.

As we create and acquire new products and distribution channels, expand our existing customer base and pilot new educational programs, we expect to face challenges distinct from those we currently encounter, including:

- our development of public hybrid schools and individualized learning centers (also known as Flex schools) will produce different operational challenges than those we currently encounter. In addition to the online component, these schools may require us to lease facilities for classrooms, staff classrooms with teachers, provide meals and kitchen facilities, adhere to local safety and fire codes, purchase additional insurance and fulfill many other responsibilities;

- our further expansion into international markets may require us to conduct our business differently than we do in the United States or in existing countries. For example, we acquired a traditional private school in Switzerland and made a strategic investment in an English language learning company in China. Additionally, we may have difficulty training and retaining qualified teachers or generating sufficient demand for our products and services in international markets. International opportunities will also produce different operational, tax and currency challenges than those we currently encounter;

- our use of our curriculum in classrooms will produce challenges with respect to adapting our curriculum for effective use in a traditional classroom setting;

- our entry into the operation of traditional or brick and mortar schools, as well as Flex schools used on a full-time basis by students accessing our curriculum online under the supervision of certified teachers and supporting instructors, will necessitate different management skills and present additional risks compared to those in our core virtual school business;
- our online private school business is dependent on a tuition-based financial model and may not be able to enroll a sufficient number of students over time to achieve long-run profitability or deliver a high level of customer satisfaction.
- our participation in summer foreign language instruction camps through Middlebury Interactive Languages LLC, our joint venture with Middlebury College which could generate new legal liabilities and financial consequences associated with our responsibility for students housed on leased college campuses on a 24-hour basis over the duration of the camp; and
- our continual efforts to innovate and pilot new programs to enhance student learning may not always succeed or may encounter unanticipated opposition, such as what we experienced in 2008 in connection with a limited pilot to outsource essay reviews overseas, which the Company thereafter discontinued.

Our failure to manage these new distribution channels, or any new distribution channels we pursue, may have an adverse effect on our business, financial condition, results of operations and cash flows.

Increasing competition in the market segments that we serve could lead to pricing pressures, reduced operating margins, loss of market share, departure of key employees and increased capital expenditures.

We face varying degrees of competition from several discrete education providers because our learning system integrates all the elements of the education development and delivery process, including curriculum development, textbook publishing, teacher training and support, lesson planning, testing and assessment, and school performance and compliance management. We compete with companies that provide online curriculum and support services to K-12 virtual public schools and hybrid schools. We also compete with public school districts that offer K-12 online programs of their own or in partnership with other online curriculum vendors, with traditional charter schools, and with online private schools. Additionally, for-profit post-secondary and supplementary education providers have entered this space and offer online school curriculum and services in competition with us. In certain jurisdictions and states where we currently serve virtual public schools and hybrid schools, we expect intense competition from such competitors and by new entrants. Our competitors may adopt similar curriculum delivery, school support and marketing approaches, with different pricing and service packages that may have greater appeal than our offerings. If we are unable to successfully compete for new business, win and renew contracts or maintain current levels of academic achievement, our revenue growth and operating margins may decline. Price competition from our current and future competitors could also result in reduced revenues, reduced margins or the failure of our product and service offerings to achieve or maintain more widespread market acceptance.

We may also face competition from publishers of traditional educational materials that are substantially larger than we are and have significantly greater financial, technical and marketing resources, and may enter the field through acquisitions and mergers. As a result, they may be able to devote more resources and move quickly to develop products and services that are superior to our platform and technologies. We may not have the resources necessary to acquire or compete with technologies being developed by our competitors, which may render our online delivery format less competitive or obsolete. These new and well-funded entrants may also seek to attract our key executives as employees based on their acquired expertise in virtual education where such specialized skills are not widely available.

Our future success will depend in large part on our ability to maintain a competitive position with our curriculum and our technology, as well as our ability to increase capital expenditures to sustain the competitive position of our product and retain our talent base. We cannot assure you that we will have the financial resources, technical expertise, marketing, distribution or support capabilities to compete effectively.

If demand for increased options in public schooling does not continue or if additional jurisdictions do not authorize or adequately fund virtual public schools or hybrid schools, our business, financial condition and results of operations could be adversely affected.

Over the previous three fiscal years, we entered into service agreements for fully-managed virtual public schools and hybrid schools in 8 new states bringing our total to 29 states and the District of Columbia for the 2011-12 school year. If the demand for virtual public schools or hybrid schools does not increase, if additional jurisdictions do not authorize new virtual public schools, if enrollment caps are not removed or raised, or if the funding of such schools is inadequate, our business, financial condition and results of operations could be adversely affected.

Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter-to-quarter and adversely impact our working capital and liquidity throughout the year.

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to the number of months in a fiscal quarter that our virtual public schools and hybrid schools are fully operational and serving students. In the typical academic year, our first and fourth fiscal quarters have fewer than three full months of operations, whereas our second and third fiscal quarters will have three complete months of operations. We ship learning kits to students in the beginning of the school year, our first fiscal quarter, generally resulting in higher learning kit revenues and margins in the first fiscal quarter relative to the other quarters. In aggregate, the seasonality of our revenues has generally produced higher revenues in the first quarter of our fiscal year.

Our operating expenses are also seasonal. Instructional costs and services increase in the first fiscal quarter primarily due to the costs incurred to ship learning kits at the beginning of the school year. These instructional costs may increase significantly quarter-to-quarter as school operating expenses increase. The majority of our selling and marketing expenses are incurred in the first and fourth fiscal quarters, as our primary enrollment season is July through September.

We expect quarterly fluctuations in our revenues and operating results to continue. These fluctuations could result in volatility and adversely affect our cash flow. As our business grows, these seasonal fluctuations may become more pronounced. As a result, we believe that sequential quarterly comparisons of our financial results may not provide an accurate assessment of our financial position.

Our revenues are based in part on our estimate of the total funds each school will receive in a particular school year and our estimate of the full year expenses to be incurred by each school. As a result, differences between our quarterly estimates and the actual funds received and expenses incurred could have an adverse impact on our results of operations and cash flows.

We recognize revenues from certain of our fees ratably over the course of our fiscal year. To determine the pro rata amount of revenues to recognize in a fiscal quarter, we estimate the total funds each school will receive in a particular school year. Additionally, we take responsibility for any operating expenses incurred at most of the virtual public schools and hybrid schools we serve. Because these expenses may impair our ability to collect the full amount invoiced in a period and therefore collection cannot reasonably be assured, we reduce revenues by the estimated pro rata amount of the school operating loss. We review our estimates of total funds and operating expenses periodically, and we revise as necessary, amortizing any adjustments over the remaining portion of the fiscal year. Actual school funding received and school operating expenses incurred may vary from our estimates or revisions and could adversely impact our results of operation and cash flows.

The continued development of our product and service brands is important to our business. If we are not able to maintain and enhance these brands, our business and operating results may suffer.

Enhancing brand awareness is critical to attracting and retaining students, and for serving additional virtual public schools, hybrid schools, school districts and online private schools and we intend to spend significant resources to accomplish that objective. These efforts include sales and marketing directed to targeted locations as well as the national marketplace, discreet student populations, the educational community at large, key political groups, image-makers and the media. We believe that the quality of our curriculum and management services has contributed significantly to the success of our brands. As we continue to increase enrollments and extend our geographic reach and product and service offerings, maintaining quality and consistency across all of our services and products may become more difficult to achieve, and any significant and well-publicized failure to maintain this quality and consistency will have a detrimental effect on our brands. We cannot provide assurances that our new sales and marketing efforts will be successful in further promoting our brands in a competitive and cost effective manner. If we are unable to further enhance our brand recognition and increase awareness of our products and services, or if we incur excessive sales and marketing expenses, our business and results of operations could be adversely affected.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand.

Our patent, trademarks, trade secrets, copyrights, domain names and other intellectual property rights are important assets for us. For example, we have been granted two patents relating to the hardware and network infrastructure of our online school, including the system components for creating and administering assessment tests and our lesson progress tracker and two patents related to foreign language instruction. Additionally, we are the copyright owner of the courses comprising our proprietary curriculum.

Various events outside of our control pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed or made available through the Internet. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

Although we seek to obtain patent protection for our innovations, it is possible that we may not be able to sufficiently protect some of these innovations. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable.

We also seek to maintain certain intellectual property as trade secrets. This secrecy could be compromised by outside parties, or by our employees or former employees, intentionally or accidentally, which would cause us to lose the competitive advantage resulting from these trade secrets. Third parties may acquire domain names that are substantially similar to our domain names leading to a decrease in the value of our domain names and trademarks and other proprietary rights.

Lawsuits against us alleging infringement of the intellectual property rights of others and such actions would be costly to defend, could require us to pay damages or royalty payments and could limit our ability or increase our costs to use certain technologies in the future.

Companies in the Internet, technology, education, curriculum and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. Regardless of the merits, intellectual property claims are time-consuming and expensive to litigate or settle. In addition, to the extent claims against us are successful, we may have to pay substantial monetary damages or discontinue any of our products, services or practices that are found to be in violation of another party's rights. We also may have to seek a license and make royalty payments to continue offering our products and services or following such practices, which may significantly increase our operating expenses.

We may be subject to legal liability resulting from the actions of third parties, including independent contractors, business partners, or teachers, which could cause us to incur substantial costs and damage our reputation.

We may be subject, directly or indirectly, to legal claims associated with the actions of or filed by our independent contractors, business partners, or teachers. In the event of accidents or injuries or other harm to students, we could face claims alleging that we were negligent, provided inadequate supervision or were otherwise liable for their injuries. Additionally, we could face claims alleging that our independent curriculum contractors or teachers infringed the intellectual property rights of third parties. A liability claim against us or any of our independent contractors, business partners, or teachers could adversely affect our reputation, enrollment and revenues. Even if unsuccessful, such a claim could create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of management.

Unauthorized disclosure or manipulation of student, teacher and other sensitive data, whether through breach of our network security or otherwise, could expose us to costly litigation or could jeopardize our contracts with virtual public schools or hybrid schools.

Maintaining our network security and internal controls over access rights is of critical importance because our Student Administration Management System (SAMS) stores proprietary and confidential student and teacher information, such as names, addresses, and other personal information. Individuals and groups may develop and deploy viruses, worms and other malicious software programs that attack or attempt to infiltrate SAMS.

If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, third parties may receive or be able to access student records and we could be subject to liability or our business could be interrupted. Penetration of our network security could have a negative impact on our reputation and could lead virtual public schools, hybrid schools and parents to choose competitive offerings. As a result, we may be required to expend significant resources to provide additional protection from the threat of these security breaches or to alleviate problems caused by these breaches. Additionally, we run the risk that employees or vendors could illegally disclose confidential educational information.

We rely on the Internet to enroll students and to deliver our products and services to children, which exposes us to a growing number of legal risks and increasing regulation.

We collect information regarding students during the online enrollment process, and a significant amount of our curriculum content is delivered over the Internet. As a result, specific federal and state laws that could have an impact on our business include the following:

- the Children's Online Privacy Protection Act, which restricts the distribution of certain materials deemed harmful to children and imposes additional restrictions on the ability of online companies to collect personal information from children under the age of 13;
- the Family Educational Rights and Privacy Act, which imposes parental or student consent requirements for specified disclosures of student information, including online information;
- the Communications Decency Act, which provides website operators immunity from most claims arising from the publication of third-party content; and
- numerous state cyberbullying laws which require schools to adopt policies on harassment through the Internet or other electronic communications.

In addition, the laws applicable to the Internet are still developing. These laws impact pricing, advertising, taxation, consumer protection, quality of products and services, and are in a state of change. New laws may also be enacted, which could increase the costs of regulatory compliance for us or force us to change our business practices. As a result, we may be exposed to substantial liability, including significant expenses necessary to comply with such laws and regulations.

System disruptions and vulnerability from security risks to our online computer networks could impact our ability to generate revenues and damage our reputation, limiting our ability to attract and retain students.

The performance and reliability of our technology infrastructure is critical to our reputation and ability to attract and retain virtual public schools, hybrid schools, school district customers, parents and students. Any sustained system error or failure, or a denial of service (DNS) attack, could limit our users' access to our online learning systems, and therefore, damage our ability to generate revenues or provide sufficient documentation to comply with state laws requiring proof that students completed the required number of hours of instruction. Our technology infrastructure could be vulnerable to interruption or malfunction due to events beyond our control, including natural disasters, terrorist activities and telecommunications failures.

We utilize a single logistics vendor for the management, receiving and shipping of all of our learning kits and printed educational materials. In addition, we utilize another vendor for the reclamation and redeployment of our student computers. Both of these partnerships depend upon execution on the part of us and the vendors. Any material failure to execute properly for any reason, including damage or disruption to either of the vendor's facilities would have an adverse effect on our business, financial condition and results of operations.

Substantially all of the inventory for our learning kits and printed materials is located in one warehouse facility operated by a third-party logistics vendor which handles receipt, assembly, and shipping of all physical learning materials. If this logistics vendor were to fail to meet its obligations to deliver learning materials to students in a timely manner, or if such shipments are incomplete or contain assembly errors, our business and results of operations could be adversely affected. In addition, we provide computers for a substantial number of our students. Execution or merger integration failures which interfere with the reclamation or redeployment of computers may result in additional costs. Furthermore, a natural disaster, fire, power interruption, work stoppage or other unanticipated catastrophic event, especially during the period from May through September when we have received most of the curriculum materials for the school year and have not yet shipped such materials to students, could significantly disrupt our ability to deliver our products and operate our business. If any of our material inventory items were to experience any significant damage, we would be unable to meet our contractual obligations and our business would suffer.

Any significant interruption in the operations of our data centers could cause a loss of data and disrupt our ability to manage our network hardware and software and technological infrastructure.

We host our products and serve all of our students from third-party data center facilities. Our risk mitigation plan, which is now underway and includes the opening of a second data center, may not be able to prevent a significant interruption in the operation of this facility or the loss of school and operational data due to a natural disaster, fire, power interruption, act of terrorism or other unanticipated catastrophic event. Any significant interruption in the operation of this facility, including an interruption caused by our failure to successfully expand or upgrade our systems or manage our transition to utilizing the expansions or upgrades, could reduce our ability to manage our network and technological infrastructure, which could result in lost sales, enrollment terminations and impact our brand reputation.

Additionally, we do not control the operation of this facility and must rely on a third-party to provide the physical security, facilities management and communications infrastructure services related to our data center. Although we believe we would be able to enter into a similar relationship with another third-party should this relationship fail or terminate for any reason, our reliance on a third-party vendor exposes us to risks outside of our control. If this third-party vendor encounters financial difficulty such as bankruptcy or other events beyond our control that causes it to fail to secure adequately and maintain its hosting facilities or provide the required data communications capacity, students of the virtual public schools and hybrid schools we serve may experience interruptions in our service or the loss or theft of important customer data.

Any significant interruption in the operations of our call center could disrupt our ability to respond to service requests and process orders and to deliver our products in a timely manner.

Our primary call center operations are housed in five facilities, one in each of Virginia, Pennsylvania, Oregon and Arizona and also through a vendor located in Kentucky. To mitigate operating risk in certain high volume queues, we have the ability to reroute calls to other facilities if a certain facility is unable to temporarily service calls. This plan may not be able to prevent a significant interruption in the operation of any of the facilities due to natural disasters, accidents, failures of our fulfillment provider. However, we have the ability to respond to a service interruption to lessen its impact on customers. Any significant interruption in the operation of any primary facility, including an interruption caused by our failure to successfully expand or upgrade our systems or to manage these expansions or upgrades, could reduce our ability to respond to service requests, receive and process orders and provide products and services, which could result in lost and cancelled sales, and damage to our brand reputation.

Capacity limits on some of our technology, transaction processing systems and network hardware and software may be difficult to project and we may not be able to expand and upgrade our systems in a timely manner to meet significant unexpected increased demand.

As the number of schools we serve increases and our student base grows, the traffic on our transaction processing systems and network hardware and software will rise. We may be unable to accurately project the rate of increase in the use of our transaction processing systems and network hardware and software. In addition, we may not be able to expand and upgrade our systems and network hardware and software capabilities to accommodate significant unexpected increased use. If we are unable to appropriately upgrade our systems and network hardware and software in a timely manner, our operations and processes may be temporarily disrupted.

We may be unable to keep pace with changes in technology as our business and market strategy evolves.

We will need to respond to technological advances and emerging industry standards in a cost-effective and timely manner in order to remain competitive. The need to respond to technological changes may require us to make substantial, unanticipated expenditures. There can be no assurance that we will be able to respond successfully to technological change.

We may be unable to attract and retain skilled employees.

Our success depends in large part on continued employment of senior management and key personnel who can effectively operate our business. If any of these employees leave us and we fail to effectively manage a transition to new personnel, or if we fail to attract and retain qualified and experienced professionals on acceptable terms, our business, financial conditions and results of operations could be adversely affected.

Our success also depends on our having highly trained financial, technical, recruiting, sales and marketing personnel. We will need to continue to hire additional personnel as our business grows. A shortage in the number of people with these skills or our failure to attract them to our Company could impede our ability to increase revenues from our existing products and services, ensure full compliance with federal and state regulations, launch new product offerings, and would have an adverse effect on our business and financial results.

We may not be able to effectively manage our growth, which could impair our ability to operate profitably.

We have experienced significant expansion since our inception. This has sometimes strained our managerial, operational, financial and other resources, and this situation could be exacerbated as we pursue more acquisitions, develop new distribution channels and create new offerings. Moreover, a substantial increase in our enrollment or the addition of new schools in a short period of time could further strain our current resources and increase capital expenditures, without an immediate increase in revenues. Our failure to successfully manage our growth in a cost efficient manner, or add and retain personnel to adequately support our growth could disrupt our business and decrease profitability.

We may need additional capital in the future, but there is no assurance that funds will be available on acceptable terms.

We may need to raise additional funds in order to achieve growth or fund other business initiatives. This financing may not be available in sufficient amounts or on terms acceptable to us and may be dilutive to existing stockholders. Additionally, any securities issued to raise funds may have rights, preferences or privileges senior to those of existing stockholders. If adequate funds are not available or are not available on acceptable terms, our ability to expand, develop or enhance services or products, or respond to competitive pressures will be limited.

Our curriculum and approach to instruction may not achieve widespread acceptance, which would limit our growth and profitability.

The curriculum offerings and approach to individualized learning are based on the structured delivery, clarification, verification and practice of lesson subject matter. Our goal is to make students proficient at the fundamentals, promote annual growth in learning achievement and instill confidence in a subject prior to confronting new and complex concepts. While our curriculum is aligned with state standards in the jurisdictions where we manage virtual public schools and hybrid schools and these schools offer accredited diplomas, this approach is not accepted by all academics and educators, who may favor less formalistic methods. Accordingly, some academics and educators are opposed to the principles and methodologies associated with our approach to learning, and have the ability to negatively influence the market for our products and services.

Although we do not currently transact a material amount of business in a foreign country, we intend to continue our expansion into international markets, which will subject us to additional economic, operational, legal and political risks that could increase our costs and make it difficult for us to continue to operate profitably.

We are engaged in growing our international business in a manner that will leverage our current product and service offerings. We have invested $10 million to acquire a 20% ownership interest in Web and purchased the right to operate IS Berne. The addition of international operations may require significant expenditure of financial and management resources and result in increased administrative and compliance costs. As a result of such expansion, we will be increasingly subject to the risks inherent in conducting business internationally, including:

- foreign currency fluctuations, which could result in reduced revenues and increased operating expenses;
- potentially longer payment and sales cycles;
- difficulty in collecting accounts receivable;
- the effect of applicable foreign tax structures or taxes that may be duplicative of those imposed in the United States, notwithstanding steps taken by the Company to address such matters;
- tariffs and trade barriers;
- general economic and political conditions in each country, including nationalization of property owned or investments made by the Company;
- inadequate intellectual property protection in foreign countries;
- uncertainty regarding liability for information retrieved and replicated in foreign countries;
- the difficulties and increased expenses in complying with a variety of U.S. and foreign laws, regulations and trade standards, including the Foreign Corrupt Practices Act and Treasury regulations; and
- unexpected changes in applicable foreign laws and regulatory requirements.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

The Company's headquarters are located in approximately 124,000 square feet of office space in Herndon, Virginia. The property is leased until May 2022. The Company leases approximately 165,000 square feet in multiple locations under individual leases that expire between July 2011 and October 2015.

ITEM 3. *LEGAL PROCEEDINGS*

In the ordinary conduct of our business, we are subject to lawsuits, arbitrations and administrative proceedings from time to time.

In June 2010, the shareholders of Aventa Learning, Inc. (Aventa) filed a lawsuit against KC Distance Learning, Inc. which is currently pending in the U.S. District Court for the Western District of Washington, *Axtman et al. v. KC Distance Learning, Inc.* (Case No. 2:10-cv-01022-JLR). The lawsuit alleges, among other things, that KCDL did not honor the terms of an earn-out provision contained in an asset purchase agreement after certain assets of Aventa were acquired by KCDL in 2007. In addition, the plaintiffs allege breach of contract and misrepresentation claims, and seek the remedy of rescission for alleged violation of the Securities Act of Washington. On July 23, 2010, we acquired all of the shares of KCDL, which is now our wholly-owned subsidiary. On August 31, 2010, the plaintiffs amended their complaint to add K12 Inc. as a co-defendant in this matter, reflecting the change in ownership, and the change in caption to *Aventa Learning, Inc. et al v. K12 Inc. et al*. On March 27, 2011, the court issued an Order Denying Defendant's Motion to Dismiss Amended Complaint. *Aventa Learning, Inc. et. al. v. K12 Inc., et.al.* (Case No. C10-1022JLR). Accordingly, the discovery process has commenced.

Pursuant to the Agreement and Plan of Merger between K12 Inc. and KCDL Holdings LLC (Seller), Seller agreed to assume responsibility to defend this lawsuit and to fully indemnify K12 Inc. for any liability, including rescission. In addition, K12 Inc. obtained a guarantee from Seller's parent company, Learning Group LLC, from any losses related to this litigation. In our view, the outcome of this litigation will not have a material adverse effect on the financial condition or results of operations of K12 Inc. or any of our subsidiaries.

ITEM 4. *(REMOVED AND RESERVED)*

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning our executive officers as of June 30, 2011:

Name	Age	Position
Ronald J. Packard	48	Chief Executive Officer, Founder and Director
Harry T. Hawks	58	Executive Vice President and Chief Financial Officer
Bruce J. Davis	48	Executive Vice President, Worldwide Business Development
George B. Hughes, Jr.	52	Executive Vice President, School Services
John P. Olsen	44	Executive Vice President, Operations
Howard D. Polsky	59	Executive Vice President, General Counsel and Secretary
Celia M. Stokes	47	Executive Vice President and Chief Marketing Officer
Howard L. Allentoff	49	Senior Vice President, Human Resources
Robert L.Moon	61	Senior Vice President, Information Technology
Maria A. Szalay	45	Senior Vice President, Product Development

Ronald J. Packard, Chief Executive Officer, Founder and Director

Ronald J. Packard founded K12 in 2000, and has served as Chief Executive Officer and Executive Chairman since the Company was founded. Since May 2007, Mr. Packard has held the title Chief Executive Officer and Founder. He also currently serves as the Chairman of Middlebury Interactive Languages LLC. Previously, Mr. Packard served as Vice President of Knowledge Universe and he served as Chief Executive Officer of Knowledge Schools, a provider of early childhood education and after school companies. Mr. Packard has also held positions at McKinsey & Company and Goldman Sachs in mergers and acquisitions. Additionally, Mr. Packard serves on the Digital Learning Council and he formerly served on the Advisory Board of the Department of Defense Schools from 2002 to 2008, and is a member of the Fairfax Education Foundation Board of Directors. Previously, Mr. Packard served as a director of Academy 123 and Zumbox. Mr. Packard holds B.A. degrees in Economics and Mechanical Engineering from the University of California at Berkeley, an M.B.A. from the University of Chicago, and he was a Chartered Financial Analyst.

Harry T. Hawks, Executive Vice President and Chief Financial Officer

Mr. Hawks joined us in May 2010, and serves as Executive Vice President and Chief Financial Officer. From 1992 until joining us, Mr. Hawks served as Executive Vice President and Chief Financial Officer of Hearst Television formerly known as Hearst-Argyle Television, an NYSE-listed company formed by the merger of Hearst Broadcasting and Argyle Television in 1997, and its predecessor Argyle Television. Prior to Argyle Television, Mr. Hawks served as President of Cumberland Capital Corporation, a venture capital and merchant banking company which he co-founded, from 1987 to 1992. Prior to Cumberland Capital, he held various corporate finance positions with leading financial institutions, including Thomson McKinnon Securities and Bank of Montreal. Mr. Hawks has been involved in numerous local, national and international not-for-profit education and youth organizations, including serving as a trustee and treasurer for The Stanwich School and currently serves on the board of the endowment fund for the Gladney Center. Mr. Hawks holds a B.S. in Business Administration (Finance) and an M.B.A. from Louisiana State University.

Bruce J. Davis, Executive Vice President, Worldwide Business Development

Mr. Davis joined us in January 2007, and serves as Executive Vice President, Worldwide Business Development. He is also a Director of Middlebury Interactive Languages LLC. From 2005 until joining us, Mr. Davis was Sr. Vice President of Business Development for Laureate Education Inc. with a focus on the Middle East region. From 2003 to 2004, Mr. Davis was a strategic advisor to Discovery Communications where he developed plans for Discovery's entry into the education video market and the creation of the United Streaming product. From 1994 to 2002, Mr. Davis held various positions with Sylvan Learning Systems including Principal at Sylvan Ventures, Chief Operating Officer of Prometric and Vice President of International Operations. From 1985 to 1991, Mr. Davis was a Manager of Information Systems Strategy at Deloitte and

Touche where he managed its practice office in Egypt. Mr. Davis holds a B.S. in Computer Science from Loyola University and an M.B.A. from Columbia University.

George B. (Chip) Hughes, Jr., Executive Vice President, School Services

Mr. Hughes joined us in July 2007, and serves as Executive Vice President, School Services. From 1997 until joining us, Mr. Hughes was a co-founder and Managing Director of Blue Capital Management, L.L.C., a middle-market private equity firm. Mr. Hughes previously served as a Partner of McKinsey & Company, Inc., a global management consulting firm, in McKinsey's Los Angeles and New Jersey offices, where he was a member of the firm's Strategy and Health Care practices. Mr. Hughes previously served on the Board of Councilors of the College of Letters, Arts & Sciences at the University of Southern California, the National Board and the Executive Committee of Recording for the Blind & Dyslexic, and on the Board of Trustees at Big Brothers of Greater Los Angeles and of Big Brothers Big Sisters of Morris, Bergen, and Passaic Counties (New Jersey). Mr. Hughes holds a B.A. in Economics from the University of Southern California and an M.B.A. from Harvard University.

John P. Olsen, Executive Vice President, Operations

Mr. Olsen joined us in March 2004, and serves as Executive Vice President, Operations. Prior to joining us, Mr. Olsen was Vice President of Performance Improvement for America Online's Broadband, Premium, and Advanced Technology Services from 2002 to 2004 and he previously served as a management consultant at Diamond Technology Partners where he practiced in the telecommunications and consumer products industries from 1999 to 2002. Prior to Diamond Technology Partners, he served in the United States Navy as a Supply Officer from 1989 to 1997. Mr. Olsen holds a B.S. from the United States Naval Academy and an M.B.A from the University of Michigan. He currently serves on the Board of Trustees of Sierra Nevada College and is a Trustee of the Naval Academy Foundation.

Howard D. Polsky, Executive Vice President, General Counsel and Secretary

Mr. Polsky joined us in June 2004, and serves as General Counsel and Secretary. Mr. Polsky previously held the position of Vice President and General Counsel of Lockheed Martin Global Telecommunications from 2000 to 2002. Prior to its acquisition by Lockheed Martin, Mr. Polsky worked at COMSAT Corporation from 1992 to 2000, initially serving as Vice President and General Counsel of COMSAT's largest operating division, and subsequently serving on the executive management team as Vice President of Federal Policy and Regulation. From 1983 to 1992, Mr. Polsky was a partner at Wiley, Rein & Fielding, and was an associate at Kirkland & Ellis from 1979 to 1983. Mr. Polsky began his legal career at the Federal Communications Commission. Mr. Polsky received a B.A. in Government from Lehigh University, and a J.D. from Indiana University.

Celia M. Stokes, Executive Vice President and Chief Marketing Officer

Ms. Stokes joined us in March 2006, and serves as Executive Vice President and Chief Marketing Officer. She is also a Director of Middlebury Interactive Languages LLC. Before joining us, Ms. Stokes served as Vice President of Marketing at Independence Air from 2003 to 2006. Previously, Ms. Stokes ran her own marketing firm providing consulting services to organizations such as Fox TV, PBS, the National Gallery of Art, J Walter Thompson, and ADP. From 1993 to 1998, Ms. Stokes served in successive roles leading to Vice President of Marketing at Bell Atlantic and at a joint venture of Bell Atlantic and two other Regional Bell Operating Companies. From 1990 to 1993, Ms. Stokes was Manager of Marketing at Software AG, and from 1988 to 1990, was Client Group Manager at Targeted Communications, an Ogilvy & Mather Direct company. Ms. Stokes holds a B.A. in Economics from the University of Virginia.

Howard L. Allentoff, Senior Vice President, Human Resources

Dr. Allentoff joined us in December 2008 and serves as Senior Vice President of Human Resources. From 2003 until joining the Company, he was Consultant and President of Strategic People Solutions where he assisted companies of all types in both strategic and operational human resources issues, process improvement, organizational development, communication and project management. Prior to Strategic People Solutions, Dr. Allentoff worked at Blackboard as the company's first Vice President of Human Resources from 2002 to 2003. He previously served in other human resources consulting roles as well as in corporate human resources environments at Prometric (formerly of Sylvan and Thomson Learning), Ward Machinery and Westinghouse. Dr. Allentoff holds a B.S. in Psychology from the University of Maryland, College Park as well both M.S. and Ph.D. degrees in Industrial & Organizational Psychology from Auburn University.

Robert L. Moon, Senior Vice President and Chief Information Officer

Mr. Moon joined us in March 2010, and serves as Chief Information Officer. Prior to joining us, Mr. Moon was Chief Information Officer of LeapFrog Enterprises, the global leader in early childhood education through learning toys and software, from 2005 to 2008. Previously, he served as Chief Information Officer for ViewSonic Corporation from 2001 to 2005, and Chief Information Officer for Micros Systems Inc. from 1995 to 1999. Mr. Moon also worked as a program manager with KPMG Peat Marwick, which included services at the White House with the Reagan administration as an analyst with the President's Private Sector Survey on Cost Control. Prior to his private sector experience, Mr. Moon served for 21 years as a Surface Warfare Officer in the United States Navy, including three years as Director of Information Technology and Deputy Director of Operations for the Office of Naval Research. Mr. Moon retired from the United States Navy with the rank of Commander. He holds a B.S. in Business and Engineering from the United States Naval Academy.

Maria A. Szalay, Senior Vice President, Product Development

Ms. Szalay joined us in 2001 and serves as Senior Vice President, Product Development. Previously, Ms. Szalay served as Practice Director at Operon Partners, an e-business consulting firm from 1999 to 2001.Prior to Operon Partners, she worked as Manager of Online Solutions at Telecom New Zealand from 1995 to 1999, as a management consultant at KPMG from 1992 to 1995, and as a sales analyst at Shearson Lehman from 1989 to 1991. Ms. Szalay currently serves as a director of the Association of Educational Publishers. Ms. Szalay holds a B.S./B.A. in Finance and German from Virginia Polytechnic Institute & State University and an M.B.A. from American University.

PART II

ITEM 5. ***MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

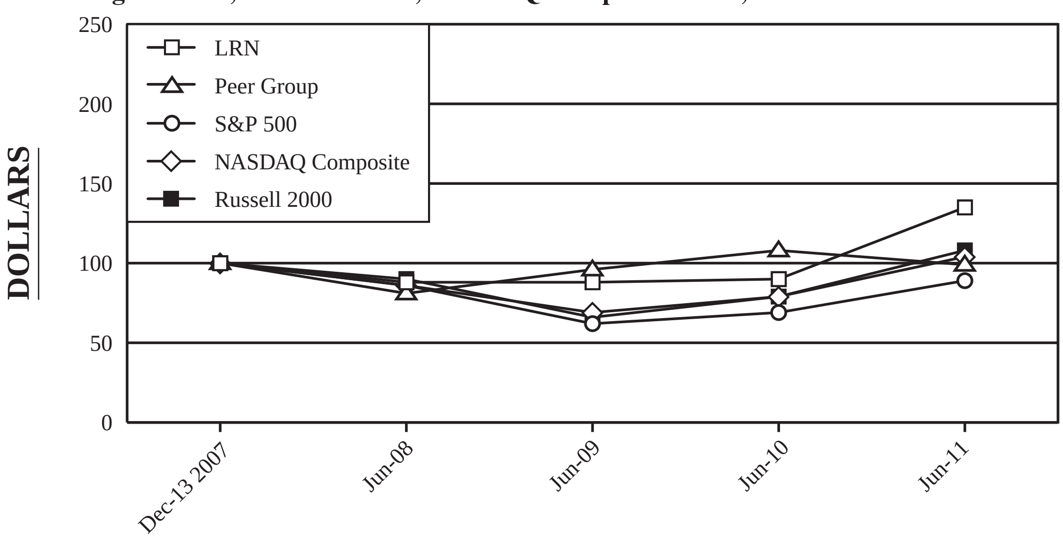
The Company's common stock, par value $0.0001 per share, is traded on the New York Stock Exchange (NYSE) under the symbol "LRN." Set forth below are the high and low sales prices for our common stock, as reported on the NYSE. As of October 3, 2011, there were 50 registered holders of our common stock.

	High	Low
Quarter ended:		
June 30, 2011	$39.74	$31.16
March 31, 2011	34.08	27.17
December 31, 2010	29.42	23.26
September 30, 2010	29.71	21.21
June 30, 2010	$25.83	$21.81
March 31, 2010	24.4	18.26
December 31, 2009	20.73	15.65
September 30, 2009	21.99	15.28

Stock Performance Graph

The graph below matches the cumulative fourteen quarter total return of holders of K12 Inc.'s common stock with the cumulative total returns of the S&P 500 index, the NASDAQ Composite index, the Russell 2000 index and a customized peer group of twenty eight companies. The graph assumes that the value of the investment in the company's common stock, in each index, and in the peer group (including reinvestment of dividends) was $100 on December 13, 2007 and tracks it through June 30, 2011.

COMPARISON OF TEN QUARTER CUMULATIVE TOTAL RETURN
Among K12 Inc., S&P 500 Index, NASDAQ Composite Index, Russell 2000 Index and a Peer Group



	13-Dec-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11
LRN	100	88	88	90	135
Peer Group	100	81	96	108	99
S&P 500	100	86	62	69	89
Russell 2000	100	90	66	79	108
Nasdaq Composite	100	86	69	79	104

All prices reflect closing prices on last day of trading at the end of each calendar quarter except December 13, 2007.

(1) This graph is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference in any filing by us under the Securities Act of 1933, as amended (Securities Act), or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

(2) The stock price performance shown on the graph is not necessarily indicative of future price performance. Information used in the graph was obtained from a source we believe to be reliable, but we do not assume responsibility for any errors or omissions in such information.

Peer Group

Ambow Education Holding Ltd*, American Public Education Inc., Apollo Group Inc., Archipelago Learning, Inc.*, Blackboard, Inc., Bridgepoint Education Inc.*, Capella Education Company, Career Education Corp., China Distance Education*, ChinaCast Education Group, Corinthian Colleges, Inc., Devry Inc., Education Management Corporation*, Global Education & Tech Group, Ltd.*, Grand Canyon Education Inc.*, ITT Educational Services, Inc., Lincoln Educational Services Co., McGraw-Hill Companies, Inc., New Oriental Education and Technology Group, Pearson Education, Renaissance Learning, Inc., Rosetta Stone Inc.*, Scientific Learning Corporation, Scholastic, Strayer Education Inc., TAL Education Group*, Universal Technical Institute, and XUEDA Education Group*.

* Companies were included in the performance analysis only for the period after their respective initial public offering.

Dividend Policy

We have never declared or paid any cash dividends on our common stock and we currently do not anticipate paying any cash dividends for the foreseeable future. Instead, we anticipate that all of our earnings on our common stock will be used to provide working capital, to support our operations, and to finance the growth and development of our business, including potentially the acquisition of, or investment in, businesses, technologies or products that complement our existing business. Any future determination relating to dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including, but not limited to, our future earnings, capital requirements, financial condition, future prospects, applicable Delaware law, which provides that dividends are only payable out of surplus or current net profits and other factors our Board of Directors might deem relevant.

Stock-based Incentive Plan Information

The following table provides certain information as of June 30, 2011, with respect to our equity compensation plans under which common stock is authorized for issuance:

Equity Compensation Plan Information
as of June 30, 2011

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders(1)	2,765,729	$19.23	1,489,267

(1) Includes shares under the 2007 Equity Incentive Award Plan.

The 2007 Equity Incentive Award Plan (2007 Plan) adopted in November 2007 contains an "evergreen provision" that allows for an annual increase, beginning on July 1, 2008, in the number of shares available for issuance under the 2007 Plan on July 1 of each year during the ten-year term of the 2007 Plan. The annual increase in the number of shares shall be equal to the least of:

- 4% of our outstanding common stock on the applicable July 1;
- 2,745,098 shares; or
- a lesser number of shares as determined by our Board of Directors.

Sales of Unregistered Securities

None.

ITEM 6. *SELECTED FINANCIAL DATA*

The following table sets forth our selected consolidated statement of operations, balance sheet and other data as of the dates and for the periods indicated. You should read this data together with "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, included elsewhere in this Annual Report. The selected consolidated statement of operations data for each of the years in the three-year period ended June 30, 2011, and the selected consolidated balance sheet data as of June 30, 2011 and 2010, have been derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report. The selected consolidated statements of operations data for the years ended June 30, 2008 and 2007, and selected consolidated balance sheet data as of June 30, 2009, 2008 and 2007, have been derived from our audited consolidated financial statements not included in this Annual Report. The pro forma net income per common share amounts for the years ended June 30, 2008 and June 30, 2007 were derived by eliminating the one-time tax benefit of $27.0 million from the reversal of the deferred tax valuation allowance in 2008 and by giving effect to the automatic conversion of all of our outstanding shares of our preferred stock into common stock immediately prior to the completion of our initial public offering. Our historical results are not necessarily indicative of future operating results.

	Year Ended June 30,				
	2011	2010	2009	2008	2007
	(In thousands)				
Consolidated Statement of Operations Data:					
Revenues	$522,434	$384,470	$315,573	$226,235	$140,556
Cost and expenses					
Instructional costs and services	$307,111	222,029	196,976	131,282	76,064
Selling, administrative, and other operating expenses	174,762	117,398	86,683	72,393	51,159
Product development expenses	16,347	9,576	9,575	9,550	8,611
Total costs and expenses	498,220	349,003	293,234	213,225	135,834
Income from operations	24,214	35,467	22,339	13,010	4,722
Interest expense, net	(1,207)	(1,331)	(982)	(295)	(639)
Income before income tax (expense) benefit and noncontrolling interest	23,007	34,136	21,357	12,715	4,083
Income tax (expense) benefit	(11,342)	(13,249)	(9,628)	21,058	(218)
Net income	11,665	20,887	11,729	33,773	3,865
Add net income attributable to noncontrolling interest	1,127	638	586	—	—
Net income — K12 Inc.	12,792	21,525	12,315	33,773	3,865
Dividends on preferred stock	—	—	—	(3,066)	(6,378)
Preferred stock accretion	—	—	—	(12,193)	(22,353)
Net income (loss) attributable to common stockholders	$ 12,792	$ 21,525	$ 12,315	$ 18,514	$ (24,866)

	Year Ended June 30,				
	2011	2010	2009	2008	2007
	(In thousands except share and per share data)				
Net income (loss) attributable to common stockholders per share:					
Basic	$ 0.37	$ 0.72	$ 0.43	$ 1.18	$ (12.42)
Diluted(1)	$ 0.37	$ 0.71	$ 0.42	$ 1.10	$ (12.42)
Basic (pro forma)(2)	$ n/a	$ n/a	$ n/a	$ 0.27	$ 0.18
Diluted (pro forma)(2)	$ n/a	$ n/a	$ n/a	$ 0.26	$ 0.18
Weighted average shares used in computing per share amounts:					
Basic	31,577,758	29,791,973	28,746,188	15,701,278	2,001,661
Diluted(1)	32,114,761	30,248,683	29,639,974	16,850,909	2,001,661
Basic (pro forma)(2)	n/a	n/a	n/a	24,989,323	21,881,316
Diluted (pro forma)(2)	n/a	n/a	n/a	26,138,954	21,888,941
Other Data:					
Net cash provided by (used in) operating activities	$ 67,213	$ 54,680	$ (9,355)	$ 15,534	$ 5,563
Depreciation and amortization	$ 42,934	$ 25,761	$ 20,835	$ 12,568	$ 7,404
Stock-based compensation expense	$ 9,466	$ 5,934	$ 2,790	$ 1,464	$ 218
EBITDA(3)	$ 67,148	$ 61,228	$ 43,174	$ 25,578	$ 12,126
Capital Expenditures:					
Capitalized curriculum development costs	$ 18,086	$ 13,904	$ 13,931	$ 11,669	$ 8,683
Purchases of property, equipment and capitalized software development costs	$ 29,563	$ 10,357	$ 13,939	$ 6,476	$ 5,366
New capital lease obligations(4)	$ 15,645	$ 12,194	$ 16,044	$ 10,564	$ 8,052
Total capital expenditures	$ 63,294	$ 36,455	$ 43,914	$ 28,709	$ 22,101

	As of June 30,				
	2011	2010	2009	2008	2007
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 193,099	$ 81,751	$ 49,461	$ 71,682	$ 1,660
Total assets	$ 582,095	$ 307,882	$ 240,676	$ 197,324	$ 61,212
Total short-term debt	$ 13,357	$ 12,247	$ 11,274	$ 6,520	$ 1,500
Total long-term obligations	$ 10,851	$ 8,365	$ 11,128	$ 6,641	$ 7,135
Total K12 Inc. stockholders' equity (deficit)	$ 448,621	$ 221,851	$ 182,286	$ 150,288	$ (197,807)
Working capital	$ 264,447	$ 149,344	$ 111,048	$ 97,379	$ 9,730

(1) Diluted net income per common share reflects net income allocated to the 2,750,000 non-voting shares of the Series A Special Stock issued in the acquisition of KCDL in July 2010. These shares are eligible to convert into common stock on a one-for-one basis. If these shares had been converted, issued and outstanding for the year ended June 30, 2011, they would have increased our total dilutive shares outstanding by 8.6%.

(2) Pro forma net income per common share eliminates the one-time tax benefit of $27.0 million from the reversal of the deferred tax asset valuation allowance and gives effect to the automatic conversion of all of our outstanding shares of preferred stock into common stock immediately prior to the completion of our initial public offering. The pro forma net income per common share assumes the completion of the initial offering on June 30, 2007 and the conversion of all of our outstanding shares of preferred stock into 19,879,675 shares of common stock.

(3) EBITDA consists of net income (loss), plus net interest expense, plus income tax expense, plus income tax expense (benefit), plus depreciation and amortization and minus noncontrolling interest charges. Interest expense primarily consists of interest expense for capital leases, long-term and short-term borrowings. We

use EBITDA in addition to income from operations and net income as a measure of operating performance. However, EBITDA is not a recognized measurement under U.S. generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, net income (loss) as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as capital expenditures, tax payments, interest payments, or other working capital.

We believe EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company's operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired. Our management uses EBITDA:

- as an additional measurement of operating performance because it assists us in comparing our performance on a consistent basis;
- in presentations to the members of our Board of Directors to enable our Board to have the same measurement basis of operating performance as is used by management to compare our current operating results with corresponding prior periods and with the results of other companies in our industry; and,
- On an adjusted basis in determining compliance with the terms of our credit agreement.

The following table provides a reconciliation of net income to EBITDA:

	Year Ended June 30,				
	2011	**2010**	**2009**	**2008**	**2007**
			(In thousands)		
Net income-K12 Inc.	$12,792	$21,525	$12,315	$ 33,773	$ 3,865
Interest expense, net	1,207	1,331	982	295	639
Income tax expense (benefit)	11,342	13,249	9,628	(21,058)	218
Depreciation and amortization	42,934	25,761	20,835	12,568	7,404
Noncontrolling interest	(1,127)	(638)	(586)	—	—
EBITDA	$67,148	$61,228	$43,174	$ 25,578	$12,126

(4) New capital lease obligations are primarily for student computers and related equipment.

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. 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 this 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 consolidated financial statements and related notes included in this 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 year ended June 30, 2011.
- *Key Aspects and Trends of Our Operations* — a discussion of items and trends that may impact our business in the upcoming year.
- *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 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, the impact of inflation, and quantitative and qualitative disclosures about market risk.

Executive Summary

We are a technology-based education company. We offer proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. Our mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since our inception, we have invested more than $240 million to develop and, to a lesser extent, acquire curriculum and online learning platforms that promote mastery of core concepts and skills for students of all abilities. This learning system combines our curriculum and offerings with an individualized learning approach well-suited for virtual public schools, hybrid schools, school district online programs, public charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. We are also expanding our offering of foreign languages with Middlebury Interactive Languages (MIL), our joint venture with Middlebury College. This year, we also expanded our international business by making an investment in a 20% ownership interest in Web International Education Group, Ltd., a company providing English instruction to young adults in China, and also are investing in the post-secondary market through Capital Education LLC, our wholly owned subsidiary.

Fiscal year 2011 was a transformational year for the Company. We increased revenues to $522.4 million, from $384.5 million, a growth rate of 35.9%. Organic revenue growth, or excluding revenues from acquisitions and new initiatives, was 23.7%. We made three acquisitions during the year that, combined, enhance our online public school offering and provide our Institutional Business and Private School distribution channels with meaningful scale. In aggregate, acquisitions contributed 10.4% to revenue growth in fiscal year 2011. We also launched several new initiatives including MIL, Capital Education, and the management of two new facility-based learning programs. These initiatives contributed 1.8% to revenue growth. New distribution channels now position us to achieve diversified sources of revenue. In addition, through our organic development efforts and acquisitions, we have amassed a library of over 600 electronic courses spanning all grades K-12.

While our organic revenue growth was profitable, we incurred substantial expenses related to acquisition transactions and integration activities and incurred operating losses in our new initiatives. In addition, we incurred expenses related to infrastructure enhancements, primarily financial systems and process improvements, which will allow us to support our planned future growth. As a result of these activities and initiatives, in fiscal year 2011 operating income declined to $24.2 million, from $35.5 million, a decrease of 31.8%, net income to shareholders declined to $12.8 million, from $21.5 million, a decrease of 40.5% and EBITDA, a non-GAAP measure (see reconciliation of net income to EBITDA in Item 6. — Selected Financial Data), increased to $67.1 million, from $61.2 million, an increase of 9.6%.

As with a traditional public school, a virtual public school or hybrid school must comply with state education regulations. The fundamental difference between traditional public schools and virtual public schools is that students attend virtual public schools and hybrid schools primarily over the Internet instead of traveling to a physical classroom. In their online learning environment, students receive assignments, complete lessons, and obtain instruction from certified teachers with whom they interact online, telephonically, in virtual classroom environments, and sometimes face-to-face. As of 2011, the majority of states have embraced virtual public schools or hybrid schools as a means to provide families with a publicly-funded alternative to a traditional classroom-based education. For parents who believe their child is not thriving and for whom relocating or attending a private school is not an option, virtual public schools and hybrid schools can provide a compelling choice. From an education policy standpoint, virtual public schools and hybrid schools often represent a savings to the taxpayers when compared with traditional public schools because they are generally funded at a lower per pupil level than the per pupil state average as reported by the U.S. Department of Education. Finally, because parents are not required to pay tuition to attend a public school, virtual public schools and hybrid schools make our learning system an attractive alternative within the public school system.

Our proprietary curriculum, online learning platform and varying levels of academic and management services, which can range from individual courses to complete turnkey online schools, are offered to our charter school, school district and private school partners. Virtual public schools and hybrid schools under turnkey management contracts (Managed Schools) accounted for approximately 85% of our revenue in fiscal year 2011. For the 2011-12 school year, we will manage schools in 29 states and the District of Columbia. In July 2010, through our acquisition of KC Distance Learning, Inc. (KCDL), we have added iQ Academies and now manage these programs in five states where we also manage other virtual public schools. These managed schools generally are able to enroll students on a statewide basis. We are serving a growing number of hybrid schools, the first of which opened in Chicago in 2006. A hybrid school is a virtual public school that combines the benefits of face-to-face time for students and teachers in a traditional classroom setting along with the flexibility and individualized learning advantages of online instruction.

We are serving a growing number of schools and school districts enabling them to offer our course catalogue to students either full-time or on an individual course basis. We have established a dedicated sales team to focus on this sector and, through our acquisition of KCDL in July 2010 and The American Education Corporation (AEC) in December 2010, we increased the size and expertise of our sales team, added a reseller network, and expanded our course portfolio. The services we provide to these districts are designed to assist them in launching their own distance learning programs and vary according to the needs of the individual school districts and may include teacher training programs, administrator support and our student account management system. With our services, 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 or credit recovery options. For the 2010-11 school year, we served school districts or individual schools in all 50 states.

We manage 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. In 2008, we launched the K12 International Academy, a private school that we operate using our curriculum. This school is accredited and enables us to offer students worldwide the same full-time education programs that we provide to the virtual public schools and hybrid schools we manage, including the option to enroll in individual courses. This school is organized as a private international school and enrolled students can interact with their classmates from more than 60 countries. Through our acquisition of KCDL, we have added The Keystone School, a private school that has been serving students for over 37 years and offers online and correspondence courses. In January 2011, we announced a partnership with the George Washington University to launch an online private high school, the George Washington University Online High School (GWUOHS). The program offers our college preparatory curriculum and is designed for high school students who are seeking a challenging academic experience and aspire to attend top colleges and universities. In April 2011, we acquired the operations of the International School of Berne (IS Berne), a traditional private school located in Berne, Switzerland serving students in grades Pre-K through 12. IS Berne is an International Baccalaureate school in its 50th year of operation.

We provide educational services to post-secondary institutions through our subsidiary, Capital Education LLC. Programs are designed for colleges and universities seeking to build or expand their online presence. Our services include course development and distribution through a proprietary learning management platform, hosting and technical support, student advisory services and program administration.

We made an investment for a 20% ownership interest in Web International Education Group Ltd. (Web), a provider of English language training in China. This strategic investment also gives us the option to acquire the remainder of the company within a period of five years. Web serves learners of all ages including university students, government workers, and employees of international companies. Web currently has an extensive network of learning centers throughout China. The investment will primarily be used by Web to expand its learning center network into more cities in China. Web education centers are outfitted with learning labs that include modern computer terminals and internet connections. Students can access our curriculum and other electronic learning resources from the Web centers.

Across our educational programs, families come from a broad range of social, economic and academic backgrounds. They share the desire for individualized instruction so as to maximize their child's potential. Examples include, but are not limited to, families with: (i) students seeking to learn faster or slower than they could in a "one size fits all" traditional classroom; (ii) safety, social and health concerns about their local school; (iii) students with disabilities who are underserved in traditional classrooms; (iv) students with geographic or travel constraints; and (v) student-athletes and performers who are not able to attend regularly scheduled classes. Our individualized learning approach allows students to optimize their academic performance and, therefore, their chances of achieving their goals.

Recent Acquisitions, Partnerships, Strategic Investments, and Equity Private Placement

During the last 18 months, we completed several strategic transactions to accelerate our growth, expand our course catalogue and service offering, extend our distribution capabilities, and strengthen our balance sheet. With these initiatives, we continue to execute our growth strategy and to scale our business even further.

Formation of Middlebury Interactive Languages LLC

In April 2010, we formed a joint venture with Middlebury College, known as MIL, to develop online foreign language courses. We contributed substantially all of the assets in our Power-Glide Language Courses Inc. (Power-Glide) subsidiary, along with certain intellectual property licenses and cash for a 60% interest in the joint venture. As a majority-owned subsidiary, we consolidate the financial statements of MIL into our financial statements. Middlebury College contributed a license to use its school name, its Middlebury-Monterey Language Academy (MMLA) business and cash for a 40% interest in the joint venture. We offer these MIL courses in our virtual public schools and hybrid schools and to school districts and believe they have wide applicability in online learning. MIL creates innovative, online language programs for pre-college students and leverages Middlebury College's recognized experience in foreign language instruction and our expertise in online education. Language faculty from Middlebury collaborates with MIL to develop and manage the academic content of the Web-based language courses. The new courses use features such as animation, music, videos and other elements that immerse students in new languages. The first courses completed include beginner French and Spanish for high school students. The joint venture also plans to expand MMLA to include a language immersion summer program for middle and high school students. MMLA offers Arabic, Chinese, French, German, Italian and Spanish at its summer four-week residential sessions held at college campuses.

Acquisition of KC Distance Learning, Inc.

In July 2010, we acquired all of the stock of KCDL, a provider of online curriculum and public and private virtual education, by issuing to its parent company, KCDL Holdings LLC, 2,750,000 shares of a new class of stock designated as Series A Special Stock, which had a value at closing of $63.1 million. In January 2011, we held a Special Meeting at which our common stockholders approved conversion and voting rights for the holders of the Series A Special Stock. As a result, the holders now have the right to convert those shares into common stock on a one-for-one basis and to vote on all matters presented to K12 common shareholders, other than for the election and removal of directors, for which the holders have no voting rights unless converted to common.

KCDL included three distribution channels that overlap with our existing operations: Aventa Learning (online curriculum and instruction), The Keystone School (international online and correspondence private school), and the iQ Academies (statewide virtual public charter schools for middle and high school). Aventa Learning offers to schools and school districts over 140 core, elective and advanced placement (AP) courses in grades 6-12, from credit recovery courses to full-scale virtual school programs, as well as instructional services. Aventa Learning is accredited by the Northwest Association of Accredited Schools (NAAS). The Keystone School is an online private school for middle and high school students, which is also accredited by the NAAS. It was established in 1974 and has served over 250,000 students around the world. The school enrolls both full-time and part-time students and its course offerings are supported by certified teachers. The iQ Academies are statewide online public schools that partner with school districts or public charter schools to serve middle and high school students. iQ Academies currently operate in California, Kansas, Minnesota, Washington, and Wisconsin.

Formation of Capital Education LLC

In July 2010, we acquired certain assets, including a catalog of over 200 courses and eight issued patents, of Cardean Learning Group LLC through a subsidiary, Capital Education LLC, a provider of online services to post-secondary institutions. The programs offered by Capital Education are designed for colleges and universities seeking to build or expand their online presence, and we have already executed contracts with three universities. Services include course development and distribution through a proprietary learning management platform, hosting and technical support, student advisory services and program administration.

Partnership with Blackboard Inc.

In October 2010, we announced a partnership with Blackboard Inc. (Blackboard) to develop a solution that delivers our adaptive courses through Blackboard Learn, Blackboard's leading online teaching and learning platform. The combination is intended to reduce the cost of delivering remediation instruction while enabling community colleges and higher education institutions to offer a wider range of both self-paced and teacher-led online programs.

Acquisition of The American Education Corporation

In December 2010, we acquired the stock of The American Education Corporation (AEC) for a total cash purchase price of $24.5 million, after certain adjustments. AEC is a leading provider of research-based core curriculum instructional software for kindergarten through adult learners. The acquisition increases our portfolio of innovative, high quality instructional and curriculum used by school districts all over the country.

Investment in Web International Education Group, Ltd.

In January 2011, we invested $10 million in cash in Web International Education Group Ltd. (Web). This strategic investment gives us a 20% minority interest in Web, with the option to acquire the remainder of the company within a period of five years. Web is a provider of English language training for learners of all ages throughout China, including university students, government workers, and employees of international companies. Web has an extensive network of learning centers throughout China. The proceeds of the investment are intended to be used to expand Web's learning center network into more Chinese cities in China. Web centers include learning labs that are outfitted with modern computers and connections to the internet. They can be used to access our curriculum products and other electronic educational services.

Creation of the George Washington University Online High School

In January 2011, we announced the creation of a partnership with the George Washington University to launch an online private high school, the George Washington University Online High School (GWUOHS). The private school will serve students in the U.S. and in countries around the world. The program offers K12's college preparatory curriculum and is designed for high school students who are seeking a challenging academic experience and aspire to attend top colleges and universities. The online school will cooperate extensively with the George Washington University School of Education to define academic programs and teaching methodologies. The program includes extensive college and career counseling that is unique among online high-school programs.

Acquisition of International School of Berne

In April, 2011, we finalized our acquisition of the operations of the International School of Berne (IS Berne), a traditional private school located in Berne, Switzerland serving students in grades Pre-K through 12. IS Berne is an International Baccalaureate school in its 50th year of operation. Our purchase provided us with the right to operate IS Berne and substantially all of its assets excluding real estate.

Investment by Technology Crossover Ventures in K12 Inc.

In April 2011, we completed a private placement sale of 4 million shares of restricted Common Stock at a price of $31.46 per share to Technology Crossover Ventures (TCV). The proceeds of $125.8 million are unrestricted and may be used for acquisitions, strategic investments and general corporate purposes. Under the terms of the transaction, our Board of Directors (Board) appointed a director nominated by TCV to the Board to hold office until the next annual meeting of stockholders. Additionally, we granted TCV the right to participate on a pro-rata basis in any subsequent private offerings of Common Stock by the Company, subject to certain exclusions such as issuances in connection with acquisitions or employee equity plans. In addition, TCV was granted the right to demand registration of the shares of restricted Common Stock it acquired in the transaction.

Acquisition of Assets from Kaplan Virtual Education

In July 2011, we completed the purchase of certain K-12 assets and Insight School management contracts of Kaplan Virtual Education (KVE), a subsidiary of Kaplan, Inc. KVE assets included online public schools in eight states serving students in grades 6-12. KVE also operated three online private schools serving similar grades. The acquisition will allow us to serve more students with multiple curriculum platforms, leverage the Insight School brand to create a differentiated product offering for "at-risk" students and leverage our existing virtual academy operations. Kaplan K-12 assets are being integrated with our online charter school and private school operations. As part of the acquisition agreement, Kaplan Inc. has agreed not to engage in similar efforts in the K-12 marketplace for a period of 3 years.

Our History

We were founded in 2000 to utilize the advances in technology to provide children access to a high-quality public school education regardless of their geographic location or socio-economic background. Given the geographic flexibility of technology-based education, we believed that the pursuit of this mission could help address the growing concerns regarding the regionalized disparity in the quality of public school education, both in the United States and abroad. The convergence of these concerns and rapid advances in Internet technology created the opportunity to make a significant impact by deploying a high quality online learning systems on a flexible, online platform.

In September 2001, after 18 months of research and development of our curriculum, we introduced our kindergarten through 2nd grade offering. We launched our initial online learning system in virtual public schools in Pennsylvania and Colorado, serving approximately 900 students in the two states combined. We added new grades over the first seven years and continue to manage schools in more states every year. We have also launched hybrid programs that combine face-to-face time in the classroom with online instruction and opened an online private school to reach students worldwide. For the 2010-11 school year, we managed schools in 27 states and through our Institutional Business served schools in all 50 states. For the 2011-12 school year, we have been approved to manage schools in Louisiana and Tennessee bringing the total states with managed schools to 29.

The following table sets forth the grade levels offered, and new state(s) managed by school year for virtual public schools and hybrid schools:

School Year	Grades Offered	# of States with Managed Schools	New States with Managed Schools
SY 2001 - 2002	K - 2	2	Colorado, Pennsylvania
SY 2002 - 2003	K - 5	7	Arkansas, California, Idaho, Minnesota, Ohio
SY 2003 - 2004	K - 7	11	Arizona, Florida, Utah, Wisconsin
SY 2004 - 2005	K - 8	12	Kansas
SY 2005 - 2006	K - 9	13	Texas
SY 2006 - 2007	K - 10	15	Illinois, Washington,
SY 2007 - 2008	K - 12	17	Georgia, Nevada
SY 2008 - 2009	K - 12	21	Hawaii, Indiana, Oregon, South Carolina
SY 2009 - 2010	K - 12	25	Alaska, Oklahoma, Virginia, Wyoming
SY 2010 - 2011	K - 12	27	Massachusetts, Michigan
SY 2011- 2012	K –12	29	Louisiana, Tennessee

Key Aspects and Trends of Our Operations

Revenues

We generate a significant portion of our revenues from the sale of curriculum, management and technology services to virtual public schools and hybrid schools, where we provide turnkey management services. In each of the past five years, more than 85% of our revenues have been derived from this source. We anticipate that these revenues will continue to represent the bulk of our total revenues over the next 12-24 months, however we expect revenues in our other distribution channels to increase in proportion to our total revenues as we execute on our growth strategy. These channels include schools and school districts (our Institutional Business), Private Schools, consumer, post-secondary and international.

Factors affecting our revenues include:

(i) the number of enrollments;

(ii) the management services provided to the schools and school districts;

(iii) state or district per student funding levels and attendance requirements;

(iv) prices for our products and services;

(v) growth in our other distribution channels; and

(vi) revenues from new initiatives, mergers and acquisitions.

We define an enrollment as a student using our curriculum. Generally, students will take four to six courses, except for some kindergarten students who may participate in half-day programs. We count each half-day kindergarten student as an enrollment. Students served through our Institutional Business and Private School offerings may enroll in a single course. For better comparability, these students are converted to full-time equivalents (FTEs) on a four course basis.

School sessions generally begin in August or September and end in May or June. To ensure that all schools are reflected in our measure of enrollments, we consider the number of students on the last day of September to be our opening enrollment level, and the number of students enrolled on the last day of May to be our ending enrollment level. For each period, average enrollments represent the average of the month-end enrollment levels for each school month in the period. We continually evaluate our enrollment levels by state, by school and by grade. We track new student enrollments and withdrawals throughout the year.

We believe that the number of enrollments depends upon the following:

- the number of states and school districts in which we operate;
- the restrictive terms of local laws or regulations including enrollment caps;
- the appeal of our curriculum and instructional model to students and families;
- the specific school or school district requirements including credit recovery, AP, or special needs;
- the effectiveness of our program in delivering favorable academic outcomes;
- the quality of the teachers working in the schools we serve; and
- the effectiveness of our marketing and recruiting programs.

Our reported total average enrollments include students in Managed Schools, students taking K^{12} curriculum or Aventa online programs offered by school districts (Institutional Business), and students in Private Schools. We currently exclude selected programs from our reported enrollment. For example, we do not include students in our consumer channel as we do not monitor the progress of these students in the same way as we do in other programs. We typically sell our A+ curriculum (acquired with AEC) as a site license. As these schools are not limited in the number of students who may access our curriculum, we do not include these students in our enrollment totals. We also exclude students from Capital Education and our classroom pilots.

In fiscal year 2011, we increased total average enrollments by 31,012 or 45.7% to 98,890 as compared to total average enrollments of 67,878 in fiscal year 2010. These figures include 15,880 enrollments obtained through acquisitions completed in fiscal year 2011. We continually evaluate our trends in revenues by monitoring the number of enrollments in total, by state, by school and by grade, assessing the impact of changes in school funding levels and the pricing of our curriculum and educational services.

In fiscal year 2011, 72.1% of our enrollments are associated with virtual public schools and hybrid schools to which we provide turnkey management services. Enrollments in these schools on average generate substantially more revenues than enrollments served through our Institutional Business where we provide limited or no management services. Similarly, revenues earned per enrollment across our private school programs vary. As we continue to build our Institutional Business and increase enrollment in Private Schools, enrollment mix will shift and may impact growth in revenues relative to the growth in enrollments.

In fiscal year 2011, we derived approximately 13% of our revenues from each of the Ohio Virtual Academy and the Agora Cyber Charter School (Agora) in Pennsylvania. In aggregate, these schools accounted for approximately 26% of our total revenues. We provide our full turnkey management solution pursuant to our contract with the Ohio Virtual Academy, which terminates on June 30, 2017. We provide our full turnkey solution to the Agora pursuant to a contract with the school that expires on June 30, 2015. The annual revenues generated under each of these contracts represent a material portion of our total revenues in fiscal year 2011, however, as our other distribution channels grow, these proportions may decline.

Our annual revenue growth is impacted by changes in federal, state and district per enrollment funding levels. Due to the budgetary problems arising from the economic recession, many states have reduced per enrollment funding for public education affecting many of the public schools we serve. While the American

Recovery and Reinvestment Act of 2009 and Education Jobs and Medicaid Assistance Act of 2010 have provided additional federal funds to states, they have not fully offset the state funding reductions. Our financial results reflect the state funding reductions, federal funds provided, and expense reductions that we undertook in order to mitigate the impact of these budget constraints. Notwithstanding this additional aid, net reductions in school funding have negatively affected both revenue and income for our last three fiscal years. At this time, many states still have budget issues. The specific level of federal, state and district funding for the coming years is not yet known, and taken as a whole, it is reasonable to believe that a number of the public schools we serve could experience lower per enrollment funding in the future.

We evaluate the combined pricing of our curriculum and educational services annually against market conditions and state funding levels and change them as we deem appropriate. We do not expect our price changes to have a significant impact on revenues as they are generally encompassed within changes in per enrollment funding levels for virtual public schools and hybrid schools.

Our growth strategy includes increasing revenues in other distribution channels, including accelerating sales to schools and school districts, adding enrollments in our private schools, and pursuing international opportunities to offer our learning system. While the combined revenues from these channels are significantly smaller than that from the public schools we manage in fiscal year 2011, the revenues are growing a faster rate. Our success in executing our strategies will impact future growth. We also launched several new initiatives in fiscal year 2011 including MIL, Capital Education, and the management of SF Flex. These initiatives contributed 1.8% to revenue growth. In addition, we will continue to pursue acquisitions at attractive valuations that complement our existing educational offering and business capabilities. In FY 2011, the acquisitions of KCDL, AEC, and IS Berne contributed 10.4% to revenue growth.

Instructional Costs and Services Expenses

Instructional costs and services expenses include expenses directly attributable to the educational products and services we provide. The virtual public schools and hybrid schools we manage are the primary drivers of these costs, including teacher and administrator salaries and benefits and expenses of related support services. We also employ teachers and administrators for instruction and oversight in our Institutional Business, Private School and MMLA summer programs. Instructional costs also include fulfillment costs of student textbooks and materials, depreciation and reclamation costs of computers provided for student use, and the cost of any third-party online courses. In addition, we include in instructional costs the amortization of capitalized curriculum and related systems. We measure, track and manage instructional costs and services as a percentage of revenues and on a per enrollment basis as these are key indicators of performance and operating efficiency.

In the near term, we expect high school enrollments to grow as a percentage of total enrollments. Our high school offering requires increased instructional costs as a percentage of revenues compared to our kindergarten to 8th grade offering. This is due to the following: (i) generally lower student-to-teacher ratios; (ii) higher compensation costs for some teaching positions requiring subject-matter expertise; (iii) ancillary costs for required student support services including college placement, SAT preparation and guidance counseling; and (vi) use of third-party courses to augment our proprietary curriculum. Over time, we anticipate partially offsetting these factors by obtaining productivity gains in our high school instructional model, replacing third-party high school courses with proprietary content, leveraging our school infrastructure and obtaining purchasing economies of scale.

We have deployed and are continuing to develop new delivery models, including hybrid schools, where students receive face-to-face instruction in a learning center to complement their online instruction, and other programs that utilize a brick and mortar facility full-time, including our operational management of the SF Flex School and IS Berne. These models necessitate additional costs including facilities related costs and additional administrative support, which are generally not required to operate typical virtual public schools and hybrid schools. In addition, development costs may include instructional research and curriculum development. As a result, instructional costs as a percentage of revenues may be higher than our fully virtual kindergarten through eighth grade offering. In addition, we are pursuing expansion into new states. If we are successful, we will incur start-up costs and other expenses associated with the initial launch of a school, which may result in increased instructional costs as a percentage of revenues.

As a percentage of revenues, instructional costs and services expenses increased to 58.8% for the year ended June 30, 2011, as compared to 57.8% for the same period in the prior year. This increase as a percentage of revenues was primarily attributable to increased amortization of curriculum and online learning systems, expenses for new initiatives that did not have the corresponding growth in revenues in the current period, and an increase in the percentage of high school enrollments relative to total enrollments, as high school enrollments have higher costs as a percentage of revenues due to increased teacher and related services costs. These increases were partially offset by lower fulfillment costs for materials and computers, increased productivity at the schools we manage, and leverage of fixed school infrastructure costs.

Selling, Administrative and Other Operating Expenses

Selling, administrative and other operating expenses include the salaries and benefits employees engaged in business development, public affairs, sales and marketing, and administrative functions and their related third-party costs. In addition, we include rent expense for our corporate headquarters, stock compensation expense, facility and corporate equipment depreciation and intangible amortization. We also include litigation settlement costs, and transaction and due diligence expenses related to mergers and acquisitions. We track selling, administrative and other operating expenses as a percentage of revenues to measure performance and efficiency of these areas. In addition, we quantify sales and marketing efficiency including the number of new enrollment prospects, our ability to convert these prospects into enrollments, and our cost effectiveness of conversion. We also review various call center statistics as indicators of operating efficiency and customer service including call handle rates, waiting time and customer satisfaction. For fiscal year 2011, our selling, administrative and other operating expenses as a percentage of revenues were 33.5%, as compared to 30.5% in the prior year. This increase is primarily attributable to increases in: personnel costs including those acquired with KCDL and AEC; strategic marketing including brand awareness and student recruitment; professional services; depreciation and amortization including the effects of purchase accounting; M&A transaction and integration expenses; financial systems and process improvement costs; and one-time stock compensation expenses. Included in selling, administrative, and other operating expenses for fiscal year 2011 are expenses of $6.6 million for several new initiatives. Also in fiscal year 2011, transaction and merger integration expenses, financial systems and process improvement costs, and one-time stock compensation expenses totaled $9.4 million. We continue to invest in our financial systems to allow us to more effectively operate a large and growing company that will be able to better serve the educational needs of students domestically and internationally.

Product Development Expenses

Product development expenses include research and development costs and overhead costs associated with the management of both our curriculum development and internal systems development teams. In addition, product development expenses include the amortization of internal systems and any related impairment charges. We measure and track our product development expenditures on a per course or project basis to measure and assess our development efficiency. In addition, we monitor employee utilization rates to evaluate our workforce efficiency. In fiscal year 2011, product development expenses increased as we acquired the development functions of KCDL and AEC. We plan to invest in additional curriculum development and related software in the future, primarily to produce additional high school courses, world language courses, and new releases of existing courses and to continue to upgrade our content management system and online schools. We expect to gain efficiencies as we integrate the development capabilities of KCDL and AEC and leverage our collective development efforts over an increasing base of enrollment. We capitalize most of the costs incurred to develop our curriculum, beginning with application development, through production and testing into capitalized curriculum development costs. We capitalize the costs incurred to develop internal systems into capitalized software development costs.

Other Factors That May Affect Comparability Year To Year

Amortization of Capitalized Curriculum and Related Systems. We record amortization of capitalized curriculum and related systems in instructional costs and services expenses.

Our amortization of capitalized curriculum and related systems for the years ended June 30, 2011, 2010 and 2009:

($ in millions)	2011	2010	2009
Amortization of Capitalized Curriculum and Related Systems	$10.4	$5.7	$3.4
Amortization as a % of revenues	2.0%	1.5%	1.1%

We expect amortization of capitalized curriculum and related systems to continue to increase in the future as we place additional courses and systems in service.

Stock Based Compensation Expense. We record stock based compensation expense in selling, administrative and other operating expenses.

Our stock based compensation expense for the years ended June 30, 2011, 2010 and 2009:

($ in millions)	2011	2010	2009
Stock-based compensation expense	$9.5	$5.9	$2.8
Stock compensation expense as a % of revenues	1.8%	1.5%	0.9%

We expect stock based compensation expense to continue to increase in the future as we grant additional stock options and restricted stock awards as incentive compensation and to retain and attract employees.

Income Tax Expense. In the period from our inception through fiscal year 2005, we incurred significant operating losses that resulted in a net operating loss carryforward for tax purposes. However, in each of the three years ending June 30, 2008, we generated increasing enrollments, revenue and pre-tax income. As a result, in fiscal year 2008, we determined it was more likely than not that substantially all of our net deferred tax assets would be utilized. For the year ended June 30, 2008, we recognized a net income tax benefit of $21.1 million. This reflects the net effect of a $27.0 million tax benefit from the reversal of the valuation allowance on net deferred tax assets and an income tax expense of $5.9 million, or 46.6% of pretax income.

Income tax expense for the year ended June 30, 2009 was $9.6 million, or 45.1% of pretax income. For the year ended June 30, 2010, income tax expense was $13.2 million, or 38.8% of pretax income. The tax rate of 38.8% reflects the benefit of research and development tax credits. This credit expired in December 2009 and was retroactively reinstated to January 1, 2010 during fiscal year ended June 30, 2011. Without the benefit of these tax credits, the tax rate would have been 43.1%. For the year ended June 30, 2011, income tax expense was $11.3 million, or 49.3% of pretax income. The tax rate of 49.3% reflects the benefit of research and development tax credits. Without the benefit of these tax credits, the tax rate would have been 51.8%. In addition, the income tax rate for the year ended June 30, 2011 increased primarily due to nondeductible costs incurred in the current and prior periods related to transactions that closed during the year ended June 30, 2011. Without these nondeductible transaction costs, income tax expense for the year ended June 30, 2011 would have been 43.4% of income before taxes.

Our income tax expense for the years ended June 30, 2011, 2010 and 2009:

($ in millions)	2011	2010	2009
Income tax expense	$11.3	$13.2	$ 9.6
Income tax expense as a % of pretax income	49.3%	38.8%	45.1%

Intangible Asset Amortization. Our intangible asset amortization for the years ended June 30, 2011, 2010 and 2009:

($ in millions)	2011	2010	2009
Intangible asset amortization expense	$3.1	$0.2	$0.1
Intangible asset amortization expense as a % of revenues	0.6%	0.1%	0.0%

We recorded intangible assets of $27.3 million in fiscal year 2011 related to three transactions. These intangible assets have estimated useful lives from 3 to 20 years. We expect intangible asset amortization to increase in fiscal year 2012 due to the full year impact of acquisitions which occurred during fiscal year 2011 and may increase further in future years as we make additional acquisitions.

Public Funding and Regulation. Our public school customers are financed with federal, state and local government funding. Budget appropriations for education at all levels of government are determined through a political process and impacted by general economic conditions, and, as a result, our revenues may be affected by changes in appropriations. Decreases in funding could result in an adverse affect on our financial condition, results of operations and cash flows.

Competition. Providing online education for grades K-12 is becoming increasingly competitive and attracting significant new entrants. As this competition intensifies, it could negatively effect our growth, revenues and operating margins. With the introduction of new technologies and entrants, we expect this competition to intensify.

Critical Accounting Policies and Estimates

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. In the preparation of our consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements. Our critical accounting policies have been discussed with the audit committee of our Board of Directors.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

In accordance with Accounting Standards Codification (ASC) 605 (formerly SEC Staff Accounting Bulletin No. 104) we recognize revenues when the following conditions are met: (1) persuasive evidence of an arrangement exists; (2) delivery of physical goods or rendering of services is complete; (3) the seller's price to the buyer is fixed or determinable; and (4) collection is reasonably assured. Once these conditions are satisfied, the amount of revenues we record is determined in accordance with Emerging Issues Task Force (EITF 99-19), *Reporting Revenue Gross as a Principal versus Net as an Agent,* (codified in ASC 605).

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

While we have concluded that the elements of our contracts do not have standalone value, we invoice schools in accordance with the established contractual terms and rates. Generally, this means that for each enrolled student, we invoice their school on a per student basis for the following items: (1) access to our online school and online curriculum; (2) learning kits; and (3) student personal computers. We also invoice for management and technology services. We apply ASC 605 to each of these items as follows:

- *Access to the Online School and Online Curriculum.* Our OLS revenues are generally earned on a per course basis from schools and school districts. Students enrolled through a school are provided access to the OLS and online curriculum. Revenues are earned ratably over the school year, typically 10 months, or over the semester depending on the length of the course.
- *Learning Kits.* The lessons in our online school are often accompanied with selected printed materials, workbooks, laboratory materials and other manipulative items which we provide to students. We

generally ship all learning kits to a student when their enrollment is approved. Once materials have been shipped, our efforts are substantially complete. Therefore, we recognize revenues upon shipment. Shipments for schools that occur in the fourth fiscal quarter that are for the upcoming school year are recorded in deferred revenues. We may also receive reclamation fee income when we reclaim materials for schools at the end of the school year or when a student withdraws from the school.

- *Student Personal Computers.* We provide many enrolled families with the use of a personal computer and complete technical support through our call center. Revenues are generally earned ratably over the school year. We will also earn revenues for reclamation services when a student withdraws and returns the computer or a computer needs to be exchanged.
- *Management, Technology and Educational Services.* Under most of our statewide virtual public school and hybrid school contracts, we provide the boards of these schools with turnkey management and technology services. We recognize these revenues ratably over the course of our fiscal year as administrative offices of the school remain open for the entire year. Our management and technology service fees are generally a contracted percentage of yearly school funding. We review our estimates of funding periodically, and revise as necessary, amortizing any adjustments to earned revenues over the remaining portion of the fiscal year. Actual school funding may vary from these estimates or revisions, and the impact of these differences could have a material impact on our results of operations. Since the end of the school year coincides with the end of our fiscal year, we are generally able to base our annual revenues on actual school revenues.

We closely monitor the financial performance of the schools to which we provide turnkey management services. Under the contracts with these schools, we generally take responsibility for any operating expenses that they may incur in a given school year. These expenses include our charges for products and services. In some cases, the school operating expenses may exceed the revenues earned by the school resulting in an operating loss for the school. A school operating loss may result from a combination of cost increases or funding reductions attributable to the following:

1) costs associated with new schools including the initial hiring of teachers, administrators and the establishment of school infrastructure;
2) school requirements to establish contingency reserves;
3) one-time costs such as a legal claim;
4) funding reductions due to the inability to qualify specific students for funding;
5) regulatory or academic performance thresholds which may restrict the ability of a school to fund all expenses;
6) inadequate school funding in particular states; and/or
7) burdensome regulation creating excessive costs.

The fact that a school has an operating loss in one year does not necessarily mean we anticipate losing money on the entire contract, however, a school operating loss may reduce our ability to collect invoices in full. Accordingly, our recognized revenues reflect this reduction. We amortize 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. We periodically review our estimates of full year school revenues and full year school operating expenses and amortize the net impact of any changes to these estimates over the remainder of our 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 our results of operations. Since the end of the school year coincides with the end of our fiscal year, we are generally able to base our annual revenues on actual school revenues and use actual costs incurred in our calculation of school operating losses. In aggregate, the operating losses of the schools we manage have grown substantially. We expect school operating losses to decline in some schools as their enrollment increases and they obtain scale. In aggregate, we expect school operating losses to continue to grow due to start up costs in new states, additional investment in educational programs, and the higher costs associated with our high school offering.

The amount of revenues we record is determined in accordance with ASC 605. For the schools where we provide turnkey management services, we have determined that we are the primary obligor for substantially all expenses of the school. Accordingly, we report certain revenues on a gross basis by recording the associated per student revenues received by the school up to the expenses incurred by the school. These associated gross revenues are recognized when the underlying expenses are incurred by the school. In certain managed school contracts, our revenue is determined directly by per enrollment funding. As our services are performed over the fiscal year, we generally earn and recognize revenues ratably over that period.

Under our Institutional Business distribution channel, we provide services for a school or school district without any fiscal responsibility, and recognize revenues on a net basis. Revenues in our Private Schools are recognized based upon the services provided as described above.

We generate a small percentage of our revenues from the sale of perpetual licenses of curriculum and ongoing support to schools. Under ASC 605-25-25-2, we account for the license and support of separate units of accounting and recognize revenues associated with the license up front and ongoing maintenance and support over the performance period. We also generate a small percentage of our revenues through the sale of our online courses and learning kits directly to consumers. Online course sales are generally month to month subscriptions or for periods of 12 months and customers have the option of paying a discounted amount in full upfront or paying in monthly installments. For those customers electing to pay these subscription fees in their entirety upfront, we record the payment as deferred revenue and amortize the revenues over the life of the subscription. For customers paying monthly, we recognize these payments as revenues in the month earned. Revenues for learning kits are recognized when shipped.

Capitalized Curriculum Development Costs

Our curriculum is primarily developed by our employees and to a lesser extent, by independent contractors. Generally, our courses cover traditional subjects and utilize examples and references designed to remain relevant for long periods of time. The online nature of our curriculum allows us to incorporate user feedback rapidly and make ongoing corrections and improvements. For these reasons, we believe that our courses, once developed, have an extended useful life, similar to computer software. We also create textbooks and other offline materials. Our curriculum is integral to our learning system. Our customers do not acquire our curriculum or future rights to it.

Due to the similarity in development stages and long economic life of curriculum to computer software, we capitalize curriculum development costs incurred during the application development stage in accordance with ASC 350 (formerly Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*). ASC 350 provides guidance for the treatment of costs associated with computer software development and defines those costs to be capitalized and those to be expensed. Costs that qualify for capitalization are external direct costs, payroll, and payroll-related costs. Costs related to general and administrative functions are not capitalizable and are expensed as incurred. We capitalize curriculum development costs during the design, development and deployment phases of the project. Many of our new courses leverage off of proven delivery platforms and are primarily content, which has no technological hurdles. As a result, a significant portion of our courseware development costs qualify for capitalization due to the concentration of our development efforts on the content of the courseware. Technological feasibility is established when we have completed all planning, designing, coding, and testing activities necessary to establish that a course can be produced to meet its design specifications. Capitalization ends when a course is available for general release to our customers, at which time amortization of the capitalized costs begins. Capitalized costs are recorded in capitalized curriculum development costs. The period of time over which these development costs will be amortized is generally five years. This is consistent with the capitalization period used by others in our industry and corresponds with our product development lifecycle.

Software Developed or Obtained for Internal Use

We develop our own proprietary computer software programs to provide specific functionality to support both our unique education offering and the student and school management services. These programs enable us to develop courses, process student enrollments, meet state documentation requirements, track student academic progress, deliver online courses to students, coordinate and track the delivery of course-specific materials to students and provide teacher support and training. These applications are integral to our learning system and we continue to enhance existing applications and create new applications. Our customers do not acquire our software or future rights to it.

We capitalize software development costs incurred during the development stage of these applications in accordance with ASC 350 (formerly SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*). These capitalized development costs are included in capitalized software development costs and are generally amortized over three years.

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 (formerly Statement of Financial Accounting Standards No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, we review our recorded long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We determine the extent to which an asset may be impaired based upon our expectation of the asset's future usability as well as on a reasonable assurance that the future cash flows associated with the asset will be in excess of its carrying amount. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between fair value and the carrying value of the asset. There were no impairment charges for the years ended June 30, 2011 and 2010. We recorded impairment charges on capitalized curriculum of $0.3 million for the year ended June 30, 2009.

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes*, (formerly SFAS No. 109, *Accounting for Income Taxes*). ASC 740 prescribes the use of the asset and liability method to compute the differences between the tax bases of assets and liabilities and the related financial amounts, using currently enacted tax laws. If necessary, a valuation allowance is established, based on the weight of available evidence, to reduce deferred tax assets to the amount that is more likely than not to be realized. Realization of the deferred tax assets, net of deferred tax liabilities, is principally dependent upon achievement of sufficient future taxable income. We exercise significant judgment in determining our provisions for income taxes, our deferred tax assets and liabilities and our future taxable income for purposes of assessing our ability to utilize any future tax benefit from our deferred tax assets. However, our ability to forecast sufficient future taxable income is subject to certain market factors that we may not be able to control such as a material reduction in per pupil funding levels, legislative budget cuts reducing or eliminating the products and services we provide and government regulation.

From inception through fiscal year 2005, we had generated significant losses. However, in the three years ending June 30, 2008 we generated increasing operating profit. In addition, our revenues are dependent, among other things, upon the number of student enrollments. During the recruiting season for fall 2008, we received enrollment applications that would provide for additional growth for fiscal year 2009. When considering this positive evidence of future profitability, we believed that our recent history of generating positive pre-tax income is sustainable and is expected to continue to grow as a result of the increasing revenues primarily from virtual public schools. Consequently, as we believed that it is more likely than not that we would be able to utilize substantially all of our net deferred tax asset, we reversed approximately $27.0 million of the valuation allowance on our net deferred tax asset for the year ended June 30, 2008.

Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to examination by tax authorities in the ordinary course of business. We periodically assess the likelihood of adverse outcomes resulting from these examinations to determine the impact on our deferred taxes and income tax liabilities and the adequacy of our provision for income taxes. Changes in income tax legislation, statutory income tax rates, or future taxable income levels, among other things, could materially impact our valuation of income tax assets and liabilities and could cause our income tax provision to vary significantly among financial reporting periods.

As of June 30, 2011, we had federal net operating loss carryforwards of $59.6 million that expire between 2021 and 2031 if unused. We maintain a valuation allowance on net deferred tax assets of $0.9 million as of June 30, 2011 related to state income taxes and foreign net operating losses as we believe it is more likely than not that we will not be able to utilize these deferred tax assets. Due to our net operating loss carryforwards, we do not expect to pay federal income taxes in the next twelve months, other than the alternative minimum tax. Federal net operating loss carryforwards as of June 30, 2011 include $8.9 million and $1.5 million of federal net operating losses generated by KCDL and AEC, respectively, in prior periods, which the Company expects to utilize.

Accounting for Stock-based Compensation

Effective July 1, 2006, the Company adopted the fair value recognition provisions of ASC 718 using the prospective transition method which requires the Company to apply the provisions of ASC 718 only to awards granted, modified, repurchased or cancelled after July 1, 2006. Equity-based compensation expense for all equity-based compensation awards granted after July 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of ASC 718. The Company recognizes these compensation costs on a straight-line basis over the requisite service period, which is generally the vesting period of the award.

The fair value of restricted stock awards is the fair market value on the date of grant. We use the Black-Scholes option pricing model method to calculate the fair value of stock options. The use of option valuation models requires the input of highly subjective assumptions, including the expected stock price volatility and the expected term of the option.

Goodwill and Other Intangibles

We record as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. Finite-lived intangible assets acquired in business combinations subject to amortization are recorded at their fair value in accordance with ASU 350. Finite-lived intangible assets include the trade names, customer contracts and non-compete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives.

As of June 30, 2011 and 2010, we had a finite-lived intangible asset balance of $41.8 million and $14.5 million, respectively and accumulated amortization of $3.5 million and $0.4 million, respectively. Amortization expense for the years ended June 30, 2011, 2010 and 2009 was $3.1 million, $0.2 million and $0.1 million, respectively. Future amortization of intangible assets is not yet determinable until a final allocation is completed identifying the finite-lived intangibles and corresponding useful life contributed to AEC. As of June 30, 2011 and 2010, indefinite-lived intangible assets are recorded for $55.6 million and $1.8 million, respectively.

ASC 350 (formerly Statements of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*,), prescribes a two-step process for impairment testing of goodwill and intangibles 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. We have elected to perform our annual assessment on May 31st of each year. For the years ended June 30, 2011, 2010, and 2009 no impairment to goodwill or indefinite-lived intangible assets was recorded.

($ in millions)	2011	2010
Components of indefinite-lived intangibles		
Goodwill	$55.3	$1.5
Domain Name	0.3	0.3
Total	55.6	$1.8

Consolidation of Noncontrolling Interest

Our consolidated financial statements reflect the results of operations of our Middle East and Middlebury Interactive Languages joint ventures. Earnings or losses attributable to our partner are classified as "net income or net loss attributable to noncontrolling interest" in our consolidated statements of operations. Net income or net loss attributable to noncontrolling interest adjusts our consolidated net results of operations to reflect only our share of the after-tax earnings or losses of an affiliated company. Income taxes attributable to minority interest are determined using the applicable statutory tax rates in the jurisdictions where such operations are conducted.

Redeemable Noncontrolling Interest

In the formation of our joint venture with Middlebury College, at any time after the fifth (5th) anniversary of the agreement, Middlebury may give written notice of its irrevocable election to sell all (but not less than all) of its Membership Interest to the Company (put right). The purchase price for Middlebury's Membership Interest shall be its fair market value and the Company may, in its sole discretion, pay the purchase price in cash or shares of the Company's common stock. The agreement also includes a provision whereby, if certain milestones are not met related to expanding the business by June 2014, Middlebury will have the option to repurchase certain contributed assets at their fair market value.

The transaction resulted in a change in ownership interest of the subsidiary that did not result in loss of control and was accounted for as an equity transaction in accordance with the provisions of ASC 810 (formerly SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*). The assets contributed by Middlebury were initially recorded at their fair value. The intangible assets contributed by Middlebury were estimated at a fair value of $14.0 million.

Given the provision of the put right, the redeemable noncontrolling interest is redeemable outside of our control and it is recorded outside of permanent equity at its redemption value fair value in accordance with EITF Topic D-98, *Classification and Measurement of Redeemable Securities.* We adjust the redeemable noncontrolling interest to redemption value on each balance sheet date with changes in redemption value recognized as an adjustment to retained earnings, or in the absence of retained earnings, by adjustment to additional paid-in-capital. As of June 30, 2011, the estimated redeemable noncontrolling interest was $17.2 million.

Investment in Web International Education Group, Ltd.

We have recorded our minority investment in Web as an available for sale debt security because of our ability to put the investment to other Web shareholders in return for the original $10 million purchase price plus interest. Accordingly, the operating results of Web are not reflected in our consolidated statements of operations. During the year ended June 30, 2011, there was no change to the fair value of our Web investment based on the initial cost of the investment and Web's financial performance since initial investment.

Results of Operations

The following table sets forth total average enrollment data by distribution channel for each of the periods indicated. Our reported total average enrollments include students in Managed Schools, students taking K[12] curriculum or Aventa online programs offered by school districts (Institutional Business), and students in Private Schools. These figures exclude enrollments from our consumer, A+, post-secondary and classroom pilot programs.

	Years Ending			Growth 2011/2010		Growth 2010/2009	
	2011	**2010**	**2009**	**Change**	**Change %**	**Change**	**Change %**
Total Average Enrollment							
K12 Managed Schools	68,189	56,962	45,069	11,227	19.7%	11,893	26.4%
K12 Institutional Business	13,082	9,850	9,893	3,232	32.8%	(43)	-0.4%
K12 Private Schools	1,739	1,066	595	673	63.1%	471	79.2%
K12 Total Average Enrollment	83,010	67,878	55,557	15,132	22.3%	12,321	22.2%
Total Acquired Enrollment	15,880	—	—	15,880	NM	—	NM
Total Average Enrollment	**98,890**	**67,878**	**55,557**	31,012	45.7%	12,321	22.2%
K12 and Acquired Enrollment							
Managed Schools	71,322	56,962	45,069	14,360	25.2%	11,893	26.4%
Institutional Business	19,862	9,850	9,893	10,012	101.6%	(43)	-0.4%
Private Schools	7,706	1,066	595	6,640	622.9%	471	79.2%
Total Average Enrollment	**98,890**	**67,878**	**55,557**	31,012	45.7%	12,321	22.2%

Certain totals may not add due to the effects of rounding.

NM – Not Meaningful

The following table sets forth statements of operations data for each of the periods indicated:

	Years Ended June 30,		
	2011	**2010**	**2009**
		(In thousands)	
Revenues	$522,434	$384,470	$315,573
Cost and expenses			
Instructional costs and services	307,111	222,029	196,976
Selling, administrative, and other operating expenses	174,762	117,398	86,683
Product development expenses	16,347	9,576	9,575
Total costs and expenses	498,220	349,003	293,234
Income from operations	24,214	35,467	22,339
Interest expense, net	(1,207)	(1,331)	(982)
Income before income tax expense and noncontrolling interest	23,007	34,136	21,357
Income tax expense	(11,342)	(13,249)	(9,628)
Net income	11,665	20,887	11,729
Add net loss attributable to noncontrolling interest	1,127	638	586
Net Income — K12 Inc.	$ 12,792	$ 21,525	$ 12,315

The following table presents our selected consolidated statement of operations data expressed as a percentage of our total revenues for the periods indicated:

	Year Ended June 30,		
	2011	2010	2009
Revenues	100.0%	100.0%	100.0%
Cost and expenses			
Instructional costs and services	58.8	57.8	62.4
Selling, administrative, and other operating expenses	33.5	30.5	27.5
Product development expenses	3.1	2.5	3.0
Total costs and expenses	95.4	90.8	92.9
Income from operations	4.6	9.2	7.1
Interest expense, net	(0.2)	(0.3)	(0.3)
Income before income tax expense and noncontrolling interest	4.4	8.9	6.8
Income tax expense	(2.2)	(3.4)	(3.1)
Net income	2.2	5.5	3.7
Add net loss attributable to noncontrolling interest	0.2	0.1	0.2
Net income — K12 Inc.	2.4%	5.6%	3.9%

Comparison of Years Ended June 30, 2011 and 2010

Revenues. Our revenues for the year ended June 30, 2011 were $522.4 million, representing an increase of $137.9 million, or 35.9%, as compared to revenues of $384.5 million for the same period in the prior year. Organic revenue growth was 23.7%. Revenue from acquisitions was $40.1 million and contributed 10.4% to revenue growth. Revenue from new initiatives was $7.0 million and contributed 1.8% to revenue growth. Total average enrollments increased 45.7% to 98,890 for the year ended June 30, 2011 from 67,878 for the same period prior year. The increase in average enrollments was attributable to 23.4% acquisition enrollment growth and 22.3% organic enrollment growth.

Instructional Costs and Services Expenses. Instructional costs and services expenses for the year ended June 30, 2011 were $307.1 million, representing an increase of $85.1 million, or 38.3% as compared to instructional costs and services of $222.0 million for the same period in the prior year. This increase was primarily attributable to a $63.9 million increase in expenses to operate and manage schools including the programs acquired with KCDL and the MIL summer programs. In addition, costs to supply curriculum, books, educational materials and computers to students increased $10.6 million, and amortization of curriculum and online learning systems also increased $10.6 million. Included in the $85.1 million increase in instructional costs and services expenses were start-up and launch expenses of $7.5 million for several new initiatives. As a percentage of revenues, instructional costs and services expenses increased to 58.8% for the year ended June 31, 2011, as compared to 57.8% for the same period in the prior year. This increase as a percentage of revenues was primarily attributable to increased amortization of curriculum and online learning systems, expenses for new initiatives that did not have the corresponding growth in revenues in the current period, and an increase in the percentage of high school enrollments relative to total enrollments, as high school enrollments have higher costs as a percentage of revenues due to increased teacher and related services costs. These increases were partially offset by lower fulfillment costs for materials and computers, increased productivity at the schools we manage, and leverage of fixed school infrastructure costs.

Selling, Administrative, and Other Operating Expenses. Selling, administrative, and other operating expenses for the year ended June 30, 2011 were $174.8 million, representing an increase of $57.4 million, or 48.9%, as compared to selling, administrative and other operating expenses of $117.4 million for the same period in the prior year. This increase is primarily attributable to increases in: strategic marketing including brand awareness and student recruitment; personnel costs including those acquired with KCDL and AEC; M&A transaction and integration expenses; depreciation and amortization including the effects of purchase accounting;

financial systems and process improvement costs; and one-time stock compensation expenses. Included in the $57.4 million increase in selling, administrative, and other operating expenses are expenses of $6.6 million for several new initiatives. As a percentage of revenues, selling, administrative, and other operating expenses increased to 33.5% for the year ended June 30, 2011 as compared to 30.5% for the same period in the prior year primarily due to the items identified above.

Product Development Expenses. Product development expenses for the year ended June 30, 2011 were $16.3 million, representing an increase of $6.7 million, or 69.8%, as compared to product development expenses of $9.6 million for the same period in the prior year. The increase is primarily due to support for the Aventa curriculum acquired during the period as well as new projects including development expenses related to our financial systems implementation. Included in the $6.7 million increase in product development expenses are expenses of $1.8 million for new initiatives and ERP implementation expenses of $1.0 million. As a percentage of revenues, product development expenses increased to 3.1% for the year ended June 30, 2011 as compared to 2.5% for the same period in the prior year primarily due to the items identified above.

Net Interest Expense. Net interest expense for the year ended June 30, 2011 was $1.2 million, as compared to net interest expense of $1.3 million for the same period in the prior year. The decrease is primarily due to lower interest rates on capital leases and notes payable for the year ending June 30, 2011 as compared to the same period in the prior year.

Income Taxes. Income tax expense for the year ended June 30, 2011 was $11.3 million or 49.3% of income before income taxes, as compared to an income tax expense of $13.2 million, or 38.8% of income before taxes, for the same period in the prior year. The increase in rate is primarily attributable to nondeductible costs incurred in the current and prior periods related to transactions that closed during the year ended June 30, 2011. Without these nondeductible transaction costs, the effective income tax rate for the year ended June 30, 2011 would have been 43.4% of income before taxes. This increased rate was reduced somewhat by tax credits recognized in the year ended June 30, 2011 for research and development activities in the current and prior periods. Without these credits, the effective income tax rate for the year ended June 30, 2011 would have been 51.8% of income before taxes.

Noncontrolling interest. Net loss attributable to noncontrolling interest for the years ended June 30, 2011 and 2010 was $1.1 million and $0.6 million, respectively. Noncontrolling interest reflects the after-tax losses attributable to shareholders in our joint venture in the Middle East and Middlebury Interactive Languages.

Comparison of Years Ended June 30, 2010 and 2009

Revenues. Our revenues for the year ended June 30, 2010 were $384.5 million, representing an increase of $68.9 million, or 21.8%, as compared to revenues of $315.6 million for the same period in the prior year. Total average enrollments increased 22.2% to 67,878 for the year ended June 30, 2010 from 55,557 for the same period prior year. The increase in average enrollments was primarily attributable to 19.8% enrollment growth in existing states. New school openings in Alaska, Oklahoma, Virginia, and Wyoming contributed approximately 1.8% to enrollment growth.

Instructional Costs and Services Expenses. Instructional costs and services expenses for the year ended June 30, 2010 were $222.0 million, representing an increase of $25.1 million, or 12.7% as compared to instructional costs and services of $197.0 million for the same period in the prior year. This increase was primarily attributable to a $25.5 million increase in expenses to operate and manage the schools, partially offset by a $0.4 million decrease in costs to supply curriculum, books, educational materials, and computers to students, including depreciation and amortization. As a percentage of revenues, instructional costs decreased to 57.8% for the year ended June 30, 2010, as compared to 62.4% for the same period in the prior year. This decrease as a percentage of revenues was primarily attributable to the lower fulfillment costs for materials and computers, increased volume in reclaimed materials, increased productivity at the schools we serve, and leverage of fixed school infrastructure costs. This decrease in expenses were partially offset by an increase in the percentage of high school enrollments relative to total enrollments from 18.5% to 21.9%, as high school enrollments have higher costs as a percentage of revenues due to increased teacher and related services.

Selling, Administrative, and Other Operating Expenses. Selling, administrative, and other operating expenses for year ended June 30, 2010 were $117.4 million, representing an increase of $30.7 million, or 35.4%, as compared to selling, administrative and other operating expenses of $86.7 million for the same period in the prior year. This increase is primarily attributable to increases in personnel costs including benefits and stock compensation expense, the expansion of our institutional sales force, student recruiting and enrollment costs, professional services acquisition due diligence and transaction related costs, and litigation settlement costs. As a percentage of revenues, selling, administrative and other operating expenses increased to 30.5% for the year ended June 30, 2010 as compared to 27.5% for the same period in the prior year primarily due to increases in personnel costs including the expansion of our institutional sales force, student recruiting, professional services, and acquisition due diligence and transaction related costs.

Product Development Expenses. Product development expenses for the years ended June 30, 2010 and 2009 were $9.6 million. Employee compensation as well as contract labor costs increased, but were offset by greater utilization of these resources to develop curriculum assets. We continued to add to our high school course catalogue and to our elementary math and remedial reading programs. As a percentage of revenues, product development expenses decreased to 2.5% for the year ended June 30, 2010 as compared to 3.0% for the same period in the prior year as we were able to leverage these costs over a larger revenue base.

Net Interest Expense. Net interest expense for the year ended June 30, 2010 was $1.3 million, as compared to net interest expense of $1.0 million for the same period in the prior year. The increase is primarily due to lower interest income as a result of declining interest rates for the year ending June 30, 2010 as compared to the same period in the prior year.

Income Taxes. Income tax expense for the year ended June 30, 2010 was $13.2 million, or 38.8% of income before income taxes, as compared to an income tax expense of $9.6 million, or 45.1% of income before taxes, for the same period in the prior year. The decrease in rate is primarily attributable to tax credits recognized in the year ended June 30, 2010 for research and development activities in the current and prior periods. Without these credits, income tax expense for the year ended June 30, 2010 would have been $14.7 million or 43.1% of income before taxes.

Noncontrolling interest. Net loss attributable to noncontrolling interest for the years ended June 30, 2010 and 2009 was $0.6 million and $0.6 million, respectively. Noncontrolling interest reflects the after tax losses attributable to shareholders in our joint venture in the Middle East and Middlebury Interactive Languages.

Quarterly Results of Operations

The following table sets forth enrollment data for our Managed Schools, Institutional Business and Private Schools for the eight most recent quarters. These enrollments exclude enrollments for our consumer, A+, post-secondary and classroom pilot programs.

	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10	Mar-10	Dec-09	Sep-09
K12 Total Average Enrollment	79,906	84,125	83,318	84,950	64,575	68,732	68,519	70,401
Acquired Enrollment	16,307	16,905	14,978	14,661	—	—	—	—
Total Average Enrollment	96,213	101,030	98,296	99,611	64,575	68,732	68,519	70,401

The following tables set forth selected unaudited quarterly consolidated statement of operations data for the eight most recent quarters, as well as each line item expressed as a percentage of total revenues. The information for each of these quarters has been prepared on the same basis as the audited consolidated financial statements included in this Annual Report and, in the opinion of management, includes all adjustments necessary for the fair presentation of the results of operations for such periods. This data should be read in conjunction with the audited consolidated financial statements and the related notes included in this annual report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	For the Three Months Ended,							
	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10	Mar-10	Dec-09	Sep-09
	(In thousands)							
Revenues	$128,268	$130,293	$129,002	$134,871	$88,321	$96,627	$93,197	$106,325
Cost and expenses								
Instructional costs and services	78,107	77,727	76,195	75,082	55,868	56,479	51,589	58,093
Selling, administrative, and other operating expenses	52,324	36,763	35,177	50,498	32,329	26,843	24,899	33,327
Product development expenses	4,029	4,972	3,435	3,911	1,999	2,924	2,415	2,238
Total costs and expenses	134,460	119,462	114,807	129,491	90,196	86,246	78,903	93,658
Income (loss) from operations	(6,192)	10,831	14,195	5,380	(1,875)	10,381	14,294	12,667
Interest expense, net	(237)	(307)	(366)	(297)	(289)	(361)	(324)	(357)
Income (loss) before income tax (expense) benefit and noncontrolling interest	(6,429)	10,524	13,829	5,083	(2,164)	10,020	13,970	12,310
Income tax benefit (expense)	2,968	(5,260)	(6,119)	(2,931)	427	(3,927)	(4,381)	(5,368)
Net income (loss)	(3,461)	5,264	7,710	2,152	(1,737)	6,093	9,589	6,942
Add net loss attributable to noncontrolling interest	617	335	129	46	412	36	49	141
Net income (loss) — K12 Inc.	$ (2,844)	$ 5,599	$ 7,839	$ 2,198	$ (1,325)	$ 6,129	$ 9,638	$ 7,083

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

	For the Three Months Ended,							
	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10	Mar-10	Dec-09	Sep-09
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost and expenses								
Instructional costs and services	60.9	59.7	59.1	55.7	63.2	58.5	55.4	54.6
Selling, administrative, and other operating expenses	40.8	28.2	27.3	37.4	36.6	27.8	26.7	31.3
Product development expenses	3.1	3.8	2.7	2.9	2.3	3.0	2.6	2.1
Total costs and expenses	104.8	91.7	89.1	96.0	102.1	89.3	84.7	88.0
Income (loss) from operations	(4.8)	8.3	10.9	4.0	(2.1)	10.7	15.3	12.0
Interest expense, net	(0.2)	(0.2)	(0.3)	(0.2)	(0.4)	(0.3)	(0.3)	(0.3)
Income (loss) before income tax (expense) benefit and noncontrolling interest	(5.0)	8.1	10.6	3.8	(2.5)	10.4	15.0	11.7
Income tax benefit (expense)	2.3	(4.1)	(4.7)	(2.2)	0.5	(4.1)	(4.7)	(5.0)
Net income (loss)	(2.7)	4.0	5.9	1.6	(2.0)	6.3	10.3	6.7
Add net loss attributable to noncontrolling interest	0.5	0.3	0.1	0.0	0.5	—	—	0.1
Net income (loss) — K12 Inc.	(2.2%)	4.3%	6.0%	1.6%	(1.5%)	6.3%	10.3%	6.8%

Discussion of Quarterly Results of Operations

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to the number of months schools are serving students in a fiscal quarter. While school administrative offices are generally open year round, a school typically serves students during a 10 month academic year. A school's academic year typically begins in August or September, our first fiscal quarter, and finishes in May or June, our fourth fiscal quarter. Consequently, our first and fourth fiscal quarters reflect fewer than three complete months of operations when compared to the second and third fiscal quarters.

In the first fiscal quarter, we ship materials to students for the beginning of the school year. New students will enroll after the start of the school year, but in significantly smaller numbers. This generally results in higher materials revenues and margin in the first quarter versus other quarters. In the first and fourth fiscal quarters, online curriculum and computer revenues are generally lower as these revenues are primarily earned during the school academic year which may provide for only one or two months of these revenues in these quarters versus the second and third fiscal quarters. Management and technology service revenues are recognized ratably over the course of our fiscal year. The combined effect of these factors results in slightly higher revenues in the first fiscal quarter than in the subsequent quarters.

Operating expenses are also seasonal. Instructional costs and services expenses increase in the first fiscal quarter primarily due to the costs incurred to ship student materials at the beginning of the school year. Instructional costs may increase significantly quarter-to-quarter as school operating expenses increase. For example, enrollment growth will require additional teaching staff, thereby increasing salary and benefits expense. School events may be seasonal, (e.g. professional development, proctored exam related expenses, and community events) impacting the quarterly change in instructional costs. The majority of our recruiting and enrollment expenses are incurred in the first and fourth fiscal quarters, as our primary enrollment season is July through September. A significant portion of our overhead expenses does not vary with the school year or enrollment season.

Discussion of Seasonality of Financial Condition

Certain accounts in our balance sheet are subject to seasonal fluctuations. As our enrollments and revenues grow, we expect these seasonal trends to be amplified. The bulk of our materials are shipped to students prior to the beginning of the school year, usually in July or August. In order to prepare for the upcoming school year, we generally build up inventories during the fourth quarter of our fiscal year. Therefore, inventories tend to be at the highest levels at the end of our fiscal year. In the first quarter of our fiscal year, inventories tend to decline significantly as materials are shipped to students. In our fourth quarter, inventory purchases and the extent to which we utilize early payment discounts will impact the level of accounts payable.

Accounts receivable balances tend to be at the highest levels in the first quarter of our fiscal year as we begin billing for all enrolled students and our billing arrangements include upfront fees for many of the elements of our offering. These upfront fees result in seasonal fluctuations to our deferred revenue balances. Generally, deferred revenue balances related to the schools tend to be highest in the first quarter, when the majority of students enroll. Since the deferred revenue is amortized over the course of the school year, which ends in June, the balance is typically at its lowest at the end of our fiscal year. Generally, deferred revenues from virtual public schools and hybrid schools have not been a source of liquidity as most schools receive their funding over the course of the year. In the fourth quarter of fiscal year 2010, we recorded deferred revenues for early materials shipments for the upcoming school year. Also, in the fourth quarter of fiscal year 2010, we received an early payment for the upcoming school year however that is not typical.

The deferred revenue related to our direct-to-consumer business results from advance payments for 12 month subscriptions to our online school. These advance payments are amortized over the life of the subscription and tend to be highest at the end of the fourth quarter and first quarter, when the majority of subscriptions are sold. Also at the end of the fourth quarter, we will record deferred revenues for the Middlebury summer language program as students typically prepay for attending the programs that conclude in July.

Liquidity and Capital Resources

As of June 30, 2011, 2010, and 2009 we had cash and cash equivalents of $193.1 million, $81.8 million, and $49.5 million, respectively, excluding restricted cash. As of June 30, 2011 our cash balance included $6.6 million associated with our two joint ventures.

In addition to our cash and line of credit, we had accounts receivable of $96.2 million, $71.2 million, and $53.0 million as of June 30, 2011 2010, and 2009, respectively. Our accounts receivable provide an additional source of liquidity as cash payments are collected from customers in the normal course of business. Our accounts receivable balance fluctuates throughout the year based on the timing of customer billings and collections and accounts receivable tend to be at the highest levels in the first quarter as we begin billing for students.

We have a $35 million revolving credit agreement with PNC Bank (Credit Agreement) that expires December 2012. Pursuant to the terms of the Credit Agreement, the proceeds of the term loan facility are to be used for general corporate purposes. Because of the seasonality of our business and timing of funds received, the school expenditures are higher in relation to funds received in certain periods during the year. The Credit Agreement provides the ability to fund these periods until cash is received from the schools.

Borrowings under the Credit Agreement bear interest based upon the terms of the borrowings. Interest is charged, at our option, either at: (i) the higher of (a) the rate of interest announced by PNC Bank from time to time as its "prime rate" and (b) the federal funds rate plus 0.5%; or (ii) the applicable London Interbank Offered Rate (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 the applicable margin for such loans, which ranges between 1.50% and 2.00%, based on the leverage ratios (as defined in the Credit Agreement). We pay a quarterly commitment fee on the unused portion of the credit agreement. The line of credit includes a $5.0 million letter of credit facility. Issuance of letters of credit reduces the availability of permitted borrowings under the Credit Agreement.

Borrowings under the Credit Agreement are secured by substantially all of our assets. 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 its subsidiaries, or make capital expenditures above specified limits and engage in other matters customarily restricted in senior secured credit facilities. We must also maintain a maximum debt leverage ratio. These covenants are subject to certain qualification and exceptions. Through June 30, 2011, we were in compliance with these convents. As of June 30, 2011 no borrowings were outstanding on the line of credit and approximately $0.3 million was reserved for a letter of credit.

In August 2011, we amended our equipment lease line of credit with PNC Equipment Finance, LLC to increase the amount available for new purchases to $18 million with an expiration date of August 2012. The interest rate on the borrowings is set at the time of borrowing based upon interest rates in the federal Reserve Statistical Release H.15.

For the year ended June 30, 2011, we borrowed $15.6 million to finance the purchase of student computers and other equipment at an interest rate of approximately 3.0%, bringing the total balance outstanding at June 30, 2011 to $20.5 million. These leases include a 36-month payment term with a bargain purchase option at the end of the term. Accordingly, we include this equipment in property and equipment and the related liability in capital lease obligations. In addition, we have pledged the assets financed with the equipment lease line to secure the amounts outstanding.

On April 15, 2011, we entered into an agreement with Technology Crossover Ventures (TCV) for their purchase of 4 million shares of K12 common stock for total proceeds of approximately $125.8 million. The investment was closed and funded on April 27, 2011. The proceeds are unrestricted and may be used for acquisitions, strategic investments and general corporate purposes.

Our cash requirements consist primarily of day-to-day operating expenses, capital expenditures and contractual obligations with respect to facility leases, capital equipment leases and other operating leases. We lease all of our office facilities. We expect to make future payments on existing leases from cash generated from operations. We believe that the combination of funds currently available, including the investment by TCV and funds to be generated from operations will be adequate to finance our ongoing operations for the foreseeable future. In addition, 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. We anticipate making an additional investment in Web using our available cash or common stock.

Redemption Right of Middlebury College

In the formation of our joint venture with Middlebury College (Middlebury), at any time after the fifth (5th) anniversary of the agreement, Middlebury may give written notice of its irrevocable election to sell all (but not less than all) of its Membership Interest to us (put right). Given the put right is redeemable outside of our control it is recorded outside of permanent equity at its estimated redemption value. The purchase price for Middlebury's Membership Interest shall be its fair market value and we may, in our sole discretion, pay the purchase price in cash or shares of our common stock. We will record the redemption value of the redeemable noncontrolling interest on each balance sheet date in accordance with EITF Topic D-98 and any changes to the redemption value should be recognized as adjustments to retained earnings, or in the absence of retained earnings, by adjustment to additional paid-in capital. As of June 30, 2011, the redeemable noncontrolling interest was $17.2 million. The agreement also includes a provision whereby, if certain milestones are not met related to expanding the business by June 2014, Middlebury will have the option to repurchase certain contributed assets at their fair market value.

Termination of Redemption Right of Series A Special Stock

In July 2010, we acquired all of the stock of KC Distance Learning, Inc. (KCDL), a provider of online curriculum and public and private virtual education, by issuing to its parent company KCDL Holdings LLC, 2.75 million shares of a new class of stock designated as Series A Special Stock, which had a value at closing of $63.1 million. KCDL Holdings, Inc. is an affiliate of Learning Group, LLC, a related party. Our Board of Directors obtained an opinion from an independent financial advisor that the consideration paid in the acquisition was fair from a financial point of view to K12 and its stockholders. The holders of the Series A Shares initially have no voting rights and no rights of conversion with respect to the Series A Shares; however, we held a meeting of our stockholders to obtain their approval to permit the conversion of the Series A Shares into common stock on a one-for-one basis.

On January 27, 2011, the Company held a Special Meeting at which the stockholders approved conversion and voting rights for the holders of the Series A Special Stock. The holders of the Series A Special Stock now have the right to convert those shares into common stock on a one-for-one basis and for the right to vote on all matters presented to K12 shareholders, other than for the election and removal of directors, for which holders of the Series A Special Stock shall have no voting rights. The redemption right of the holders of the Series A Special Stock terminated upon shareholder approval of their conversion and voting rights.

Operating Activities

Net cash provided by operating activities for the year ended June 30, 2011 was $67.2 million compared to net cash provided by operating activities for same period in the prior year of $54.7 million.

While net income decreased, cash provided by operating activities increased primarily due to an increase in depreciation and amortization, a reduction in growth of accounts receivable, and increases in stock compensation expense and deferred rent. Offsetting these factors was an increase in cash used in inventories.

The increase in depreciation and amortization was due to additional assets placed in service and the effects of purchase accounting. The reduction in growth of accounts receivable was primarily due to the timing of receipts. The increases in accounts payable was primarily due to the timing of payments including fourth quarter inventory purchases. We increased inventory purchases primarily in anticipation of growth for fiscal year 2012.

Net cash provided by operating activities for the year ended June 30, 2010 was $54.7 million as compared to net cash used by operating activities for the year ended June 30, 2009 of $9.4 million.

The increase in cash provided by operating activities was primarily due to an increase in net income, lower inventory purchases as we were benefiting from more efficient purchasing, a greater use of reclaimed student materials, and improved coordination with suppliers. The change in accounts payables increased cash primarily from the timing and lower level of inventory purchases as compared to the prior year. Collections of accounts receivable included receipts of Agora that were delayed in the prior year. Deferred revenues increased cash due to early payments from one school and for our Middlebury summer language program, as well as early shipments of student materials for the upcoming school year. Cash also increased from the change in deferred income taxes driven by an increase in pre-tax income.

Investing Activities

Net cash used in investing activities for the years ended 2011, 2010 and 2009 was $83.0 million, $24.3 million and $27.9 million, respectively.

Net cash used in investing activities for the year ended June 30, 2011 was primarily due to investment in capitalized curriculum of $18.1 million, primarily related to the production of high school courses and elementary school math courses; investment of $29.6 million in property and equipment, including internally developed and purchased software, the purchase of AEC for $24.5 million, $0.8 million for the International School of Berne, and the investment in Web International for $10 million.

Net cash used in investing activities for the year ended June 30, 2010 was primarily due to investment in capitalized curriculum of $13.9 million, primarily related to the production of high school courses and elementary school math courses, and an investment of $10.4 million in property and equipment, including internally developed and purchased software.

Net cash used in investing activities for the year ended June 30, 2009 was primarily due to investment in capitalized curriculum of $13.9 million, primarily related to the production of high school courses, and an investment of $13.9 million in property and equipment, including internally developed and purchased software.

In addition to the investing activities above, in fiscal years 2011, 2010 and 2009, we financed through capital leases purchases of computers for use by students, in the amounts of $15.6 million, $12.2 million and $16.0 million, respectively. Also in fiscal year 2010, we contributed assets and cash to MIL, our joint venture with Middlebury College.

Financing Activities

Net cash provided by financing activities for the years ended June 30, 2011, 2010 and 2009 was $127.1 million, $1.9 million and $15.0 million, respectively.

For the year ended June 30, 2011, net cash provided by financing activities primarily consists of the proceeds from the issuance of common stock to TCV of $125.6 million, the exercise of stock options of $13.4 million, and the excess tax benefit from stock compensation expense of $5.0 million. These amounts were partially offset by payments on capital leases and notes payable totaling $17.1 million. As of June 30, 2011, there were no borrowings outstanding on our $35 million line of credit.

For the year ended June 30, 2010, net cash provided by financing activities primarily consists of the proceeds from the exercise of stock options of $8.5 million, proceeds received from the minority interest contribution of $3.4 million, and the excess tax benefit from stock compensation expense of $3.9 million. These amounts were partially offset by payments on capital leases and notes payable totaling $14.0 million. As of June 30, 2010, there were no borrowings outstanding on our $35 million line of credit.

For the year ended June 30, 2009, net cash provided by financing activities primarily consists of the proceeds from the exercise of stock options of $9.8 million, proceeds received from the minority interest contribution of $5.0 million, proceeds from notes payable of $3.1 million, and the excess tax benefit from stock compensation expense of $7.0 million. These amounts were partially offset by payments on capital leases and notes payable totaling $9.9 million.

Contractual Obligations

Our contractual obligations consist primarily of leases for office space, capital leases for equipment and other operating leases. The following summarizes our long-term contractual obligations as of June 30, 2011:

	For Years Ended June 30,						
	Total	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**
	(In thousands)						
Contractual Obligations at June 30, 2011							
Capital leases(1)	$21,176	$12,448	$ 6,903	$1,825	$ —	$ —	$ —
Operating leases	50,887	4,977	4,450	4,626	4,603	4,349	27,882
Long term obligations(1)	3,869	1,513	1,571	785	—	—	—
Total	$75,932	$18,938	$12,924	$7,236	$4,603	$4,349	$27,882

(1) Includes interest expense.

For the schools where we provide turnkey management services, we typically take responsibility for any school operating losses that the school may incur. These individual school operating losses, if they occur, are recorded at the time as a reduction in revenues. Potential school operating losses are not included as a commitment or obligation in the above table as they cannot be determined at this time and many not even occur.

Off-Balance Sheet Arrangements

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 that are material to investors.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for any of the years in the three year period ended June 30, 2011. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, *Fair Value measurements and Disclosures,* which requires new disclosures for transfers in and out of Level 1 and Level 2 and activity in Level 3 of the fair value hierarchy. ASU 2010-06 requires separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and a description of the reasons for the transfers. In the reconciliation for fair value measurements using Level 3 inputs, a reporting entity should present separately information about purchases, sales, issuances and settlements. ASU 2010-06 is effective for new disclosures and clarification of existing disclosures for interim and annual periods beginning after December 15, 2009 except for disclosures about purchases, sales, issuances and settlements in the Level 3 activity rollforward. The provisions of ASU 2010-06 related to new disclosures and clarification of existing disclosures was adopted by the Company beginning January 1, 2010. As ASU 2010-06 relates only to disclosure, the adoption of these provisions did not have a material impact on its financial condition, results of operations, and disclosures. The provisions of ASU 2010-06 related to Level 3 rollforward activity are effective for fiscal years beginning after December 31, 2010 and will be effective for the Company on July 1, 2011. The Company is currently evaluating the impact that the adoption of ASU 2010-06 will have on our financial condition, results of operations, and disclosures.

In December 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment test for Reporting Units with Zero or Negative Carrying Amounts,* which provides authoritative guidance on application of goodwill impairment model when a reporting unit has a zero or negative carrying amount. When a reporting unit has a zero or negative carrying value, Step 2 of the goodwill impairment test should be performed if qualitative factors indicate that it is more likely than not a goodwill impairment exists. The guidance is effective for the Company beginning on July 1, 2011. The Company is currently evaluating the potential impact, if any, of the adoption of ASU 2010-28 will have on our financial condition, results of operations, and disclosures.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combination*, which provides authoritative guidance on disclosure of supplementary pro forma information for business combinations. The new guidance requires that pro forma financial information should be prepared as if the business combination has occurred as of the beginning of the prior annual period. The guidance is effective for the Company for business combinations with acquisition dates beginning July 1, 2011. The company is currently evaluating the potential impact, if any, of the adoption, of ASU 2010-29 will have on our financial condition, results of operations or disclosures.

In May 2011, the FASB issued ASU 2011-04 *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRS,* authoritative guidance clarifying the application of existing fair value measurements and disclosure requirements. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2012. Management has not yet determined the effect that the application of this guidance will have on K12's consolidated financial statements

In June 2011, the FASB issues ASU 2011-05, *Presentation of Comprehensive Income*, which provides authoritative guidance on disclosure requirements for comprehensive income. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective for the Company beginning on July 1, 2012. The Company does not expect the guidance to impact its consolidated financial statements, as it only requires a change in the format of presentation.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, which provides authoritative guidance to simplify how entities, both public and nonpublic, test goodwill for impairment. This accounting update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance will be effective for the Company beginning on July 1, 2012, with early adoption permitted. The Company does not expect the guidance to impact its consolidated financial statements.

ITEM 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

At June 30, 2011 and June 30, 2010, we had cash and cash equivalents totaling $193.1 million and $81.8 million, respectively. 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 June 30, 2011, a 1% gross increase in interest rates earned on cash would result in $1.9 million annualized increase in interest income.

Our short-term debt obligations under our revolving credit facility are subject to interest rate exposure, however as we had no outstanding balance on this facility as of June 30, 2011, fluctuations in interest rates would not have a material 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. However, we are pursuing additional opportunities in international markets and expect our international presence to grow. 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.

PART II

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
K12 Inc.
Herndon, Virginia

We have audited the accompanying consolidated balance sheets of K12 Inc. and subsidiaries (the Company) as of June 30, 2011 and 2010 and the related consolidated statements of operations, redeemable convertible preferred stock and equity (deficit), and cash flows for each of the three years in the period ended June 30, 2011. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of K12 Inc. and subsidiaries at June 30, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2011**,** in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), K12 Inc. and subsidiaries' internal control over financial reporting as of June 30, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated October 7, 2011 expressed an adverse opinion thereon.

/s/ BDO USA, LLP

Bethesda, Maryland
October 7, 2011

K12 INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2011	June 30, 2010
	(In thousands, except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 193,099	$ 81,751
Restricted cash and cash equivalents	1,501	3,343
Accounts receivable, net of allowance of $1,777 and $1,363 at June 30, 2011 and June 30, 2010, respectively	96,235	71,184
Inventories, net	30,554	26,193
Current portion of deferred tax asset	7,175	4,672
Prepaid expenses	10,424	8,849
Other current assets	9,111	7,286
Total current assets	348,099	203,278
Property and equipment, net	46,625	24,260
Capitalized software, net	24,386	16,453
Capitalized curriculum development costs, net	55,619	39,860
Deferred tax asset, net of current portion	—	5,912
Intangible assets, net	38,291	14,081
Goodwill	55,627	1,825
Investment in Web International	10,000	—
Deposits and other assets	3,448	2,213
Total assets	$ 582,095	$ 307,882
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current liabilities		
Accounts payable	$ 21,176	$ 12,691
Accrued liabilities	14,126	8,840
Accrued compensation and benefits	13,086	10,563
Deferred revenue	21,907	9,593
Current portion of capital lease obligations	11,914	10,996
Current portion of notes payable	1,443	1,251
Total current liabilities	83,652	53,934
Deferred rent, net of current portion	4,698	1,782
Capital lease obligations, net of current portion	8,552	7,710
Notes payable, net of current portion	2,299	655
Deferred tax liability	9,604	—
Other long term liabilities	3,343	435
Total liabilities	112,148	64,516
Commitments and contingencies	—	—
Redeemable noncontrolling interest	17,200	17,374
Equity:		
K12 Inc. stockholders' equity		
Common stock, par value $0.0001; 100,000,000 shares authorized; 35,927,452 and 30,441,412 shares issued and outstanding at June 30, 2011 and June 30, 2010, respectively	4	3
Additional paid-in capital	512,181	361,344
Series A Special Stock, par value $0.0001; 2,750,000 and 0 shares issued and outstanding at June 30, 2011 and June 30, 2010, respectively	63,112	—
Accumulated Other Comprehensive Income	28	—
Accumulated deficit	(126,704)	(139,496)
Total K12 Inc. stockholders' equity	448,621	221,851
Noncontrolling interest	4,126	4,141
Total equity	452,747	225,992
Total liabilities, redeemable noncontrolling interest and equity	$ 582,095	$ 307,882

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

K12 INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended June 30,		
	2011	2010	2009
	(In thousands, except share and per share data)		
Revenues	$ 522,434	$ 384,470	$ 315,573
Cost and expenses			
Instructional costs and services	307,111	222,029	196,976
Selling, administrative, and other operating expenses	174,762	117,398	86,683
Product development expenses	16,347	9,576	9,575
Total costs and expenses	498,220	349,003	293,234
Income from operations	24,214	35,467	22,339
Interest expense, net	(1,207)	(1,331)	(982)
Income before income tax expense and noncontrolling interest	23,007	34,136	21,357
Income tax expense	(11,342)	(13,249)	(9,628)
Net income — K12, Inc.	11,665	20,887	11,729
Add net loss attributable to noncontrolling interest	1,127	638	586
Net income attributable to common stockholders, including Series A stockholders	$ 12,792	$ 21,525	$ 12,315
Net income attributable to common stockholders per share, excluding Series A stockholders:			
Basic	$ 0.37	$ 0.72	$ 0.43
Diluted	$ 0.37	$ 0.71	$ 0.42
Weighted average shares used in computing per share amounts:			
Basic	31,577,758	29,791,973	28,746,188
Diluted	32,114,761	30,248,683	29,639,974

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

K12 INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND EQUITY (DEFICIT)

	K12 Inc Stockholders								
	Common Stock		Common Stock - A		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Noncontrolling Interest	Total
(In thousands, except per share data)	Shares	Amount	Shares	Amount					
Balance, June 30, 2008	27,944,826	$ 3	—	$ —	$323,621	$—	$(173,336)	$ —	$150,288
Net income	—	—	—	—	—	—	12,315	(586)	11,729
Exercise of stock options	1,344,993	—	—	—	9,895	—	—	—	9,895
Stock based compensation expense	—	—	—	—	2,790	—	—	—	2,790
Excess tax benefit from stock-based compensation	—	—	—	—	6,998	—	—	—	6,998
Exercise of stock warrants on cashless provision	667	—	—	—	—	—	—	—	—
Noncontrolling interest contribution	—	—	—	—	—	—	—	5,000	5,000
Balance, June 30, 2009	29,290,486	3	—	—	343,304	—	(161,021)	4,414	186,700
Net income(1)	—	—	—	—	—	—	21,525	(273)	21,252
Exercise of stock options	936,195	—	—	—	8,544	—	—	—	8,544
Issuance of restricted stock awards	225,946	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(22,089)	—	—	—	—	—	—	—	—
Exercise of stock warrants	6,173	—	—	—	50	—	—	—	50
Exercise of stock warrants on cashless provision	7,565	—	—	—	—	—	—	—	—
Stock based compensation expense	—	—	—	—	5,934	—	—	—	5,934
Excess tax benefit from stock-based compensation	—	—	—	—	3,935	—	—	—	3,935
Accretion of redeemable noncontrolling interests to estimated redemption value	—	—	—	—	(365)	—	—	—	(365)
Retirement of restricted stock for tax withholding	(2,864)				(58)				(58)
Balance, June 30, 2010	30,441,412	3	—	—	361,344	—	(139,496)	4,141	225,992
Net Income (Loss)(1)	—	—	—	—	—	—	12,792	(15)	12,777
Foreign currency translation adjustments	—	—	—	—	—	28	—	—	28
Comprehensive Income	—	—	—	—					12,805
Stock based compensation expense	—	—	—	—	9,466	—	—	—	9,466
Exercise of stock options	1,131,747	—	—	—	13,364	—	—	—	13,364
Excess tax benefit from stock-based compensation	—	—	—	—	4,954	—	—	—	4,954
Issuance of restricted stock awards	451,143	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(40,618)	—	—	—	—	—	—	—	—
Series A Special Stock removal of redemption provision and approval of conversion right	—	—	2,750,000	63,112	—	—	—	—	63,112
Accretion of redeemable noncontrolling interests to estimated redemption value	—	—	—	—	(938)	—	—	—	(938)
Stock issuance — TCV investment, net	4,000,000	1	—	—	125,618	—	—	—	125,619
Retirement of restricted stock for tax withholding	(56,232)	—	—	—	(1,627)	—	—	—	(1,627)
Balance, June 30, 2011	35,927,452	$ 4	2,750,000	$63,112	$512,181	$28	$(126,704)	$4,126	$452,747

(1) Net income attributable to noncontrolling interest excludes $1.1 million and $0.4 million for the years ended June 30, 2011 and June 30, 2010, respectively due to the redeemable noncontrolling interest related to Middlebury Interactive Languages, which is reported outside of permanent equity in the consolidated balance sheet (See Note 11).

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

K12 INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,		
	2011	2010	2009
	(In thousands)		
Cash flows from operating activities			
Net income	$ 11,665	$ 20,887	$ 11,729
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	42,934	25,761	20,835
Stock based compensation expense	9,466	5,934	2,790
Excess tax benefit from stock based compensation	(4,954)	(3,935)	(6,998)
Deferred income taxes	10,978	11,858	9,584
Provision for (reduction of) doubtful accounts	1,472	308	(403)
Provision for inventory obsolescence	1,060	1,019	149
Provision for (reduction of) student computer shrinkage and obsolescence	219	(178)	243
Impairment of capitalized curriculum development cost	—	—	261
Changes in assets and liabilities:			
Accounts receivable	(15,810)	(18,460)	(21,999)
Inventories	(4,621)	4,840	(11,529)
Prepaid expenses	363	327	(5,529)
Other current assets	(1,825)	(5,199)	(1,859)
Deposits and other assets	(1,037)	30	(1,828)
Accounts payable	2,726	2,326	(4,022)
Accrued liabilities	615	1,012	3,145
Accrued compensation and benefits	1,976	2,271	(1,758)
Deferred revenue	6,760	6,203	275
Cash invested in restricted cash and cash equivalents	1,842	(843)	(2,500)
Deferred rent	3,384	519	59
Net cash provided by (used in) operating activities	67,213	54,680	(9,355)
Cash flows from investing activities			
Purchase of property, and equipment	(29,563)	(10,357)	(13,939)
Capitalized curriculum development costs	(18,086)	(13,904)	(13,931)
Purchase of AEC, net of cash acquired of $3,841	(24,543)	—	—
Purchase of IS Berne, net of cash acquired of $1,563	(839)	—	—
Cash advanced for AEC performance escrow	(6,825)	—	—
Cash returned for AEC performance escrow	6,825	—	—
Cash paid for investment in Web	(10,000)	—	—
Purchase of domain name	—	—	(16)
Net cash used in investing activities	(83,031)	(24,261)	(27,886)
Cash flows from financing activities			
Proceeds from issuance of common stock, net	125,618	—	—
Repayments on capital lease obligations	(15,135)	(12,945)	(9,133)
Repayments on notes payable	(1,969)	(1,029)	(804)
Proceeds from notes payable	1,933	—	3,135
Borrowings from line of credit	15,000	—	—
Repayments under the line of credit	(15,000)	—	—
Net proceeds from noncontrolling interest contribution	—	3,374	5,000
Proceeds from exercise of stock options	13,364	8,544	9,824
Proceeds from exercise of stock warrants	—	50	—
Excess tax benefit from stock based compensation	4,954	3,935	6,998
Retirement of restricted stock for income tax withholding	(1,627)	(58)	—
Net cash provided by financing activities	127,138	1,871	15,020
Effect of foreign exchange rate changes on cash and cash equivalents	28	—	—
Net change in cash and cash equivalents	111,348	32,290	(22,221)
Cash and cash equivalents, beginning of year	81,751	49,461	71,682
Cash and cash equivalents, end of year	$193,099	$ 81,751	$ 49,461

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

1. Description of the Business

K[12] Inc. and its subsidiaries (K[12] or the Company) are a technology-based education company. The Company offers proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. The Company's mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since the Company's inception, we have invested more than $240 million to develop and to a lesser extent, acquire curriculum and online learning platforms that promote mastery of core concepts and skills for students of all abilities. This learning system combines our curriculum and offerings with an individualized learning approach well-suited for virtual public schools, hybrid schools, school district online programs, public charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. The Company is also expanding our offering of foreign languages with Middlebury Interactive Languages, our joint venture with Middlebury College. The Company has increased its international investment with a 20% ownership interest in The Web International Education Group, Ltd., a company providing English instruction to young adults in China, and also is investing in the post-secondary market through Capital Education. In contracting with a virtual public school and hybrid school, the Company typically provides students with access to the K[12] online curriculum, offline learning kits, use of a personal computer and provides management services. For fiscal year 2012, the Company will manage schools in 29 states and the District of Columbia. The Company expanded into two new states, Massachusetts and Michigan for fiscal year 2011 and has added two new states, Tennessee and Louisiana, in fiscal year 2012. In addition, the Company sells access to its on-line curriculum and offline learning kits directly to individual consumers.

2. Basis of Presentation

The 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.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions affecting the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions, including those related to allowance for doubtful accounts, inventory reserves, amortization periods, the allocation of purchase price to the fair value of net assets and liabilities acquired in connection with business combinations, fair values used in asset impairment evaluations, valuation of long-lived assets, fair value of redeemable noncontrolling interest, contingencies, income taxes and stock-based compensation expense. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Revenue Recognition and Concentration of Revenues

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

Where the Company has determined that they are 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 (formerly Emerging Issues Task Force (EITF) 99-19, Reporting Revenue Gross as a Principal *Versus Net as an Agent*). As a result of being the primary obligor, amounts recorded as revenues and instructional costs and services for the years ended June 30, 2011, 2010 and 2009 were $136.1 million, $106.6 million and $92.8 million, respectively. For contracts in which the Company is not the primary obligor, the Company records revenue based on its net fees earned per the contractual agreement.

The Company generates revenues under contracts with virtual public schools and hybrid schools which include multiple elements. These elements include providing each of a school's students with access to the Company's on-line school and the on-line component of lessons; offline learning kits which include books and materials designed to complement and supplement the on-line 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; all management and technology services required to operate a virtual public school or hybrid school. In certain managed school contracts, our revenue is determined directly by per enrollment funding. As our services are performed over the fiscal year, we generally earn and recognize revenues ratably over that period.

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

Under the contracts with the schools where the Company provides turnkey management services, the Company has generally agreed to absorb any operating losses of the schools in a given school year. These school operating losses represent the excess of costs incurred over revenues earned by the virtual public schools or hybrid schools as reflected on their financial statements. The costs include Company charges to the schools. The fact that a school has an operating loss in one year does not necessarily mean the Company anticipates losing money on the entire contract, however, a school operating loss may reduce the Company's ability to collect invoices in full. Accordingly, the Company's recognized revenues reflect this reduction. The Company amortizes the estimated school operating loss against revenues based upon the percentage of actual revenues in the period to total estimated revenues for the fiscal year. Management periodically reviews its estimates of full year school revenues and full year school operating expenses and amortizes the net impact of any changes to these estimates over the remainder of the fiscal year. Actual school operating losses may vary from these estimates or revisions, and the impact of these differences could have a material impact on results of operations. Since the end of the school year coincides with the end of the Company's fiscal year, annual revenues are generally based on actual school revenues and actual costs incurred in the calculation of school operating losses. For the years ended June 30, 2011, 2010 and 2009, the Company's revenue included a reduction for these school operating losses of $39.2 million, $32.6 million and $28.3 million, respectively.

On December 1, 2010, the Company acquired The American Education Corporation (AEC), a leading provider of research-based core curriculum for kindergarteners through adult learners. AEC derives revenues from four sources: (1) annual subscription license revenues; (2) license revenues from non-cancelable perpetual license agreements; (3) related professional and support services and (4) hosting services to provide customers with access to its online courses.

We recognize revenue 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 hosting services is recognized over the term of the hosting agreement.

Revenue from the licensing of curriculum under subscription arrangements where AEC provides online access to curriculum is recognized on a ratable basis over the subscription period starting the later of the first day of the subscription period or when all revenue recognition criteria identified above have been met. Revenue from the licensing of curriculum under subscription and non-cancelable perpetual arrangements where AEC is not providing access via hosting arrangement is recognized when all revenue recognition criteria have been met. Revenue from professional and support services include consulting and training services, which are deferred and recognized ratably over the service period.

Other revenues are generated from individual customers who prepay and have access for 12 or 24 months to curriculum via the Company's Web site. The Company recognizes these revenues pro rata over the maximum term of the customer contract, which is either 12 or 24 months. Revenues from associated offline learning kits are recognized upon shipment.

During the years ended June 30, 2011, 2010 and 2009, approximately 85%, 97% and 94%, respectively, of the Company's revenues were recognized from schools we managed. In fiscal years 2011, we had contracts with two schools that each individually represented approximately 13% of revenues. In fiscal years 2010 and 2009, we had contracts with two schools that each individually represented approximately 14% of revenues. Approximately 12% and 15% of accounts receivable was attributable to a contract with one school as of June 30, 2011 and 2010.

Consolidation

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

Shipping and Handling costs

Shipping and handling costs are expensed when incurred and are classified as cost of goods sold in the accompanying consolidated statements of operations. Shipping and handling charges are invoiced to the customer and are included in revenues.

Research and Development Costs

All research and development costs are expensed as incurred including patent application costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 2, *Accounting for Research and Development Costs,* (codified in ASC 730).

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash on hand and cash held in money market and demand deposit accounts. For purposes of the statements of cash flows, the Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances. All of our non-interest bearing cash balances were fully insured at June 30, 2011 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to $250,000 per depositor at each financial institution, and our non-interest bearing cash balances may again exceed federally insured limits.

Restricted Cash and Cash Equivalents

Restricted cash consists of cash held in escrow pursuant to an agreement with a virtual public school that the Company manages and a purchase agreement with an inventory supplier. The Company established an escrow account for the benefit of the school's sponsoring school district in the event a future claim is made and for the benefit of one of the Company's inventory suppliers for delivery of materials purchased on behalf of the Company.

Allowance for Doubtful Accounts

The Company maintains an allowance for uncollectible accounts primarily for estimated losses resulting from the inability, failure or refusal of individual customers to make required payments. These losses have been within management's expectations. The Company analyzes accounts receivable, historical percentages of uncollectible accounts and changes in payment history when evaluating the adequacy of the allowance for uncollectible accounts. Management believes that an allowance for doubtful accounts of $1.8 million and $1.4 million as of June 30, 2011 and 2010, respectively, is adequate. However, actual write-offs might exceed the recorded allowance.

Inventories

Inventories consist primarily of schoolbooks and curriculum materials, a majority of which are supplied to virtual public schools and hybrid 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 at June 30, 2011 and 2010 was $2.9 million and $1.9 million, respectively.

Other Current Assets

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

Property and Equipment

Property, equipment and capitalized software development costs 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 for fixed assets under capital leases). Amortization of assets capitalized under capital lease arrangements is included in depreciation expense. Property and equipment are depreciated over the following lives:

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

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 (formerly Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for 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.

Capitalized Software Development Costs

The Company develops software for internal use. Software development costs incurred during the application development stage are capitalized in accordance with ASC 350 (formerly Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*). The Company amortizes these costs over the estimated useful life of the software which is generally three years. Capitalized software development costs are stated at cost less accumulated amortization.

Capitalized software development additions totaled $9.9 million, $9.3 million and $9.8 million for the years ended June 30, 2011, 2010 and 2009, respectively. Amortization expense for the years ended June 30, 2011, 2010 and 2009 was $8.9 million, $3.9 million and $2.6 million, respectively.

Capitalized Curriculum Development Costs

The Company internally develops curriculum, which is primarily provided as web content and accessed via the Internet. The Company also creates textbooks and other offline materials.

The Company capitalizes curriculum development costs incurred during the application development stage in accordance with ASC 350. ASC 350 provides guidance for the treatment of costs associated with computer software development and defines those costs to be capitalized and those to be expensed. Costs that qualify for capitalization are external direct costs, payroll and payroll-related costs. Costs related to general and administrative functions are not capitalizable and are expensed as incurred. We capitalize curriculum development costs during the design and deployment phases of the project. Many of our new courses leverage off of proven delivery platforms and are primarily content, which has no technological hurdles. As a result, a significant portion of our courseware development costs qualify for capitalization due to the concentration of our development efforts on the content of the courseware.

Technological feasibility is established when we have completed all planning, designing, coding, and testing activities necessary to establish that a course can be produced to meet its design specifications. Capitalization ends when a course is available for general release to our 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. This is consistent with the capitalization period used by others in our industry and corresponds with our product development lifecycle.

Total capitalized curriculum development additions were $18.1 million, $13.9 million and $13.9 million for the years ended June 30, 2011, 2010 and 2009, respectively. These amounts are recorded on the accompanying consolidated balance sheet, net of amortization and impairment charges. Amortization and impairment charges are recorded in product development expenses on the accompanying consolidated statement of operations. Amortization expense for the years ended June 30, 2011, 2010 and 2009 were $10.4 million, $5.7 million and $3.4 million, respectively.

Noncontrolling Interest

Earnings or losses attributable to other stockholders of a consolidated affiliated company are classified separately as “noncontrolling interest” in the Company’s consolidated statements of operations. Net loss attributable to noncontrolling interest reflects only its 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 consolidated balance sheets reflect noncontrolling interest within the equity section of the consolidated balance sheet rather than in the mezzanine section of the consolidated balance sheet, except for redeemable noncontrolling interest. Noncontrolling interest is classified separately in the Company's statements of equity.

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

Goodwill and Intangibles

We record as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. Finite-lived intangible assets acquired in business combinations subject to amortization are recorded at their fair value in accordance with ASU Topic 350. Finite-lived intangible assets include trade names and non-compete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives. As of June 30, 2011 and 2010, finite-lived intangible assets are recorded at $41.8 million and $14.5 million, respectively and accumulated amortization of $3.5 million and $0.4 million, respectively. Amortization expense for the years ended June 30, 2011, 2010 and 2009 was $3.1 million, $0.2 million and $0.1 million, respectively. Future amortization of intangible assets is not yet determinable until a final allocation is completed identifying the finite-lived intangibles and corresponding useful life contributed to AEC (see Note 11). As of June 30, 2011 and 2010, goodwill balances were recorded for at $55.6 million and $1.8 million, respectively

In accordance with ASC 360 (formerly SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) 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 (formerly SFAS 142, *Goodwill and Other Intangible Assets*) prescribes a two-step process for impairment testing of goodwill and intangibles 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 31st. For the years ended June 30, 2011, 2010 and 2009 no impairment to goodwill was recorded.

The following table represents goodwill additions during 2010 and 2011:

	Amount ($ in millions)
Rollforward of Goodwill	
Balance as of June 30, 2009	$0.3
Middlebury Interactive Languages LLC	1.5
Balance as of June 30, 2010	$1.8
KC Distance Learning Corporation	34.5
The American Education Corporation	15.7
International School of Berne	2.8
Cardean Learning Group LLC (through Capital Education LLC)	0.8
Balance as of June 30, 2011	$55.6

Intangible Assets

	2011			2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade names	$23.3	$(1.6)	$21.7	$14.0	$(0.2)	$13.8
Customer and distributor relationships	16.5	(1.3)	15.2	—	—	—
Developed technology	1.5	(0.4)	1.1	—	—	—
Other	0.5	(0.2)	0.3	0.5	(0.2)	0.3
	$41.8	$(3.5)	$38.3	$14.5	$(0.4)	$14.1

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. Impairment charges related to capitalized curriculum development were $0.3 million for the year ended June 30, 2009. There was no impairment for the years ended June 30, 2011 and 2010.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*, (formerly SFAS No. 109, *Accounting for 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.

Sales Taxes

Sales tax collected from customers is excluded from revenues. Collected but unremitted sales tax is included as part of accrued liabilities in the accompanying consolidated balance sheets. Revenues do not include sales tax as the Company considers itself a pass-through conduit for collecting and remitting sales tax.

Stock-Based Compensation

We adopted ASC 718 (formerly SFAS 123(R), *Share-Based Payment (Revised 2004)*) using the modified prospective method as of July 1, 2006. Under this method, compensation cost is recognized based on the requirements of SFAS 123R for all share-based awards granted subsequent to July 1, 2006, and for all awards granted, but not vested, prior to July 1, 2006.

Advertising and Marketing Expenses

Advertising and marketing costs consist primarily of internet advertising, online marketing, direct mail, print media and television commercials and are expensed when incurred.

Net Income Per Common Share

The Company calculates net income per share in accordance with ASC 260 (formerly SFAS 128, *Earnings Per Share*). Under ASC 260, basic net income per common share is calculated by dividing net income 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 reflects the potential dilution that could occur assuming conversion or exercise of all dilutive unexercised stock options and warrants. The dilutive effect of stock options, restricted stock awards, and warrants 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 awards are not included in the computation of diluted earnings per share when they are antidilutive. Common stock outstanding reflected in our consolidated balance sheet includes restricted awards outstanding. Securities that may participate in undistributed earnings with common stock are considered participating securities. Since the Series A Shares participate in all dividends and distributions declared or paid with respect to common stock of the Company (as if a holder of common stock), the Series A Shares meet the definition of participating security under ASC 260 *Participating Securities and the Two-Class Method under FASB Statement No. 128*. All securities that meet the definition of a participating security, regardless of whether the securities are convertible, non-convertible, or potential common stock 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 to be 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.

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

	Year Ended June 30,		
	2011	2010	2009
	(In thousands except shares and per share data)		
Basic earnings per share computation:			
Net income — K12	$ 12,792	$ 21,525	$ 12,315
Amount allocated to participating Series A stockholders	$ (1,031)	$ —	$ —
Income available to common stockholders — basic	$ 11,761	$ 21,525	$ 12,315
Weighted average common shares — basic historical	31,577,758	29,791,973	28,746,188
Basic net income per share	$ 0.37	$ 0.72	$ 0.43
Dilutive earnings per share computation:			
Net income — K12	$ 12,792	$ 21,525	$ 12,315
Amount allocated to participating Series A stockholders	$ (1,031)	$ —	$ —
Income available to common stockholders — diluted	$ 11,761	$ 21,525	$ 12,315
Share computation:			
Weighted average common shares — basic historical	31,577,758	29,791,973	28,746,188
Effect of dilutive stock options and restricted stock awards	537,003	456,710	893,786
Weighted average common shares outstanding — diluted	32,114,761	30,248,683	29,639,974
Diluted net income per share	$ 0.37	$ 0.71	$ 0.42

The number of shares of common stock outstanding at June 30, 2011 is 35,927,452.

As of June 30, 2011, 2010 and 2009, the shares of common stock issuable in connection with stock options of 317,913, 1,048,749 and 1,001,259 respectively, were not included in the diluted loss per common share calculation since their effect was anti-dilutive.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Fair Value Measurements

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

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

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

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

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

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

The redeemable noncontrolling interest is a result of the Company's venture with Middlebury College to form a new entity, Middlebury Interactive Languages (see Note 11). 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 of the put right.

The following table summarizes certain fair value information at June 30, 2010 for assets and liabilities measured at fair value on a recurring basis.

	Fair Value Measurements Using:			
Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Input (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In thousands)		
Redeemable Noncontrolling Interest in Middlebury Joint Venture	$17,374	$—	$—	$17,374

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

Description	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Redeemable Noncontrolling Interest in Middlebury Joint Venture	$17,200	$—	$—	$17,200
Investment in Web International Education Group	10,000	$—	$—	10,000
Total	$27,200	$—	$—	$27,200

The following table presents activity related to our fair value measurements categorized as Level 3 of the valuation hierarchy, valued on a recurring basis, for the fiscal year ended June 30, 2011. The fair value of the investment in Web International Educational Group (Web) as of June 30, 2011 was estimated to be $10.0 million. The fair value was measured based on the initial cost of the investment and Web's financial performance since the initial investment. There was no underlying change in its estimated market value.

	Fair Value June 30, 2010	Purchases, Issuances, and Settlements	Net Unrealized Gains/(Losses)	Fair Value June 30, 2011
		(In thousands)		
Investment in Web International Education Group	$ —	$10,000	$ —	$10,000
Redeemable Noncontrolling Interest in Middlebury Joint Venture	$17,374	$ —	$(174)	$17,200
Total	$17,374	$10,000	$(174)	$27,200

The fair value of the investment in Web International Education Group (Web) as of June 30, 2011 was estimated to be $10 million. The fair value was measured based on the initial cost of the investment and Web's financial performance since initial investment. There was no underlying change in its estimated market value.

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. In determining the fair value, the valuation incorporated a number of assumptions and estimates including an income-based valuation approach. As of June 30, 2011 the fair value was estimated at $17.2 million.

Retrospective Implementation of New Accounting Standards

The consolidated financial statements and footnotes reflect adjustments required for the retrospective application of a new accounting pronouncement that became effective for the Company on July 1, 2009. ASC Section 810-10-65, *Noncontrolling Interests in Consolidated Financial Statements*, *an amendment of ARB No. 51,* requires reclassification of the Company's minority interest to noncontrolling interest component of total equity and that the noncontrolling interest in the Company's operating results be presented as an allocation of the Company's operating results.

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures,* which requires new disclosures for transfers in and out of Level 1 and Level 2 and activity in Level 3 of the fair value hierarchy. ASU 2010-06 requires separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and a description of the reasons for the transfers. In the reconciliation for fair value measurements using Level 3 inputs, a reporting entity should present separately information about purchases, sales, issuances and settlements. ASU 2010-06 is effective for new disclosures and clarification of existing disclosures for interim and annual periods beginning after December 15, 2009 except for disclosures about purchases, sales, issuances and settlements in the Level 3 activity rollforward. The provisions of ASU 2010-06 related to new disclosures and clarification of existing disclosures was adopted by the Company beginning January 1, 2010. As ASU 2010-06 relates only to disclosure, the adoption of these provisions did not have a material impact on its financial condition, results of operations, and disclosures. The provisions of ASU 2010-06 related to Level 3 rollforward activity are effective for fiscal years beginning after December 31, 2010 and will be effective for the Company on July 1, 2011. The Company is currently evaluating the impact that the adoption of ASU 2010-06 will have on our disclosures.

In December 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment test for Reporting Units with Zero or Negative Carrying Amounts,* which provides authoritative guidance on application of goodwill impairment model when a reporting unit has a zero or negative carrying amount. When a reporting unit has a zero or negative carrying value, Step 2 of the goodwill impairment test should be performed if qualitative factors indicate that it is more likely than not a goodwill impairment exists. The guidance is effective for the Company beginning on July 1, 2011. The Company is currently evaluating the potential impact, if any, of the adoption of ASU 2010-28 will have on our financial condition, results of operations, and disclosures.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combination*, which provides authoritative guidance on disclosure of supplementary pro forma information for business combinations. The new guidance requires that pro forma financial information should be prepared as if the business combination has occurred as of the beginning of the prior annual period. The guidance is effective for the Company for business combinations with acquisition dates beginning July 1, 2011. The company is currently evaluating the potential impact, if any, of the adoption, of ASU 2010-29 will have on disclosures for future business combinations.

In June 2011, the FASB issues ASU 2011-05, *Presentation of Comprehensive Income*, which provides authoritative guidance on disclosure requirements for comprehensive income. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective for the Company beginning on July 1, 2012. The Company does not expect the guidance to impact its consolidated financial statements, as it only requires a change in the format of presentation.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, which provides authoritative guidance to simplify how entities, both public and nonpublic, test goodwill for impairment. This accounting update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance will be effective for the Company beginning on July 1, 2012, with early adoption permitted. The Company does not expect the guidance to impact its consolidated financial statements.

4. Property and Equipment and Capitalized Software Development

Property and equipment consist of the following at:

	June 30, 2011	June 30, 2010
Student computers	$ 61,185	$ 53,127
Computer software	24,427	10,443
Computer hardware	14,063	9,863
Leasehold improvements	5,948	2,734
Office equipment	3,314	943
Furniture and fixtures	2,138	1,106
Web site development costs	1,115	851
	112,190	79,067
Less accumulated depreciation and amortization	(65,565)	(54,807)
	$ 46,625	$ 24,260

The Company recorded depreciation expense related to property and equipment reflected in selling, administrative and other operating expenses of $4.9 million, $3.7 million and $4.4 million during the years ended June 30, 2011, 2010 and 2009, respectively. Depreciation expense of $13.9 million, $12.3 million and $10.3 million related primarily to computers leased to students reflected in instructional costs and services was recorded during the years ended June 30, 2011, 2010 and 2009, respectively. Amortization expense of $1.7 million, $0 million and $0 million related to student software costs reflected in instructional costs and services was recorded by the Company during the years ended June 30, 2011, 2010 and 2009, respectively.

In the course of its normal operations, the Company incurs maintenance and repair expenses. Those are expensed as incurred and amounted to $2.9 million, $1.2 million and $0.9 million for the years ended June 30, 2011, 2010 and 2009, respectively.

Capitalized software consists of the following at:

	June 30, 2011	June 30, 2010
Capitalized software costs	$ 42,131	$25,256
Less accumulated depreciation and amortization	(17,745)	(8,803)
	$ 24,386	$16,453

The Company recorded amortization expense of $7.0 million, $2.7 million and $1.2 million related to capitalized software development reflected in instructional costs and services during the years ended June 30, 2011, 2010 and 2009, respectively. Amortization expense of $1.3 million, $1.1 million and $1.1 million related to capitalized software development reflected in product development expenses was recorded during the years ended June 30, 2011, 2010 and 2009, respectively. The Company recorded amortization of capitalized software development costs reflected in selling, administrative and other operating expenses of $0.6 million, $0.1 million and $0.3 million during the years ended June 30, 2011, 2010 and 2009, respectively.

5. Income Taxes

The provision for income taxes is based on earnings reported in the 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 year.

Deferred tax assets and liabilities result primarily from temporary differences in book versus tax basis accounting. Deferred tax assets and liabilities consist of the following:

	Year Ended June 30, 2011	2010
Deferred tax assets (liabilities):		
Net operating loss carryforward	$ 18,607	$ 12,737
Accrued expenses	5,861	4,387
Stock compensation expense	4,927	3,479
Property and equipment	—	2,926
Reserves	3,101	2,759
Federal tax credits	2,558	2,078
Other assets	1,805	478
Tax basis intangibles	794	—
Deferred rent	873	373
Deferred revenue	552	67
Charitable contributions carryforward	2	80
Total deferred tax assets	39,080	29,364
Deferred tax liabilities:		
Capitalized software and website development costs	(9,249)	(7,497)
Property and equipment	(5,401)	—
Purchased intangibles	(9,751)	—
Capitalized curriculum development	(11,836)	(6,980)
Returned materials	(3,338)	(2,532)
Investment in Middlebury Interactive Languages	(1,018)	(951)
Total deferred tax liabilities	(40,593)	(17,960)
Deferred tax (liability) asset	(1,513)	11,404
Valuation allowance	(916)	(820)
Net deferred tax (liability) asset	$ (2,429)	$ 10,584
Reported as:		
Current deferred tax assets	$ 7,175	$ 4,672
Deferred tax assets (net of current portion)	$ —	$ 5,912
Deferred tax liability (net of current portion)	(9,604)	—
Net deferred tax (liability) asset	$ (2,429)	$ 10,584

The Company maintains a valuation allowance on net deferred tax assets of $0.9 million and $0.8 million as of June 30, 2011 and 2010, respectively, related to state and foreign income tax net operating losses as the Company believes it is more likely than not that it will not be able to utilize these deferred tax assets. The Company has not provided for U.S. deferred income taxes on undistributed earnings from our non-U.S. subsidiaries because such earnings are considered to be permanently reinvested.

Under the provision of ASC 718, *Compensation — Stock Compensation*, the amount of the NOL carryforward related to stock-based compensation expense is not recognized until the stock-based compensation tax deductions reduce taxes payable. Accordingly, the NOL's reported in gross deferred tax assets do not include the component of the NOL related to excess tax deductions over book compensation cost related to stock-based compensation. The tax benefit from the excess tax benefits from the stock-based compensation of $4.6 million, $3.9 million, and $6.9 million was recorded to capital in excess of par value for years ended June 30, 2011, 2010, and 2009, respectively. At June 30, 2011, the Company has available federal net operating loss carryforwards of

$59.6 million of which $11.2 million is attributable to stock option deductions for which no deferred tax asset is recorded. These NOL's expire between 2021 and 2031 if unused.

At June 30, 2011 and 2010 the Company had available Research and Development Credits of $3.3 million and $2.2 million that will expire between 2021 and 2031 if unused. As of June 30, 2011, the Company has available AMT credits of $0.1 million that do not expire.

For the years ended June 30, 2011 and 2010, the Company has evaluated whether a change in the Company's ownership of outstanding classes of stock as defined in Internal Revenue Code Section 382 could prohibit or limit the Company's ability to utilize its net operating losses. As a result of this study, the Company has concluded it is more likely than not that the Company will be able to fully utilize its net operating losses subject to the Section 382 limitation.

The related components of the income tax expense for the years ended June 30, 2011, 2010 and 2009 are as follows:

	Year Ended June 30,		
	2011	2010	2009
Current:			
Federal	$ 3,935	$ 3,540	$6,413
State	1,267	1,629	610
Foreign	170	—	19
Total current	5,372	5,169	7,042
Deferred:			
Federal	5,539	7,610	2,421
State	431	470	165
Total deferred	5,970	8,080	2,586
Total income tax expense	$11,342	$13,249	$9,628

The provision for income taxes can be reconciled to the income tax that would result from applying the statutory rate to the net income before income taxes as follows:

	Year Ended June 30,		
	2011	2010	2009
U.S. federal tax at statutory rates	35.0%	35.0%	35.0%
Permanent items	1.6	0.2	1.2
Lobbying	3.6	3.1	4.8
State taxes, net of federal benefit	4.4	4.0	3.9
Transaction costs	5.9	—	—
Research and development tax credits	(2.5)	(4.3)	—
Other	1.3	0.8	0.2
Provision for income taxes	49.3%	38.8%	45.1%

Tax Uncertainties

Effective July 1, 2007, the Company adopted the provisions of ASC 740-10 which applies to all tax position related to income taxes (formerly known as FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes"*). ASC 740-10 provides a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. ASC 740-10 clarifies accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. If the probability for sustaining a tax position is greater than 50%, then the tax position is warranted and recognition should be at the highest amount which would be expected to be realized upon ultimate settlement.

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. At June 30, 2011 and 2010, the company had no interest or penalties accrued.

During fiscal year June 30, 2010, the Company adjusted its research and development credit carryforward on its June 30, 2009 return to claim the correct current and prior credits. At that time, the Company established an ASC 740-10 reserve related to the research and development credits. The research and development provisions expired in December 2009 and were retroactively reinstated to January 1, 2010 during the fiscal year ended June 30, 2011. Due to the expiration and reinstatement, the Company adjusted its June 30, 2011 research and development credit carryforward to include amounts generated from January 1, 2010 through June 30, 2010.

	Year Ended June 30,	
	2011	2010
Balance at beginning of the year	$261	$ —
Additions for prior year tax positions	365	221
Additions for current year tax positions	191	40
Balance at end of the year	$817	$261

The Company or one of its subsidiaries files income tax returns in the U.S. federal, foreign and various states jurisdictions. Given the net operating losses generated in prior years, the statute of limitations for all tax years beginning with the period ended December 31, 2000 are still open.

The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months. Further, it is anticipated that the effective tax rate impact of any unrecognized tax benefits will be immaterial.

6. Lease Commitments and Notes Payable

Capital leases

As of June 30, 2011 and 2010, computer equipment under capital leases are recorded at a cost of $61.2 million and $54.0 million, respectively and accumulated depreciation of $43.7 million and $39.4 million, respectively. Borrowings under lease lines had interest rates ranging from 2.97% to 6.40% and included a 36-month payment term with a $1 purchase option at the end of the term. The Company has pledged the assets financed to secure the amounts outstanding.

The Company's current lease line of credit with PNC Equipment Finance, LLC expires in August 2012. The interest rate on new advances under the PNC equipment lease line is set at the time the funds are advanced based upon interest rates in the Federal Reserve Statistical Release H.15.

Notes payable

The Company has purchased computer software licenses and maintenance services through unsecured notes payable arrangements with various vendors at interest rates ranging up to 6.1% and payment terms of three years. There are no covenants associated with these notes payable arrangements.

The following is a summary as of June 30, 2011 of the present value of the net minimum lease payments on capital leases and notes payable under the Company's commitments:

	Capital Leases	Notes Payable	Total
2012	$ 12,448	$ 1,513	$ 13,961
2013	6,903	1,571	8,474
2014	1,825	785	2,610
Total minimum lease payments	21,176	3,869	25,045
Less amount representing interest (imputed weighted average interest rate of 4.8%)	(710)	(127)	(837)
Net minimum lease payments	20,466	3,742	24,208
Less current portion	(11,914)	(1,443)	(13,357)
Present value of net minimum payments, less current portion	$ 8,552	$ 2,299	$ 10,851

Operating leases

The Company has fixed non-cancelable operating leases with terms expiring through 2022. Office leases generally contain renewal options and certain leases provide for scheduled rate increases over the lease terms.

In August 2010, the Company amended their operating lease for non-owned facilities whereby the Company agreed to consolidate various operating leases and subleases into a single lease and extending the term of the lease until May 2022. An existing operating sublease that is currently under a month-to-month lease is expected to be amended to the August 2010 operating lease under similar lease terms. Rent expense was $6.5 million, $4.0 million and $2.9 million for the years ended June 30, 2011, 2010 and 2009, respectively.

Future minimum lease payments under noncancelable operating leases with initial terms of one year or more are as follows:

	Year Ending June 30,
2012	$ 4,977
2013	4,450
2014	4,626
2015	4,603
2016	4,349
Thereafter	27,882
Total future minimum lease payments	$50,887

7. Line of Credit

The Company has a $35 million revolving credit agreement with PNC Bank (the Credit Agreement) that expires in December 2012. Pursuant to the terms of the Credit Agreement, the proceeds of the term loan facility are to be used for general corporate purposes. Because of the seasonality of our business and timing of funds received, the school expenditures are higher in relation to funds received in certain periods during the year. The Credit Agreement provides the ability to fund these periods until cash is received from the schools.

Borrowings under the Credit Agreement bear interest based upon the term of the borrowings. Interest is charged, at the Company's option, either at: (i) the higher of (a) the rate of interest announced by PNC Bank from time to time as its "prime rate" and (b) the federal funds rate plus 0.5%; or (ii) the applicable London

Interbank Offered Rate (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 the applicable margin for such loans, which ranges between 1.50% and 2.00%, based on the leverage ratio (as defined in the Credit Agreement). The Company pays a quarterly commitment fee on the unused portion of the credit agreement. The line of credit includes a $5.0 million letter of credit facility. Issuances of letters of credit reduce the availability of permitted borrowings under the Credit Agreement.

Borrowings under the Credit Agreement are secured by substantially all of the Company's assets. 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 its subsidiaries, or make capital expenditures above specified limits and engage in other matters customarily restricted in senior secured credit facilities. The Company must also maintain a maximum debt leverage ratio. These covenants are subject to certain qualifications and exceptions. Through June 30, 2011, the Company was in compliance with these covenants. As of June 30, 2011, no borrowings were outstanding on the line of credit and approximately $0.3 million was reserved for a letter of credit.

8. Warrants

The Company issued warrants in March 2003 at a price of $8.16 per share in conjunction with promissory notes issued by the Company. These warrants expired in December 2009 and during the years ended June 30, 2009 and 2010, warrants were exercised through cashless exercises in exchange for 667 and 6,173 shares of common stock.

9. Equity Transactions

Reverse Stock Split

On October 30, 2007, the Board approved a 1-for-5.1 reverse split of the Company's common stock. On October 31, 2007, the reverse split was further approved by a majority of the shareholders. The stock split was effective on November 2, 2007. In conjunction with these actions, the number of authorized shares of common stock was adjusted to 33,362,500. All share and per share amounts related to common stock, options and common stock warrants included in the consolidated financial statements have been retroactively adjusted for all periods presented to give effect to the stock split.

Amended and Restated Certificate of Incorporation

On October 30, 2007, the Board approved an amendment and restatement of the Company's Second Amended and Restated Certificate of Incorporation, which was adopted by the majority of the shareholders of the Company on October 31, 2007 (the "Third Amended and Restated Certificate of Incorporation" or "Certificate"). The Certificate authorizes the Company to issue 100,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock. The Certificate became effective on December 18, 2007, upon its filing with the Secretary of State of the State of Delaware. This Certificate superseded the Company's previous Certificate of Incorporation. The Redeemable Convertible Series B and Series C Preferred Stock are no longer authorized effective December 18, 2007.

Series C Dividend

On November 5, 2007, the Company's Board unanimously declared a cash dividend to the holders of Redeemable Convertible Series C Preferred stock effective immediately prior to and contingent upon the closing of an Initial Public Offering (the "IPO") and payable from the proceeds of the offering.

Concurrently with the closing of the IPO, the holders of Redeemable Convertible Series C Preferred stock were paid a cash dividend of $6.4 million. The amount of the declared dividend was equal to the pro rata amount of the annual 10% cumulative dividend that would have normally accrued on January 2, 2008 under the provisions of the preferred stock agreement.

Prior to declaration of the cash dividend, the Company accrued $5.0 million toward the annual cumulative dividend which was reversed in the recording of the cash dividend.

On November 16, 2007, PNC Bank consented to waive the restriction of dividends in its credit agreement with the Company for the purposes of this dividend. The PNC agreement amended certain other covenants.

Private Placement of Shares

On November 6, 2007, the Company entered into an agreement to sell to a non-U.S. person in a transaction outside the United States in reliance upon Regulation S under the Securities Act of 1933, as amended (Securities Act), concurrently with and contingent upon the closing of the IPO and at the IPO price, $15,000,000 worth of shares of the Company's common stock. On December 18, 2007, the Company closed on its initial public offering and issued 833,333 shares to this investor at the offering price of $18.00 per share.

Initial Public Offering

In December 2007, the Company completed the IPO of its common stock in which it sold and issued 4,450,000 shares of its common stock, at an issue price of $18.00 per share. The Company raised a total of $80.1 million in gross proceeds from the IPO, or approximately $71.0 million in net proceeds after deducting underwriting discounts and commissions of $5.6 million and other offering costs of $3.5 million. Upon the closing of the IPO, all shares of convertible preferred stock outstanding automatically converted into an aggregate of 19,879,675 shares of common stock.

Investment by Technology Crossover Ventures in K12 Inc.

In April 2011, the Company completed a private placement sale of 4 million shares of restricted Common Stock at a price of $31.46 per share to Technology Crossover Ventures (TCV). The gross proceeds of $125.8 million were unrestricted and may be used for acquisitions, strategic investments and general corporate purposes. Under the terms of the transaction, our Board of Directors (Board) appointed a director nominated by TCV to the Board to hold office until the next annual meeting of stockholders. Additionally, we granted TCV the right to participate on a pro-rata basis in any subsequent private offerings of Common Stock by the Company, subject to certain exclusions such as issuances in connection with acquisitions or employee equity plans. In addition, TCV was granted the right to demand registration of the shares of restricted Common Stock it acquired in the transaction.

Series A Special Stock

The Company issued 2,750,000 shares of Series A Special stock in connection with its acquisition of KC Distance Learning, Inc. (See note 13). The holders of the Series A Special stock have the right to convert those shares into common stock on a one-for-one basis and for the right to vote on all matters presented to K12 shareholders, other than for the election and removal of directors, for which holders of the Series A Special stock have no voting rights.

10. Stock Option Plan

The Company adopted a Stock Option Plan (the Plan) in May 2000. Under the Plan, employees, outside directors and independent contractors are able to participate in the Company's future performance through the awards of nonqualified stock options to purchase common stock. In December 2003, the Board increased the total number of common stock shares reserved and available for grant and issuance pursuant to the Plan to

2,549,019 shares. In November 2007, the Board adopted the 2007 Plan increasing the number of common stock shares reserved to 4,213,921 shares plus the increases in the shares pursuant to the "evergreen provision" that may be issued under the 2007 Plan over the course of its ten-year term. Each stock option is exercisable pursuant to the vesting schedule set forth in the stock option agreement granting such stock option, generally over four years. No stock option shall be exercisable after the expiration of its option term. The Company has granted stock options under the 2007 Plan. The Company has also granted stock options to executive officers under stand-alone agreements outside the Plan. Options granted under stand-alone agreements totaled 1,441,168 as of June 30, 2011 and June 30, 2010. Under both the Plan and the 2007 Plan, there have been no grants of nonqualified stock options to independent contractors.

Effective July 1, 2006, the Company adopted the fair value recognition provisions of ASC 718 using the prospective transition method which requires the Company to apply the provisions of ASC 718 only to awards granted, modified, repurchased or cancelled after July 1, 2006. Equity-based compensation expense for all equity-based compensation awards granted after July 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of ASC 718. The Company recognizes these compensation costs on a straight-line basis over the requisite service period, which is generally the vesting period of the award.

The Company uses the Black-Scholes option pricing model method to calculate the fair value of stock options. The use of option valuation models requires the input by management of highly subjective assumptions, including the expected stock price volatility, the expected life of the option term and forfeiture rate. These assumptions are utilized by the Company in determining the estimated fair value of stock options.

The fair value of our service and performance based stock options was estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended June 30,		
	2011	**2010**	**2009**
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	48%	51%	48%
Risk-free interest rate	1.25% to 2.37%	2.04% to 2.43%	1.81% to 3.11%
Expected life of the option term (in years)	5.11	5.11	5.11
Forfeiture rate	20% to 30%	20% to 30%	20% to 30%

The fair value of the options granted for the years ended June 30, 2011, 2010 and 2009 was $1.1 million, $6.5 million and $6.6 million, respectively. This amount will be expensed over the expected vesting.

Dividend yield — The Company has never declared or paid dividends on its common stock and has no plans to do so in the foreseeable future.

Expected volatility — Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. Since the Company's common shares have recently been publicly traded and therefore does not have sufficient historical data, the basis for the standard option volatility calculation is derived from known publicly traded comparable companies. The annual volatility for these companies is derived from their historical stock price data.

Risk-free interest rate — The assumed risk free rate used is a zero coupon U.S. Treasury security with a maturity that approximates the expected term of the option.

Expected life of the option term — This is the period of time that the options granted are expected to remain unexercised. Options granted during the year have a maximum term of eight years. The Company estimates the expected life of the option term based on an average life between the dates that options become fully vested and the maximum life of options granted.

Forfeiture rate — This is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. The Company uses a forfeiture rate that is based on historical forfeitures at various classification levels with the Company.

Stock option activity including stand-alone agreements during the years ended June 30, 2011 and 2010 are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, June 30, 2008	4,766,849	$11.20	5.19	$49,167
Granted	835,500	22.49		
Exercised	(1,344,993)	7.28		
Forfeited or canceled	(163,148)	16.27		
Outstanding, June 30, 2009	4,094,208	$14.59	5.16	$28,516
Granted	950,700	18.85		
Exercised	(936,195)	9.07		
Forfeited or canceled	(194,866)	17.21		
Outstanding, June 30, 2010	3,913,847	$16.81	5.06	24,911
Granted	119,000	30.65		
Exercised	(1,131,747)	11.79		
Forfeited or canceled	(135,371)	21.46		
Outstanding, June 30, 2011	2,765,729	$19.23	4.58	$38,485
Stock options exercisable at June 30, 2011	1,817,047	$18.41	3.91	$26,773

Stock options outstanding at June 30, 2011 included 598,037 stock options related to performance or market based options. During the year ended June 30, 2011, performance or market based options vested were 408,497. There were no performance or market based options granted or forfeited during the year ended June 30, 2011. Stock options exercisable at June 30, 2011 included 509,803 stock options related to performance based options. Vesting of performance based options is contingent on meeting various company-wide performance goals.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last day of the year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2011. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.

The total intrinsic value of options exercised for the years ended June 30, 2011, 2010 and 2009 was $22.2 million, $10.7 million and $19.4 million, respectively.

As of June 30, 2011, there was $7.0 million of total unrecognized compensation expense related to unvested stock options granted under the Stock Option Plans adopted in May 2000 and November 2007. The cost is expected to be recognized over a weighted average period of 2.10 years. During the years ended June 30, 2011, 2010 and 2009, the Company recognized $5.2 million, $5.2 million and $2.8 million of stock based compensation expense. The total income tax benefit recognized in the consolidated statements of operations related to stock options exercised during the years ended June 30, 2011, 2010 and 2009 was $5.0 million, $3.9 million and $6.9 million, respectively.

Restricted Stock Awards

In July 2009 the Restricted Stock Award (RSA) program was approved pursuant to the 2007 Plan. Under the Plan, employees, outside directors and independent contractors are able to participate in the Company's future performance through the awards of restricted stock. Each RSA vests pursuant to the vesting schedule set forth in the restricted stock agreement granting such RSA's, generally over three years. Under the 2007 Plan, there have been no awards of restricted stock to independent contractors.

Restricted stock award activity during the years ended June 30, 2011 and 2010 was as follows:

	Shares	Weighted-Average Fair Value
Nonvested, June 30, 2009	—	$ —
Granted	225,946	18.29
Vested	(16,007)	17.46
Forfeited or canceled	(22,089)	17.46
Nonvested, June 30, 2010	187,850	18.46
Granted	451,143	25.19
Vested	(154,224)	22.08
Forfeited or canceled	(40,618)	23.03
Nonvested, June 30, 2011	444,151	$23.62

During the year ended June 30, 2011, 45,000 performance based restricted stock awards were granted and are outstanding at June 30, 2011. Vesting of the performance based restricted stock awards is contingent on certain financial performance goals.

The fair value of restricted stock awards granted for the year ended June 30, 2011 was $11.4 million. As of June 30, 2011, there was $6.7 million of total unrecognized compensation expense related to unvested restricted stock awards granted. The cost is expected to be recognized over a weighted average period of 2.34 years. The total fair value of shares vested during the year ended June 30, 2011 was $3.4 million. During the years ended June 30, 2011, 2010 and 2009, the Company recognized $4.3 million, $0.7 million, and $0.0 million, respectively, of stock based compensation expense related to restricted stock awards.

11. Redeemable Noncontrolling Interest

In April 2010, a subsidiary of the Company entered into an agreement to establish a venture with Middlebury College (Middlebury) to form a new entity named Middlebury Interactive Languages LLC (MIL) effective May 2010. The Company's investment into this venture consisted of $4.0 million in cash and contributed assets, including substantially all of its foreign languages subsidiary, in return for a 60% ownership interest. Middlebury's investment in the venture consisted of $4.0 million in cash, $0.6 million in assumed liabilities and contributed assets, including a license to use its trademark and a foreign language instruction summer camps business, in return for a 40% ownership interest. The purpose of the venture is to create and distribute innovative, high-quality online language courses under the trademark Middlebury and other marks. Transaction expenses incurred by the Company related to this transaction included in selling, administrative and other operating expenses were $0.2 million.

At any time after the fifth (5th) anniversary of the agreement, Middlebury may give written notice of its irrevocable election to sell all (but not less than all) of its Membership Interest to the Company (put right). The purchase price for Middlebury's Membership Interest shall be its fair market value and the Company may, in its sole discretion, pay the purchase price in cash or shares of the Company's common stock. The agreement also includes a provision whereby, if certain milestones are not met related to expanding the business by June 2014, Middlebury will have the option to repurchase certain contributed assets at their fair market value.

The transaction resulted in a change in ownership interest of the subsidiary that did not result in loss of control and was accounted for by the Company as an equity transaction in accordance with the provisions of ASC 810 (formerly SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*). The assets contributed by Middlebury were initially recorded at their fair value.

Given the provision of the put right, the redeemable noncontrolling interest is redeemable outside of the Company's control and it is recorded outside of permanent equity at its redemption value fair value in accordance with EITF Topic D-98, *Classification and Measurement of Redeemable Securities.* The Company will adjust the redeemable noncontrolling interest to redemption value on each balance sheet date with changes in redemption value recognized as an adjustment to retained earnings, or in the absence of retained earnings, by adjustment to additional paid-in-capital.

The following is a summary of the activity of the redeemable noncontrolling interest for the years ended June 30, 2011 and 2010:

	Value
Initial recording of redeemable noncontrolling interest	$17,374
Net loss	(365)
Adjustment to redemption value	365
Balance of redeemable noncontrolling interest at June 30, 2010	17,374
Net loss	(1,113)
Adjustment to redemption value	939
Balance of redeemable noncontrolling interest at June 30, 2011	$17,200

12. 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.

Aventa Learning

In June 2010, the shareholders of Aventa Learning, Inc. (Aventa) filed a lawsuit against KC Distance Learning, Inc. which is currently pending in the U.S. District Court for the Western District of Washington, *Axtman et al. v. KC Distance Learning, Inc.* (Case No. 2:10-cv-01022-JLR). The lawsuit alleges, among other things, that KCDL did not honor the terms of an earn-out provision contained in an asset purchase agreement after certain assets of Aventa were acquired by KCDL in 2007. In addition, the plaintiffs allege breach of contract and misrepresentation claims, and seek the remedy of rescission for alleged violation of the Securities Act of 1933, as amended (Securities Act). On July 23, 2010, we acquired all of the shares of KCDL, which is now our wholly-owned subsidiary. On August 31, 2010, the plaintiffs amended their complaint to add K12 Inc. as a co-defendant in this matter, reflecting the change in ownership. Pursuant to the Agreement and Plan of Merger between K12 Inc. and KCDL Holdings LLC (Seller), Seller agreed to assume responsibility to defend this lawsuit and to fully indemnify K12 Inc. for any liability, including rescission. In addition, K12 Inc. obtained a guarantee from Seller's parent company, Learning Group LLC, from any losses related to this litigation. In our view, the outcome of this litigation will not have a material adverse effect on the financial condition or results of operations of K12 Inc. or any of our subsidiaries. On March 27, 2011, the court issued an Order Denying Defendant's Motion to Dismiss Amended Complaint. *Aventa Learning, Inc. et. al. v. K12 Inc., et.al.* (Case No. C10-1022JLR). Accordingly, the discovery process has commenced.

Employment Agreements

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

Vendor Payment Commitments

In April 2007, the Company entered into a master services and license agreement with a third party that provides for the Company to license their proprietary computer system. The agreement was effective through July 2010. In exchange for the license of the computer system, the Company agreed to pay a service fee per enrollment. In the event the fees paid over the term of the agreement do not exceed $1 million (the minimum commitment fee), the Company agrees to pay the difference between the actual fees paid and the minimum commitment fee. As of June 30, 2010, the actual fees paid have exceeded the minimum commitment fee. In August 2010, the agreement was renewed for a two year period ending August 2012 and includes a minimum commitment fee of $2.5 million over the term of the agreement. In the event the fees paid over the term of the agreement do not exceed $2.5 million, the Company agrees to pay the difference between the actual fees paid and the minimum commitment fee.

13. Acquisitions

KC Distance Learning, Inc.

On July 23, 2010 the Company acquired all of the stock of KCDL, a provider of online curriculum and public and private virtual education, by issuing to its parent company, KCDL Holdings LLC, 2,750,000 shares of a new class of stock designated as Series A Special Stock, which had a value at closing of $63.1 million. KCDL Holdings, Inc. is an affiliate of Learning Group, LLC, a related party. The holders of the Series A Special Stock initially had no voting rights and no rights of conversion with respect to those shares; however the holders had and continue to have participating rights in all dividends and distributions declared or paid on with respects to common stock of the company.

On December 23, 2010, the Company filed a definitive proxy statement with the Securities and Exchange Commission (SEC) for the stockholder vote. On January 27, 2011, the Company held a Special Meeting at which the stockholders approved conversion and voting rights for the holders of the Series A Special Stock. The holders of the Series A Special Stock now have the right to convert those shares into common stock on a one-for-one basis and for the right to vote on all matters presented to K12 shareholders, other than for the election and removal of directors, for which holders of the Series A Special Stock shall have no voting rights. The redemption right of the holders of the Series A Special Stock terminated upon shareholder approval of their conversion and voting rights.

The KCDL businesses include: Aventa Learning (online curriculum and instruction), the iQ Academics (statewide virtual public charter schools for middle and high school); and The Keystone School (international online private school). The operating results of KCDL have been included in the Company's condensed consolidated financial statements commencing as of the acquisition date of July 23, 2010. The acquisition of KCDL has been accounted for under the acquisition method of accounting which requires the total purchase price to be allocated to the assets acquired and liabilities to be assumed based on their estimated fair values. The fair values assigned to the assets acquired and liabilities assumed are based on valuations using management's best estimates and assumptions. The allocation of the estimated consideration to the identifiable tangible and intangible assets and liabilities assumed under the purchase method of accounting, is based on their estimated fair values of the acquisition date and summarized in the following table (in millions):

As of July 23, 2010	Amount
Current assets	$ 8.5
Property and equipment, net	8.7
Capitalized curriculum development costs, net	3.9
Intangible assets, net	21.9
Goodwill	34.5
Other noncurrent assets	0.1
Current liabilities	(5.5)
Deferred tax liability	(5.7)
Deferred revenue	(2.1)
Other noncurrent liabilities	(1.2)
Fair value of total consideration transferred	$63.1

The following unaudited pro forma combined results of operations give effect to the acquisition of KCDL, as if it had occurred at the beginning of the periods presented. The unaudited pro forma combined results of operations are provided for informational purposes only and do not purport to represent K12s actual consolidated results of operations had the acquisition occurred on the dates assumed, nor are these financial statements necessarily indicative of K12's future consolidated results of operations. K12 expects to incur costs and realize benefits associated with integrating the operations of K12 and KCDL. The unaudited pro forma combined results of operations do not reflect the costs of any integration activities or any benefits that may result from operating efficiencies or revenue synergies. Pro forma results include non-recurring transaction costs of $1.9 million.

	Year ended June 30,	
Pro forma Results of Operations (unaudited, in thousands)	2011	2010
Revenues	$523,755	$421,119
Net Income	$ 10,839	$ 18,082

The American Education Corporation

On December 1, 2010, the Company acquired The American Education Corporation (AEC), a leading provider of research-based core curriculum instructional software for kindergarteners through adult learners, for a total cash purchase price of $35.2 million, including certain amounts held in escrow. The escrow amounts include $6.8 million for the achievement of specified financial targets for the quarter-ended December 31, 2010. In March 2011, the specified financial targets were not achieved and consequently, this escrow amount was returned to the Company. In connection with the acquisition, the Company recorded Net Working Capital accounts of $1.9 million, net long term assets of $8.3 million, goodwill of approximately $15.7 million, intangible assets of approximately $4.5 million, and other long term liabilities and taxes payable of $2.0 million. The acquisition of AEC has been included in the Company's results since the acquisition date of December 1, 2010. The AEC acquisition had an immaterial proforma impact on 2011 and 2010 results. The allocation of the estimated consideration to the identifiable tangible and intangible assets and liabilities assumed under the purchase method of accounting is preliminary and based on their estimated fair values as of the acquisition date.

An additional amount of approximately $6.8 million is held in escrow and, if specified claims against AEC arise for which the Company is indemnified, such amounts may be used to satisfy those claims but not to exceed it. K12 is not entitled to any claims against the indemnification escrow amount unless and until the aggregate claim amount exceeds $250,000, at which time K12 is only entitled to reimbursement or any claims are to be paid to the selling AEC shareholders in two 50% installments of the remaining balance of the $6.8 million in the indemnification escrow on June 1, 2011 and December 1, 2011. At June 30, 2011, the Company recognized a liability of $830,000 relating to potential claims offset by a receivable from the escrow account of $580,000. As of June 30, 2011, the Company has not incurred any specified claims against AEC to be withdrawn from the indemnification escrow.

Investment in Web International Education Group, Ltd.

On January 3, 2011, K12 invested $10 million in Web International Education Group, Ltd. (Web). This strategic investment gives the Company a 20% minority interest in Web, with the option to purchase no less than 51% of Web before July 1, 2012, and the option to purchase all remaining equity interest between January 1, 2013 and December 31, 2015. Web is a leader in English language training for learners of all ages throughout China, including university students, government workers, and employees of international companies. Web has an extensive network of learning centers in cities throughout China. The proceeds of the investment will be primarily be used to expand Web's learning center network into more cities in China. The Company has recorded its investment in Web as an available for sale debt security because of our ability to put the investment to other Web shareholders in return for the original $10 million purchase price plus interest. During the six months ended June 30, 2011, there was no change to the fair value of the Web investment based on the initial cost of the investment and Web's financial performance since the initial investment.

International School of Berne

On April 1, 2011, the Company finalized its acquisition of the operations of the International School of Berne (IS Berne), a traditional school located in Berne, Switzerland serving students in grades Pre-K through 12. IS Berne is an International Baccalaureate school in its 50th year of operation. The Company purchased the right to operate IS Berne and substantially all of its assets excluding real estate. The majority of the purchase price has been allocated on a preliminary basis to goodwill.

14. Related Party Transactions

For the year ended June 30, 2011, the Company purchased services and assets in the amount of $1.3 million 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, a related party. Additionally, KCDL has capital leases with an outstanding balance due to KCDL Holdings, Inc. in the amount of $0.5 million as of June 30, 2011.

15. Employee Benefits

The Company is party to a Section 401(k) Salary Deferral Plan (the 401(k) Plan). Under the 401(k) Plan, employees at least 18 years of age having been employed for at least 30 days may voluntarily contribute up to 15% of their compensation. The 401(k) Plan provides for a matching Company contribution of 25% of the first 4% of each participant's compensation, which begins following six months of service and vests after three years of service. Under the 401(k) Plan, the Company expensed $0.4 million, $0.4 million and $0.3 million during each of the years ended June 30, 2011, 2010 and 2009, respectively.

16. Supplemental Disclosure of Cash Flow Information

	Year Ended June 30, 2011	2010	2009
Cash paid for interest	$ 1,216	$ 1,282	$ 1,428
Cash paid for taxes	$ 4,616	$ 872	$ 65
Supplemental disclosure of non-cash investing and financing activities:			
Property and equipment financed by capital lease obligations	$15,645	$12,194	$16,044
Property and equipment financed by notes payable	$ 1,872	$ —	$ —
Cash receipts in transit from exercise of stock options	$ 87	$ —	$ 691
Issuance of stock options related to earn-out provision of Power-Glide acquisition	$ —	$ —	$ 71
Net working capital contributed to Middlebury Interactive Languages venture	$ —	$ 3,374	$ —
Intangible assets contributed to Middlebury Interactive Languages venture	$ —	$14,000	$ —
Purchase of perpetual license agreement/accrued liabilities	$ —	$ 250	$ —

	Year Ended June 30, 2011	2010	2009
Business Combinations:			
Current assets	$ 13,396	$—	$—
Property, equipment and capitalized software development costs	$ 12,938	$—	$—
Capitalized curriculum development costs	$ 8,073	$—	$—
Intangible assets	$ 27,310	$—	$—
Goodwill	$ 53,789	$—	$—
Other non-current assets	$ 198	$—	$—
Deferred tax liabilities	$ (6,989)	$—	$—
Assumed liabilities	$(12,229)	$—	$—
Deferred revenue	$ (5,554)	$—	$—
Other noncurrent liabilities	$ (738)	$—	$—
Contingent consideration	$ (1,700)	$—	$—
Issuance of Series A Special Stock	$(63,112)	$—	$—

17. Quarterly Results of Operations (Unaudited)

The unaudited consolidated interim financial information presented should be read in conjunction with other information included in our consolidated financial statements. The following unaudited consolidated financial information reflects all adjustments necessary for the fair presentation of the results of interim periods. The following tables set forth selected unaudited quarterly financial information for each of our last eight quarters.

	2011 (In thousands)			
	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010
Consolidated Quarterly Statements of Income				
Revenues	$ 128,268	$ 130,293	$ 129,002	$ 134,871
Cost and expenses				
Instructional costs and services	78,107	77,727	76,195	75,082
Selling, administrative, and other	52,324	36,763	35,177	50,498
Product development expenses	4,029	4,972	3,435	3,911
Total costs and expenses	134,460	119,462	114,807	129,491
Income (loss) from operations	(6,192)	10,831	14,195	5,380
Interest expense, net	(237)	(307)	(366)	(297)
Income (loss) before income taxes and noncontrolling interest	(6,429)	10,524	13,829	5,083
Income tax benefit (expense)	2,968	(5,260)	(6,119)	(2,931)
Net income (loss) before noncontrolling interest	(3,461)	5,264	7,710	2,152
Add net income attributable to noncontrolling interest	617	335	129	46
Net income (loss) — K12 Inc.	$ (2,844)	$ 5,599	$ 7,839	$ 2,198
Net income (loss) attributable to common stockholders per share:				
Basic	$ (0.08)	$ 0.17	$ 0.24	$ 0.07
Diluted	$ (0.08)	$ 0.16	$ 0.23	$ 0.07
Weighted average shares used in computing per share amounts:				
Basic	34,460,563	30,958,807	30,565,683	30,343,696
Diluted	34,460,563	31,758,313	31,128,286	30,805,106

	2010 (In thousands)			
	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009	Sep 30, 2009
Consolidated Quarterly Statements of Income				
Revenues	$ 88,321	$ 96,627	$ 93,197	$ 106,325
Cost and expenses				
Instructional costs and services	55,868	56,479	51,589	58,093
Selling, administrative, and other	32,329	26,843	24,899	33,327
Product development expenses	1,999	2,924	2,415	2,238
Total costs and expenses	90,196	86,246	78,903	93,658
Income (loss) from operations	(1,875)	10,381	14,294	12,667
Interest expense, net	(289)	(361)	(324)	(357)
Income (loss) before income taxes and noncontrolling interest	(2,164)	10,020	13,970	12,310
Income tax benefit (expense)	427	(3,927)	(4,381)	(5,368)
Net income (loss) before noncontrolling interest	(1,737)	6,093	9,589	6,942
Add net income attributable to noncontrolling interest	412	36	49	141
Net income (loss) — K12 Inc.	$ (1,325)	$ 6,129	$ 9,638	$ 7,083
Net income (loss) attributable to common stockholders per share:				
Basic	$ (0.04)	$ 0.20	$ 0.33	$ 0.24
Diluted	$ (0.04)	$ 0.20	$ 0.32	$ 0.24
Weighted average shares used in computing per share amounts:				
Basic	30,195,130	29,951,327	29,648,674	29,378,074
Diluted	30,195,130	30,352,974	29,974,642	29,948,550

18. Subsequent Events

On July 1, 2011, the Company acquired certain assets of Kaplan Virtual Schools and Insight Schools, Inc. These assets include virtual charter schools and private virtual high schools throughout the United States that will be integrated into the Company's existing operations.

In August 2011, the Company renewed its lease line of credit with PNC Bank. The lease line now expires in August 2012.

SCHEDULE II

K12 INC
VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED JUNE 30, 2011, 2010 AND 2009

1. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Deductions from Allowance	Balance at End of Period
June 30, 2011	$1,362,530	1,471,510	1,056,559	$1,777,481
June 30, 2010	$1,055,261	502,723	195,454	$1,362,530
June 30, 2009	$1,458,372	423,571	826,682	$1,055,261

2. INVENTORY RESERVE

	Balance at Beginning of Period	Charged to Cost and Expenses	Deductions, Shrinkage and Obsolescence	Balance at End of Period
June 30, 2011	$1,903,448	1,060,157	46,946	$2,916,659
June 30, 2010	$ 884,094	1,085,270	65,916	$1,903,448
June 30, 2009	$ 734,827	149,267	—	$ 884,094

3. COMPUTER RESERVE(1)

	Balance at Beginning of Period	Additions (Deductions) Charged to Cost and Expenses	Deductions, Shrinkage and Obsolescence	Balance at End of Period
June 30, 2011	$ 843,876	219,409	—	$1,063,285
June 30, 2010	$1,022,147	(178,271)	—	$ 843,876
June 30, 2009	$ 778,789	243,358	—	$1,022,147

(1) A reserve account is maintained against potential shrinkage and obsolescence for those computers provided to our students. The reserve is calculated based upon several factors including historical percentages, the net book value and remaining useful life. During fiscal year 2011, certain computers were written off against the reserve.

4. INCOME TAX VALUATION ALLOWANCE

	Balance at Beginning of Period	Additions to Net Deferred Tax Assets Allowance	Deductions in Net Deferred Tax Asset Allowance	Balance at End of Period
June 30, 2011	$ 820,213	95,732	—	$ 915,945
June 30, 2010	$ 746,726	73,487	—	$ 820,213
June 30, 2009	$ 610,954	135,772	—	$ 746,726

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE***

None.

ITEM 9A. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, management has evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding our required disclosure. In designing and evaluating our 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 was required to apply its judgment in evaluating and implementing possible controls and procedures.

As described below, a material weakness was identified in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual financial statements will not be prevented or detected on a timely basis. As a result of the material weakness, our chief executive officer and chief financial officer have concluded that, as of June 30, 2011, the end of the period covered by this report, our disclosure controls and procedures were not effective.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting refers to a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our board of directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management evaluated the effectiveness of our internal control over financial reporting as of June 30, 2011 using the framework set forth in the report of the Treadway Commission's Committee of Sponsoring Organizations (COSO), "Internal Control — Integrated Framework."

As a result of management's evaluation of our internal control over financial reporting, management identified a material weakness in our internal control. Specifically, management concluded that a material weakness relating to project management of a new enterprise-wide financial system ("ERP") and the resulting effects on the timeliness of our year-end close existed in our internal control over financial reporting.

Management has assessed the processes surrounding the project management of the ERP implementation and determined that the ERP system implementation plan was insufficiently comprehensive which caused delays and ultimately prevented the year-end close from being completed in a timely manner. To address implementation challenges, external resources and Company information technology and accounting staff have been engaged in intensive quality control and checking of the new ERP system, including the interfaces with the multiple accounting systems inherited with our recent acquisitions to perform the year end close and ensure accurate financial reporting. As of the date of this report, the Company has completed its initial implementation and anticipates future enhancements and updates to the new system. The Company will thoroughly review and improve its system implementation plans and related processes that impact future system implementations, enhancements and updates.

This control deficiency could have resulted in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected as of the initial filing date deadline. Accordingly, management determined that this control deficiency constituted a material weakness as of June 30, 2011.

As a result of the material weakness, management has concluded that our internal control over financial reporting was ineffective as of June 30, 2011. Our independent registered public accounting firm, BDO USA, LLP, has issued an audit report on management's assessment of our internal control over financial reporting, expressing an adverse opinion on the effectiveness of our internal control over financial reporting as of June 30, 2011.

Consistent with guidance from the Securities and Exchange Commission, management did not include the newly acquired material entities due to the timing of the acquisitions, in the internal controls assessment as of June 30, 2011. KC Distance Learning was acquired on July 23, 2010 and the American Education Corporation was acquired on December 1, 2010 which collectively constituted 18% of total assets as of June 30, 2011 and 7% of revenues for the year then ended.

Remediation of Previously Identified Material Weakness

During the process of preparing the Form 10-K for the year-ended June 30, 2010, BDO USA, LLP discovered a material weakness in our internal control over financial reporting concerning our accounting for complex transactions that are non-routine and non-recurring during its audit of our financial statements as of June 30, 2010, while reviewing management's assessment of the accounting for a complex transaction that was non-routine and non-recurring.

In fiscal 2011, to address this material weakness in our internal control over financial reporting concerning our accounting for complex, non-routine and non-recurring transactions, management implemented a number of measures to remediate this material weakness. These remediation activities included improving our finance organization by adding and redefining positions and functional roles, hiring additional finance and accounting personnel with appropriate levels of financial reporting expertise, ensuring that finance and accounting personnel receive timely training and utilizing a "Big Four" accounting firm to provide consulting services to our finance and accounting staff in any areas of the reporting process where the Company's current level of knowledge and expertise needed to be supplemented.

As of June 30, 2011, we have determined that the remediation measures undertaken to establish an effectively designed and operating process of internal control over financial reporting have enabled management to conclude that the material weakness identified during the audit of our financial statements as of June 30, 2010 has been remediated.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management has evaluated, with the participation of our chief executive officer and chief financial officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, we determined that management has implemented changes in remediation of the prior year material weakness and the implementation of our new ERP system as a result of the associated current year material weakness described above. However, management believes the measures that have been implemented to remediate the associated current year material weakness have had a material impact on our internal control over financial reporting since June 30, 2011, and anticipates that these measures and other ongoing enhancements will continue to have a material impact on our internal control over financial reporting in future periods.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
K12 Inc.
Herndon, Virginia

We have audited K12 Inc. and subsidiaries' (the Company) internal control over financial reporting as of June 30, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). K12 Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of KC Distance Learning, Inc., which was acquired on July 23, 2010 and American Education Corporation, which was acquired on December 1, 2010 which is included in the consolidated balance sheets of K12 Inc. and subsidiaries as of June 30, 2011 and the related consolidated statements of operations, redeemable convertible preferred stock and equity (deficit), and cash flows for the year ended June 30, 2011. KC Distance Learning, Inc. and American Education Corporation collectively constituted 18% of total assets as of June 30, 2011, and 7% revenues for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of the entities because of the timing of the acquisitions. Our audit of internal control over financial reporting of K12 Inc. also did not include an evaluation of the internal control over financial reporting of KC Distance Learning, Inc. and American Education Corporation.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding management's failure to design and maintain controls over the implementation of an enterprise wide financial system and the resulting effects the system implementation had on the Company's ability to execute its financial reporting close process in a timely manner has been identified and described in management's assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2011 consolidated financial statements, and this report does not affect our report dated October 7, 2011 on those consolidated financial statements.

In our opinion, K12 Inc. and subsidiaries did not maintain, in all material respects, effective internal control over financial reporting as of June 30, 2011, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of K12 Inc. and subsidiaries as of June 30, 2011 and 2010 and the related consolidated statements of operations, redeemable convertible preferred stock and equity (deficit), and cash flows for each of the three years in the period ended June 30, 2011 and our report dated October 7, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Bethesda, Maryland
October 7, 2011

ITEM 9B. ***OTHER INFORMATION***

None

PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

The information required by Item 10 is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 11. ***EXECUTIVE COMPENSATION***

The information required by Item 11 is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

The information required by Item 12 is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 13. ***CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE***

The information required by Item 13 is incorporated by reference to our proxy statement for our annual stockholders meeting.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by Item 14 is incorporated by reference to our proxy statement for our annual stockholders meeting.

PART IV

ITEM 15. ***EXHIBITS, FINANCIAL STATEMENT SCHEDULES***

(a)(1) *All financial statements.* The information required by this item is incorporated herein by reference to the financial statements and notes thereto listed in Item 8 of Part II and included in this Annual Report.

(a)(2) *Financial statement schedules.* All financial statement schedules are omitted because the required information is included in the financial statements and notes thereto listed in Item 8 of Part II and included in this Annual Report.

(b) *Exhibits.*

Exhibit No.	Description of Exhibit
3.1	Third Amended and Restated Certificate of Incorporation of K12 Inc. (Incorporated by reference to Exhibit 3.1 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended December 31, 2007).
3.2	Amended and Restated Bylaws of K12 Inc. (Incorporated by reference to Exhibit 3.2 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended December 31, 2007).
4.1	Form of stock certificate of common stock (Incorporated by reference to Exhibit 4.1 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.2	Amended and Restated Stock Option Plan and Amendment thereto (Incorporated by reference to Exhibit 4.2 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.3	Form of Stock Option Contract — Employee (Incorporated by reference to Exhibit 4.3 to K12's Registration Statement on Form S-1, File No. 333-144894).

Exhibit No.	Description of Exhibit
4.4	Form of Stock Option Contract — Director (Incorporated by reference to Exhibit 4.4 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.5	Form of Second Amended and Restated Stockholders Agreement (Incorporated by reference to Exhibit 4.5 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.6	Form of Common Stock Warrant Agreement (Incorporated by reference to Exhibit 4.6 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.7	K12 Inc. 2007 Equity Incentive Award Plan (Incorporated by reference to Exhibit 4.8 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.8	K12 Inc. 2007 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.9 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.9	Form of Indemnification Agreement for Non-Management Directors and for Officers of K12 Inc. (Incorporated by reference to Exhibit 10.1 to K12's Annual Report on Form 10-Q for the quarter ended September 30, 2008).
4.10	Form of Director's Indemnification Agreement (Incorporated by reference to Exhibit 10.1 to K12's Current Report on Form 8-K filed on October 22, 2008).
10.1	Revolving Credit Agreement and Certain Other Loan Documents by and among K12 Inc., School Leasing Corporation, American School Supply Corporation and PNC Bank, N.A. (Incorporated by reference to Exhibit 10.1 to K12's Registration Statement on Form S-1, File No. 333-144894).
10.2*	Amended and Restated Stock Option Agreement of Ronald J. Packard dated as of July 12, 2007 (Incorporated by reference to Exhibit 10.5 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.3	Stock Option Agreement of Bruce J. Davis (Incorporated by reference to Exhibit 10.6 to K12's Registration Statement on Form S-1, File No. 333-144894).
10.4*	Employment Agreement of Ronald J. Packard (Incorporated by reference to Exhibit 10.9 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.5	Employment Agreement of Bruce J. Davis (Incorporated by reference to Exhibit 10.11 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.6	Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated December 7, 2005 (Incorporated by reference to Exhibit 10.13 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.7	Sublease by and between France Telecom Long Distance USA, LLC, and K12 Inc., dated December 9, 2005 (Incorporated by reference to Exhibit 10.14 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.8	Employment Agreement of Celia Stokes (Incorporated by reference to Exhibit 10.15 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.9	Employment Agreement of Howard D. Polsky (Incorporated by reference to Exhibit 10.16 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.10*	Stock Option Agreement between K12 Inc. and Ronald J. Packard dated as of July 12, 2007 (Incorporated by reference to Exhibit 10.17 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.11	First Amendment to Employment Agreement of Howard D. Polsky (Incorporated by reference to Exhibit 10.18 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.12	Amendment No. 1 to Revolving Credit Agreement (Incorporated by reference to Exhibit 10.19 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).

Exhibit No.	Description of Exhibit
10.13	Stock Subscription Agreement between K12 Inc. and KB Education Investments Limited, dated November 6, 2007 (Incorporated by reference to Exhibit 10.20 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.14	Second Amended and Restated Educational Products and, Administrative, and Technology Services Agreement between the Ohio Virtual Academy and K12 Ohio LLC (Incorporated by reference to Exhibit 10.21 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.15	First Amendment to Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated as of November 30, 2006. (Incorporated by reference to Exhibit 10.21 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.16	Second Amendment to Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated as of March 26, 2007. (Incorporated by reference to Exhibit 10.22 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.17	Sublease by and between DIECA Communications Inc. and K12 Inc., dated June 25, 2008. (Incorporated by reference to Exhibit 10.23 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.18	Employment Agreement of Harry T. Hawks (Incorporated by reference to Exhibit 10.1 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended March 31, 2010).
10.19	Agreement and Plan of Merger by and among K12 Inc., Kayleigh Sub Two LLC, Kayleigh Sub One Corp., KC Distance Learning, Inc., and KCDL Holdings LLC (Incorporated by reference to Exhibit 2.1 to K12's Current Report on Form 8-K filed on July 26, 2010).
10.20	Certificate of Designations, Preferences and Relative and Other Special Rights of Series A Special Stock (Incorporated by reference to Exhibit 3.1 to K12's Current Report on Form 8-K filed on July 26, 2010).
10.21	Voting Agreement (Incorporated by reference to Exhibit 4.1 to K12's Current Report on Form 8-K filed on July 26, 2010).
10.22	Stockholders Agreement by and among K12 Inc., KCDL Holdings LLC, Learning Group LLC, Learning Group Partners, Knowledge Industries LLC, and Cornerstone Financial Group LLC (Incorporated by reference to Exhibit 4.2 to K12's Current Report on Form 8-K filed on October 6, 2010).
10.23	Amendment to Amended and Restated Stock Option Agreement (Incorporated by reference to Exhibit 10.1 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended December 31, 2010).
10.24	Amended and Restated Employment Agreement of Ronald J. Packard (Incorporated by reference to Exhibit 99.1 to K12's Current Report on Form 8-K filed on April 29, 2011).
10.25	Securities Purchase Agreement among K12 Inc. and The Other Parties Named Herein (Incorporated by reference to Exhibit 99.1 to K12's Current Report on Form 8-K filed on April 18, 2011).
10.26	Investor Rights Agreement (Incorporated by reference to Exhibit 4.1 to K12's Current Report on Form 8-K filed on April 29, 2011).
21.1	Subsidiaries of K12 Inc.**
23.1	Consent of BDO USA, LLP.**
24.1	Power of Attorney (included in signature pages).**
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.**

Exhibit No.	Description of Exhibit
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.**
32.1	Certification of Principal Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.**
32.2	Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.**

* Portions omitted pursuant to a request for confidential treatment. The omitted information has been filed separately with the Securities and Exchange Commission.

** To be filed currently.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Ronald J. Packard

Name: Ronald J. Packard
Title: Chief Executive Officer

Date: October 7, 2011

POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Ronald J. Packard, Harry T. Hawks and Howard D. Polsky, and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Ronald J. Packard Ronald J. Packard	Chief Executive Officer *(Principal Executive Officer)*	October 7, 2011
/s/ Harry T. Hawks Harry T. Hawks	Executive Vice President and Chief Financial Officer *(Principal Financial Officer and Principal Accounting Officer)*	October 7, 2011
/s/ Andrew H. Tisch Andrew H. Tisch	Chairman of the Board and Director	October 7, 2011
/s/ Craig R. Barrett Craig R. Barrett	Director	October 7, 2011
/s/ Guillermo Bron Guillermo Bron	Director	October 7, 2011

Signature	Title	Date
/s/ NATHANIEL A. DAVIS Nathaniel A. Davis	Director	October 7, 2011
/s/ STEVEN B. FINK Steven B. Fink	Director	October 7, 2011
/s/ JON Q. REYNOLDS Jon Q. Reynolds	Director	October 7, 2011
/s/ MARY H. FUTRELL Mary H. Futrell	Director	October 7, 2011

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Third Amended and Restated Certificate of Incorporation of K12 Inc. (Incorporated by reference to Exhibit 3.1 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended December 31, 2007).
3.2	Amended and Restated Bylaws of K12 Inc. (Incorporated by reference to Exhibit 3.2 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended December 31, 2007).
4.1	Form of stock certificate of common stock (Incorporated by reference to Exhibit 4.1 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.2	Amended and Restated Stock Option Plan and Amendment thereto (Incorporated by reference to Exhibit 4.2 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.3	Form of Stock Option Contract — Employee (Incorporated by reference to Exhibit 4.3 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.4	Form of Stock Option Contract — Director (Incorporated by reference to Exhibit 4.4 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.5	Form of Second Amended and Restated Stockholders Agreement (Incorporated by reference to Exhibit 4.5 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.6	Form of Common Stock Warrant Agreement (Incorporated by reference to Exhibit 4.6 to K12's Registration Statement on Form S-1, File No. 333-144894).
4.7	K12 Inc. 2007 Equity Incentive Award Plan (Incorporated by reference to Exhibit 4.8 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.8	K12 Inc. 2007 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.9 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
4.9	Form of Indemnification Agreement for Non-Management Directors and for Officers of K12 Inc. (Incorporated by reference to Exhibit 10.1 to K12's Annual Report on Form 10-Q for the quarter ended September 30, 2008).
4.10	Form of Director's Indemnification Agreement (Incorporated by reference to Exhibit 10.1 to K12's Current Report on Form 8-K filed on October 22, 2008).
10.1	Revolving Credit Agreement and Certain Other Loan Documents by and among K12 Inc., School Leasing Corporation, American School Supply Corporation and PNC Bank, N.A. (Incorporated by reference to Exhibit 10.1 to K12's Registration Statement on Form S-1, File No. 333-144894).
10.2*	Amended and Restated Stock Option Agreement of Ronald J. Packard dated as of July 12, 2007 (Incorporated by reference to Exhibit 10.5 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.3	Stock Option Agreement of Bruce J. Davis (Incorporated by reference to Exhibit 10.6 to K12's Registration Statement on Form S-1, File No. 333-144894).
10.4*	Employment Agreement of Ronald J. Packard (Incorporated by reference to Exhibit 10.9 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.5	Employment Agreement of Bruce J. Davis (Incorporated by reference to Exhibit 10.11 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.6	Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated December 7, 2005 (Incorporated by reference to Exhibit 10.13 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).

Exhibit No.	Description of Exhibit
10.7	Sublease by and between France Telecom Long Distance USA, LLC, and K12 Inc., dated December 9, 2005 (Incorporated by reference to Exhibit 10.14 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.8	Employment Agreement of Celia Stokes (Incorporated by reference to Exhibit 10.15 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.9	Employment Agreement of Howard D. Polsky (Incorporated by reference to Exhibit 10.16 to K12's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-144894).
10.10*	Stock Option Agreement between K12 Inc. and Ronald J. Packard dated as of July 12, 2007 (Incorporated by reference to Exhibit 10.17 to K12's Amendment No. 6 to Registration Statement on Form S-1, File No. 333-144894).
10.11	First Amendment to Employment Agreement of Howard D. Polsky (Incorporated by reference to Exhibit 10.18 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.12	Amendment No. 1 to Revolving Credit Agreement (Incorporated by reference to Exhibit 10.19 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.13	Stock Subscription Agreement between K12 Inc. and KB Education Investments Limited, dated November 6, 2007 (Incorporated by reference to Exhibit 10.20 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.14	Second Amended and Restated Educational Products and, Administrative, and Technology Services Agreement between the Ohio Virtual Academy and K12 Ohio LLC (Incorporated by reference to Exhibit 10.21 to K12's Amendment No. 4 to Registration Statement on Form S-1, File No. 333-144894).
10.15	First Amendment to Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated as of November 30, 2006. (Incorporated by reference to Exhibit 10.21 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.16	Second Amendment to Deed of Lease by and between ACP/2300 Corporate Park Owner, LLC and K12 Inc., dated as of March 26, 2007. (Incorporated by reference to Exhibit 10.22 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.17	Sublease by and between DIECA Communications Inc. and K12 Inc., dated June 25, 2008. (Incorporated by reference to Exhibit 10.23 to K12's Annual Report on Form 10-K for the year ended June 30, 2008).
10.18	Employment Agreement of Harry T. Hawks (Incorporated by reference to Exhibit 10.1 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended March 31, 2010).
10.19	Agreement and Plan of Merger by and among K12 Inc., Kayleigh Sub Two LLC, Kayleigh Sub One Corp., KC Distance Learning, Inc., and KCDL Holdings LLC (Incorporated by reference to Exhibit 2.1 to K12's Current Report on Form 8-K filed on July 26, 2010).
10.20	Certificate of Designations, Preferences and Relative and Other Special Rights of Series A Special Stock (Incorporated by reference to Exhibit 3.1 to K12's Current Report on Form 8-K filed on July 26, 2010).
10.21	Voting Agreement (Incorporated by reference to Exhibit 4.1 to K12's Current Report on Form 8-K filed on July 26, 2010).
10.22	Stockholders Agreement by and among K12 Inc., KCDL Holdings LLC, Learning Group LLC, Learning Group Partners, Knowledge Industries LLC, and Cornerstone Financial Group LLC (Incorporated by reference to Exhibit 4.2 to K12's Current Report on Form 8-K filed on October 6, 2010).

Exhibit No.	Description of Exhibit
10.23	Amendment to Amended and Restated Stock Option Agreement (Incorporated by reference to Exhibit 10.1 to K12's Quarterly Report on Form 10-Q (Commission file number 001-33883) for the quarter ended December 31, 2010).
10.24	Amended and Restated Employment Agreement of Ronald J. Packard (Incorporated by reference to Exhibit 99.1 to K12's Current Report on Form 8-K filed on April 29, 2011).
10.25	Securities Purchase Agreement among K12 Inc. and The Other Parties Named Herein (Incorporated by reference to Exhibit 99.1 to K12's Current Report on Form 8-K filed on April 18, 2011).
10.26	Investor Rights Agreement (Incorporated by reference to Exhibit 4.1 to K12's Current Report on Form 8-K filed on April 29, 2011).
21.1	Subsidiaries of K12 Inc.**
23.1	Consent of BDO USA, LLP.**
24.1	Power of Attorney (included in signature pages).**
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.**
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.**
32.1	Certification of Principal Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.**
32.2	Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.**

* Portions omitted pursuant to a request for confidential treatment. The omitted information has been filed separately with the Securities and Exchange Commission.

** To be filed currently.

K12 INC (LRN)

10-Q
Quarterly report pursuant to sections 13 or 15(d)
Filed on 02/09/2012
Filed Period 12/31/2011

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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 December 31, 2011

OR

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

For the transition period from to

Commission File Number: 001-33883

K12 Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-4774688** (IRS Employer Identification No.)
2300 Corporate Park Drive **Herndon, VA** (Address of principal executive offices)	**20171** (Zip Code)

(703) 483-7000

(Registrant's telephone number, including area code)

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

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

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

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

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

As of February 1, 2012 the Registrant had 36,400,515 shares of Common Stock, $0.0001 par value outstanding.

K12 Inc.

Form 10-Q

For the Quarterly Period Ended December 31, 2011

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PART I — FINANCIAL INFORMATION

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

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2011	June 30, 2011
	(In thousands, except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 133,872	$ 193,099
Restricted cash and cash equivalents	1,501	1,501
Accounts receivable, net of allowance of $2,501 and $1,777 at December 31, 2011 and June 30, 2011, respectively	197,096	96,235
Inventories, net	20,203	30,554
Current portion of deferred tax asset	8,050	7,175
Prepaid expenses	13,825	10,424
Other current assets	14,537	9,111
Total current assets	389,084	348,099
Property and equipment, net	60,297	46,625
Capitalized software development costs, net	27,302	24,386
Capitalized curriculum development costs, net	56,249	55,619
Intangible assets, net	38,993	38,291
Goodwill	62,404	55,627
Investment in Web International	10,000	10,000
Deposits and other assets	3,297	3,448
Total assets	$ 647,626	$ 582,095
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current liabilities		
Accounts payable	$ 20,249	$ 21,176
Accrued liabilities	17,011	14,126
Accrued compensation and benefits	13,662	13,086
Deferred revenue	52,154	21,907
Current portion of capital lease obligations	15,467	11,914
Current portion of notes payable	1,129	1,443
Total current liabilities	119,672	83,652
Deferred rent, net of current portion	5,294	4,698
Capital lease obligations, net of current portion	16,569	8,552
Notes payable, net of current portion	1,543	2,299
Deferred tax liability	15,283	9,604
Other long term liabilities	3,160	3,343
Total liabilities	161,521	112,148
Commitments and contingencies		
Redeemable noncontrolling interest	17,200	17,200
Equity:		
K12 Inc. stockholders' equity		
Common stock, par value $0.0001; 100,000,000 shares authorized; 36,382,947 and 35,927,452 shares issued and outstanding at December 31, 2011 and June 30, 2011, respectively	4	4
Additional paid-in capital	519,487	512,181
Series A Special Stock, par value $0.0001; 2,750,000 issued and outstanding at December 31, 2011 and June 30, 2011	63,112	63,112
Accumulated other comprehensive income	134	28
Accumulated deficit	(117,938)	(126,704)
Total K12 Inc. stockholders' equity	464,799	448,621
Noncontrolling interest	4,106	4,126
Total equity	468,905	452,747
Total liabilities, redeemable noncontrolling interest and equity	$ 647,626	$ 582,095

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

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
	(In thousands, except share and per share data)			
Revenues	$ 166,500	$ 129,002	$ 359,830	$ 263,873
Cost and expenses				
Instructional costs and services	100,877	76,195	208,455	151,277
Selling, administrative, and other operating expenses	50,957	35,177	122,217	85,675
Product development expenses	7,574	3,435	13,798	7,346
Total costs and expenses	159,408	114,807	344,470	244,298
Income from operations	7,092	14,195	15,360	19,575
Interest expense, net	(236)	(366)	(457)	(663)
Income before income tax expense and noncontrolling interest	6,856	13,829	14,903	18,912
Income tax expense	(2,976)	(6,119)	(6,673)	(9,050)
Net income — K12 Inc.	3,880	7,710	8,230	9,862
Add net loss attributable to noncontrolling interest	285	129	536	175
Net income attributable to common stockholders, including Series A stockholders	$ 4,165	$ 7,839	$ 8,766	$ 10,037
Net income attributable to common stockholders per share, excluding Series A stockholders:				
Basic	$ 0.11	$ 0.24	$ 0.23	$ 0.30
Diluted	$ 0.11	$ 0.23	$ 0.23	$ 0.30
Weighted average shares used in computing per share amounts:				
Basic	35,755,685	30,565,683	35,692,761	30,454,724
Diluted	35,976,779	31,128,286	36,009,878	31,094,840

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

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)

	K12 Inc Stockholders								
	Common Stock		Common Stock - Series A		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Noncontrolling	
(In thousands, except share data)	**Shares**	**Amount**	**Shares**	**Amount**	**Capital**	**Income**	**Deficit**	**Interest**	**Total**
Balance, June 30, 2011	35,927,452	$ 4	2,750,000	$ 63,112	$ 512,181	$ 28	$ (126,704)	$ 4,126	$452,747
Net income (loss)(1)							8,766	(20)	8,746
Foreign currency translation adjustments						106			106
Comprehensive Income									8,852
Stock based compensation expense					4,724				4,724
Exercise of stock options	179,048				2,760				2,760
Excess tax benefit from stock-based compensation					1,232				1,232
Issuance of restricted stock awards	325,637				—				—
Forfeiture of restricted stock awards	(30,806)				—				—
Accretion of redeemable noncontrolling interests to estimated redemption value					(517)				(517)
Retirement of restricted stock for tax withholding	(18,384)				(580)				(580)
Registration expenses for shares issued in private placement	—	—	—	—	(313)	—	—	—	(313)
Balance, December 31, 2011	36,382,947	$ 4	2,750,000	$ 63,112	$ 519,487	$ 134	$ (117,938)	$ 4,106	$468,905

(1) Net income (loss) attributable to noncontrolling interests excludes $(0.5) million due to the redeemable noncontrolling interest related to Middlebury Interactive Languages, which is reported outside of permanent equity in the unaudited condensed consolidated balance sheets.

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

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
	(In thousands)	
Cash flows from operating activities		
Net income	$ 8,230	$ 9,862
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation and amortization expense	27,668	19,512
Stock based compensation expense	4,724	5,399
Excess tax benefit from stock based compensation	(1,232)	(1,308)
Deferred income taxes	6,433	8,027
Provision for doubtful accounts	329	282
Provision for inventory obsolescence	9	737
Provision for student computer shrinkage and obsolescence	393	19
Changes in assets and liabilities:		
Accounts receivable	(100,765)	(61,629)
Inventories	10,341	9,349
Prepaid expenses	(3,400)	2,971
Other current assets	(5,199)	(3,001)
Deposits and other assets	151	(20)
Accounts payable	(928)	(3,127)
Accrued liabilities	2,885	2,764
Accrued compensation and benefits	575	(5,766)
Deferred revenue	29,906	18,845
Cash invested in restricted cash and cash equivalents	—	1,843
Deferred rent and other long term liabilities	413	2,308
Net cash (used in)/provided by operating activities	(19,467)	7,067
Cash flows from investing activities		
Purchase of property, equipment and software development costs	(14,902)	(13,297)
Capitalized curriculum development costs	(6,469)	(6,961)
Purchase of AEC, net of cash acquired of $3,841	—	(24,542)
Cash advanced for AEC performance escrow	—	(6,825)
Cash paid for investment in Web	—	(10,000)
Cash paid for other investment	—	(2,040)
Purchase of Kaplan/Insight Assets	(12,641)	—
Net cash used in investing activities	(34,012)	(63,665)
Cash flows from financing activities		
Repayments on capital lease obligations	(7,884)	(7,303)
Repayments on notes payable	(1,069)	(930)
Borrowings from line of credit	—	15,000
Proceeds from exercise of stock options	2,760	2,911
Excess tax benefit from stock based compensation	1,232	1,308
Repurchase of restricted stock for income tax withholding	(580)	(1,020)
Payment of stock registration expense	(313)	—
Net cash (used in)/provided by financing activities	(5,854)	9,966
Effect of foreign exchange rate changes on cash and cash equivalents	106	38
Net change in cash and cash equivalents	(59,227)	(46,594)
Cash and cash equivalents, beginning of period	193,099	81,751
Cash and cash equivalents, end of period	$ 133,872	$ 35,157

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

K12 Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Description of the Business

K^{12} Inc., and its subsidiaries (K^{12} or the Company), is a technology-based education company. The Company offers proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. The Company's mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since the Company's inception, we have invested approximately $260 million to develop and to a lesser extent, acquire curriculum and online learning platforms that promote mastery of core concepts and skills for students of all abilities. This learning system combines our curriculum and offerings with an individualized learning approach well-suited for virtual public schools, hybrid schools, school district online programs, 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 public school and hybrid school, the Company typically provides students with access to the K^{12} online curriculum, offline learning kits, and use of a personal computer and provides management services to the school. The Company is also expanding its offering of foreign languages with Middlebury Interactive Languages, our joint venture with Middlebury College. The Company increased its international presence by taking a 20% ownership interest in The Web International Education Group, Ltd., a company providing English instruction to young adults in China, and we also currently serve the post-secondary market through Capital Education LLC, a provider of online services to post-secondary institutions (Capital Education). During fiscal year 2012, the Company manages schools in 29 states, including Tennessee and Louisiana, which were added in fiscal year 2012, and the District of Columbia. In addition, the Company sells access to its online curriculum and offline learning kits directly to individual consumers. We provide services through our institutional sales to customers in all 50 states.

2. Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2011, the condensed consolidated statements of operations for the three months and six months ended December 31, 2011 and 2010, the condensed consolidated statements of cash flows for the six months ended December 31, 2011 and 2010, and the condensed consolidated statement of equity (deficit) for the six months ended December 31, 2011 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position as of December 31, 2011, the results of operations for the three and six months ended December 31, 2011 and 2010, cash flows for the six months ended December 31, 2011 and 2010 and the condensed consolidated statement of equity (deficit) for the six months ended December 31, 2011. The results of the three and six month period ended December 31, 2011 are not necessarily indicative of the results to be expected for the year ending June 30, 2012 or for any other interim period or for any other future fiscal year. The consolidated balance sheet as of June 30, 2011 has been derived from the audited consolidated financial statements at that date.

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

3. Summary of Significant Accounting Policies

Revenue Recognition

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

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

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

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

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

On December 1, 2010, the Company acquired The American Education Corporation (AEC), a leading provider of research-based core curriculum for kindergarteners through adult learners. AEC derives revenues from four sources: (1) annual subscription license revenues; (2) license revenues from non-cancelable perpetual license agreements; (3) related professional and support services and (4) hosting services to provide customers with access to its online courses.

We recognize revenue 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 hosting services is recognized over the term of the hosting agreement.

Revenue from the licensing of curriculum under subscription arrangements where AEC provides online access to curriculum is recognized on a ratable basis over the subscription period starting the later of the first day of the subscription period or when all revenue recognition criteria identified above have been met. Revenue from the licensing of curriculum under subscription and non-cancelable perpetual arrangements where AEC is not providing access via hosting services is recognized when all revenue recognition criteria have been met. Revenue from professional and support services include consulting and training services, which are deferred and recognized ratably over the service period.

Other revenues are generated from individual customers who prepay and have access to curriculum for 12 or 24 months via the Company's Web site. The Company recognizes these revenues pro rata over the maximum term of the customer contract, which is either 12 or 24 months. Revenues from associated offline learning kits are recognized upon shipment.

During the three months ended December 31, 2011, we had contracts with two schools that individually represented approximately 8% of revenues, although no school accounted for more than 10% of revenues. During the three months ended December 31, 2010, we had contracts with two schools that represented approximately 8% and 7% of revenues. Approximately 9% and 12% of accounts receivable was attributable to a contract with one school as of December 31, 2011 and June 30, 2011, respectively.

Consolidation

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

Inventories

Inventories consist primarily of schoolbooks and curriculum materials, a majority of which are supplied to virtual public schools and hybrid 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 unchanged at $2.9 million as of December 31, 2011 and June 30, 2011.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Series A Special Stock

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

Noncontrolling Interest

Earnings or losses attributable to other stockholders of a consolidated affiliated company are classified separately as "noncontrolling interest" in the Company's condensed consolidated statements of operations. Net loss attributable to noncontrolling interest reflects only its share of the after-tax 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 noncontrolling interest within the equity section of the condensed consolidated balance sheets rather than in the mezzanine section of the condensed consolidated balance sheets, except for redeemable noncontrolling interest. Noncontrolling interest is classified separately in the Company's condensed consolidated statement of equity (deficit).

Redeemable Noncontrolling Interests

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

Goodwill and Intangibles

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

In accordance with ASC Topic 360 — *Property, Plant, and Equipment*, the Company reviews its recorded finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between fair value and the carrying value of the asset.

ASC 350 prescribes a two-step process for impairment testing of goodwill and intangibles 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 31stof each year.

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

The following table represents goodwill additions during the six months ended December 31, 2011:

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

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

Intangible Assets:

	December 31, 2011			**June 30, 2011**		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Value**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Value**
Trade names	$ 24.0	$ (2.3)	$ 21.7	$ 23.3	$ (1.6)	$ 21.7
Customer and distributor relationships	18.9	(2.8)	16.1	16.5	(1.3)	15.2
Developed technology	1.5	(0.6)	0.9	1.5	(0.4)	1.1
Other	0.5	(0.2)	0.3	0.5	(0.2)	0.3
	$ 44.9	$ (5.9)	$ 39.0	$ 41.8	$ (3.5)	$ 38.3

Impairment of Long-Lived Assets

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

Fair Value Measurements

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

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

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

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

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

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

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

		Fair Value Measurements Using:		
Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Input (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In thousands)		
Redeemable Noncontrolling Interest in Middlebury Joint Venture	$ 17,200	—	—	$ 17,200
Investment in Web International Education Group	$ 10,000	—	—	$ 10,000
Total	$ 27,200	—	—	$ 27,200

The following table summarizes certain fair value information at December 31, 2011 for assets and liabilities measured at fair value on a recurring basis.

		Fair Value Measurements Using:		
Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Input (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In thousands)		
Redeemable Noncontrolling Interest in Middlebury Joint Venture	$ 17,200	—	—	$ 17,200
Investment in Web International Education Group	$ 10,000	—	—	$ 10,000
Total	$ 27,200	—	—	$ 27,200

The following table presents activity related to our fair value measurements categorized as Level 3 of the valuation hierarchy, valued on a recurring basis:

	Six Months Ended December 31, 2011					
Description	Fair Value June 30, 2011		Purchases, Issuances, and Settlements	Unrealized Gains/(Losses)	Fair Value December 31, 2011	
	(In thousands)					
Redeemable Noncontrolling Interest in Middlebury Joint Venture	$	17,200	—	—	$	17,200
Investment in Web International Education Group	$	10,000	—	—	$	10,000
Total	$	27,200	—	—	$	27,200

The fair value of the investment in Web as of December 31, 2011 was estimated to be $10 million. The fair value was measured based on the initial cost of the investment and Web's financial performance since initial investment. There was no underlying change in its estimated market value. There have been no transfers in or out of Level 3 of the hierarchy for the period presented.

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, 2011. As of December 31, 2011 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. Under ASC 260, basic net income per common share is calculated by dividing net income 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") reflects the potential dilution that could occur assuming conversion or exercise of all dilutive unexercised stock options and restricted stock awards. 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 awards are not included in the computation of diluted earnings per share when they are antidilutive. Common stock outstanding reflected in our consolidated balance sheet includes restricted awards outstanding. Securities that may participate in undistributed earnings with common stock are considered participating securities. Since the Series A Shares participate in all dividends and distributions declared or paid with respect to common stock of the Company (as if a holder of common stock), the Series A Shares meet the definition of participating security under ASC 260 *Participating Securities and the Two-Class Method under FASB Statement No. 128*. All securities that meet the definition of a participating security, regardless of whether the securities are convertible, non-convertible, or potential common stock 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 to be 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.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2011	2010	2011	2010
	(In thousands except shares and per share data)			
Basic earnings per share computation:				
Net income — K12	$ 4,165	$ 7,839	$ 8,766	$ 10,037
Amount allocated to participating Series A stockholders	$ (297)	$ (647)	$ (627)	$ (784)
Income available to common stockholders — basic	$ 3,868	$ 7,192	$ 8,139	$ 9,253
Weighted average common shares — basic historical	35,755,685	30,565,683	35,692,761	30,454,724
Basic net income per share	$ 0.11	$ 0.24	$ 0.23	$ 0.30
Dilutive earnings per share computation:				
Net income — K12	$ 4,165	$ 7,839	$ 8,766	$ 10,037
Amount allocated to participating Series A stockholders	$ (297)	$ (647)	$ (627)	$ (784)
Income available to common stockholders — diluted	$ 3,868	$ 7,192	$ 8,139	$ 9,253
Share computation:				
Weighted average common shares — basic historical	35,755,685	30,565,683	35,692,761	30,454,724
Effect of dilutive stock options and restricted stock awards	221,093	562,603	317,117	640,116
Weighted average common shares outstanding — diluted	35,976,779	31,128,286	36,009,878	31,094,840
Diluted net income per share	$ 0.11	$ 0.23	$ 0.23	$ 0.30

Recent Accounting Pronouncements

In December 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment test for Reporting Units with Zero or Negative Carrying Amounts*, which provides authoritative guidance on application of a goodwill impairment model when a reporting unit has a zero or negative carrying amount. When a reporting unit has a zero or negative carrying value, Step 2 of the goodwill impairment test should be performed if qualitative factors indicate that it is more likely than not goodwill impairment exists. The Company adopted the provisions of ASU 2010-28 as of July 1, 2011. The adoption of ASU 2010-28 did not have a material impact on its financial condition, results of operations and disclosures.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combination*, which provides authoritative guidance on disclosure of supplementary pro forma information for business combinations. The new guidance requires that pro forma financial information should be prepared as if the business combination has occurred as of the beginning of the prior annual period. The Company adopted the provisions of ASU 2010-29 as of July 1, 2011. The adoption of ASU 2010-29 did not have a material impact on its financial condition, results of operations and disclosures.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which provides authoritative guidance on disclosure requirements for comprehensive income. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective for the Company beginning on July 1, 2012. The Company does not expect the guidance to impact its financial condition and results of operations, as it only requires a change in the format of presentation.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, which provides authoritative guidance to simplify how entities, both public and nonpublic, test goodwill for impairment. This accounting update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance will be effective for the Company beginning on July 1, 2012, with early adoption permitted. The Company does not expect the guidance to impact its consolidated financial statements.

4. 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. The provision for income taxes is based on earnings reported in the unaudited condensed consolidated financial statements. Deferred income tax expense or benefit is measured by the change in the deferred income tax asset or liability during the period. For the quarter ended December 31, 2011 and 2010, the Company's effective income tax rate was 43.4% and 44.2%, respectively. For the six months ended December 31, 2011 and 2010, the Company's effective income tax rate was 44.8% and 47.9%, respectively. The effective income tax rate differs from the statutory federal income tax rate primarily due to state income taxes and certain expenses not deductible for income tax purposes.

5. Long-term Obligations

Capital Leases

As of December 31 and June 30, 2011, computer equipment under capital leases are recorded at a cost of $81.7 million and $61.2 million, respectively, and accumulated depreciation of $51.9 million and $43.7 million, respectively. Borrowings under lease lines had interest rates ranging from 2.62% to 6.24% and included a 36-month payment term with a $1 purchase option at the end of the term. The Company has pledged the assets financed to secure the amounts outstanding.

The Company's current lease line of credit with PNC Equipment Finance, LLC ("PNC") expires in August 2012. The interest rate on new advances under the PNC equipment lease line is set at the time the funds are advanced based upon interest rates in the Federal Reserve Statistical Release H.15.

Notes Payable

The Company has purchased computer software licenses and maintenance services through unsecured notes payable arrangements with various vendors at interest rates ranging up to 6.1% and payment terms of three years. There are no covenants associated with these notes payable arrangements. The balance of notes payable at December 31 and June 30, 2011 was $2.7 million and $3.7 million, respectively.

The following is a summary as of December 31, 2011 of the present value of the net minimum payments on capital leases and notes payable under the Company's commitments:

December 31,	Capital Leases	Notes Payable	Total
2012	$ 16,196	$ 1,178	$ 17,374
2013	$ 11,212	$ 1,571	$ 12,783
2014	$ 5,706	$ —	$ 5,706
Thereafter	$ 44	$ —	$ 44
Total minimum payments	$ 33,158	$ 2,749	$ 35,907
Less amount representing interest (imputed average capital lease interest rate of 3.7%)	$ (1,122)	$ (77)	$ (1,199)
Net minimum payments	$ 32,036	$ 2,672	$ 34,708
Less current portion	$ (15,467)	$ (1,129)	$ (16,596)
Present value of minimum payments, less current portion	$ 16,569	$ 1,543	$ 18,112

6. Line of Credit

The Company has a $35 million line of credit with PNC Bank that expires in December 2012. As of December 31 and June 30, 2011, no borrowings were outstanding on the line of credit and approximately $0.3 million was reserved for a letter of credit.

7. Stock Option Plan

Stock Options

Stock option activity during the six months ended December 31, 2011 was as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, June 30, 2011	2,765,729	$ 19.23		
Granted	212,986	$ 27.26		
Exercised	(179,048)	$ 15.53		
Forfeited or canceled	(55,811)	$ 23.70		
Outstanding, December 31, 2011	2,743,856	$ 20.01	4.33	$ 5,025
Stock options exercisable at December 31, 2011	1,888,325	$ 18.88	3.56	$ 4,706

The total intrinsic value of options exercised during the six months ended December 31, 2011 was $3.2 million. The weighted-average grant date fair value of options granted during the six months ended December 31, 2011 was $11.75.

As of December 31, 2011, there was $7.0 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 2.3 years. During the six months ended December 31, 2011 and December 31, 2010, the Company recognized $2.2 million and $2.6 million, respectively of stock based compensation expense related to stock options.

Restricted Stock Awards

Restricted stock award activity during the six months ended December 31, 2011 was as follows:

	Shares		Weighted-Average Fair Value
Nonvested, June 30, 2011	444,151	$	23.62
Granted	325,637	$	26.88
Vested	(85,426)	$	22.66
Forfeited or canceled	(30,806)	$	27.05
Nonvested, December 31, 2011	653,556	$	25.21

As of December 31, 2011, there was $11.0 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 2.3 years. The total fair value of shares vested during the six months ended December 31, 2011 was $1.9 million. During the six months ended December 31, 2011 and December 31, 2010, the Company recognized $2.5 million and $2.8 million, respectively of stock based compensation expense related to restricted stock awards.

8. Related Party

For the six months ended December 31, 2011, the Company purchased services and assets in the amount of $0.4 million 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, a related party. Additionally, KCDL has capital leases with an outstanding balance due to KCDL Holdings, Inc. in the amount of $0.4 million as of December 31, 2011.

During the three months ended December 31, 2011, the Company loaned $3.0 million to its 60% owned joint venture, Middlebury Interactive Language. The loan is repayable under terms and conditions specified in the loan agreement. The loan balance and related interest are eliminated since Middlebury Interactive Language is consolidated in the Company's financial statements; however, repayment of the loan is dependent on the continued liquidity of Middlebury Interactive Language.

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.

Aventa Learning

In June 2010, the shareholders of Aventa Learning, Inc. (Aventa) filed a lawsuit against the Company's subsidiary, KC Distance Learning, Inc., in the United States District Court for the Western District of Washington, *Axtman, et al. v. KC Distance Learning, Inc,*. Case No. C10-01022-JLR. On August 31, 2010, the plaintiffs amended their complaint to add K12 as a co-defendant in this matter *Aventa et. al. v. K12 Inc., et. al*. Case No. C10-01022-JLR, reflecting the change in ownership. Pursuant to the Agreement and Plan of Merger between K12 and KCDL Holdings LLC (Seller), Seller agreed to assume responsibility to defend this lawsuit and to fully indemnify K12 or KCDL for any liability, including rescission. On November 10, 2011, the parties reached a settlement agreement in principle, which includes a full release of all claims against K12 Inc., and the Company made no financial contributions towards the settlement. On January 9, 2012, the court dismissed with prejudice all the asserted claims in this lawsuit.

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. On January 10, 2012, the Company filed its motion to dismiss IpLearn's amended complaint. IpLearn responded on January 27, 2012, and the Company replied on February 6, 2012.

Hoppaugh Complaint

On January 30, 2012, a securities class-action lawsuit captioned *Hoppaugh v. K12 Inc*., was filed against the Company and two of its officers in the United States District Court for the Eastern District of Virginia, *Hoppaugh v. K12, Inc*., Case No. 1:12-CV-103-CMH-IDD. The plaintiff purports to represent a class of persons who purchased or otherwise acquired K12 common stock between September 9, 2009 and December 16, 2011, inclusive, and alleges violations by the defendants of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. The Hoppaugh Complaint alleges, among other things, that the defendants made false or misleading statements of material fact, or failed to disclose material facts, about (i) the Company's financial results during the class period, (ii) the academic performance of the virtual schools served by the Company, and (iii) certain school administrative practices and sales strategies related to enrollments. The plaintiff seeks unspecified monetary damages and other relief. The Company intends to defend vigorously against the claims asserted in the Hoppaugh Complaint.

10. Business combination

KCDL

On July 23, 2010, the Company acquired all of the stock of KCDL, a provider of online curriculum and public and private virtual education, by issuing to its parent company, KCDL Holdings LLC, 2,750,000 shares of a new class of stock designated as Series A Special Stock, which had a value at closing of $63.1 million. KCDL Holdings, Inc. is an affiliate of Learning Group, LLC, a related party. The holders of the Series A Special Stock have the right to convert these shares into common stock on a one-for-one basis and for the right to vote on all matters presented to K12 shareholders, other than for the election and removal of directors, for which holders of the Series A Special Stock shall have no voting rights.

The KCDL businesses include: Aventa Learning (online curriculum and instruction), the iQ Academies (statewide virtual public charter schools for middle and high school); and The Keystone School (international online private school). The operating results of KCDL have been included in the Company's condensed consolidated financial statements commencing as of the acquisition date of July 23, 2010.

The American Education Corporation

On December 1, 2010, the Company acquired The American Education Corporation (AEC), a leading provider of research-based core curriculum instructional software for kindergarteners through adult learners, for a total cash purchase price of $35.2 million, including $3.8 million in cash and certain amounts held in escrow. The escrow amounts included $6.8 million for the achievement of specified financial targets for the quarter ended December 31, 2010. In March 2011, the specified financial targets were not achieved and consequently, this escrow amount was returned to the Company, thereby making the net acquisition cost approximately $24.6 million. In connection with the acquisition, the Company recorded net working capital accounts of $2.5 million, long term assets of $8.4 million, goodwill of approximately $15.8 million, intangible assets of approximately $3.3 million, and other long term liabilities and taxes payable of $1.6 million. The allocation of the consideration to the identifiable tangible and intangible assets and liabilities assumed under the purchase method of accounting is based on their estimated fair values as of the acquisition date. The acquisition of AEC has been included in the Company's results since the acquisition date. Based on its analysis of the results of AEC, the Company has determined that the AEC acquisition had an immaterial proforma impact on the results for the three month period ended December 31, 2010.

An additional amount of approximately $6.8 million was held in escrow and, if specified claims against AEC arise for which the Company is indemnified, such amounts may be used to satisfy those claims but not to exceed it. K12 was not entitled to any claims against the indemnification escrow amount unless and until the aggregate claim amount exceeded $250,000. Distributions of the escrow balance to selling AEC shareholders were made in June and December 2011, however funds remain in the escrow account and as of December 31, 2011, the Company had a receivable from the escrow of $580,000.

Investment in Web International Education Group, Ltd.

On January 3, 2011, K12 invested $10 million in Web International Education Group, Ltd. (Web). This strategic investment gives the Company a 20% minority interest in Web, with the option to purchase no less than 51% of Web before July 1, 2012, and the option to purchase all remaining equity interest between January 1, 2013 and December 31, 2015. Web is a leader in English language training for learners of all ages throughout China, including university students, government workers, and employees of international companies. Web has an extensive network of learning centers in cities throughout China. The proceeds of the investment will primarily be used to expand Web's learning center network into more cities in China. The Company has recorded its investment in Web as an available for sale debt security because of our ability to put the investment to other Web shareholders in return for the original $10 million purchase price plus interest. During the six months ended December 31, 2011, there was no change to the fair value of the Web investment based on the initial cost of the investment and Web's financial performance since the initial investment.

International School of Berne

On April 1, 2011, the Company finalized its acquisition of the operations and substantially all assets of the International School of Berne (IS Berne) for 2 million Swiss francs ($2.0 million). IS Berne is a traditional school located in Berne, Switzerland serving students in grades Pre-K through 12. IS Berne is an International Baccalaureate school in its 50th year of operation. The Company purchased the right to operate IS Berne and acquired substantially all of its assets excluding real estate. Slightly more than half of the purchase price has been allocated on a preliminary basis to goodwill.

Acquisition of Assets from Kaplan Virtual Education and Insight Schools, Inc.

On July 1, 2011, the Company acquired certain assets of Kaplan Virtual Education (Kaplan/Insight Assets) for $12.6 million. The Kaplan/Insight Assets included contracts to serve nine virtual charter schools and private virtual high schools throughout the United States that have been integrated into the Company's existing operations. The majority of the purchase price has been allocated to goodwill and intangible assets for $6.7 million and $4.3 million, respectively.

11. Supplemental Disclosure of Cash Flow Information

	(In thousands) Six Months Ended December 31, 2011	2010
Cash paid for interest	$ 471	$ 517
Cash paid for taxes, net of refunds	$ 50	$ 3,631
Supplemental disclosure of non-cash investing and financing activities:		
New capital lease obligations	$ 19,454	$ 12,897
Business Combinations:		
— Current assets	$ 823	$ 17,317
— Property and equipment	$ 1,310	$ 12,879
— Capitalized curriculum development costs	$ 100	$ 8,073
— Intangible assets	$ 3,115	$ 27,310
— Goodwill	$ 6,777	$ 51,678
— Other non-current assets	$ —	$ 138
— Deferred tax liabilities	$ 226	$ (8,768)
— Assumed liabilities	$ —	$ (9,829)
— Deferred revenue	$ —	$ (3,671)
— Other noncurrent liabilities	$ —	$ (1,931)
— Contingent consideration	$ —	$ 1,700
— Issuance of Series A Special Stock	$ —	$ 63,112
Purchase of perpetual license agreement/accrued liabilities	$ —	$ 1,250

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

Certain statements in this Management's Discussion and Analysis (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 (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (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 (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 current period.
- *Critical Accounting Policies and Estimates* — a discussion of critical accounting policies requiring critical judgments and estimates.
- *Results of Operations* — an analysis of our results of operations in our condensed consolidated financial statements.
- *Liquidity and Capital Resources* — an analysis of cash flows, sources and uses of cash, commitments and contingencies, seasonality in the results of our operations, and quantitative and qualitative disclosures about market risk.

Executive Summary

We are a technology-based education company. We offer proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. Our mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. Since our inception, we have invested approximately $260 million to develop and, to a lesser extent, acquire curriculum and online learning platforms that promote mastery of core concepts and skills for students of all abilities. This learning system combines our curriculum and offerings with an individualized learning approach well-suited for virtual public schools, hybrid schools, school district online programs, public charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. We are also expanding our offering of foreign languages with Middlebury Interactive Languages (MIL), our joint venture with Middlebury College. The Company increased its international presence by taking a 20% ownership interest in The Web International Education Group, Ltd., (Web) a company providing English instruction to young adults in China, and we also currently serve the post-secondary market through Capital Education LLC, a provider of online services to post-secondary institutions (Capital Education).

As with a traditional public school, a virtual public school or hybrid school must comply with state education regulations. The fundamental difference between traditional public schools and virtual public schools is that students attend virtual public schools and hybrid schools primarily over the Internet instead of traveling to a physical classroom. In their online learning environment, students receive assignments, complete lessons, and obtain instruction from certified teachers with whom they interact online, telephonically, in virtual classroom environments, and sometimes face-to-face. The majority of states have embraced virtual public schools or hybrid schools as a means to provide families with a publicly-funded alternative to a traditional classroom-based education. For parents who believe their child is not thriving and for whom relocating or attending a private school is not an option, virtual public schools and hybrid schools can provide a compelling choice. A hybrid school is a virtual public school that combines the benefits of face-to-face time for students and teachers in a traditional classroom setting along with the flexibility and individualized learning advantages of online instruction. From an education policy standpoint, virtual public schools and hybrid schools often represent a savings to taxpayers when compared with traditional public schools because they are generally funded at a lower per pupil level than the per pupil state average as reported by the U.S. Department of Education. Finally, because parents are generally not required to pay tuition to attend a public school, virtual public schools and hybrid schools make our learning system an attractive alternative within the public school system.

Our proprietary curriculum, online learning platform and varying levels of academic and management services, which can range from individual courses to complete turnkey online schools, are offered to our charter school, school district and private school partners. Virtual public schools and hybrid schools under turnkey management contracts (Managed Schools) account for approximately 86% of our revenue. For the 2011-12 school year, we will manage schools in 29 states and the District of Columbia. In July 2010, through our acquisition of KC Distance Learning, Inc. (KCDL), we added iQ Academies and now manage these programs in five states where we also manage other virtual public schools. These managed schools generally are able to enroll students on a statewide basis. We are also serving a growing number of hybrid schools, the first of which opened in Chicago in 2006.

The services we provide to these districts are designed to assist them in launching their own virtual school or hybrid programs and vary according to the needs of the individual school districts and may include teacher training programs, administrator support and our student account management system. With our services, 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 or credit recovery options. We currently serve over 2,000 school districts or individual schools in all 50 states. We are serving a growing number of schools and school districts enabling them to offer our course catalogue to students either full-time or on an individual course basis. We have established a dedicated sales team to focus on this sector and, through our acquisition of KCDL, specifically Aventa, in July 2010 and The American Education Corporation (AEC) in December 2010, we increased the size and expertise of our sales team, added a reseller network, and expanded our course portfolio.

We manage three online private schools where parents can enroll students on a tuition basis for either a full-time online education or individual courses to supplement their children's traditional instruction. In 2008, we launched the K^{12} International Academy, a private school that we operate using our curriculum. This school is accredited and enables us to offer students worldwide the same full-time education programs that we provide to the virtual public schools and hybrid schools we manage, including the option to enroll in individual courses. This school is organized as a private international school and enrolled students can interact with their classmates from more than 85 countries. Through our acquisition of KCDL, we added The Keystone School, a private school that has been serving students for over 37 years and offers online and correspondence courses. In January 2011, we launched the George Washington Online High School (GWUOHS), a program that offers our college preparatory curriculum and is designed for high school students who are seeking a challenging academic experience and aspire to attend top colleges and universities. In April 2011, we acquired the operations and substantially all the assets of the International School of Berne (IS Berne), a traditional private school located in Berne, Switzerland serving students in grades Pre-K through 12.

We provide educational services to post-secondary institutions through our subsidiary, Capital Education. Programs are designed for colleges and universities seeking to build or expand their online presence. Our services include course development and distribution through a proprietary learning management platform, hosting and technical support, student advisory services and program administration.

We made a strategic investment for a 20% minority ownership interest in Web, a provider of English language training in China with the option to purchase no less than 51% of Web before July 1, 2012, and the option to purchase all remaining equity interest between January 1, 2013 and December 31, 2015. Web serves learners of all ages including university students, government workers, and employees of international companies. Web currently has an extensive network of learning centers throughout China. Web education centers are outfitted with learning labs that use modern computer terminals and internet connections. Students can access our curriculum and other electronic learning resources from the Web centers.

Across our educational programs, families come from a broad range of social, economic and academic backgrounds. They share the desire for individualized instruction so as to maximize their child's potential. Examples include, but are not limited to, families with: (i) students seeking to learn faster or slower than they could in a "one size fits all" traditional classroom; (ii) safety, social and health concerns about their local school; (iii) students with disabilities who are underserved in traditional classrooms; (iv) students with geographic or travel constraints; and (v) student-athletes and performers who are not able to attend regularly scheduled classes. Our individualized learning approach allows students to optimize their academic performance and, therefore, their chances of achieving their goals.

For the three months ended December 31, 2011, our total average enrollment was 143,933 students as compared to 98,296 students for the same period in the prior year, a growth rate of 46.4%. Our enrollments include students in Managed Schools, students in programs offered by school districts (Institutional Business) and students in our Private Schools. Students served through our Institutional Business and Private School offerings may enroll in a single course. For better comparability, these students are converted to full-time equivalents (FTEs) on a four course basis. We currently exclude selected programs from our reported enrollment. For example, we do not include students in our consumer channel as we do not monitor the progress of these students in the same way as we do in other programs. We typically sell our A+ curriculum (acquired with AEC) as a site license. As these schools are not limited in the number of students who may access our curriculum, we do not include these students in our enrollment totals. We also exclude students from Capital Education and our classroom pilots.

For the three months ended December 31, 2011, we increased revenues to $166.5 million from $129.0 million in the same period in the prior year, a growth rate of 29.1%. The growth of revenue in the quarter was negatively impacted by adjustments related to potential state funding reductions. Over the same period, operating income decreased to $7.1 million from operating income of $14.2 million, a decrease of 50.0%, and net income to shareholders decreased to $3.9 million from net income to shareholders of $7.7 million, a decrease of 49.4%. The decrease in operating and net income was primarily attributable to increased costs incurred associated with our expansion, costs to support infrastructure improvements to our ERP, CRM, and enrollment processing systems, acquisition integration costs and continued new initiatives for technology and product enhancements. Third party consulting costs related to the infrastructure spending will decline with project completion. In addition, due to the timing of product and system deployment, the capitalization rate of expenditures was materially less in the current quarter.

In the last two years, we completed several strategic transactions to accelerate our growth, expand our course catalogue and service offerings, extend our distribution capabilities, and strengthen our balance sheet. With these initiatives and our recent acquisitions, we believe we have improved our growth potential and the long-term ability to scale our business and operations. See Note 10 "Business combination" in the accompanying unaudited condensed consolidated financial statements for additional information on the acquisitions and investments relating to AEC, Web, IS Berne and KVE.

Partnership with Blackboard Inc.

In October 2010, we announced a partnership with Blackboard Inc. (Blackboard) to develop a solution that delivers our adaptive courses through Blackboard Learn, Blackboard's leading online teaching and learning platform. The combination is intended to reduce the cost of delivering remediation instruction while enabling community colleges and higher education institutions to offer a wider range of both self-paced and teacher-led online programs.

Acquisition of The American Education Corporation

In December 2010, we acquired the stock of The American Education Corporation (AEC) for a total cash purchase price of $35.2 million, including certain amounts held in escrow (which the Company received back) of $6.8 million and cash of $3.8 million, resulting in a net purchase price of approximately $24.6 million. AEC is a leading provider of research-based core curriculum instructional software for kindergarten through adult learners. The acquisition increased our portfolio of innovative, high quality instruction and curriculum used by school districts all over the country.

Investment in Web International Education Group, Ltd.

In January 2011, we invested $10 million in cash in Web International Education Group Ltd. (Web). This strategic investment gives us a 20% minority interest in Web, with the option to purchase no less than 51% of Web before July 1, 2012, and the option to purchase all remaining equity interest between January 1, 2013 and December 31, 2015. Web is a provider of English language training for learners of all ages throughout China, including university students, government workers, and employees of international companies. Web has an extensive network of learning centers in cities throughout China. The proceeds of the investment are intended to be used to expand Web's learning center network into more cities in China. Web centers include learning labs that are outfitted with modern computers and connections to the internet.

Acquisition of International School of Berne

In April, 2011, we finalized our acquisition of the operations of the International School of Berne (IS Berne) for 2 million Swiss Francs ($2.0 million). IS Berne is a traditional private school located in Berne, Switzerland serving students in grades Pre-K through 12. IS Berne is an International Baccalaureate school in its 50th year of operation. We acquired substantially all of IS Berne's assets, excluding real estate, and our purchase provided us with the right to operate the school.

Investment by Technology Crossover Ventures in K12 Inc.

In April 2011, we completed a private placement sale of 4 million shares of restricted Common Stock at a price of $31.46 per share to investment funds affiliated with Technology Crossover Ventures (TCV). The proceeds of $125.8 million were unrestricted and may be used for acquisitions, strategic investments and general corporate purposes. Under the terms of the transaction, our Board of Directors (Board) appointed a director nominated by TCV to the Board to hold office until the next annual meeting of stockholders and on December 22, 2011, the TCV nominee was elected by the stockholders at the Company's annual meeting. Additionally, we granted TCV the right to participate on a pro-rata basis in any subsequent private offerings of Common Stock by the Company, subject to certain exclusions such as issuances in connection with acquisitions or employee equity plans. As provided by the terms of the transaction, we filed a resale registration statement with respect to these shares with the Securities and Exchange Commission on December 8, 2011 and the shelf-registration became effective on December 28, 2011.

Acquisition of Assets from Kaplan Virtual Education

In July 2011, we completed the purchase of certain assets and Insight School management contracts (Kaplan/Insight Assets) of Kaplan Virtual Education, a subsidiary of Kaplan, Inc. The Kaplan/Insight Assets included contracts to serve online public schools in eight states serving students in grades 6-12. The acquisition allows us to serve more students with multiple curriculum platforms, leverage the Insight School brand to create a differentiated product offering for "at-risk" students and leverage our existing virtual academy operations. The Kaplan/Insight Assets have been integrated with our online charter school operations.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions about future events that affect the amounts reported in our 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 fiscal year 2011 audited consolidated financial statements, which are included in our Annual Report. Other than those described in the condensed consolidated financial statements, there have been no significant updates to our critical accounting policies disclosed in our Annual Report.

Financial Statement Overview

The Company has experienced a number of changes that affect the comparability of period to period financial results. These changes include: the acquisition of KCDL on July 23, 2010; the acquisition of American Education Corporation (AEC) on December 1, 2010; the acquisition of the International School of Berne on April 1, 2011; and the acquisition of Kaplan Virtual Education and Insight Schools (Kaplan/Insight Assets), on July 1, 2011. The operating activities from these acquisitions are included in our current quarter and year to date financial results. And except for one month of operating activity from the American Education Corporation, the prior year periods do not include financial results from these acquisitions. The prior year quarterly results include KCDL and one month of AEC, and the prior year to date results include five months of KCDL.

The current quarter and year to date results include operating activities associated with significant investments to support our growth and business expansion that were not incurred during the prior year periods. These investments include our Enterprise Resource Planning (ERP) system, our Customer Resource Management (CRM) system, a second data center to support operations, and expansion of our products and services into new international, academic and institutional sales markets. The ERP system and second data center were under development during prior periods and development costs were generally capitalized. The current periods include new maintenance fees, license costs, depreciation and other costs associated with operating these assets. We initiated use of our CRM system at the beginning of 2012 and have incurred third party license fees associated with operating this system. The operating costs associated with maintaining these systems will continue in future periods.

Our student enrollment has experienced a shift in the mix of students in our programs with an increased level of high school students as compared to prior periods. The shift occurred from organic growth in our Virtual Academies, expansion of our private schools, and our acquisition of Kaplan/Insight Assets, which only included students in grades 6-12. Our continued expansion into the institutional sales business and private school markets also shifts the mix of our revenue and associated costs of providing services, including additional sales personnel and third party distributor costs for the institutional sales business. We may continue to experience changes in our enrollment, revenue and cost mix as we continue expansion into markets different than our traditional Virtual Academy business. High school and other nascent businesses have not yet reached scale and are creating negative pressure on margins, and the higher concentration of high school students is a contributing factor in our reduction in operating margins.

Our employee headcount has increased approximately 40% from December 2010 to December 2011 through our acquisitions and growth in Virtual Schools which increases our employee compensation and benefit costs. We incurred transition and integration costs during the current periods associated with the acquisition of the Kaplan/Insight Assets and temporary teach out costs associated with private school students acquired in the acquisition. We believe that all the above factors, particularly the large infrastructure investments, merger integration costs and the lower capitalization rate for various development projects, reduce the comparability of our operating results for the three and six months ended December 31, 2011 with the comparable 2010 periods.

Funding Overview

State education budgets continue to remain under pressure due to the current economic environment, and public school funding levels, including for the online public schools that we manage, have been reduced in many states over the past few years and even mid-year adjustments have occurred. We routinely monitor state legislative activity and regulatory proceedings that might impact the funding received by the schools we serve and to the extent possible, factor potential outcomes into our business planning decisions. We have taken reserves in this quarter in light of certain funding proposals and for individual school deficit allowances in several states.

Results of Operations

Enrollment

Our reported total average enrollments include students in Managed Schools, students taking K12 curriculum or Aventa online programs offered by school districts (Institutional Business), and students in Private Schools. Students served through our Institutional Business and Private School offerings may enroll in a single course. For better comparability, these students are converted to full-time equivalents (FTEs) on a four course basis. We currently exclude selected programs from our reported enrollment. For example, we do not include students in our consumer channel as we do not monitor the progress of these students in the same way as we do in other programs. We typically sell our A+ curriculum (acquired with AEC) as a site license. As these schools are not limited in the number of students who may access our curriculum, we do not include these students in our enrollment totals. We also exclude students from post-secondary institutions served by Capital Education and our classroom pilots.

Total average enrollments for the three months ended December 31, 2011 increased to 143,933 or 46.4% as compared to 98,296 for the same period in the prior year. High school students comprised 35.1% of public school enrollment as compared to 25.9% in the same period in the prior year. Enrollments in Managed Schools for the three months ended December 31, 2011 increased 46.2% to 105,070 from 71,850 for the same period in the prior year. Managed Schools include all virtual public schools and hybrid schools.

Enrollments in Institutional Business for the three months ended December 31, 2011 increased 53.2% to 28,807 from 18,804 for the same period in the prior year. Our Institutional Business provides curriculum and services to schools and school districts. For better comparability, enrollments reported are converted to full-time equivalents (FTEs) on a four course basis.

Enrollments in Private Schools for the three months ended December 31, 2011 increased 31.6% to 10,056 from 7,642 for the same period in the prior year. Private schools include the K12 International Academy, Keystone, GWUOHS, and IS Berne as well as private brick and mortar schools. These private schools offer educational services on a full and part-time basis. For better comparability, enrollments reported are converted to full-time equivalents (FTEs) on a four course basis.

The following table sets forth average enrollment data by distribution channel for each of the periods indicated:

	Three Months Ending December 31,		Growth 2011 / 2010		Six Months Ending December 31,		Growth 2011 / 2010	
	2011	2010	Change	Change %	2011	2010	Change	Change %
K12 Average Enrollment								
Managed Public Schools	105,070	71,850	33,220	46.2%	104,507	72,321	32,186	44.5%
Institutional Business	28,807	18,804	10,003	53.2%	28,941	19,354	9,587	49.5%
Private Schools	10,056	7,642	2,414	31.6%	9,882	6,950	2,932	42.2%
Total Average Enrollment	143,933	98,296	45,637	46.4%	143,330	98,625	44,705	45.3%

The above enrollments exclude those in our consumer, A+, post-secondary and classroom pilot programs.

The following table sets forth statements of operations data for each of the periods indicated:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2011	2010	2011	2010
Revenues	$ 166,500	$ 129,002	$ 359,830	$ 263,873
Cost and expenses				
Instructional costs and services	100,877	76,195	208,455	151,277
Selling, administrative, and other operating expenses	50,957	35,177	122,217	85,675
Product development expenses	7,574	3,435	13,798	7,346
Total costs and expenses	159,408	114,807	344,470	244,298
Income from operations	7,092	14,195	15,360	19,575
Interest expense, net	(236)	(366)	(457)	(663)
Income before income taxes and noncontrolling interest	6,856	13,829	14,903	18,912
Income tax expense	(2,976)	(6,119)	(6,673)	(9,050)
Net income	$ 3,880	$ 7,710	$ 8,230	$ 9,862
Add net loss attributable to noncontrolling interest	285	129	536	175
Net Income — K12 Inc.	$ 4,165	$ 7,839	$ 8,766	$ 10,037

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2011	2010	2011	2010
Revenues	100.0%	100.0%	100.0%	100.0%
Cost and expenses				
Instructional costs and services	60.6	59.1	57.9	57.3
Selling, administrative, and other operating expenses	30.6	27.3	34.0	32.5
Product development expenses	4.5	2.6	3.8	2.8
Total costs and expenses	95.7	89.0	95.7	92.6
Income from operations	4.3	11.0	4.3	7.4
Interest expense, net	(0.2)	(0.3)	(0.1)	(0.2)
Income before income taxes and noncontrolling interest	4.1	10.7	4.2	7.2
Income tax expense	(1.8)	(4.7)	(1.9)	(3.4)
Net income	2.3%	6.0%	2.3%	3.8%
Add net loss attributable to noncontrolling interest	0.2	0.1	0.1	0.1
Net income — K12 Inc.	2.5%	6.1%	2.4%	3.9%

We have included below a discussion of our operating results and significant items which explain the material changes in our operating results during the three and six months ended December 31, 2011 as compared to the same periods in the prior year.

Comparison of the Three Months Ended December 31, 2011 and Three Months Ended December 31, 2010

Revenues. Our revenues for the three months ended December 31, 2011 were $166.5 million, representing an increase of $37.5 million, or 29.1%, as compared to revenues of $129.0 million for the same period in the prior year. This increase was primarily attributable to 46.4% increase in enrollments in all K12 programs, but was negatively impacted by revenue adjustments made to account for the potential risk of state funding reductions. In addition, acquisitions contributed approximately $10.4 million to revenue growth.

Instructional costs and services expenses. Instructional costs and services expenses for the three months ended December 31, 2011 were $100.9 million, representing an increase of $24.7 million, or 32.4%, as compared to instructional costs and services expenses of $76.2 million for the same period in the prior year. The overall increase in instructional costs and services expenses remained relatively consistent as a percentage of revenue. This increase includes expenses to operate and manage schools including the Insight Schools acquired from KVE and newly launched schools. In addition, costs to supply curriculum, books, educational materials and computers to students increased $3.0 million.

Selling, administrative, and other operating expenses. Selling, administrative, and other operating expenses for the three months ended December 31, 2011 were $51.0 million, representing an increase of $15.8 million, or 44.9%, as compared to selling, administrative and other operating expenses of $35.2 million for the same period in the prior year. The primary drivers of this increase were: personnel costs, including salaries, benefits and incentive compensation, professional fees including student support center costs and the ERP and CRM implementations and depreciation and amortization expenses. Included in the increase is a significant expansion of our internal institutional sales support and our external sales distribution network. The professional fees increases were partially offset by lower transaction and merger integration expenses in the quarter. As a percentage of revenues, selling, administrative, and other operating expenses increased to 30.6% for the three months ended December 31, 2011 as compared to 27.3% for the same period in the prior year.

Product development expenses. Product development expenses includes costs related to new products and information technology systems. For the three months ended December 31, 2011, product development expenses were $7.6 million, representing an increase of $4.2 million, or 123.5% as compared to $3.4 million for the same period in the prior year. This increase is primarily due to the increase of preliminary design work related to internal software development projects. Due to timing and nature of the projects, the capitalization rate during the period was lower than historical levels, resulting in higher current period expense. As a percentage of revenues, product development expenses increased to 4.5% for the three months ended December 31, 2011 as compared to 2.6% for the same period in the prior year primarily due to the items identified above.

Interest expense, net. Net interest expense for the three months ended December 31, 2011 was $0.2 million as compared to net interest expense of $0.4 million for the same period in the prior year. The decrease in net interest expense is primarily due to lower average interest rates on capital lease obligations.

Income taxes. Income tax expense for the three months ended December 31, 2011 was $3.0 million, or 43.4% of income before income taxes, as compared to an income tax expense of $6.1 million, or 44.2% of income before taxes, for the same period in the prior year. The decrease in the tax rate is primarily due to a decrease in non-deductible expenses in the current period.

Noncontrolling interest. Noncontrolling interest for the three months ended December 31, 2011 was $0.3 million as compared to noncontrolling interest of $0.1 million for the same period in the prior year. Noncontrolling interest reflects the after-tax losses attributable to shareholders in our joint venture in the Middle East and Middlebury Interactive Languages.

Comparison of the Six Months Ended December 31, 2011 and Six Months Ended December 31, 2010

Revenues. Our revenues for the six months ended December 31, 2011 were $359.8 million, representing an increase of $95.9 million, or 36.3%, as compared to revenues of $263.9 million for the same period in the prior year. This increase was primarily due to organic revenue growth in our core schools business. In addition, acquisitions contributed more than $26.2 million to revenue growth.

Instructional costs and services expenses. Instructional costs and services expenses for the six months ended December 31, 2011 were $208.5 million, representing an increase of $57.2 million, or 37.8%, as compared to instructional costs and services expenses of $151.3 million for the same period in the prior year. This increase was primarily attributable to a $39.0 million increase in expenses to operate and manage schools including the

Insight Schools acquired from KVE and newly launched schools. In addition, costs to supply curriculum, books, educational materials and computers to students increased $7.9 million. As a percentage of revenues, instructional costs and services expenses remained relatively consistent at 57.9% compared with 57.3% for the six month periods ended December 31, 2011 and 2010, respectively.

Selling, administrative, and other operating expenses. Selling, administrative, and other operating expenses for the six months ended December 31, 2011 were $122.2 million, representing an increase of $36.5 million, or 42.6%, as compared to selling, administrative and other operating expenses of $85.7 million for the same period in the prior year. This increase was primarily attributable to increases in: personnel costs, including salaries, benefits and incentive compensation; strategic marketing and advertising including brand awareness; and student enrollment counseling; third party commissions related to the Company's institutional sales; accounting and audit fees related to the Company's public filing and tax returns; investment in the institutional sales organization and distribution network; professional fees which included costs associated with the external sales force and the ERP and CRM implementations; and depreciation and amortization expense. These increases were partially offset by lower transaction and merger integration expenses. As a percentage of revenues, selling, administrative, and other operating expenses increased to 34.0% for the six months ended December 31, 2011 as compared to 32.5% for the same period in the prior year.

Product development expenses. Product development expenses include costs related to new products and information technology systems. For the six months ended December 31, 2011, product development expenses were $13.8 million, representing an increase of $6.5 million, or 89.0% as compared to $7.3 million for the same period in the prior year. The increase is primarily due to the increase of preliminary design work related to internal software development projects and new product development projects for the six month period. Due to timing and nature of the projects, the capitalization rate during the period was lower than historical levels, resulting in higher current period expense. As a percentage of revenues, product development expenses increased to 3.8% for the six months ended December 31, 2011 as compared to 2.8% for the same period in the prior year primarily due to the items identified above.

Interest expense, net. Net interest expense for the six months ended December 31, 2011 was $0.5 million as compared to net interest expense of $0.7 million for the same period in the prior year. The decrease in net interest expense is primarily due to lower average interest rates on capital lease obligations.

Income taxes. Income tax expense for the six months ended December 31, 2011 was $6.7 million, or 44.8% of income before income taxes, as compared to an income tax expense of $9.1 million, or 47.9% of income before taxes for the same period in the prior year. The decrease in the tax rate is primarily due to a decrease in non-deductible expenses in the current period.

Noncontrolling interest. Noncontrolling interest for the six months ended December 31, 2011 was $0.5 million as compared to noncontrolling interest of $0.2 million for the same period in the prior year. Noncontrolling interest reflects the after-tax losses attributable to shareholders in our joint venture in the Middle East and Middlebury Interactive Languages.

Liquidity and Capital Resources

As of December 31, 2011 and June 30, 2011, we had cash and cash equivalents of $133.9 million and $193.1 million, respectively, excluding restricted cash. The decrease of $59.2 was primarily due to a significant increase in accounts receivable related to the investment of working capital for Kaplan/Insight Assets and launches of new schools; the funding of the acquisition of the Kaplan/Insight Assets; and to the investment in capital expenditures and product development. We financed our capital expenditures during the six months ended December 31, 2011 primarily with cash and capital lease financing. As of December 31, 2011 and June 30, 2011, our cash balance included $4.9 million and $6.6 million, respectively, associated with our consolidated joint ventures.

In addition to our cash and line of credit availability, we had accounts receivable of $196.7 million and $96.2 million as of December 31, 2011 and June 30, 2011, respectively. Our accounts receivable provide an additional source of liquidity as cash payments are collected from customers in the normal course of business. Our accounts receivable balance fluctuates throughout the year based on the timing of customer billings and collections. Accounts receivable tend to be at the highest levels in the first quarter as we begin billing for students. Our accounts payable and accrued expenses also impact our liquidity as cash payments are made to vendors in the normal course of business. Our accounts payable balance fluctuates throughout the year based on the timing of expenses incurred and tend to be highest in the first quarter as we prepare for the school year and students.

We have a $35 million line of credit with PNC Bank that expires December 2012. As of December 31, 2011 no borrowings were outstanding on the line of credit and approximately $0.3 million was reserved for a letter of credit. It is the Company's intention to renew this line of credit before it expires in December 2012.

In August 2011, we amended our equipment lease line of credit with PNC Equipment Finance, LLC to increase the amount available for new purchases to $18 million with an expiration date of August 2012. The interest rate on the borrowings is set at the time of borrowing based upon interest rates in the Federal Reserve Statistical Release H.15. It is the Company's intention to renew this equipment lease line of credit for future student computer financing before it expires in August 2012.

For the six months ended December 31, 2011, we borrowed $19.5 million to finance the purchase of student computers and other equipment at an interest rate of approximately 2.73% bringing the total balance outstanding at December 31, 2011 to $32.0 million. These leases include a 36-month payment term with a bargain purchase option at the end of the term. Accordingly, we include this equipment in property and equipment and the related liability in capital lease obligations. In addition, we have pledged the assets financed with the equipment lease line to secure the amounts outstanding.

Our cash requirements consist primarily of day-to-day operating expenses, capital expenditures and contractual obligations with respect to facility leases, capital equipment leases and other operating leases. We lease all of our office facilities. We expect to make future payments on existing leases from cash generated from operations. We believe that the combination of funds currently available and funds to be generated from operations will be adequate to finance our ongoing operations for the foreseeable future. In addition, 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. Should we exercise our option to make an additional investment in Web, we anticipate making the investment using our available cash or common stock or our available line-of-credit.

Redemption Right of Middlebury College

In the formation of our joint venture with Middlebury College (Middlebury), at any time after the fifth (5th) anniversary of the agreement, Middlebury may give written notice of its irrevocable election to sell all (but not less than all) of its Membership Interest to us (put right). Given the put right is redeemable outside of our control it is recorded outside of permanent equity at its estimated redemption value. The purchase price for Middlebury's Membership Interest shall be its fair market value and we may, in our sole discretion, pay the purchase price in cash or shares of our common stock. We will record the redemption value of the redeemable noncontrolling interest on each balance sheet date in accordance with EITF Topic D-98 and any changes to the redemption value should be recognized as adjustments to retained earnings, or in the absence of retained earnings, by adjustment to additional paid-in capital. As of December 31, 2011, the redeemable noncontrolling interest was $17.2 million. The agreement also includes a provision whereby, if certain milestones are not met related to expanding the business by June 2014, Middlebury will have the option to repurchase certain contributed assets at their fair market value.

Operating Activities

Net cash (used in)/provided by operating activities for the six months ended December 31, 2011 and 2010 was $(19.5) million and $7.1 million, respectively. Cash from operations reflects the timing of cash collections from services provided and payment of operating costs to fund the continued growth and expansion of our business. The decrease in cash from operations was the result of increases in accounts receivable, other current assets and prepaid expenses, and decreases in accounts payable; offset by deferred revenue, depreciation expense, accrued expenses and inventory.

The increase in accounts receivable was primarily attributable to our growth in revenues and to the Kaplan acquisition as there were no associated working capital adjustments. Accounts receivable balances tend to be at the highest levels in the first quarter as we begin billing for students. Deferred revenues are primarily a result of invoicing upfront fees, not cash payments. Deferred revenues increased primarily due to growth in enrollments and institutional sales. Deferred revenue balances tend to be highest in the first quarter, when the majority of students enroll, and are generally amortized over the course of the fiscal year.

The increase in accrued expenses is primarily due to the timing of payments to vendors and service providers for strategic marketing, student recruiting expenses, professional services, and equipment purchases. The decrease in inventories is primarily due to materials shipped to students, partially offset by purchases. Depreciation expense increased as a result in the Company's continued investment in infrastructure to support current and future growth.

Investing Activities

Net cash used in investing activities for the six months ended December 31, 2011 and 2010 was $34.0 million and $63.7 million, respectively.

Net cash used in investing activities for the six months ended December 31, 2011 was primarily due to purchases of property and equipment of $14.9 million, the purchase of Kaplan/Insight Assets of $12.6 million, and investment in capitalized curriculum development of $6.5 million, primarily related to the production of high school courses and middle school math courses.

Net cash used in investing activities for the six months ended December 31, 2010 was primarily due to the purchase of AEC for $24.5 million net of cash received of $3.8 million and $6.8 million for the achievement of specified financial targets for three months ended December 31, 2010. We also transferred $10 million for our investment in Web. This cash was in transit as of December 31, 2010 and is recorded in long-term other assets. In addition, investing activities included purchases of property and equipment and capitalized software of $13.3 million and investment in capitalized curriculum development of $7.0 million. Curriculum development investments primarily related to the production of high school courses, middle school math courses, and language courses.

In addition to the investing activities above, for the six months ended December 31, 2011 and 2010, we financed through capital leases, purchases of student computers and other equipment in the amount of $19.5 million and $12.9 million, respectively.

Financing Activities

Net cash (used in)/provided by financing activities for the six months ended December 31, 2011 and 2010 was $(5.9) million and $10.0 million, respectively.

For the six months ended December 31, 2011, net cash used in financing activities was primarily due to payments on capital leases and notes payable of $9.0 million, the tax benefit of $1.2 million, and the repurchase of restricted stock for income tax withholding of $0.6 million, partially offset by proceeds from the exercise of stock options of $2.8 million.

For the six months ended December 31, 2010, net cash provided by financing activities was primarily from our $15 million draw under our line of credit, proceeds from the exercise of stock options of $2.9 million, repurchase of restricted stock for income tax withholding of $1.0 million, and the excess tax benefit from stock-based compensation of $1.3 million, partially offset by payments on capital leases and notes payable of $8.2 million.

Off Balance Sheet Arrangements, Contractual Obligations and Commitments

During the six months ended December 31, 2011, we provided a guarantee of approximately $6.7 million related to a 10-year lease commitment on the building for a newly managed hybrid school. There were no other changes to our guarantee and obligations from those disclosed in our fiscal year 2011 audited consolidated financial statements.

Our contractual obligations consist primarily of leases for office space, capital leases for equipment and other operating leases. The total amount due under contractual obligations increased during the six months ended December 31, 2011 primarily due to approximately $19.5 million for capital leases related to student computers, net of payments.

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

Interest Rate Risk

At December 31, 2011 and June 30, 2011, we had cash and cash equivalents totaling $133.9 million and $193.1 million, respectively. Our excess cash has been invested primarily in U.S. Treasury money market funds although we may also invest in money market accounts, government securities, corporate debt securities and similar investments. Future interest and investment income is subject to the impact of interest rate changes and we may be subject to changes in the fair value of our investment portfolio as a result of changes in interest rates. At December 31, 2011, a 1% gross increase in interest rates earned on cash would result in $1.3 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 six months ended December 31, 2011, 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. Therefore, fluctuations in exchange rates will not have a material impact on our financial statements. However, we are pursuing additional opportunities in international markets and expect our international presence to grow. 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(e) of the Exchange Act) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

As described in Item 9A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, a material weakness in our internal control over financial reporting was identified. The material weakness related to project management of a new enterprise-wide financial system ("ERP") and affected the timeliness of our year-end close. Management assessed the processes surrounding the project management of the ERP implementation and determined that the ERP system implementation plan was insufficiently comprehensive which caused delays and ultimately prevented the year-end close from being completed in a timely manner. Rule 12b-2 and Rule 1-02 of Regulation S-X define a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the material weakness, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2011, our disclosure controls and procedures were not effective at a reasonable assurance level.

We carried out an evaluation, required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this review, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2011 as the material weakness identified as of June 30, 2011 still exists.

Changes in Internal Control over Financial Reporting

As a result of management's evaluation of our internal control over financial reporting, management identified a material weakness in our internal control. Specifically, management concluded that a material weakness relating to project management of a new enterprise-wide financial system ("ERP") and the resulting effects on the timeliness of our year-end and quarterly close process existed in our internal control over financial reporting.

Management has assessed the processes surrounding the project management of the ERP implementation and determined that the ERP system implementation plan was insufficiently comprehensive which caused delays and ultimately prevented the year-end close from being completed in a timely manner. To address implementation challenges, external resources and Company information technology and accounting staff have been engaged in intensive quality control and checking of the new ERP system, including the interfaces with the multiple accounting systems inherited with our recent acquisitions to perform the year end close and ensure accurate financial reporting. The Company has completed its initial implementation and anticipates future enhancements and updates to the new ERP system. The Company will thoroughly review and improve its system implementation plans and related processes that impact future system implementations, enhancements and updates.

This control deficiency could have resulted in a material misstatement to the interim consolidated financial statements that would not be prevented or detected as of the initial filing date deadline. Accordingly, management determined that this control deficiency constituted a material weakness as of December 31, 2011.

During the six months ended December 31, 2011, in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act, the effort to remediate the material weakness in our internal control over financial reporting has had a positive effect on our internal control over financial reporting. Management anticipates that these measures and other ongoing enhancements will continue to have a positive impact on our internal control over financial reporting in future periods. Notwithstanding such efforts, the material weakness related to project management of a new enterprise-wide financial system ("ERP") and the resulting effects on the timeliness of our year-end close existed in our internal control over financial reporting described above will not be remediated until the new controls operate for a sufficient period of time and are tested to enable management to conclude that the controls are effective. Management will consider the design and operating effectiveness of these controls and intends to make additional changes that management determines to be appropriate.

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.

Aventa Learning

In June 2010, the shareholders of Aventa Learning, Inc. (Aventa) filed a lawsuit against the Company's subsidiary, KC Distance Learning, Inc., in the United States District Court for the Western District of Washington, *Axtman, et al. v. KC Distance Learning, Inc,.* Case No. C10-01022-JLR. On August 31, 2010, the plaintiffs amended their complaint to add K12 as a co-defendant in this matter *Aventa et. al. v. K12 Inc., et. al*. Case No. C10-01022-JLR, reflecting the change in ownership. Pursuant to the Agreement and Plan of Merger between K12 and KCDL Holdings LLC (Seller), Seller agreed to assume responsibility to defend this lawsuit and to fully indemnify K12 or KCDL for any liability, including rescission. On November 10, 2011, the parties reached a settlement agreement in principle, which includes a full release of all claims against K12 Inc., and the Company made no financial contributions towards the settlement. On January 9, 2012, the court dismissed with prejudice all the asserted claims in this lawsuit.

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. On January 10, 2012, the Company filed its motion to dismiss IpLearn's amended complaint. IpLearn responded on January 27, 2012, and the Company replied on February 6, 2012.

Hoppaugh Complaint

On January 30, 2012, a securities class-action lawsuit captioned *Hoppaugh v. K12 Inc*., was filed against the Company and two of its officers in the United States District Court for the Eastern District of Virginia, *Hoppaugh v. K12, Inc*., Case No. 1:12-CV-103-CMH-IDD (the "Hoppaugh Complaint"). The plaintiff purports to represent a class of persons who purchased or otherwise acquired K12 common stock between September 9, 2009 and December 16, 2011, inclusive, and alleges violations by the defendants of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. The Hoppaugh Complaint alleges, among other things, that the defendants made false or misleading statements of material fact, or failed to disclose material facts, about (i) the Company's financial results during the class period, (ii) the academic performance of the virtual schools served by the Company, and (iii) certain school administrative practices and sales strategies related to enrollments. The plaintiff seeks unspecified monetary damages and other relief. The Company intends to defend vigorously against the claims asserted in the Hoppaugh Complaint.

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.

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

None.

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

None.

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

Not Applicable

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

None.

Item 6. ***Exhibits.***

(a) Exhibits.

Number	Description
31.1*	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2*	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1*	Certification of Principal Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, and 18 U.S.C. Section 1350.
32.2*	Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, and 18 U.S.C. Section 1350.
101*	The following financial statements and footnotes from the K12 Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2011, 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 Statements of Cash Flows (unaudited), and (v) Notes to Condensed Consolidated Financial Statements (unaudited).

* Filed herewith.

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/ RONALD J. PACKARD
Name:	Ronald J. Packard
Title:	Chief Executive Officer

Date: February 9, 2012

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Ronald J. Packard, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 9, 2012

/s/ RONALD J. PACKARD

Ronald J. Packard
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Harry T. Hawks, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 9, 2012

/s/ HARRY T. HAWKS

Harry T. Hawks
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

Certification of Principal Executive Officer

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

(1) the accompanying Quarterly Report of the Company on Form 10-Q for the period ended December 31, 2011 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: February 9, 2012

/s/ RONALD J. PACKARD

Ronald J. Packard
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.1

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

Certification of Principal Financial Officer

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

(1) the accompanying Quarterly Report of the Company on Form 10-Q for the period ended December 31, 2011 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: February 9, 2012

/s/ HARRY T. HAWKS

Harry T. Hawks
Chief Financial Officer
(Principal Financial Officer)

ATTACHMENT 24

LITIGATION DOCUMENTATION

This attachment is not applicable to the IUES Passport Academies charter application.