

K12 INC
Form 10-Q
April 25, 2018
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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 March 31, 2018

OR

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

For the transition period from to

Commission File Number: 001-33883

K12 Inc.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	95-4774688 (I.R.S. Employer Identification No.)
2300 Corporate Park Drive Herndon, VA (Address of Principal Executive Offices)	20171 (Zip Code)

(703) 483-7000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

As of April 19, 2018, the Registrant had 41,172,030 shares of common stock, \$0.0001 par value per share outstanding.

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For the Quarterly Period Ended March 31, 2018

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018	June 30, 2017 (audited)
	(In thousands except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 227,907	\$ 230,864
Accounts receivable, net of allowance of \$9,978 and \$14,791 at March 31, 2018 and June 30, 2017, respectively	207,998	192,205
Inventories, net	18,051	30,503
Prepaid expenses	14,422	8,006
Other current assets	13,767	12,004
Total current assets	482,145	473,582
Property and equipment, net	29,468	26,297
Capitalized software, net	55,729	62,695
Capitalized curriculum development costs, net	53,299	59,213
Intangible assets, net	18,694	20,226
Goodwill	90,197	87,214
Deposits and other assets	31,592	6,057
Total assets	\$ 761,124	\$ 735,284
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of capital lease obligations	\$ 13,727	\$ 11,880
Accounts payable	17,548	30,052
Accrued liabilities	13,304	21,622
Accrued compensation and benefits	29,489	29,367
Deferred revenue	49,039	24,830
Total current liabilities	123,107	117,751
Capital lease obligations, net of current portion	13,983	10,025
Deferred rent, net of current portion	3,511	4,157
Deferred tax liability	11,572	16,726
Other long-term liabilities	9,519	11,579

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Total liabilities	161,692	160,238
Commitments and contingencies	—	—
Redeemable noncontrolling interest	—	700
Stockholders' equity		
Common stock, par value \$0.0001; 100,000,000 shares authorized; 44,664,798 and 44,325,772 shares issued, and 41,162,200 and 40,823,174 shares outstanding at March 31, 2018 and June 30, 2017, respectively	4	4
Additional paid-in capital	697,762	690,488
Accumulated other comprehensive loss	(562)	(170)
Accumulated deficit	(22,772)	(40,976)
Treasury stock of 3,502,598 shares at cost at March 31, 2018 and June 30, 2017	(75,000)	(75,000)
Total stockholders' equity	599,432	574,346
Total liabilities, redeemable noncontrolling interest and stockholders' equity	\$ 761,124	\$ 735,284

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

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K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
	(In thousands except share and per share data)			
Revenues	\$ 232,864	\$ 222,533	\$ 678,860	\$ 672,761
Cost and expenses				
Instructional costs and services	148,878	136,431	435,408	418,072
Selling, administrative, and other operating expenses	62,267	69,828	220,507	236,826
Product development expenses	2,002	3,511	7,276	9,446
Total costs and expenses	213,147	209,770	663,191	664,344
Income from operations	19,717	12,763	15,669	8,417
Interest income, net	261	641	535	1,247
Income before income taxes and noncontrolling interest	19,978	13,404	16,204	9,664
Income tax benefit (expense)	(6,935)	(4,522)	1,869	(3,520)
Net income	13,043	8,882	18,073	6,144
Add net loss attributable to noncontrolling interest	27	233	200	790
Net income attributable to common stockholders	\$ 13,070	\$ 9,115	\$ 18,273	\$ 6,934
Net income attributable to common stockholders per share:				
Basic	\$ 0.33	\$ 0.24	\$ 0.46	\$ 0.18
Diluted	\$ 0.32	\$ 0.23	\$ 0.45	\$ 0.18
Weighted average shares used in computing per share amounts:				
Basic	39,644,074	38,376,984	39,366,497	38,145,671
Diluted	40,766,203	39,328,127	40,771,437	38,956,081

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

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K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
	(In thousands)			
Net income	\$ 13,043	\$ 8,882	\$ 18,073	\$ 6,144
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(198)	(61)	(392)	329
Total other comprehensive income, net of tax	12,845	8,821	17,681	6,473
Comprehensive loss attributable to noncontrolling interest	27	233	200	790
Comprehensive income attributable to common stockholders	\$ 12,872	\$ 9,054	\$ 17,881	\$ 7,263

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

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K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands except share data)	K12 Inc. Stockholders' Equity			Other		Treasury Stock		Total
	Common Stock Shares	Amount	Additional Paid-in Capital	Comprehensive Loss	Accumulated Deficit	Shares	Amount	
Balance, June 30, 2017	44,325,772	\$ 4	\$ 690,488	\$ (170)	\$ (40,976)	(3,502,598)	\$ (75,000)	\$ 574,346
Adjustment related to new stock-based compensation guidance	—	—	112	—	(69)	—	—	43
Net income (1)	—	—	—	—	18,273	—	—	18,273
Foreign currency translation adjustment	—	—	—	(392)	—	—	—	(392)
Stock-based compensation expense	—	—	16,741	—	—	—	—	16,741
Exercise of stock options	13,600	—	184	—	—	—	—	184
Vesting of performance share units	149,676	—	—	—	—	—	—	—
Issuance of restricted stock awards	1,011,605	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(331,263)	—	—	—	—	—	—	—
Repurchase of restricted stock for tax withholding	(504,592)	—	(9,763)	—	—	—	—	(9,763)
Balance, March 31, 2018	44,664,798	\$ 4	\$ 697,762	\$ (562)	\$ (22,772)	(3,502,598)	\$ (75,000)	\$ 599,432

(1) Net income excludes \$0.2 million due to the redeemable noncontrolling interest related to LearnBop, which is reported outside of permanent equity in the accompanying unaudited condensed consolidated balance sheets.

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

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K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31,	
	2018	2017
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 18,073	\$ 6,144
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	57,612	56,325
Stock-based compensation expense	14,853	14,557
Excess tax benefit from stock-based compensation	—	(250)
Deferred income taxes	(4,978)	(259)
Provision for doubtful accounts	605	4,196
Provision for excess and obsolete inventory	1,319	395
Provision for student computer shrinkage and obsolescence	103	256
Impairment loss on other assets	—	586
Expensed computer peripherals	3,335	3,412
Changes in assets and liabilities:		
Accounts receivable	(16,220)	(61,000)
Inventories	11,134	13,149
Prepaid expenses	(6,416)	(7,516)
Other current assets	(2,963)	(2,781)
Deposits and other assets	(25,893)	9,811
Accounts payable	(9,215)	(9,813)
Accrued liabilities	(9,183)	(7,608)
Accrued compensation and benefits	111	(5,922)
Deferred revenue	23,848	24,833
Deferred rent and other liabilities	(2,714)	(1,140)
Net cash provided by operating activities	53,411	37,375
Cash flows from investing activities		
Purchase of property and equipment	(6,580)	(1,391)
Capitalized software development costs	(18,852)	(19,345)
Capitalized curriculum development costs	(7,770)	(12,427)
Acquisition of Big Universe, Inc., net of cash acquired	(2,774)	—
Purchase of noncontrolling interest	(500)	(9,134)
Net cash used in investing activities	(36,476)	(42,297)
Cash flows from financing activities		
Repayments on capital lease obligations	(10,313)	(11,879)
Proceeds from exercise of stock options	184	1,518
Excess tax benefit from stock-based compensation	—	250
Repurchase of restricted stock for income tax withholding	(9,763)	(4,236)
Net cash used in financing activities	(19,892)	(14,347)
Effect of foreign exchange rate changes on cash and cash equivalents	—	(12)

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Net change in cash and cash equivalents	(2,957)	(19,281)
Cash and cash equivalents, beginning of period	230,864	213,989
Cash and cash equivalents, end of period	\$ 227,907	\$ 194,708

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

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K12 INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business

K12 Inc., together with its subsidiaries (“K12” or the “Company”), is a technology-based education company. The Company offers proprietary and third party curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. The Company’s learning systems combine curriculum, instruction, and related support services to create an individualized learning approach well-suited for virtual and blended public schools, school districts, charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. These products and services are provided primarily to three lines of business: Managed Public School Programs (curriculum and services sold to 75 managed public schools in a majority of states throughout the United States and the District of Columbia), Institutional (curriculum, technology and services provided to school districts, public schools and other educational institutions that the Company does not manage), and Private Pay Schools and Other (private schools for which the Company charges student tuition and makes direct consumer sales).

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

2. Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2018, the condensed consolidated statements of operations and comprehensive income for the three and nine months ended March 31, 2018 and 2017, the condensed consolidated statements of cash flows for the nine months ended March 31, 2018 and 2017, and the condensed consolidated statement of stockholders’ equity for the nine months ended March 31, 2018 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company’s financial position and results of operations for the periods presented. The results for the three and nine months ended March 31, 2018 are not necessarily indicative of the results to be expected for the year ending June 30, 2018 or for any other interim period or for any other future fiscal year. The condensed consolidated balance sheet as of June 30, 2017 has been derived from the audited consolidated financial statements at that date.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Accordingly, the Company does not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these statements include all adjustments (consisting of normal recurring adjustments) considered necessary to present a fair statement of the Company’s condensed consolidated results of operations, financial position and cash flows. Preparation of the Company’s financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and footnotes. Actual results could differ from those estimates. This quarterly report on Form 10-Q should be read in conjunction with the financial statements and the notes thereto included in the Company’s latest annual report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on August 9, 2017, which contains the Company’s audited financial statements for the fiscal year ended June 30, 2017.

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

3. Summary of Significant Accounting Policies

Revenue Recognition and Concentration of Revenues

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

Where the Company has determined that it is the primary obligor for substantially all expenses under these contracts, the Company records the associated per student revenues received by the school from its state funding school district or from other sources up to the expenses incurred in accordance with Accounting Standards Codification (“ASC”) 605, Revenue Recognition (“ASC 605”). As a result of being the primary obligor, amounts recorded as revenues and school operating expenses for the three months ended March 31, 2018 and 2017 were \$81.4 million and \$75.1 million, respectively, and for the nine months ended March 31, 2018 and 2017 were \$221.0 million and \$212.5 million, respectively. For contracts where the Company is not the primary obligor, the Company records revenues based on its net fees earned under the contractual agreement.

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

- providing each of a school’s students with access to the Company’s online school and lessons;
- offline learning kits, which include books and materials to supplement the online lessons, where required;
- the use of a personal computer and associated reclamation services, where required;

- internet access and technology support services;
- instruction by a state-certified teacher, where required; and
- management and technology services necessary to operate a virtual public or blended school. In certain managed school contracts, revenues are determined directly by per enrollment funding.

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

To determine the pro rata amount of revenues to recognize in a fiscal quarter, the Company estimates the total funds each school will receive in a particular school year. Total funds for a school are primarily a function of the number of students enrolled in the school and established per enrollment funding levels, which are generally published on an annual basis by the state or school district. The Company reviews its estimates of funding periodically, and revises as necessary, amortizing any adjustments to earned revenues over the remaining portion of the fiscal year. Actual school funding may vary from these estimates and the impact of these differences could impact the Company's results of operations. Since the end of the school year coincides with the end of the Company's fiscal year, annual revenues are generally based on actual school funding and actual costs incurred (including costs for the Company's services to the schools plus other

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

costs the schools may incur) in the calculation of school operating losses. The Company's schools' reported results are subject to annual school district financial audits, which incorporate enrollment counts, funding and other routine financial audit considerations. The results of these audits are incorporated into the Company's monthly funding estimates for the three and nine months ended March 31, 2018 and 2017.

Under the contracts where the Company provides turnkey management services to schools, the Company has generally agreed to absorb any operating losses of the schools in a given school year. These school operating losses represent the excess of costs incurred over revenues earned by the virtual or blended public school as reflected on its respective financial statements, including Company charges to the schools. To the extent a school does not receive funding for each student enrolled in the school, the school would still incur costs associated with serving the unfunded enrollment. If losses due to unfunded enrollments result in a net operating loss for the year that loss is reflected as a reduction in the revenues and net receivables that the Company collects from the school. A school net operating loss in one year does not necessarily mean the Company anticipates losing money on the entire contract with the school. However, a school operating loss may reduce the Company's ability to collect its management fees in full and recognized revenues are reduced accordingly to reflect the expected cash collections from such schools. The Company amortizes the estimated school operating loss against revenues based upon the percentage of actual revenues in the period to total estimated revenues for the fiscal year.

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

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

Management periodically reviews its estimates of full-year school revenues and operating expenses, and amortizes the net impact of any changes to these estimates over the remainder of the fiscal year. Actual school operating losses may vary from these estimates or revisions, and the impact of these differences could have a material impact on results of operations. Since the end of the school year coincides with the end of the Company's fiscal year, annual revenues are generally based on actual school funding and actual costs incurred (including costs for the Company's services to the schools plus other costs the schools may incur) in the calculation of school operating losses. For the three months ended March 31, 2018 and 2017, the Company's revenues included a reduction for these school operating losses of \$18.7 million and \$12.5 million, respectively, and \$50.2 million and \$40.8 million for the nine months ended March 31, 2018 and 2017, respectively.

The Company provides certain online curriculum and services to schools and school districts under subscription and perpetual license agreements. Revenues under these agreements are recognized 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. Revenues from the licensing of curriculum under subscription arrangements are recognized on a ratable basis over the subscription period. Revenues from the licensing of curriculum under non-cancelable perpetual arrangements are recognized when all revenue recognition criteria have been met. Revenues from professional consulting, training and support services are deferred and recognized ratably over the service period.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

During the three and nine months ended March 31, 2018, the Company had one contract that represented approximately 10% of revenues.

Consolidation

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

Inventories

Inventories consist primarily of textbooks and curriculum materials, a majority of which are supplied to virtual public schools and blended public schools and utilized directly by students. Inventories represent items that are purchased and held for sale and are recorded at the lower of cost (first-in, first-out method) or net realizable value. The provision for excess and obsolete inventory is established based upon the evaluation of the quantity on hand relative to demand. The excess and obsolete inventory reserve was \$3.5 million and \$2.3 million at March 31, 2018 and June 30, 2017, respectively.

Other Current Assets

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

Property and Equipment

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

Property and equipment are depreciated over the following useful lives:

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

The Company makes an estimate of unreturned student computers based on an analysis of recent trends of returns. In addition, during the three months ended March 31, 2017, the Company accelerated depreciation on property and equipment associated with the operating leases that were exited during that period, see Note 10, “Restructuring.” The Company recorded accelerated depreciation of \$0.8 million and \$1.8 million for the three months ended March 31, 2018

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K12 INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

and 2017, respectively, and \$1.7 million and \$2.8 million for the nine months ended March 31, 2018 and 2017, respectively, related to the leases exited and unreturned student computers. Depreciation expense for property and equipment, including accelerated depreciation, for the three months ended March 31, 2018 and 2017 was \$4.8 million and \$5.5 million, respectively, and \$13.7 million and \$14.1 million for the nine months ended March 31, 2018 and 2017, respectively.

The Company fully expenses computer peripheral equipment (e.g. keyboards, mice) upon shipment as recovery has been determined to be uneconomical. These expenses totaled \$0.8 million and \$0.7 million for the three months ended March 31, 2018 and 2017, respectively, and \$3.3 million and \$3.4 million for the nine months ended March 31, 2018 and 2017, respectively, and are recorded as instructional costs and services.

Capitalized Software Costs

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

Capitalized software additions totaled \$18.9 million and \$19.3 million for the nine months ended March 31, 2018 and 2017, respectively. Amortization expense for the three months ended March 31, 2018 and 2017 were \$8.2 million and \$8.4 million, respectively, and \$26.9 million and \$25.2 million for the nine months ended March 31, 2018 and 2017, respectively.

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

Capitalized Curriculum Development Costs

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

The Company capitalizes curriculum development costs incurred during the application development stage in accordance with ASC 350. The Company capitalizes curriculum development costs during the design and deployment phases of the project. As a result, a significant portion of the Company's courseware development costs qualify for capitalization due to the concentration of its development efforts on the content of the courseware. Capitalization ends when a course is available for general release to its customers, at which time amortization of the capitalized costs begins. The period of time over which these development costs are amortized is generally five years.

Total capitalized curriculum development additions were \$7.8 million and \$12.4 million for the nine months ended March 31, 2018 and 2017, respectively. These amounts are recorded on the accompanying condensed consolidated balance sheets net of amortization charges. Amortization is recorded in instructional costs and services on the accompanying condensed consolidated statements of operations. Amortization expense for the three months ended March 31, 2018 and 2017 was \$4.7 million and \$5.2 million, respectively, and \$14.8 million and \$14.8 million for the nine months ended March 31, 2018 and 2017, respectively. As mentioned above, capitalized curriculum development additions included an out of period adjustment of \$0.6 million.

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K12 INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

Income Taxes

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

Redeemable Noncontrolling Interests

Earnings or losses attributable to minority shareholders of a consolidated affiliated company are classified separately as “noncontrolling interest” in the Company’s condensed consolidated statements of operations. Noncontrolling interests in subsidiaries that are redeemable outside of the Company’s control for cash or other assets are classified outside of permanent equity at redeemable value, which approximates fair value. If the redemption amount is other than fair value (e.g. fixed or variable), the redeemable noncontrolling interest is accounted for at the fixed or variable redeemable value. The redeemable noncontrolling interests are adjusted to their redeemable value at each balance sheet date. The resulting increases or decreases in the estimated redemption amount are affected by corresponding charges against retained earnings, or in the absence of retained earnings, additional paid-in capital.

Goodwill and Intangible Assets

The Company records as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired. Finite-lived intangible assets acquired in business combinations subject to amortization are recorded at their fair value. Finite-lived intangible assets include trade names, acquired customers and non-compete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense for the three months ended March 31, 2018 and 2017 was \$0.7 million and \$0.8 million, respectively, and for the nine months ended March 31, 2018 and 2017 was \$2.2 million and \$2.2 million, respectively. Future amortization of intangible assets is \$0.8 million, \$3.0 million, \$2.9 million, \$2.4 million and \$2.2 million in the fiscal years ending June 30, 2018 through June 30, 2022, respectively, and \$7.2 million thereafter. At March 31, 2018 and June 30, 2017, the goodwill balance was \$90.2 million and \$87.2 million, respectively.

The Company reviews its recorded finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between fair value and the carrying value of the asset. During the nine months ended March 31, 2018 and 2017, there were no events or changes in circumstances that would indicate that the carrying amount of the goodwill was impaired.

ASC 350 prescribes a two-step process for impairment testing of goodwill and intangible assets with indefinite lives, which is performed annually, as well as when an event triggering impairment may have occurred. ASC 350 also allows preparers to qualitatively assess goodwill impairment through a screening process which would permit companies to forgo Step 1 of their annual goodwill impairment process. This qualitative screening process will hereinafter be referred to as “Step 0”. The Company performs its annual assessment on May 31st. 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. During the year ended June 30, 2017, the Company performed “Step 0” of the impairment test and determined that there were no facts and circumstances that indicated that the fair value of the reporting unit may be less than its carrying amount and as a result, the Company determined that no impairment was required. During the nine months ended March 31, 2018 and 2017, there were no events or changes in circumstances that would indicate that the carrying amount of the goodwill was impaired.

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The following table represents the balance of the Company's intangible assets as of March 31, 2018 and June 30, 2017:

(\$ in millions)	March 31, 2018		Net Carrying Value	June 30, 2017		Net Carrying Value
	Gross Carrying Amount	Accumulated Amortization		Gross Carrying Amount	Accumulated Amortization	
Trade names	\$ 17.6	\$ (8.3)	\$ 9.3	\$ 17.6	\$ (7.6)	\$ 10.0
Customer and distributor relationships	20.5	(13.0)	7.5	20.1	(12.0)	8.1
Developed technology	3.2	(2.1)	1.1	2.9	(1.7)	1.2
Other	1.4	(0.6)	0.8	1.4	(0.5)	0.9
Total	\$ 42.7	\$ (24.0)	\$ 18.7	\$ 42.0	\$ (21.8)	\$ 20.2

Impairment of Long-Lived Assets

Long-lived assets include property, equipment, capitalized curriculum and software developed or obtained for internal use. In accordance with ASC 360, Property, Plant and Equipment ("ASC 360"), management reviews the Company's recorded long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company determines the extent to which an asset may be impaired based upon its expectation of the asset's future usability as well as on a reasonable assurance that the future cash flows associated with the asset will be in excess of its carrying amount. If the total of the expected 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. During the three and nine months ended March 31, 2018, there was no such impairment charge.

Fair Value Measurements

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

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

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

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

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

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

The held for sale asset is discussed in more detail in Note 12, "Investments." The lease exit liability is discussed in more detail in Note 10, "Restructuring." The redeemable noncontrolling interest includes the Company's joint venture with Middlebury College to form Middlebury Interactive Languages ("MIL"). Under the agreement, Middlebury College had an irrevocable election to sell all of its membership interest to the Company (put right). Middlebury College

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exercised its put right on May 4, 2015 and a transaction to acquire the remaining 40% noncontrolling interest for \$9.1 million in cash was consummated on December 27, 2016.

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

Description	Fair Value (In thousands)	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)
Lease exit liability	\$ 3,120	\$ —	\$ —	\$ 3,120

The following table summarizes certain fair value information at June 30, 2017 for assets and liabilities measured at fair value on a nonrecurring basis:

Description	Fair Value (In thousands)	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)
Held for sale asset	\$ 1,200	\$ —	\$ —	\$ 1,200
Lease exit liability	4,841	—	—	4,841

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

Description	Fair Value Measurements Using:			
	Fair Value (In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Contingent consideration associated with acquisitions	\$ 1,342	\$ —	\$ —	\$ 1,342

The following table summarizes certain fair value information at June 30, 2017 for assets and liabilities measured at fair value on a recurring basis:

Description	Fair Value Measurements Using:			
	Fair Value (In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Contingent consideration associated with acquisitions	\$ 2,806	\$ —	\$ —	\$ 2,806

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

Description	Three Months Ended March 31, 2018			
	Fair Value	Purchases,	Unrealized	Fair Value
	December 31, 2017 (In thousands)	Issuances, and Settlements	Gains/(Losses)	March 31, 2018
Contingent consideration associated with acquisitions	\$ 1,340	\$ —	\$ 2	\$ 1,342
Total	\$ 1,340	\$ —	\$ 2	\$ 1,342

Description	Three Months Ended March 31, 2017			
	Fair Value	Purchases,	Unrealized	Fair Value
	December 31, 2016 (In thousands)	Issuances, and Settlements	Gains (Losses)	March 31, 2017
Contingent consideration associated with acquisitions	\$ 2,963	\$ —	\$ 8	\$ 2,971
Total	\$ 2,963	\$ —	\$ 8	\$ 2,971

Description	Nine Months Ended March 31, 2018			
	Fair Value	Purchases,	Unrealized	Fair Value
	June 30, 2017 (In thousands)	Issuances, and Settlements	Gains (Losses)	March 31, 2018
Contingent consideration associated with acquisitions	\$ 2,806	\$ (1,319)	\$ (145)	\$ 1,342
Total	\$ 2,806	\$ (1,319)	\$ (145)	\$ 1,342

Description	Nine Months Ended March 31, 2017			Fair Value March 31, 2017
	Fair Value June 30, 2016 (In thousands)	Purchases, Issuances, and Settlements	Unrealized Gains (Losses)	
Redeemable noncontrolling interest in Middlebury Interactive Learning	\$ 6,801	\$ (9,134)	\$ 2,333	\$ —
Contingent consideration associated with acquisitions	2,947	—	24	2,971
Total	\$ 9,748	\$ (9,134)	\$ 2,357	\$ 2,971

Net Income (Loss) Per Common Share

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

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outstanding. Securities that may participate in undistributed net income with common stock are considered participating securities.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
	(In thousands except share and per share data)			
Basic net income per share computation:				
Net income attributable to common stockholders	\$ 13,070	\$ 9,115	\$ 18,273	\$ 6,934
Weighted average common shares — basic	39,644,074	38,376,984	39,366,497	38,145,671
Basic net income per share	\$ 0.33	\$ 0.24	\$ 0.46	\$ 0.18
Diluted net income per share computation:				
Net income attributable to common stockholders	\$ 13,070	\$ 9,115	\$ 18,273	\$ 6,934
Share computation:				
Weighted average common shares — basic	39,644,074	38,376,984	39,366,497	38,145,671
Effect of dilutive stock options and restricted stock awards	1,122,129	951,143	1,404,940	810,410
Weighted average common shares — diluted	40,766,203	39,328,127	40,771,437	38,956,081
Diluted net income per share	\$ 0.32	\$ 0.23	\$ 0.45	\$ 0.18

For the three months ended March 31, 2018 and 2017 and nine months ended March 31, 2018 and 2017, shares issuable in connection with stock options and restricted stock of 1,422,500, 1,283,168, 1,086,880, and 2,064,498, respectively, were excluded from the diluted income per share calculation because the effect would have been antidilutive. As of March 31, 2018, the Company had 44,664,798 shares issued and 41,162,200 shares outstanding.

Reclassification

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

Recent Accounting Pronouncements

Accounting Standards Adopted

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Compensation - Stock Compensation (Topic 718) (“ASU 2016-09”). This update was issued as part of the FASB’s simplification initiative and affects all entities that issue share-based payment awards to their employees. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies and an accounting policy election for forfeitures. As part of the new guidance:

- Excess tax benefits or deficiencies arising from share-based awards will be reflected in the condensed consolidated statements of operations as income tax expense rather than within stockholders’ equity. The adoption of this guidance may result in volatility within a company’s results of operations, primarily due to changes in the stock price.
- Excess tax benefits will be presented as an operating activity on the statement of cash flows rather than as a financing activity.
- A forfeiture election will be made to either estimate forfeitures (similar to today’s requirement) or recognize actual forfeitures as they occur. Entities will apply the forfeiture election provision using a modified retrospective transition approach, with a cumulative effect adjustment recorded to retained earnings as of the beginning of the period of adoption.
- Statutory tax withholding requirements for employers who withhold shares upon settlement of an award on

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behalf of an employee to cover tax obligations are broadened to allow for a range of withholding from the minimum to the maximum statutory allowable amounts.

The Company adopted this guidance during the first quarter of fiscal 2018. As part of its adoption of ASU 2016-09, the Company made an accounting policy election to change the way in which it accounts for forfeitures of share-based awards. Specifically, beginning in the first quarter of fiscal 2018, the Company recognizes forfeitures of share-based awards as they occur in the period of forfeiture rather than estimating the number of awards expected to be forfeited at the grant date and subsequently adjusting the estimate when awards are actually forfeited. The change in accounting policy resulted in an adjustment to decrease retained earnings as of July 1, 2017 by \$0.1 million.

The Company has adopted the remaining provisions as follows:

- Excess tax benefits arising from share-based awards are reflected within the condensed consolidated statements of operations as income tax expense; adopted prospectively;
- Excess tax benefits are presented as an operating activity on the statement of cash flows; adopted prospectively; and
- The Company is now permitted to withhold shares beyond the minimum statutory tax withholding requirements upon settlement of an award; adopted prospectively.

Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which supersedes most existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard is effective for the Company’s next fiscal year beginning July 1, 2018, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact this standard will have on its consolidated financial statements which includes performing a detailed review of each of its revenue streams and comparing historical accounting policies and practices to the new standard. The majority of the Company’s business is based on contracts where annual revenue is recognized within each fiscal year, mirroring the school year. The Company expects revenue recognition will remain largely unchanged under the new standard on a full year basis, however, there may be some shifting of revenue between

periods. The Company has begun its implementation process and expects to be fully compliant by the first quarter of fiscal 2019.

4. Income Taxes

The provision for income taxes is based on earnings reported in the condensed consolidated financial statements. A deferred income tax asset or liability is determined by applying currently enacted tax laws and rates to the expected reversal of the cumulative temporary differences between the carrying value of assets and liabilities for financial statement and income tax purposes. Deferred income tax expense or benefit is measured by the change in the deferred income tax asset or liability during the period. For the three months ended March 31, 2018 and 2017, the Company's effective income tax rate was 34.7% and 33.7%, respectively, and for the nine months ended March 31, 2018 and 2017, the rate was (11.5)% and 36.4%, respectively.

On December 22, 2017, the Tax Cuts and Job Act (the "Tax Act") was enacted into law, which among other provisions, reduced the U.S. statutory federal income tax rate from 35% to 21%. The Company has estimated and included the provisional amount for the potential impact of the re-measurement of the Company's net U.S. deferred tax liabilities and the transition tax on the Company's accumulated unremitted foreign earnings in the Company's financial statements for the nine months ended March 31, 2018. The analysis of the foreign earnings that is required to be completed for the transition tax is an estimate at this time and an updated transition tax will be reflected in subsequent

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periods once the final amounts are determined. The provisional amount for the impact of the rate change on the net deferred tax liabilities was based on an estimate which the Company will continue to refine as the year progresses.

The effective income tax rate for the nine months ended March 31, 2018 was predominantly impacted by the Tax Act as well as the adoption of ASU 2016-09 related to stock compensation. The Company will continue to analyze the Tax Act to determine the full effects of the new law.

5. Long-term Obligations

Capital Leases

The Company incurs capital lease obligations for student computers under a non-revolving lease line of credit with PNC Equipment Finance, LLC. As of March 31, 2018 and June 30, 2017, the outstanding balance of capital leases under the current and former lease lines of credit (as discussed in more detail below) was \$27.7 million and \$21.9 million, respectively, with lease interest rates ranging from 1.95% to 3.12%. Individual leases under the lease lines of credit include 36-month payment terms with a \$1 purchase option at the end of each lease term. The Company has pledged the assets financed to secure the outstanding leases. The gross carrying value of leased student computers as of March 31, 2018 and June 30, 2017 was \$42.8 million and \$39.1 million, respectively. The accumulated depreciation of leased student computers as of March 31, 2018 and June 30, 2017 was \$24.9 million and \$25.1 million, respectively.

The Company had \$24.2 million and \$31.9 million of remaining availability under its lease line of credit as of March 31, 2018 and June 30, 2017, respectively. Interest on unpaid principal under the lease line of credit is at a fluctuating rate of LIBOR plus 1.2%.

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

As of June 30,	Capital Leases (in thousands)
2018 (remaining three months)	\$ 3,840
2019	13,440
2020	7,997
2021	3,368
Total minimum payments	28,645
Less amount representing interest (imputed weighted average capital lease interest rate of 2.74%)	(935)
Net minimum payments	27,710
Less current portion	(13,727)
Present value of minimum payments, less current portion	\$ 13,983

6. Line of Credit

On January 31, 2014, the Company executed a \$100.0 million unsecured line of credit to be used for general corporate operating purposes with Bank of America, N.A. (“BOA”). The line has a five-year term, bears interest at the higher of the Bank’s prime rate plus 0.25%, the Federal Funds Rates plus 0.75%, or LIBOR plus 1.25%; and incorporates customary financial and other covenants, including but not limited to a maximum debt leverage and a minimum fixed charge coverage ratio. As of March 31, 2018 and June 30, 2017, the Company was in compliance with these covenants. During the nine months ended March 31, 2018, there was no borrowing activity on this line of credit, and the Company had no borrowings outstanding on the line of credit as of March 31, 2018.

The BOA credit agreement contains a number of financial and other covenants that, among other things, restrict the Company and its subsidiaries’ ability to incur additional indebtedness, grant liens or other security interests, make certain investments, make specified restricted payments including dividends, dispose of assets or stock including the

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stock of its subsidiaries, make capital expenditures above specified limits and engage in other matters customarily restricted in senior credit facilities.

7. Equity Transactions

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

- unissued shares related to forfeited or cancelled restricted stock and stock options from Plan awards and Prior Plan awards (that were outstanding as of the Effective Date) and;
- shares tendered to satisfy the tax withholding obligation related to the vesting of restricted stock (but not stock options).

Unlike the Company’s 2007 Equity Incentive Award Plan (the “Prior Plan”), the Plan has no evergreen provision to increase the shares available for issuance; any new shares would require stockholder approval. The Prior Plan was set to expire in October 2017; however, with the approval of the Plan, the Company will no longer award equity from the Prior Plan. As of March 31, 2018, the remaining aggregate number of shares of the Company’s common stock authorized for future issuance under the Plan was 4,420,455. As of March 31, 2018, there were 3,536,981 shares of the Company’s common stock that remain outstanding or nonvested under the Plan and Prior Plan.

Stock Options

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, June 30, 2017	1,356,528	\$ 20.19	4.46	\$ 1,481,585
Granted	—	—		
Exercised	(13,600)	13.53		
Forfeited or canceled	(109,971)	22.45		
Outstanding, March 31, 2018	1,232,957	20.06	3.70	190,004
Stock options exercisable at March 31, 2018	1,091,726	\$ 20.75	3.51	\$ 120,305

The aggregate intrinsic value of options exercised during the nine months ended March 31, 2018 and 2017 was \$0.0 million and \$0.2 million, respectively.

As of March 31, 2018, there was \$0.9 million of total unrecognized compensation expense related to nonvested stock options granted. The cost is expected to be recognized over a weighted average period of 1.2 years. During the three months ended March 31, 2018 and 2017, the Company recognized \$0.2 million and \$0.5 million, respectively, of stock-based compensation expense related to stock options. During the nine months ended March 31, 2018 and 2017, the expense was \$1.0 million and \$1.6 million, respectively.

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Restricted Stock Awards

Restricted stock award activity during the nine months ended March 31, 2018 was as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, June 30, 2017	2,141,047	\$ 12.34
Granted	1,011,605	17.34
Vested	(1,309,775)	12.22
Canceled	(331,263)	14.52
Nonvested, March 31, 2018	1,511,614	\$ 15.45

Performance Based Restricted Stock Awards (included above)

During the nine months ended March 31, 2018, 398,442 new performance based restricted stock awards were granted and 474,141 remain nonvested at March 31, 2018. During the nine months ended March 31, 2018, 275,135 performance-based restricted stock awards vested. Vesting of the performance-based restricted stock awards is contingent on the achievement of certain financial performance goals and service vesting conditions.

Included above are 34,760 performance based restricted stock awards that were granted to Company executives with a weighted average grant date fair value of \$17.70 per share. These awards were granted pursuant to the Plan and are subject to the achievement of a target free cash flow metric in fiscal year 2018 and will be adjusted upwards or downwards based on the Company's relative total shareholder return for fiscal year 2018 ranked against other companies in the Russell 2000 Index. If the performance goals are achieved, 20% of the shares granted vest immediately, and the remaining 80% vest ratably in semi-annual intervals until the three year anniversary from grant date.

Equity Incentive Market Based Restricted Stock Awards (included above)

During fiscal year 2017, the Company granted equity incentive market based restricted stock awards which were subject to the attainment of an average stock price of \$14.35 for 30 consecutive days after the date of the Company's earnings release for the fourth quarter and fiscal year ended June 30, 2017. During the nine months ended March 31, 2018, 18,400 of these equity incentive market based awards vested. Additionally, during fiscal year 2017, the Company granted equity incentive market based awards which were subject to the attainment of average prices of \$13, \$16 and \$19 per share. These targets were achieved during fiscal year 2017. During the nine months ended March 31, 2018, 257,075 of these equity incentive market based awards vested. As of March 31, 2018, 25,200 equity incentive market based restricted stock awards remain nonvested.

Service-Based Restricted Stock Awards (included above)

During the nine months ended March 31, 2018, 613,163 new service-based restricted stock awards were granted and 1,012,273 remain nonvested at March 31, 2018. During the nine months ended March 31, 2018, 759,165 service-based restricted stock awards vested.

Summary of All Restricted Stock Awards

As of March 31, 2018, there was \$16.8 million of total unrecognized compensation expense related to nonvested restricted stock awards. The cost is expected to be recognized over a weighted average period of 1.6 years. The fair value of restricted stock awards granted for the nine months ended March 31, 2018 and 2017 was \$17.5 million and \$14.6 million, respectively. The total fair value of shares vested for the nine months ended March 31, 2018 and 2017 was \$21.7 million and \$13.5 million, respectively. During the three months ended March 31, 2018 and 2017, the Company recognized \$3.9 million and \$4.8 million, respectively, of stock-based compensation expense related to restricted stock awards. During the nine months ended March 31, 2018 and 2017, the expense was \$11.7 million and \$13.0 million,

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respectively. Included in the stock-based compensation expense related to restricted stock awards for the three and nine months ended March 31, 2018 was \$1.4 million and \$1.7 million, respectively, associated with the accelerated vesting of equity awards pursuant to the exit of the former CEO, see Note 11, "Severance." The expense related to the acceleration of equity awards for the three and nine months ended March 31, 2017 was \$0.8 million and \$0.8 million, respectively.

Performance Share Units ("PSU")

The PSUs vest upon achievement of certain performance criteria associated with a Board-approved Long Term Incentive Plan ("LTIP") and continuation of employee service over a two to three year period. The level of performance will determine the number of PSUs earned as measured against threshold, target and stretch achievement levels of the LTIP. Each PSU represents the right to receive one share of the Company's common stock, or at the option of the Company, an equivalent amount of cash, and is classified as an equity award in accordance with ASC 718.

In addition to the LTIP performance conditions, there is a service vesting condition which stipulates that thirty percent of the earned award ("Tranche #1") will vest quarterly beginning November 15, 2017 and seventy percent of the earned award ("Tranche #2") will vest on August 15, 2018, in both cases dependent upon continuing service by the grantee as an employee of the Company, unless the grantee is eligible for earlier vesting upon a change in control and qualifying termination, as defined by the PSU agreement. For equity performance awards, including the PSUs, subject to graduated vesting schedules for which vesting is based on achievement of a performance metric in addition to grantee service, stock-based compensation expense is recognized on an accelerated basis by treating each vesting tranche as if it was a separate grant. For the year ended June 30, 2017, the Company determined the achievement of the performance condition was probable on Tranche #1. Achievement was believed to be probable at the highest level which equals 150% of the target award. Therefore, during the fourth quarter of fiscal 2017, the Company recorded \$3.8 million of expense for the period of grant date (September 2015) through June 2017.

On August 2, 2017, the Compensation Committee of the Company's Board of Directors certified that as of August 1, 2017, 97% of the MPS schools were not in academic jeopardy, as determined by the independent members of the Academic Committee of the Board of Directors on that date, and that the Academic Metric for Tranche #1 of the LTIP was achieved at the Outperform level. This resulted in 446,221 PSUs (including 138,241 additional PSUs due to the Outperform level) earned by the participants, consisting of 90,000 PSUs for Mr. Davis and 70,021 PSUs for Mr. Udell.

During the three months ended December 31, 2017, the Company determined the achievement of the performance conditions was probable on a portion of Tranche #2. Tranche #2 is comprised of two performance measures, an academic measure (similar to Tranche #1) and a lifetime value measure. The Company believes that achievement is probable only as it relates to the academic measure and is currently expected to meet the threshold level. Therefore, during the second quarter of fiscal year 2018, the Company recorded \$2.5 million of expense for the period of grant date (September 2015) through December 2017.

For the nine months ended March 31, 2018, the Company determined the achievement of the performance conditions associated with the lifetime value measure of Tranche #2 was not probable and therefore no expense was recorded. As of March 31, 2018, there was \$3.5 million of total unrecognized compensation expense related to the lifetime value measure of Tranche #2 assuming achievement at the target level. Additionally, if actual performance exceeds the target criteria for all of Tranche #2, then additional expense of \$5.6 million of expense would be incurred.

As of March 31, 2018, there was \$0.7 million of total unrecognized compensation expense related to nonvested PSUs for Tranches #1 and #2. During the three months ended March 31, 2018 and 2017, the Company recognized \$0.6 million and zero, respectively, of stock-based compensation expense related to PSUs. During the nine months ended March 31, 2018 and 2017, the expense was \$4.1 million and zero, respectively.

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K12 INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

Performance share unit activity during the nine months ended March 31, 2018 was as follows:

	Shares	Weighted- Average Grant-Date Fair Value
Nonvested, June 30, 2017	1,043,602	\$ 13.16
Granted	138,241	18.07
Vested	(242,383)	12.35
Canceled	(147,050)	14.02
Nonvested, March 31, 2018	792,410	\$ 13.52

8. Related Party Transactions

On September 11, 2013, the Company issued a mortgage note (“Mortgage”) lending \$2.1 million to a managed school partner (“Partner”). The note bore interest at a fixed rate of 5.25% per year with a five year maturity date and it was secured by the underlying property. During fiscal year 2016, the borrower defaulted on the loan payment, and in March 2017 the Company received the deed of ownership to the property. See Note 12, “Investments – Investment in School Mortgage.”

9. Commitments and Contingencies

Litigation

In the ordinary conduct of the Company’s business, the Company is subject to lawsuits, arbitrations and administrative proceedings from time to time. The Company believes that the outcome of any existing or known threatened

proceedings, even if determined adversely, should not have a material adverse effect on the Company's business, financial condition, liquidity or results of operations.

On July 20, 2016, a securities class action lawsuit captioned Babulal Tarapara v. K12 Inc. et al was filed against the Company, two of its officers and one of its former officers in the United States District Court for the Northern District of California, Case No. 3:16-cv-04069 ("Tarapara Case"). The plaintiff purports to represent a class of persons who purchased or otherwise acquired the Company's common stock between November 7, 2013 and October 27, 2015, inclusive, and alleges violations by the Company and the individual defendants of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated under the Exchange Act, and violations by the individual defendants of Section 20(a) of the Exchange Act. The complaint sought unspecified monetary damages and other relief. Additionally, on September 15, 2016, a second securities class action lawsuit captioned Gil Tuinenburg v. K12 Inc. et al was filed against the Company, two of its officers and one of its former officers in the United States District Court for the Northern District of California, Case No. 3:16-cv-05305 ("Tuinenburg Case"). On October 6, 2016, the Court consolidated the Tarapara Case and the Tuinenburg Case, appointed Babul Tarapara and Mark Beadle as lead plaintiffs, and recaptioned the matter as In Re K12 Inc. Securities Litigation, Master File No. 4:16-cv-04069-PJH. On December 2, 2016, the lead plaintiffs filed an amended complaint against the Company. The amended complaint named an additional former officer as a defendant and specified a class period start date of October 10, 2013. The amended complaint alleges materially false or misleading statements and omissions regarding the decision of the Agora Cyber Charter School not to renew its managed public school agreement with the Company, student academic and Scantron results, and other statements regarding student academic performance and K12's academic services and offerings. On January 30, 2017, the Company filed its motion to dismiss the amended complaint. On August 30, 2017, as a result of a hearing on April 19, 2017, the Court granted with prejudice the Company's motion to dismiss the allegations of false statements regarding Scantron scores, but denied the motion on the allegations pertaining to non-disclosure of Agora's 2012 notice of non-renewal and other statements regarding the Company's replacement contract with Agora, and permitted the plaintiffs to amend their complaint with respect to certain statements on the quality and effectiveness of the Company's programs. The plaintiffs were given until October

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K12 INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

2, 2017 to amend. On October 2, 2017, the plaintiffs filed a second amended complaint and elected not to pursue their claims regarding the statements pertaining to the quality and effectiveness of the Company's academic programs, and further dismissed two of the Company's former officers as defendants in the case. The Court accepted these stipulations on October 4, 2017. On November 16, 2017, the Company filed its answer denying the allegations and asserting its affirmative defenses. Discovery with respect to this matter is proceeding. The Company intends to continue to defend vigorously against each and every allegation and claim set forth in the second amended complaint.

Employment Agreements

The Company has entered into employment agreements with certain executive officers that provide for severance payments and, in some cases other benefits, upon certain terminations of employment. Except for the agreement with the Company's Chairman and Chief Executive Officer with an amended extended term to September 30, 2019, all other agreements provide for employment on an "at-will" basis. If the employee resigns for "good reason" or is terminated without cause, the employee is entitled to salary continuation, and in some cases benefit continuation, for varying periods depending on the agreement.

Off-Balance Sheet Arrangements

As of March 31, 2018, the Company provided guarantees of approximately \$2.2 million related to lease commitments on the buildings for certain of the Company's schools.

In addition, the Company contractually guarantees that certain schools under the Company's management will not have annual operating deficits and the Company's management fees from these schools may be reduced accordingly to cover any school operating deficits.

Other than these lease and operating deficit guarantees, the Company did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

10. Restructuring

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

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

The following table summarizes the activity during the nine months ended March 31, 2018:

Description	Initial Value (In thousands)	Balance at June 30, 2017	Payments, net of sublease income	Accretion Expense	Adjustments	Balance at March 31, 2018
Lease #1	\$ 1,652	\$ 1,421	\$ (295)	\$ 27	\$ —	\$ 1,153
Lease #2	1,311	1,138	(545)	14	47	654
Lease #3	2,443	2,282	(545)	44	(468)	1,313
Total	\$ 5,406	\$ 4,841	\$ (1,385)	\$ 85	\$ (421)	\$ 3,120

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K12 INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

11. Severance

During the three months ended March 31, 2018, the Company provided severance to its former CEO pursuant to his employment agreement in the form of compensation and an acceleration of certain equity awards. During the three and nine months ended March 31, 2018, the Company recorded severance of \$3.5 million and \$4.5 million, respectively. During the three and nine months ended March 31, 2017, the Company recorded severance of \$2.3 million and \$3.3 million.

12. Investments

Investment in Web International Education Group, Ltd. (“Web”)

In January 2011, the Company invested \$10.0 million to obtain a 20% minority interest in Web International Education Group, Ltd. (“Web”), a provider of English language learning centers in cities throughout China. On May 6, 2013, the Company exercised its right to put its investment back to Web for return of its original \$10.0 million investment. The Company reclassified this \$10.0 million investment, recording it in other current assets. During the fourth quarter of fiscal 2017, the Company recorded an impairment of \$10.0 million in the condensed consolidated statement of operations. The Company continues to work with Web, and to the extent it collects in a subsequent period, the Company will record the amount collected in other income in the period received.

Investment in School Mortgage

On September 11, 2013, the Company issued a mortgage note (“Mortgage”) lending \$2.1 million to a managed school partner (“Partner”). The note bore interest at a fixed rate of 5.25% per year with a five year maturity and it was secured by the underlying property. During fiscal year 2016, the borrower defaulted on the loan payment, and in March 2017 the Company received the deed of ownership to the property.

In the third quarter of fiscal year 2017, the Company decided to dispose of the property and classified it as an asset held for sale, and included it in other current assets on the condensed consolidated balance sheet. The Company reduced the property's estimated carrying value to \$1.2 million, resulting in an impairment loss of \$0.6 million, which was included in selling, administrative and other operating expenses on the condensed consolidated statements of operations. As of March 31, 2018, the property had been classified as a held for sale asset for greater than one year. As such, the Company reclassified the property as a held and used asset, subject to depreciation, and is included in property and equipment, net on the condensed consolidated balance sheet.

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K12 INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

13. Supplemental Disclosure of Cash Flow Information

	Nine Months Ended March 31,	
	2018	2017
	(In thousands)	
Cash paid for interest	\$ 546	\$ 575
Cash paid for taxes	\$ 11,211	\$ 4,741
Supplemental disclosure of non-cash financing activities:		
Property and equipment financed by capital lease obligations, including student peripherals	\$ 16,119	\$ 13,969
Supplemental disclosure of non-cash investing activities:		
Stock-based compensation expense capitalized on software development	\$ 1,053	\$ —
Stock-based compensation expense capitalized on curriculum development	\$ 835	\$ —
Business combinations:		
Current assets	\$ 209	\$ —
Intangible assets	695	—
Goodwill	2,983	—
Assumed liabilities	(234)	—
Deferred revenue	(361)	—
Contingent consideration	(500)	—

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

Certain statements in Management’s Discussion and Analysis or MD&A, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. H results may not indicate future performance. Our forward-looking statements reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by these statements. Factors that may cause differences between actual results and those contemplated by forward-looking statements include, but are not limited to, those discussed in “Risk Factors” in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, which we refer to as our Annual Report. We undertake no obligation to publicly update or revise any forward-looking statements, including any changes that might result from any facts, events or circumstances after the date hereof that may bear upon forward-looking statements. Furthermore, we cannot guarantee future results, events, levels of activity, performance or achievements.

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

- Executive Summary — a general description of our business and key highlights of the nine months ended March 31, 2018.
- Critical Accounting Policies and Estimates — a discussion of 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 and quantitative and qualitative disclosures about market risk.

Executive Summary

We are a technology-based education company and offer proprietary and third party curriculum, software systems, and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade, or K-12. Our learning systems combine curriculum, instruction and related support services to create an individualized learning approach well-suited for virtual and blended public schools, school districts, charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. These products and services are provided to three lines of business: Managed Public School Programs, Institutional, and Private Pay Schools and Other.

Managed Public School Programs accounted for approximately 84% of our revenues in the nine months ended March 31, 2018. The Managed Public School Programs are programs in which K12 provides substantially all of the administrative management (e.g., budget proposals, financial reporting and staff recruitment), information technology, academic support services, curriculum, learning systems and instructional services. These arrangements are negotiated with and approved by the governing authorities of our customers, which are mostly virtual and blended public schools. The duration of the Managed Public School Program service agreements are typically 2-5 years, and most provide for automatic renewals absent a customer notification within a negotiated time frame. During any fiscal year, the Company may enter into new Managed Public School agreements, receive non-renewal notices and negotiate replacement agreements, terminate the contract or receive notice of termination, or transition a school from/to and to/from a Managed Public School Program and a Non-managed Public School Program. Virtual charter school boards may also establish

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school policies and other terms and conditions over the course of a contract, such as enrollment parameters. The authorizers who issue the charters to our Managed Public School customers can renew, revoke, or modify those charters as well.

As of March 31, 2018, we provided our Managed Public School Programs to 75 schools in a majority of states throughout the United States and the District of Columbia. During this period, we entered into new contracts in two states to open Managed Public School Programs, auto renewed four agreements for schools in three states, and are now engaged in renewal negotiations in seven states, with varying degrees of modifications pending. At two schools, the boards elected not to seek renewals by their authorizers for the upcoming 2018-2019 school year, and one school board set grade enrollment sizes. As previously disclosed, the California Teachers Association ("CTA") was recognized in June 2016 as the exclusive representative for the teachers employed by the California Virtual Academies ("CAVA"), and collective bargaining negotiations pursuant to a non-binding settlement process of the Public Employee Relations Board ("PERB") were concluded on April 4, 2018. A tentative agreement has now been reached and must be ratified by the membership of the teachers union and the nine independent boards of the CAVA schools. If approved, the tentative agreement is not expected to have a material impact on the Company's financial condition or results of operations.

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

Our Private Pay Schools and Other include three accredited online private schools that we operate in which parents can enroll students on a tuition basis for a full-time online education or individual courses to supplement their children's traditional instruction. These schools are: (1) K12 International Academy, an online private school that enables us to offer students worldwide the same full-time education programs and curriculum that we provide to the virtual and blended public schools, (2) The Keystone School, a private school that offers online and correspondence courses, and (3) the George Washington University Online High School, a school that offers a college preparatory program and is designed for middle and high school students who are seeking a challenging academic experience.

For the nine months ended March 31, 2018, revenues increased to \$678.9 million from \$672.8 million in the prior year period, an increase of 0.9%. Over the same period, operating income increased to \$15.7 million, from \$8.4 million in the prior year period. Net income to common stockholders was \$18.3 million, as compared to a net income of \$6.9 million in the prior year period.

Critical Accounting Policies and Estimates

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

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Results of Operations

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

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

Enrollment Data

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

	Three Months Ended				Nine Months Ended			
	March 31, 2018	2017	2018 / 2017 Change	2017 Change %	March 31, 2018	2017	2018 / 2017 Change	2017 Change %
(In thousands, except percentages)								
Managed Public School Programs (1)(2)	110.8	103.8	7.0	6.7%	109.8	105.5	4.3	4.1%
Non-managed Public School Programs (1)	24.3	29.3	(5.0)	(17.1%)	24.1	28.8	(4.7)	(16.3%)

- (1) If a school changes from a Managed to a Non-managed Public School Program, the corresponding enrollment classification would change in the period in which the contract arrangement changed. Enrollments reported for the first quarter are equal to the official count date number, which is the first Wednesday of October in a year, or October 4, 2017 for the first quarter of fiscal year 2018 and October 6, 2016 for the first quarter of fiscal year 2017.
- (2) Managed Public School Programs include enrollments for which K12 receives no public funding or revenue.

Revenues by Business Lines

Revenues are captured by business line based on the underlying customer contractual agreements. Periodically, a customer may change business line classification, normally between Institutional line items. Changes in business line classification are effective at the time the contractual agreement is modified. The following represents our revenues for these lines of business for each of the periods indicated:

	Three Months Ended				Nine Months Ended			
	March 31,		Change 2018 / 2017		March 31,		Change 2018 / 2017	
	2018	2017	\$	%	2018	2017	\$	%
(In thousands, except percentages)								
Managed Public School Programs	\$ 200,580	\$ 187,418	\$ 13,162	7.0%	\$ 572,478	\$ 554,353	\$ 18,125	3.3%
Institutional Non-managed Public School Programs	13,250	16,031	(2,781)	(17.3%)	44,401	51,960	(7,559)	(14.5%)
Institutional Software & Services	9,605	10,234	(629)	(6.1%)	34,500	38,968	(4,468)	(11.5%)
Total Institutional Private Pay Schools and Other	22,855	26,265	(3,410)	(13.0%)	78,901	90,928	(12,027)	(13.2%)
Total	9,429	8,850	579	6.5%	27,481	27,480	1	0.0%
	\$ 232,864	\$ 222,533	\$ 10,331	4.6%	\$ 678,860	\$ 672,761	\$ 6,099	0.9%

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Financial Information

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

	Three Months Ended March 31, 2018				Nine Months Ended March 31, 2018			
			2017				2017	
	(Dollars in thousands)							
Revenues	\$ 232,864	100.0 %	\$ 222,533	100.0 %	\$ 678,860	100.0 %	\$ 672,761	100.0 %
Cost and expenses								
Instructional costs and services	148,878	63.9	136,431	61.3	435,408	64.1	418,072	62.1
Selling, administrative, and other operating expenses	62,267	26.7	69,828	31.4	220,507	32.5	236,826	35.2
Product development expenses	2,002	0.9	3,511	1.6	7,276	1.1	9,446	1.4
Total costs and expenses	213,147	91.5	209,770	94.3	663,191	97.7	664,344	98.7
Income from operations	19,717	8.5	12,763	5.7	15,669	2.3	8,417	1.3
Interest income, net	261	0.1	641	0.3	535	0.1	1,247	0.2
Income before income taxes and noncontrolling interest	19,978	8.6	13,404	6.0	16,204	2.4	9,664	1.4
Income tax benefit (expense)	(6,935)	(3.0)	(4,522)	(2.0)	1,869	0.3	(3,520)	(0.5)
Net income	13,043	5.6	8,882	4.0	18,073	2.7	6,144	0.9
Add net loss attributable to noncontrolling interest	27	0.0	233	0.1	200	0.0	790	0.1
	\$ 13,070	5.6 %	\$ 9,115	4.1 %	\$ 18,273	2.7 %	\$ 6,934	1.0 %

Net income
attributable to
common
stockholders

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

Revenues. Our revenues for the three months ended March 31, 2018 were \$232.9 million, representing an increase of \$10.4 million, or 4.7%, from \$222.5 million for the same period in the prior year. Managed Public School Program revenues increased \$13.2 million, or 7.0%, year over year. The increase in Managed Public School Program revenues was primarily attributable to the 6.7% increase in enrollments in both new and existing schools and increases in the per-pupil achieved funding, school mix (distribution of enrollments by school), and other factors.

Total Institutional revenues decreased \$3.4 million, or 13.0%, primarily due to a (17.1%) decrease in enrollments in our Non-managed Public School Programs, as well as a decline in software sales. Private Pay Schools and Other revenues increased \$0.6 million, or 6.5%, over the prior year period.

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

Instructional costs and services expenses. Instructional costs and services expenses for the three months ended March 31, 2018 were \$148.9 million, representing an increase of \$12.5 million, or 9.2%, from \$136.4 million for the same period in the prior year. This increase was primarily associated with the incremental personnel and related benefit

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costs associated with supporting higher enrollments. Instructional costs and services expenses were 63.9% of revenues during the three months ended March 31, 2018, an increase from 61.3% for the three months ended March 31, 2017.

Selling, administrative, and other operating expenses. Selling, administrative, and other operating expenses for the three months ended March 31, 2018 were \$62.3 million, representing a decrease of \$7.5 million, or 10.7% from \$69.8 million for the same period in the prior year. Included in expense for the three months ended March 31, 2017 was \$4.9 million of restructuring charges associated with three consolidated facilities, \$3.7 million in bad debt expense and \$2.3 million related to severance and accelerated stock-based compensation expense associated with reductions in headcount. Included in expense for the three months ended March 31, 2018 was severance and stock-based compensation expense of \$3.5 million primarily associated with the departure of our former Chief Executive Officer. Selling, administrative, and other operating expenses were 26.7% of revenues during the three months ended March 31, 2018, a decrease from 31.4% for the three months ended March 31, 2017.

Product development expenses. Product development expenses for the three months ended March 31, 2018 were \$2.0 million, representing a decrease of \$1.5 million, or 42.9% from \$3.5 million for the same period in the prior year. Product development expenses were 0.9% of revenues during the three months ended March 31, 2018, a decrease from 1.6% for three months ended March 31, 2017.

Interest income, net. Net interest income for the three months ended March 31, 2018 was \$0.3 million, as compared to \$0.6 million in the same period in the prior year. The decrease was primarily associated with lower interest income on certain accounts receivable, partially offset by higher interest expense associated with capital leases during the three months ended March 31, 2018, as compared to the same period in the prior year.

Income tax benefit (expense). We had an income tax expense of \$6.9 million for the three months ended March 31, 2018, or 34.7% of income before income taxes, as compared to \$4.5 million, or 33.7% of income before income taxes for the same period in the prior year. The effective tax rate for the three months ended March 31, 2018 was predominantly impacted by the lower U.S. federal statutory income tax rate, while for the three months ended March 31, 2017, the effective tax rate was predominantly impacted by prior year adjustments.

Net income. Net income was \$13.0 million for the three months ended March 31, 2018, compared to \$8.9 million for the same period in the prior year, representing an increase of \$4.1 million.

Noncontrolling interest loss. Net loss attributable to noncontrolling interest for the three months ended March 31, 2018 was \$0.0 million as compared to \$0.2 million for the same period in the prior year. The decrease is primarily related to the purchase of the remaining 49% noncontrolling interest of Learnbop, Inc. in January 2018. Noncontrolling interest reflects the after-tax income attributable to minority interest owners in our investments, and fluctuates in proportion to the operating results of the investments.

Comparison of the Nine Months Ended March 31, 2018 and 2017

Revenues. Our revenues for the nine months ended March 31, 2018 were \$678.9 million, representing an increase of \$6.1 million, or 0.9%, from \$672.8 million for the same period in the prior year. Managed Public School Program revenues increased \$18.1 million, or 3.3%, year over year. The increase in Managed Public School Program revenues was primarily attributable to the 4.1% increase in enrollments in both new and existing schools and increases in the per-pupil achieved funding, school mix (distribution of enrollments by school), and other factors.

Total Institutional revenues decreased \$12.0 million, or 13.2%, primarily due to a (16.3%) decrease in enrollments in our Non-Managed Public School Programs, as well as a decline in software sales. Private Pay Schools and Other revenues remained relatively flat over the prior year period.

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

Instructional costs and services expenses. Instructional costs and services expenses for the nine months ended March 31, 2018 were \$435.4 million, representing an increase of \$17.3 million, or 4.1%, from \$418.1 million for the

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same period in the prior year. This increase was primarily associated with the incremental personnel and related benefit costs associated with supporting higher enrollments. Instructional costs and services expenses were 64.1% of revenues during the nine months ended March 31, 2018, an increase from 62.1% for the nine months ended March 31, 2017.

Selling, administrative, and other operating expenses. Selling, administrative, and other operating expenses for the nine months ended March 31, 2018 were \$220.5 million, representing a decrease of \$16.3 million, or 6.9% from \$236.8 million for the same period in the prior year. Included in expense for the nine months ended March 31, 2017 was \$4.9 million of restructuring charges associated with three consolidated facilities, \$3.7 million in bad debt expense and \$3.3 million related to severance and accelerated stock-based compensation expense associated with reductions in headcount. Included in expense for the nine months ended March 31, 2018 was severance and stock-based compensation expense of \$4.2 million primarily associated the departure of our former Chief Executive Officer. Additionally, in comparing the nine months ended March 31, 2018 to the nine months ended March 31, 2017, there were decreases in outside professional services and salaries and benefits. Selling, administrative, and other operating expenses were 32.5% of revenues during the nine months ended March 31, 2018, a decrease from 35.2% for the nine months ended March 31, 2017.

Product development expenses. Product development expenses for the nine months ended March 31, 2018 were \$7.3 million, representing a decrease of \$2.1 million, or 22.3% from \$9.4 million for the same period in the prior year. Product development expenses were 1.1% of revenues during the nine months ended March 31, 2018, a decrease from 1.4% for the nine months ended March 31, 2017.

Interest income, net. Net interest income for the nine months ended March 31, 2018 was \$0.5 million as compared to \$1.2 million in the same period in the prior year. The decrease was primarily associated with lower interest income on certain accounts receivable, partially offset by higher interest expense associated with capital leases during the nine months ended March 31, 2018, as compared to the same period in the prior year.

Income tax benefit (expense). We had an income tax benefit of \$1.9 million for the nine months ended March 31, 2018, or (11.5)% of income before income taxes, as compared to income tax expense of \$3.5 million, or 36.4% of income before income taxes for the same period in the prior year.

On December 22, 2017, the Tax Act was enacted into law, which among other provisions, reduced the statutory federal income tax rate from 35% to 21%. We have estimated and included the provisional amounts for the potential impact of re-measurement of the Company's net U.S. deferred tax liabilities and the transition tax on the Company's accumulated unremitted foreign earnings in our financial statements for the nine months ended March 31, 2018. The analysis of the foreign earnings that is required to be completed for the transition tax is an estimate at this time and an updated transition tax will be reflected in subsequent periods once the final amounts are determined. The provisional amount for the impact of the rate change on the net deferred tax liabilities was based on an estimate which we will continue to refine as the year progresses.

The Company had an income tax benefit for the nine months ended March 31, 2018 predominantly due to the impact of the Tax Act and the tax impact of the as the adoption of Accounting Standards Update 2016-09, Compensation - Stock Compensation (“ASU 2016-09”) related to stock compensation. We will continue to analyze the Tax Act to determine the full effects of the new law.

Net income. Net income was \$18.1 million for the nine months ended March 31, 2018, compared to net income of \$6.1 million for the same period in the prior year, representing an increase in net income of \$12.0 million.

Noncontrolling interest loss. Net loss attributable to noncontrolling interest for the nine months ended March 31, 2018 was \$0.2 million as compared to \$0.8 million for the same period in the prior year. The decrease is primarily related to the purchase of the remaining 40% noncontrolling interest of Middlebury Interactive Languages in December 2016. Noncontrolling interest reflects the after-tax income attributable to minority interest owners in our investments, and fluctuates in proportion to the operating results of the investments.

Liquidity and Capital Resources

As of March 31, 2018, we had net working capital, or current assets minus current liabilities, of \$359.0 million. Our working capital includes cash and cash equivalents of \$227.9 million and accounts receivable of \$208.0 million. Our

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working capital provides a significant source of liquidity for our normal operating needs. Our accounts receivable balance fluctuates throughout the fiscal year based on the timing of customer billings and collections and tends to be highest in our first fiscal quarter as we begin billing for students. In addition, our cash and accounts receivable were significantly in excess of our accounts payable and short-term accrued liabilities at March 31, 2018.

On January 31, 2014, we executed a \$100.0 million unsecured line of credit to be used for general corporate operating purposes with Bank of America, N.A. (“BOA”). The line has a five-year term, bears interest at the higher of the Bank’s prime rate plus 0.25%, the Federal Funds Rates plus 0.75%, or LIBOR plus 1.25%; and incorporates customary financial and other covenants, including but not limited to a maximum debt leverage and a minimum fixed charge coverage ratio. As of March 31, 2018, we were in compliance with these covenants and we had no borrowings outstanding on the line of credit.

We incur capital lease obligations for student computers under a lease line of credit with PNC Equipment Finance, LLC. As of March 31, 2018 and June 30, 2017, the outstanding balance of capital leases under the current and former lease lines of credit is \$27.7 million and \$21.9 million, respectively, with lease interest rates ranging from 1.95% to 3.12%. Individual leases under the lease lines of credit include 36-month payment terms with a \$1 purchase option at the end of each lease term. We have pledged the assets financed to secure the outstanding leases.

We had \$24.2 million and \$31.9 million of remaining availability under our lease line of credit as of March 31, 2018 and June 30, 2017, respectively. Interest on unpaid principal under the lease line of credit is at a fluctuating rate of LIBOR plus 1.2%.

Our cash requirements consist primarily of day-to-day operating expenses, capital expenditures and contractual obligations with respect to office facility leases, capital equipment leases and other operating leases. We expect to make future payments on existing leases from cash generated from operations. We believe that the combination of funds to be generated from operations, net working capital on hand and access to our line of credit will be adequate to finance our ongoing operations for the foreseeable future. In addition, to a lesser degree, we continue to explore acquisitions, strategic investments and joint ventures related to our business that we may acquire using cash, stock, debt, contribution of assets or a combination thereof.

Operating Activities

Net cash provided by operating activities for the nine months ended March 31, 2018 was \$53.4 million compared to \$37.4 million for the nine months ended March 31, 2017. The increase of \$16.0 million in cash provided in operations between periods was primarily attributable to a increase in working capital of \$10.5 million and an increase in net income including non-cash addbacks of \$5.5 million. The changes in working capital were primarily attributable to decreases in accounts receivable.

Investing Activities

Net cash used in investing activities for the nine months ended March 31, 2018 was \$36.5 million compared to \$42.3 million for the nine months ended March 31, 2017, a decrease of \$5.8 million. For the nine months ended March 31, 2018, the Company invested \$2.8 million for the acquisition of Big Universe, Inc., and for the nine months ended March 31, 2017, the Company invested \$9.1 million for the acquisition of the remaining 40% noncontrolling interest of Middlebury Interactive Languages. The increase in property and equipment expenditures was offset by a decreases in curriculum and software development expenses.

During the nine months ended March 31, 2018, we recorded an adjustment related to the capitalization of software and curriculum development. See Note 3 – “Summary of Significant Accounting Policies,” to our condensed consolidated financial statements for further detail.

Financing Activities

Net cash used in financing activities for the nine months ended March 31, 2018 was \$19.9 million compared to \$14.3 million during the nine months ended March 31, 2017. Our primary uses of cash in financing activities during the nine months ended March 31, 2018 was in connection with the repurchase of restricted stock for income tax withholding and in connection with payments of capital lease obligations incurred for the acquisition of student computers. The

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increase in cash used in financing activities was due primarily to an increase of \$5.6 million in the repurchase of restricted stock for income tax withholding, partially offset by a decrease of 1.6 million in capital lease payments.

Off Balance Sheet Arrangements, Contractual Obligations and Commitments

As of March 31, 2018, we provided guarantees of approximately \$2.2 million related to lease commitments on the buildings for certain of the Company's schools.

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

Other than these lease and operating deficit guarantees, we do not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

As of March 31, 2018 and June 30, 2017, we had cash and cash equivalents totaling \$227.9 million and \$230.9 million, respectively. Our excess cash has been invested primarily in U.S. Treasury money market funds although we may also invest in money market accounts, government securities, corporate debt securities and similar investments. Future interest and investment income is subject to the impact of interest rate changes and we may be subject to changes in the fair value of our investment portfolio as a result of changes in interest rates. At March 31, 2018, a 1% gross increase in interest rates earned on cash would result in a \$2.3 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 nine months ended March 31, 2018 fluctuations in interest rates had no impact on our interest expense.

Foreign Currency Exchange Risk

We currently operate in several foreign countries, but we do not transact a material amount of business in a foreign currency. If we enter into any material transactions in a foreign currency or establish or acquire any subsidiaries that measure and record their financial condition and results of operations in a foreign currency, we will be exposed to currency transaction risk and/or currency translation risk. Exchange rates between U.S. dollars and many foreign currencies have fluctuated significantly over the last few years and may continue to do so in the future. Accordingly, we may decide in the future to undertake hedging strategies to minimize the effect of currency fluctuations on our financial condition and results of operations.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(f) of the Exchange Act) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

We carried out an evaluation, required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based

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on this review, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2018.

Changes to Internal Control over Financial Reporting

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

Part II. Other Information

Item 1. Legal Proceedings.

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

On July 20, 2016, a securities class action lawsuit captioned Babulal Tarapara v. K12 Inc. et al was filed against the Company, two of its officers and one of its former officers in the United States District Court for the Northern District of California, Case No. 3:16-cv-04069 (“Tarapara Case”). The plaintiff purports to represent a class of persons who purchased or otherwise acquired the Company’s common stock between November 7, 2013 and October 27, 2015, inclusive, and alleges violations by the Company and the individual defendants of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 10b-5 promulgated under the Exchange Act, and violations by the individual defendants of Section 20(a) of the Exchange Act. The complaint sought unspecified monetary damages and other relief. Additionally, on September 15, 2016, a second securities class action lawsuit captioned Gil Tuinenburg v. K12 Inc. et al was filed against the Company, two of its officers and one of its former officers in the United States District Court for the Northern District of California, Case No. 3:16-cv-05305 (“Tuinenburg Case”). On October 6, 2016, the Court consolidated the Tarapara Case and the Tuinenburg Case, appointed Babul Tarapara and Mark Beadle as lead plaintiffs, and recaptioned the matter as In Re K12 Inc. Securities Litigation, Master File No. 4:16-cv-04069-PJH. On December 2, 2016, the lead plaintiffs filed an amended complaint against us. The amended complaint named an additional former officer as a defendant and specified a class period start date of October 10, 2013. The amended complaint alleges materially false or misleading statements and omissions regarding the decision of the Agora Cyber Charter School not to renew its managed public school agreement with us, student academic and Scantron results, and other statements regarding student academic performance and K12’s academic services and offerings. On January 30, 2017, the Company filed its motion to dismiss the amended complaint. On August 30, 2017, as a result of a hearing on April 19, 2017, the Court granted with

prejudice the Company's motion to dismiss the allegations of false statements regarding Scantron scores, but denied the motion on the allegations pertaining to non-disclosure of Agora's 2012 notice of non-renewal and other statements regarding our replacement contract with Agora, and permitted the plaintiffs to amend their complaint with respect to certain statements on the quality and effectiveness of the Company's programs. The plaintiffs were given until October 2, 2017 to amend. On October 2, 2017, the plaintiffs filed a second amended complaint and elected not to pursue their claims regarding the statements pertaining to the quality and effectiveness of our academic programs, and further dismissed two of our former officers as defendants in the case. The Court accepted these stipulations on October 4, 2017. On November 16, 2017, the Company filed its answer denying the allegations and asserting its affirmative defenses. Discovery with respect to this matter is proceeding. The Company intends to continue to defend vigorously against each and every allegation and claim set forth in the second amended 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 on Form 10-K for the fiscal year ended June 30, 2017 as filed with the SEC on August 9, 2017.

Item 2. Issuer Purchases of Equity Securities.

None.

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Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

On April 20, 2018, the Board of Directors of the Company (“Board”) approved a First Amendment to the Second Amended and Restated Employment Agreement (“Agreement”) of Nathaniel A. Davis (“Amendment”) related to Mr. Davis’ appointment as the Chief Executive Officer (“CEO”) of the Company effective March 3, 2018. The Amendment provides for: (i) a term until September 30, 2019 that is renewable, (ii) restores the same annual base salary of \$735,000 that Mr. Davis received in his previous capacity as CEO, (iii) a one-time performance-based grant of restricted stock having a value of \$2,205,000, and (iv) beginning in FY 2019, a revised annual incentive award in the range of \$2,700,000 to \$3,300,000 subject to performance criteria and vesting to be determined by the Board and Mr. Davis at the time of the grant. Severance payments are not provided in the event that the Board determines not to renew the Agreement.

Item 6. Exhibits

(a) Exhibits.

Number	Description
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10.1	<u>First Amendment to Second Amended and Restated Employment Agreement of Nathaniel A. Davis, dated April 20, 2018.</u>
31.1	<u>Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</u>
31.2	

Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

32.1 Certification of Principal Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

32.2 Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

101 The following financial statements and footnotes from the K12 Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018, formatted in XBRL (eXtensible Business Reporting Language):
(i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Operations (unaudited), (iii) Condensed Consolidated Statements of Comprehensive Income,
(iv) Condensed Consolidated Statement of Equity (unaudited), (v) Condensed Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Condensed Consolidated Financial Statements (unaudited).

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SIGNATURES

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

K12 Inc.

/s/ JAMES J. RHYU

Name: James J. Rhyu

Title: Chief Financial Officer, Principal Accounting Officer and Authorized Signatory

Date: April 25, 2018