
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended December 31, 2022

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

Stride, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-4774688

(I.R.S. Employer
Identification No.)

**11720 Plaza America 9th Floor
Reston, VA 20190**

(Address of Principal Executive Offices)

(703) 483-7000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.0001 par value	LRN	New York Stock Exchange (NYSE)

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 every Interactive Data File required to be submitted 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 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 ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

As of January 20, 2023, the Registrant had 43,109,730 shares of common stock, \$0.0001 par value per share outstanding.

Stride, Inc.
Form 10-Q
For the Quarterly Period Ended December 31, 2022
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

STRIDE, INC. **UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	December 31, 2022	June 30, 2022 (audited)
	(In thousands except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 318,279	\$ 389,398
Accounts receivable, net of allowance of \$25,744 and \$26,993	442,166	418,558
Inventories, net	23,960	36,003
Prepaid expenses	43,822	25,974
Other current assets	100,588	80,601
Total current assets	928,815	950,534
Operating lease right-of-use assets, net	75,823	85,457
Property and equipment, net	68,124	61,537
Capitalized software, net	76,192	71,800
Capitalized curriculum development costs, net	50,557	50,580
Intangible assets, net	83,410	88,669
Goodwill	246,676	241,022
Deposits and other assets	89,694	93,946
Total assets	\$ 1,619,291	\$ 1,643,545
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 32,809	\$ 61,997
Accrued liabilities	40,909	63,200
Accrued compensation and benefits	34,083	73,027
Deferred revenue	83,799	53,630
Current portion of finance lease liability	44,377	37,389
Current portion of operating lease liability	13,281	12,830
Total current liabilities	249,258	302,073
Long-term finance lease liability	28,925	28,888
Long-term operating lease liability	65,827	75,127
Long-term debt	412,260	411,438
Deferred tax liability	10,752	3,205
Other long-term liabilities	10,370	10,233
Total liabilities	777,392	830,964
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value \$0.0001; 10,000,000 shares authorized; zero shares issued or outstanding	—	—
Common stock, par value \$0.0001; 100,000,000 shares authorized; 48,431,576 and 48,112,664 shares issued; and 43,096,833 and 42,777,921 shares outstanding, respectively	4	4
Additional paid-in capital	688,695	687,454
Accumulated other comprehensive income (loss)	187	143
Retained earnings	255,495	227,462
Treasury stock of 5,334,743 shares at cost	(102,482)	(102,482)
Total stockholders' equity	841,899	812,581
Total liabilities and stockholders' equity	\$ 1,619,291	\$ 1,643,545

See accompanying notes to unaudited condensed consolidated financial statements.

STRIDE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(In thousands except share and per share data)			
Revenues	\$ 458,435	\$ 409,507	\$ 883,585	\$ 809,733
Instructional costs and services	288,347	261,950	583,848	535,774
Gross margin	170,088	147,557	299,737	273,959
Selling, general, and administrative expenses	102,015	90,642	260,383	224,021
Income from operations	68,073	56,915	39,354	49,938
Interest expense, net	(2,082)	(1,875)	(4,128)	(3,868)
Other income, net	3,970	3,884	5,007	3,795
Income before income taxes and loss from equity method investments	69,961	58,924	40,233	49,865
Income tax expense	(18,860)	(15,928)	(11,353)	(13,035)
Loss from equity method investments	(396)	(992)	(847)	(709)
Net income attributable to common stockholders	<u>\$ 50,705</u>	<u>\$ 42,004</u>	<u>\$ 28,033</u>	<u>\$ 36,121</u>
Net income attributable to common stockholders per share:				
Basic	\$ 1.20	\$ 1.01	\$ 0.66	\$ 0.88
Diluted	\$ 1.19	\$ 1.00	\$ 0.66	\$ 0.85
Weighted average shares used in computing per share amounts:				
Basic	42,259,061	41,525,736	42,167,844	41,042,401
Diluted	42,547,334	41,963,399	42,602,405	42,413,828

See accompanying notes to unaudited condensed consolidated financial statements.

STRIDE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>Three Months Ended December 31,</u> <u>2022</u>	<u>2021</u>	<u>Six Months Ended December 31,</u> <u>2022</u>	<u>2021</u>
	(In thousands)			
Net income	\$ 50,705	\$ 42,004	\$ 28,033	\$ 36,121
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(331)	(13)	44	131
Comprehensive income attributable to common stockholders	<u>\$ 50,374</u>	<u>\$ 41,991</u>	<u>\$ 28,077</u>	<u>\$ 36,252</u>

See accompanying notes to unaudited condensed consolidated financial statements.

STRIDE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands except share data)	Stride, Inc. Stockholders' Equity							
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance, June 30, 2022	48,112,664	\$ 4	\$ 687,454	\$ 143	\$ 227,462	(5,334,743)	\$ (102,482)	\$ 812,581
Net loss	—	—	—	—	(22,672)	—	—	(22,672)
Foreign currency translation adjustment	—	—	—	375	—	—	—	375
Stock-based compensation expense	—	—	5,295	—	—	—	—	5,295
Exercise of stock options	675	—	10	—	—	—	—	10
Vesting of performance share units, net of tax withholding	48,916	—	—	—	—	—	—	—
Issuance of restricted stock awards	460,411	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(27,184)	—	—	—	—	—	—	—
Repurchase of restricted stock for tax withholding	(209,010)	—	(8,766)	—	—	—	—	(8,766)
Balance, September 30, 2022	48,386,472	\$ 4	\$ 683,993	\$ 518	\$ 204,790	(5,334,743)	\$ (102,482)	\$ 786,823
Net income	—	—	—	—	50,705	—	—	50,705
Foreign currency translation adjustment	—	—	—	(331)	—	—	—	(331)
Stock-based compensation expense	—	—	6,132	—	—	—	—	6,132
Exercise of stock options	—	—	—	—	—	—	—	—
Vesting of performance share units, net of tax withholding	31,088	—	—	—	—	—	—	—
Issuance of restricted stock awards	76,685	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(36,820)	—	—	—	—	—	—	—
Repurchase of restricted stock for tax withholding	(25,849)	—	(1,430)	—	—	—	—	(1,430)
Balance, December 31, 2022	48,431,576	\$ 4	\$ 688,695	\$ 187	\$ 255,495	(5,334,743)	\$ (102,482)	\$ 841,899

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(In thousands except share data)	Stride, Inc. Stockholders' Equity							
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance, June 30, 2021	46,911,527	\$ 4	\$ 795,449	\$ (474)	\$ 112,151	(5,334,743)	\$ (102,482)	\$ 804,648
Adjustment related to new convertible debt guidance	—	—	(89,460)	—	8,181	—	—	(81,279)
Net loss	—	—	—	—	(5,883)	—	—	(5,883)
Foreign currency translation adjustment	—	—	—	144	—	—	—	144
Stock-based compensation expense	—	—	8,050	—	—	—	—	8,050
Exercise of stock options	15,025	—	246	—	—	—	—	246
Issuance of restricted stock awards	398,943	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(34,740)	—	—	—	—	—	—	—
Repurchase of restricted stock for tax withholding	(179,151)	—	(6,020)	—	—	—	—	(6,020)
Balance, September 30, 2021	47,111,604	\$ 4	\$ 708,265	\$ (330)	\$ 114,449	(5,334,743)	\$ (102,482)	\$ 719,906
Net income	—	—	—	—	42,004	—	—	42,004
Foreign currency translation adjustment	—	—	—	(13)	—	—	—	(13)
Stock-based compensation expense	—	—	1,697	—	—	—	—	1,697
Exercise of stock options	—	—	—	—	—	—	—	—
Vesting of performance share units, net of tax withholding	1,012,374	—	—	—	—	—	—	—
Issuance of restricted stock awards	27,750	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(57,480)	—	—	—	—	—	—	—
Repurchase of restricted stock for tax withholding	(9,838)	—	(29,361)	—	—	—	—	(29,361)
Balance, December 31, 2021	48,084,410	\$ 4	\$ 680,601	\$ (343)	\$ 156,453	(5,334,743)	\$ (102,482)	\$ 734,233

See accompanying notes to unaudited condensed consolidated financial statements.

STRIDE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31,	
	2022	2021
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 28,033	\$ 36,121
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	53,714	49,327
Stock-based compensation expense	10,451	8,888
Deferred income taxes	7,995	6,008
Provision for doubtful accounts	2,173	4,730
Amortization of fees on debt	822	809
Noncash operating lease expense	7,369	10,074
Other	(2,869)	5,550
Changes in assets and liabilities:		
Accounts receivable	(25,680)	(65,606)
Inventories, prepaid expenses, deposits and other current and long-term assets	(9,177)	11,944
Accounts payable	(26,059)	(26,810)
Accrued liabilities	(10,681)	(8,570)
Accrued compensation and benefits	(38,806)	(39,157)
Operating lease liability	(5,966)	(10,662)
Deferred revenue and other liabilities	29,863	5,686
Net cash provided by (used in) operating activities	21,182	(11,668)
Cash flows from investing activities		
Purchase of property and equipment	(2,823)	(2,705)
Capitalized software development costs	(21,399)	(19,330)
Capitalized curriculum development costs	(9,527)	(7,461)
Sale of other investments	60	5,261
Acquisition of assets	(1,409)	—
Other acquisitions, loans and investments, net of distributions	(767)	(3,956)
Proceeds from the maturity of marketable securities	36,729	7,248
Purchases of marketable securities	(55,879)	(38,720)
Net cash used in investing activities	(55,015)	(59,663)
Cash flows from financing activities		
Repayments on finance lease obligations	(19,938)	(14,744)
Payments of contingent consideration	(7,024)	—
Payments of deferred purchase consideration	—	(7,858)
Proceeds from exercise of stock options	10	246
Repurchase of restricted stock for income tax withholding	(10,334)	(35,404)
Net cash used in financing activities	(37,286)	(57,760)
Net change in cash, cash equivalents and restricted cash	(71,119)	(129,091)
Cash, cash equivalents and restricted cash, beginning of period	389,398	386,582
Cash, cash equivalents and restricted cash, end of period	\$ 318,279	\$ 257,491
Reconciliation of cash, cash equivalents and restricted cash to balance sheet as of December 31st:		
Cash and cash equivalents	\$ 318,279	\$ 256,986
Other current assets (restricted cash)	—	505
Total cash, cash equivalents and restricted cash	\$ 318,279	\$ 257,491

See accompanying notes to unaudited condensed consolidated financial statements.

STRIDE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business

Stride, Inc., together with its subsidiaries (“Stride” or the “Company”) is an education services company providing virtual and blended learning. The brand reflects the Company’s continued growth into lifelong learning, regardless of a student’s age or location. The Company’s technology-based products and services enable its clients to attract, enroll, educate, track progress, and support students. These products and services, spanning curriculum, systems, instruction, and support services are designed to help learners of all ages reach their full potential through inspired teaching and personalized learning. The Company’s clients are primarily public and private schools, school districts, and charter boards. Additionally, it offers solutions to employers, government agencies and consumers. These products and services are provided through two lines of revenue:

- Products and services for the General Education market are predominantly focused on core subjects, including math, English, science and history, for kindergarten through twelfth grade students to help build a common foundation of knowledge. These programs provide an alternative to traditional school options and address a range of student needs including, safety concerns, increased academic support, scheduling flexibility, physical/health restrictions or advanced learning. Products and services are sold as a comprehensive school-as-a-service offering or à la carte.
- Career Learning products and services are focused on developing skills to enter and succeed in careers in high-growth, in-demand industries—including information technology, health care and general business. The Company provides middle and high school students with Career Learning programs that complement their core general education coursework in math, English, science and history. Stride offers multiple career pathways supported by a diverse catalog of Career Learning courses. The middle school program exposes students to a variety of career options and introduces career skill development. In high school, students may engage in industry content pathway courses, project-based learning in virtual teams, and career development services. High school students also have the opportunity to progress toward certifications, connect with industry professionals, earn college credits while in high school, and participate in job shadowing and/or work-based learning experiences that facilitate success in today’s digital, tech-enabled economy. A student enrolled in a school that offers Stride’s General Education program may elect to take Career Learning courses, but that student and the associated revenue is reported as a General Education enrollment and General Education revenue. A student and the associated revenue is counted as a Career Learning enrollment or Career Learning revenue only if the student is enrolled in a Career Learning program or school. Like General Education products and services, the products and services for the Career Learning market are sold as a comprehensive school-as-a-service offering or à la carte. The Company also offers focused post-secondary career learning programs to adult learners, through Galvanize, Inc. (“Galvanize”), Tech Elevator, Inc. (“Tech Elevator”), and MedCerts, LLC (“MedCerts”). These include skills training in the software engineering, healthcare, and medical fields, as well as providing staffing and talent development services to employers. These programs are offered directly to consumers, as well as to employers and government agencies.

2. Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2022, the condensed consolidated statements of operations and comprehensive income for the three and six months ended December 31, 2022 and 2021, the condensed consolidated statements of cash flows for the six months ended December 31, 2022 and 2021, and the condensed consolidated statements of stockholders’ equity for the three and six months ended December 31, 2022 and 2021 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements, and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company’s financial position and results of operations for the periods presented. The results for the three and six months ended December 31, 2022 are not necessarily indicative of the results to be expected for the year ending June 30, 2023, for any other interim period or for any other future fiscal year. The condensed consolidated balance sheet as of June 30, 2022 has been derived from the audited consolidated financial statements at that date.

STRIDE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

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 10, 2022, which contains the Company’s audited financial statements for the fiscal year ended June 30, 2022.

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 and adults. The Chief Operating Decision Maker evaluates profitability based on consolidated results.

3. Summary of Significant Accounting Policies

Recent Accounting Pronouncements

Accounting Standards Not Yet Adopted

In March 2020, the Financial Accounting Standards Board (“FASB”) issued ASU 2020-04, *Reference Rate Reform* (Topic 848) (“ASU 2020-04”) which provides relief to companies that will be impacted by the cessation of reference rate reform, e.g. LIBOR, that was tentatively planned for the end of fiscal year 2023. The ASU permitted an entity to consider contract modifications due to reference rate reform to be an event that did not require contract remeasurement. This ASU was applicable from March 12, 2020 through December 31, 2022 and adoption was permitted at any time during the period on a prospective basis. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which extends the provisions of Topic 848 to December 31, 2024. The Company’s senior secured revolving credit facility includes the use of alternate rates when LIBOR is not available. The Company does not expect the change from LIBOR to an alternate rate will have a material impact to its condensed consolidated financial statements and, to the extent it enters into modifications of agreements that are impacted by the LIBOR phase-out, the Company will apply such guidance to those contract modifications.

Revenue Recognition

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

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

Revenues related to the products and services that the Company provides to students in kindergarten through twelfth grade or adult learners are considered to be General Education or Career Learning based on the school or adult program in which the student is enrolled. General Education products and services are focused on core subjects, including math, English, science and history, for kindergarten through twelfth grade students to help build a common foundation of knowledge. Career Learning products and services are focused on developing skills to enter and succeed in careers in high-

STRIDE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

growth, in-demand industries—including information technology, business, and health services, for students in middle school through high school and adult learners.

The majority of the Company's contracts are with the following types of customers:

- a virtual or blended school whereby the amount of revenue is primarily determined by funding the school receives;
- a school or individual who licenses certain curriculum on a subscription or course-by-course basis; or
- an enterprise who contracts with the Company to provide job training.

Funding-based Contracts

The Company provides an integrated package of systems, services, products, and professional expertise that is administered together to support a virtual or blended public school. Contractual agreements generally span multiple years with performance obligations being isolated to annual periods which generally coincide with the Company's fiscal year. Customers of these programs can obtain administrative support, information technology, academic support services, online curriculum, learning systems platforms and instructional services under the terms of a negotiated service agreement. The schools receive funding on a per student basis from the state in which the public school or school district is located. Shipments of materials for schools that occur in the fourth fiscal quarter and for the upcoming school year are recorded in deferred revenue.

The Company generates revenues under contracts with virtual and blended public schools and include the following components, where required:

- 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;
- the use of a personal computer and associated reclamation services;
- internet access and technology support services;
- instruction by a state-certified teacher; and
- management and technology services necessary to support a virtual or blended school. In certain contracts, revenues are determined directly by per enrollment funding.

To determine the pro rata amount of revenue to recognize in a fiscal quarter, the Company estimates the total expected 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 updates as necessary, by adjusting its year-to-date earned revenues to be proportional to the total expected revenues to be earned during the fiscal year. Actual school funding may vary from these estimates and the impact of these differences could impact the Company's results of operations. Since the end of the school year coincides with the end of the Company's fiscal year, annual revenues are generally based on actual school funding and actual costs incurred (including costs for the Company's services to the schools plus other costs the schools may incur). The Company's schools' reported results are subject to annual school district financial audits, which incorporate enrollment counts, funding and other routine financial audit considerations. The results of these audits are incorporated into the Company's monthly funding estimates for the three and six months ended December 31, 2022 and 2021. Historically, aggregate funding estimates differed from actual reimbursements by less than 2% of annual revenue, which may vary from quarter to quarter.

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

STRIDE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

Under the contracts where the Company provides products and services to schools, the Company is responsible for substantially all of the expenses incurred by the school and 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 (the school's expected funding), as reflected in its respective financial statements, including Company charges to the schools. To the extent a school does not receive sufficient 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's net operating loss may reduce the Company's ability to collect its management fees in full and recognized revenues are constrained to reflect the expected cash collections from such schools. The Company records the school's estimated net operating loss against revenues based upon the percentage of actual revenues in the period to total estimated revenues for the fiscal year. Actual school net operating losses may vary from these estimates or revisions, and the impact of these differences could have a material impact on results of operations. For the three months ended December 31, 2022 and 2021, the Company's revenues included a reduction for net school operating losses at the schools of \$6.4 million and \$12.3 million, respectively, and \$16.6 million and \$25.2 million for the six months ended December 31, 2022 and 2021, respectively. Because the Company has agreed to absorb any operating losses of the schools, the Company records the expenses incurred by the school as both revenue and expenses in the condensed consolidated statements of operations. Amounts recorded as revenues and expenses for the three months ended December 31, 2022 and 2021 were \$123.0 million and \$117.7 million, respectively, and for the six months ended December 31, 2022 and 2021 were \$248.3 million and 231.6 million, respectively.

Subscription-based Contracts

The Company provides certain online curriculum and services to schools and school districts under subscription agreements. Revenues from the licensing of curriculum under subscription arrangements are recognized on a ratable basis over the subscription period. Revenues from professional consulting, training and support services are deferred and recognized ratably over the service period.

In addition, the Company contracts with individual customers who have access for one to two years to company-provided online curriculum and generally prepay for services to be received. Adult learners enroll in courses that provide specialized training in a specific industry. Each of these contracts are considered to be one performance obligation. The Company recognizes these revenues pro rata over the maximum term of the customer contract based on the defined contract price.

Enterprise Contracts

The Company provides job training over a specified contract period to enterprises. Each of these contracts are considered to be one performance obligation. The Company recognizes these revenues based on the number of students trained during the term of the contract based on the defined contract price.

Disaggregated Revenues

The revenue recognition related to the types of contracts discussed above can span both of the Company's lines of revenue as shown below. For example, a funding-based contract may include both General Education and Career Learning students. In total, there is one performance obligation and revenue is recognized over the Company's fiscal year. The revenue is then disaggregated between General Education and Career Learning based on the Company's estimated full-year enrollment totals of each category. During the three months ended December 31, 2022 and 2021, approximately 90% and 88%, respectively, of the Company's General Education revenues, and 100% and 99%, respectively, of the Company's Middle – High School Career Learning revenues, were from funding-based contracts. During the six months ended December 31, 2022 and 2021, approximately 90% and 89%, respectively, of the Company's General Education revenues,

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and 99% and 99%, respectively, of the Company's Middle – High School Career Learning revenues, were from funding-based contracts.

The following table presents the Company's revenues disaggregated based on its two lines of revenue for the three and six months ended December 31, 2022 and 2021:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(In thousands)			
General Education	\$ 274,764	\$ 313,241	\$ 546,422	\$ 619,582
Career Learning				
Middle - High School	153,795	75,287	279,330	146,699
Adult	29,876	20,979	57,833	43,452
Total Career Learning	183,671	96,266	337,163	190,151
Total Revenues	<u>\$ 458,435</u>	<u>\$ 409,507</u>	<u>\$ 883,585</u>	<u>\$ 809,733</u>

Concentration of Customers

During the three and six months ended December 31, 2022 and 2021, the Company had no contracts that represented greater than 10% of total revenues.

Contract Balances

The timing of revenue recognition, invoicing, and cash collection results in accounts receivable, unbilled receivables (a contract asset) and deferred revenue (a contract liability) in the condensed consolidated balance sheets. Accounts receivable are recorded when there is an executed customer contract and the customer is billed. An allowance is recorded to reflect expected losses at the time the receivable is recorded. The collectability of outstanding receivables is evaluated regularly by the Company to determine if additional allowances are needed. Unbilled receivables are created when revenue is earned prior to the customer being billed. Deferred revenue is recorded when customers are billed or cash is collected in advance of services being provided.

The opening and closing balance of the Company's accounts receivable, unbilled receivables and deferred revenue are as follows:

	December 31,	June 30,
	2022	2022
	(In thousands)	
Accounts receivable	\$ 442,166	\$ 418,558
Unbilled receivables (included in accounts receivable)	15,997	19,702
Deferred revenue	83,799	53,630
Deferred revenue, long-term (included in other long-term liabilities)	2,565	3,099

The difference between the opening and closing balance of the accounts receivable and unbilled receivables relates to the timing of the Company's billing in relation to month end and contractual agreements. The difference between the opening and closing balance of the deferred revenue relates to the timing difference between billings to customers and the service periods under the contract. Typically, each of these balances are at their highest during the first quarter of the fiscal year and lowest at the end of the fiscal year. The amount of revenue recognized during the three months ended December 31, 2022 and 2021 that was included in the previous October 1st deferred revenue balance was \$42.8 million and \$34.7 million, respectively. The amount of revenue recognized during the six months ended December 31, 2022 and 2021 that was included in the previous July 1st deferred revenue balance was \$40.6 million and \$33.0 million, respectively. During the three months ended December 31, 2022 and 2021, the Company recorded revenues of \$24.5 million and \$4.6 million, respectively, and \$24.0 million and \$6.9 million, respectively, during the six months ended December 31, 2022 and 2021, related to performance obligations satisfied in prior periods.

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Performance Obligations

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

The Company has elected, as a practical expedient, not to report the value of unsatisfied performance obligations for contracts with customers that have an expected duration of one year or less. The amount of unsatisfied performance obligations for contracts with customers which extend beyond one year as of December 31, 2022 was \$2.6 million.

Significant Judgments

The Company determined that the majority of its contracts with customers contain one performance obligation. The Company markets the products and services as an integrated package building off its curriculum offerings. It does not market distinct products or services to be sold independently from the curriculum offering. The Company provides the significant service of integrating the goods and services into the operation of the school and education of its students, for which the customer has contracted.

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

The Company determined that the expected value method is the most appropriate method to account for variable consideration and the Company's forecasting method is an estimation process that uses probability to determine expected funding. On a monthly basis, the Company estimates the total funds each school will receive in a particular school year and the amount of full-year school revenues and operating expenses to determine the amount of revenue the Company will recognize. Enrollment and state funding rates are key inputs to this estimate. The estimates are adjusted monthly, and a cumulative catch-up adjustment is recorded to revenue as necessary to reflect the total revenues earned to date to be proportional to the total revenues to be earned in the fiscal year. The Company builds in known constraints (i.e. enrollment, funding, net operating losses, etc.) into the estimate of the variable consideration to record the most probable amount.

Sales Taxes

Sales tax collected from customers is excluded from revenues. Collected but unremitted sales tax is included as part of accrued liabilities in the condensed consolidated balance sheets. Revenues do not include sales tax as the Company considers itself a pass-through conduit for collecting and remitting sales tax.

Consolidation

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

Investments in Marketable Securities

The Company's marketable securities generally consist of bonds and other securities which are classified as held-to-maturity. The securities with maturities between three months and one year are classified as short-term and are included

STRIDE, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

in other current assets on the condensed consolidated balance sheets. The securities with maturities greater than one year are classified as long-term and are included in deposits and other assets on the condensed consolidated balance sheets. Held-to-maturity securities are recorded at their amortized cost. Interest income and dividends are recorded within the condensed consolidated statements of operations.

The Company reviews the held-to-maturity debt securities for declines in fair value below the amortized cost basis under the credit loss model of Accounting Standards Codification (“ASC”) Topic 326, *Financial Instruments – Credit Losses* (“ASC 326”). Any decline in fair value related to a credit loss is recognized in the condensed consolidated statements of operations, with the amount of the loss limited to the difference between fair value and amortized cost. As of December 31, 2022 and June 30, 2022, the allowance for credit losses related to held-to-maturity debt securities was zero.

As of December 31, 2022, the Company’s marketable securities consisted of investments in corporate bonds, U.S. treasury notes and commercial paper. The short-term and long-term portions were \$82.9 million and \$21.0 million, respectively. The maturities of the Company’s long-term marketable debt securities range from one to two years. The following table summarizes the amortized cost, net carrying amount, and fair value disaggregated by class of instrument (in thousands).

	<u>Amortized Cost</u>	<u>Allowance for Credit Losses</u>	<u>Net Carrying Amount</u>	<u>Gross Unrealized Gains (Losses)</u>	<u>Fair Value</u>
Corporate Bonds	\$ 57,820	\$ -	\$ 57,820	\$ (687)	\$ 57,133
U.S. Treasury Notes	26,256	-	26,256	(174)	26,082
Commercial Paper	19,811	-	19,811	-	19,811
Total	\$ 103,887	\$ -	\$ 103,887	\$ (861)	\$ 103,026

As of June 30, 2022, the Company’s marketable securities consisted of investments in corporate bonds, U.S. treasury notes and commercial paper. The short-term and long-term portions were \$63.0 million and \$21.7 million, respectively. The maturities of the Company’s long-term marketable debt securities range from one to two years. The following table summarizes the amortized cost, net carrying amount, and fair value disaggregated by class of instrument (in thousands).

	<u>Amortized Cost</u>	<u>Allowance for Credit Losses</u>	<u>Net Carrying Amount</u>	<u>Gross Unrealized Gains (Losses)</u>	<u>Fair Value</u>
Corporate Bonds	\$ 50,067	\$ -	\$ 50,067	\$ (691)	\$ 49,376
U.S. Treasury Notes	16,399	-	16,399	(199)	16,200
Commercial Paper	18,186	-	18,186	-	18,186
Total	\$ 84,652	\$ -	\$ 84,652	\$ (890)	\$ 83,762

Allowance for Doubtful Accounts

The Company maintains an allowance for uncollectible accounts primarily for estimated losses resulting from the inability or failure of individual customers to make required payments. The Company maintains an allowance under ASC 326 based on historical losses, changes in payment history, customer-specific information, current economic conditions, and reasonable and supportable forecasts of future economic conditions. The allowance under ASC 326 is updated as additional losses are incurred or information becomes available related to the customer or economic conditions.

The Company writes-off accounts receivable based on the age of the receivable and the facts and circumstances surrounding the customer and reasons for non-payment. Actual write-offs might differ from the recorded allowance.

Inventories

Inventories consist primarily of textbooks and curriculum materials, a majority of which are supplied to virtual 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 Company classifies its inventory

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as current or long-term based on the holding period. As of December 31, 2022 and June 30, 2022, \$10.8 million and \$11.2 million, respectively, of inventory, net of reserves, was deemed long-term and included in deposits and other assets on the condensed consolidated balance sheets. 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 \$7.5 million and \$6.5 million at December 31, 2022 and June 30, 2022, 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. Additionally, other current assets include short-term marketable securities.

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 the finance lease). Amortization of assets capitalized under finance 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 determination of the lease term is discussed below under “Leases.”

Property and equipment are depreciated over the following useful lives:

	Useful Life
Student and state testing computers and printers	3 - 5 years
Computer hardware	3 - 7 years
Computer software	3 - 5 years
Web site development	3 years
Office equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	Shorter of useful life or term of the lease

The Company makes an estimate of unreturned student computers and printers based on an analysis of recent trends of returns. The Company recorded accelerated depreciation of \$1.4 million and \$1.3 million for the three months ended December 31, 2022 and 2021, respectively, and \$3.1 million and \$1.9 million for the six months ended December 31, 2022 and 2021, respectively, related to unreturned student computers and printers.

Depreciation expense, including accelerated depreciation, related to computers and printers provided to students reflected in instructional costs and services for the three months ended December 31, 2022 and 2021 was \$10.3 million and \$9.8 million, respectively, and \$20.6 million and \$17.9 million, respectively, during the six months ended December 31, 2022 and 2021. Depreciation expense related to property and equipment reflected in selling, general, and administrative expenses for the three months ended December 31, 2022 and 2021 was \$1.0 million and \$1.2 million, respectively and \$2.6 million and \$2.3 million, respectively, during the six months ended December 31, 2022 and 2021.

The Company fully expenses computer peripheral equipment (e.g., keyboards, mice) upon purchase as recovery has been determined to be uneconomical. These expenses totaled \$0.6 million and \$2.5 million for the three months ended December 31, 2022 and 2021, respectively, and \$1.8 million and \$7.3 million for the six months ended December 31, 2022 and 2021, 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. 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.

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Capitalized software additions totaled \$21.4 million and \$19.3 million for the six months ended December 31, 2022 and 2021, respectively. The Company recorded amortization expense related to capitalized software of \$7.4 million and \$5.9 million during the three months ended December 31, 2022 and 2021, respectively, and \$13.1 million and \$12.1 million during the six months ended December 31, 2022 and 2021, respectively, within instructional costs and services. Amortization expense related to capitalized software reflected in selling, general, and administrative expenses during the three months ended December 31, 2022 and 2021 was \$1.3 million and \$1.3 million, respectively and \$2.7 million and \$2.6 million, respectively, during the six months ended December 31, 2022 and 2021.

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, as well as 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 \$9.5 million and \$7.5 million for the six months ended December 31, 2022 and 2021, respectively. These amounts are recorded on the condensed consolidated balance sheets net of amortization charges. Amortization expense for the three months ended December 31, 2022 and 2021 was \$4.1 million and \$3.8 million, respectively, and \$8.2 million and \$8.0 million for the six months ended December 31, 2022 and 2021, respectively, and is recorded in instructional costs and services.

Leases

The Company's principal leasing activities include student computers and peripherals, classified as finance leases, and facilities, classified as operating leases.

Leases are classified as operating leases unless they meet any of the criteria below to be classified as a finance lease:

- the lease transfers ownership of the asset at the end of the lease;
- the lease grants an option to purchase the asset which the lessee is expected to exercise;
- the lease term reflects a major part of the asset's economic life;
- the present value of the lease payments equals or exceeds the fair value of the asset; or
- the asset is specialized with no alternative use to the lessor at the end of the term.

Finance Leases

The Company enters into agreements to finance the purchase of student computers and peripherals provided to students of its schools. Individual leases typically include 3-year payment terms, at varying rates. The Company pledges the assets financed to secure the outstanding leases.

Operating Leases

The Company enters into agreements for facilities that serve as offices for its headquarters and school operations. Lease terms vary between 1 and 11 years. Certain leases include renewal options, usually based upon current market rates,

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as well as termination rights. The Company performs an evaluation of each lease to determine if the lease payments included in the renewal option should be included in the initial measurement of the lease liability.

Discount Rate

The present value of the lease payments is calculated using either the rate implicit in the lease, or the lessee's incremental borrowing rate, over the lease term. For the Company's finance leases, the stated rate is defined within the lease terms; while for the Company's operating leases, the rate is not implicit. For operating leases, the Company uses its incremental borrowing rate as the discount rate; determined as the Company's borrowing rate on a collateralized basis for a similar term and amount to the term and amount of the lease. The Company's current incremental borrowing rate of 4.42% is based upon its agreements used for its finance leases. The incremental borrowing rate is subsequently reassessed upon modification of its leasing arrangements or with the execution of a new lease agreement.

Policy Elections

Short-term Leases

The Company has elected as an on-going accounting policy election not to record a right-of-use asset or lease liability on its short-term facility leases of 12 months or less, and will expense its lease payments on a straight-line basis over the lease term. The accounting policy election is made by class of underlying asset to which the right of use relates. The Company has elected to apply the accounting policy election only to operating leases.

Income Taxes

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. The net deferred tax asset is 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.

Goodwill and Intangible Assets

The Company records as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired. Finite-lived intangible assets acquired in business combinations subject to amortization are recorded at their fair value. Finite-lived intangible assets include trade names, acquired customers and distributors, developed technology and non-compete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense for the three months ended December 31, 2022 and 2021 was \$3.3 million and \$3.2 million, respectively, and \$6.6 million and \$6.4 million for the six months ended December 31, 2022 and 2021, respectively, and is included within selling, general, and administrative expenses in the condensed consolidated statements of operations. Future amortization of intangible assets is expected to be \$6.5 million, \$12.1 million, \$10.9 million, \$9.7 million, and \$8.1 million in the fiscal years ending June 30, 2023 through June 30, 2027, respectively, and \$35.9 million thereafter.

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

The Company has one reporting unit. The process for testing goodwill and intangible assets with indefinite lives for impairment is performed annually, as well as when an event triggering impairment may have occurred. Companies are also allowed to qualitatively assess goodwill impairment through a screening process which would permit companies to forgo the quantitative impairment test as part of their annual goodwill impairment process. The Company performs its annual assessment on May 31st which is then updated for any changes in condition as of June 30th.

During the three and six months ended December 31, 2022 and 2021, 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 December 31, 2022 and June 30, 2022:

(\$ in millions)	December 31, 2022			June 30, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade names	\$ 85.1	\$ (25.9)	\$ 59.2	\$ 85.1	\$ (23.1)	\$ 62.0
Customer and distributor relationships	39.8	(27.4)	12.4	38.9	(25.3)	13.6
Developed technology	22.0	(10.5)	11.5	21.7	(8.9)	12.8
Other	1.4	(1.1)	0.3	1.4	(1.1)	0.3
Total	<u>\$ 148.3</u>	<u>\$ (64.9)</u>	<u>\$ 83.4</u>	<u>\$ 147.1</u>	<u>\$ (58.4)</u>	<u>\$ 88.7</u>

Impairment of Long-Lived Assets

Long-lived assets include property, equipment, right-of-use assets, capitalized curriculum and software developed or obtained for internal use. 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 six months ended December 31, 2022 and 2021, there were no events or changes in circumstances that may indicate that the carrying amount of the long-lived assets may not be recoverable.

Fair Value Measurements

Fair value is 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. Measurements are described in 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.

The three levels of inputs used to measure fair value are:

- 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 condensed consolidated balance sheets for cash and cash equivalents, receivables, and short-term debt approximate their fair values, as they are largely short-term in nature. The Tallo, Inc. convertible note is discussed in more detail in Note 11, "Acquisitions and Investments." As of December 31, 2022, the estimated fair value of the long-term debt was \$377.2 million. The Company estimated the fair value based on the quoted market prices in an inactive market on the last day of the reporting period (Level 2). The long-term debt, comprised of the Company's convertible senior notes due 2027, is recorded at face value less the unamortized debt issuance costs on its condensed consolidated balance sheet, and is discussed in more detail in Note 6, "Debt." As of December 31, 2022, the estimated fair value of the Company's marketable securities was \$103.0 million. The Company estimated the fair value based on the

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quoted market prices in an inactive market on the last day of the reporting period (Level 2). The marketable securities are discussed in more detail in Note 3, "Summary of Significant Accounting Policies - Investments in Marketable Securities."

On November 30, 2020, the Company acquired 100% of MedCerts in exchange for \$70.0 million and estimated contingent consideration of \$10.8 million. During fiscal year 2021 and 2022, the Company recorded an aggregate expense of \$0.5 million to adjust its estimate of the fair value of the contingent consideration to \$11.3 million. During the three months ended September 30, 2022, the Company paid \$7.0 million to settle the contingent consideration and recorded a gain of \$4.3 million. The gain is recorded within selling, general, and administrative expenses on the condensed consolidated statements of operations.

There were no assets or liabilities measured at fair value on a recurring basis as of December 31, 2022.

The following table summarizes certain fair value information at June 30, 2022 for assets or liabilities measured at fair value on a recurring basis:

Description	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Contingent consideration associated with acquisitions	\$ 11,290	\$ —	\$ —	\$ 11,290
Convertible note received in acquisition	\$ 889	\$ —	\$ —	\$ 889

There was no activity related to the Company's fair value measurements categorized as Level 3 during the three months ended December 31, 2022.

The following table presents activity related to the Company's fair value measurements categorized as Level 3 in the valuation hierarchy, valued on a recurring basis, for the three months ended December 31, 2021 and six months ended December 31, 2022 and 2021:

Description	Three Months Ended December 31, 2021			
	Fair Value September 30, 2021	Purchases, Issuances, and Settlements	Unrealized (Gains) Losses	Fair Value December 31, 2021
		(In thousands)		
Contingent consideration associated with acquisitions	\$ 11,205	\$ —	\$ 521	\$ 11,726
Convertible note received in acquisition	\$ 5,006	\$ —	\$ —	\$ 5,006

Description	Six Months Ended December 31, 2022			
	Fair Value June 30, 2022	Purchases, Issuances, and Settlements	Realized (Gains) Losses	Fair Value December 31, 2022
		(In thousands)		
Contingent consideration associated with acquisitions	\$ 11,290	\$ (7,024)	\$ (4,266)	\$ —
Convertible note received in acquisition	889	(889)	—	—

Description	Six Months Ended December 31, 2021			
	Fair Value June 30, 2021	Purchases, Issuances, and Settlements	Unrealized (Gains) Losses	Fair Value December 31, 2021
		(In thousands)		
Contingent consideration associated with acquisitions	\$ 11,082	\$ —	\$ 644	\$ 11,726
Convertible note received in acquisition	\$ 5,006	\$ —	\$ —	\$ 5,006

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Net Income (Loss) Per Common Share

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 and vesting of all dilutive unvested restricted stock awards. The dilutive effect of stock options and restricted stock awards was determined using the treasury stock method. Under the treasury stock method, the proceeds received from the exercise of stock options and restricted stock awards, the amount of compensation cost for future service not yet recognized by the Company and the amount of tax benefits that would be recorded as income tax expense when the stock options become deductible for income tax purposes are all assumed to be used to repurchase shares of the Company's common stock. Stock options and restricted stock awards are not included in the computation of diluted net income (loss) per share when they are antidilutive. Common stock outstanding reflected in the Company's condensed consolidated balance sheets includes restricted stock awards outstanding. The dilutive effect of the Company's convertible debt is determined using the if-converted method when the Company's stock is trading above the conversion price. However, based on the structure of the instrument and how it is settled upon conversion, it would produce a similar result as the previously applied treasury stock method.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
(In thousands except share and per share data)				
Basic net income per share computation:				
Net income attributable to common stockholders	\$ 50,705	\$ 42,004	\$ 28,033	\$ 36,121
Weighted average common shares — basic	42,259,061	41,525,736	42,167,844	41,042,401
Basic net income per share	\$ 1.20	\$ 1.01	\$ 0.66	\$ 0.88
Diluted net income per share computation:				
Net income attributable to common stockholders	\$ 50,705	\$ 42,004	\$ 28,033	\$ 36,121
Share computation:				
Weighted average common shares — basic	42,259,061	41,525,736	42,167,844	41,042,401
Effect of dilutive stock options and restricted stock awards	288,273	437,663	434,561	1,371,427
Weighted average common shares — diluted	42,547,334	41,963,399	42,602,405	42,413,828
Diluted net income per share	\$ 1.19	\$ 1.00	\$ 0.66	\$ 0.85

For the three months ended December 31, 2022 and 2021, 44,546 and 5,193 shares issuable in connection with stock options and restricted stock were excluded from the diluted income per common share calculation because the effect would have been antidilutive. For the six months ended December 31, 2022, 26,789 and 102,536 shares were excluded, respectively.

4. Income Taxes

The provision for income taxes is based on earnings reported in the condensed consolidated financial statements. A deferred income tax asset or liability is determined by applying currently enacted tax laws and rates to the expected reversal of the cumulative temporary differences between the carrying value of assets and liabilities for financial statement and income tax purposes. Deferred income tax expense or benefit is measured by the change in the deferred income tax asset or liability during the period. For the three months ended December 31, 2022 and 2021, the Company's effective income tax rate was 27.1% and 27.5%, respectively, and for the six months ended December 31, 2022 and 2021, the rate was 28.8% and 26.5%, respectively.

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On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was enacted and signed into law. The Company has evaluated the business provisions in the CARES Act and adopted the deferral of the employer portion of the social security payroll tax (6.2%) outlined within. The deferral was effective from the enactment date through December 31, 2020. The deferred amount of \$14.1 million will be paid in two installments, \$7.05 million of the deferred amount was paid in December 2021 and the remaining \$7.05 million was paid in December 2022.

5. Finance and Operating Leases

Finance Leases

The Company is a lessee under finance leases for student computers and peripherals under agreements with Banc of America Leasing & Capital, LLC (“BALC”) and CSI Leasing, Inc. (“CSI Leasing”). As of December 31, 2022 and June 30, 2022, the finance lease liability was \$73.3 million and \$66.3 million, respectively, with lease interest rates ranging from 1.52% to 5.83%. As of December 31, 2022 and June 30, 2022, the balance of the associated right-of-use assets was \$51.0 million and \$42.7 million, respectively. The right-of-use asset is recorded within property and equipment, net on the condensed consolidated balance sheets. Lease amortization expense associated with the Company’s finance leases is recorded within instructional costs and services on the condensed consolidated statements of operations.

The Company entered into an agreement with BALC in April 2020 for \$25.0 million (increased to \$41.0 million in July 2020) to provide financing for its leases through March 2021 at varying rates. The Company entered into additional agreements during fiscal year 2021 to provide financing of \$54.0 million for its student computers and peripherals leases through October 2022 at varying rates. Individual leases with BALC include 36 month payment terms, fixed rates ranging from 1.52% to 5.83%, and a \$1 purchase option at the end of each lease term. The Company has pledged the assets financed to secure the outstanding leases.

The Company entered into an agreement with CSI Leasing in August 2022 to provide financing for its leases. Individual leases under the agreement with CSI Leasing include 36-month payments terms, at varying rates. The Company did not enter into any individual leases under the agreement through December 31, 2022.

The following is a summary, as of December 31, 2022 and June 30, 2022, respectively, of the present value of the net minimum lease payments under the Company’s finance leases:

	<u>December 31, 2022</u>	<u>June 30, 2022</u>
	(in thousands)	
2023	\$ 24,022	\$ 38,600
2024	34,593	24,816
2025	14,244	4,468
2026	3,194	22
Total minimum payments	76,053	67,906
Less: imputed interest	(2,751)	(1,629)
Finance lease liability	73,302	66,277
Less: current portion of finance lease liability	(44,377)	(37,389)
Long-term finance lease liability	<u>\$ 28,925</u>	<u>\$ 28,888</u>

Operating Leases

The Company is a lessee under operating leases for various facilities to support the Company’s operations. As of December 31, 2022 and June 30, 2022, the operating lease liability was \$79.1 million and \$88.0 million, respectively. As of December 31, 2022 and June 30, 2022, the balance of the associated right-of-use assets was \$75.8 million and \$85.5 million, respectively. Lease expense associated with the Company’s operating leases is recorded within both instructional costs and services and selling, general, and administrative expenses on the condensed consolidated statements of operations.

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Individual operating leases range in terms of 1 to 11 years and expire on various dates through fiscal year 2034 and the minimum lease payments are discounted using the Company's incremental borrowing rate.

The following is a summary as of December 31, 2022 and June 30, 2022, respectively, of the present value of the minimum lease payments under the Company's operating leases:

	<u>December 31, 2022</u>	<u>June 30, 2022</u>
	<u>(in thousands)</u>	
2023	\$ 7,321	\$ 15,120
2024	16,115	16,638
2025	15,436	16,168
2026	12,051	12,900
2027	8,518	8,797
Thereafter	27,455	27,447
Total minimum payments	<u>86,896</u>	<u>97,070</u>
Less: imputed interest	<u>(7,788)</u>	<u>(9,113)</u>
Operating lease liability	79,108	87,957
Less: current portion of operating lease liability	<u>(13,281)</u>	<u>(12,830)</u>
Long-term operating lease liability	<u>\$ 65,827</u>	<u>\$ 75,127</u>

The Company is subleasing one of its facilities through July 2023, one through November 2024 and one through December 2025. Sublease income is recorded as an offset to the related lease expense within both instructional costs and services and selling, general, and administrative expenses on the condensed consolidated statements of operations. The following is a summary as of December 31, 2022 and June 30, 2022, respectively, of the expected sublease income:

	<u>December 31, 2022</u>	<u>June 30, 2022</u>
	<u>(in thousands)</u>	
2023	\$ 698	\$ 1,396
2024	665	665
2025	412	412
2026	140	140
Total sublease income	<u>\$ 1,915</u>	<u>\$ 2,613</u>

The following is a summary of the Company's lease cost, weighted-average remaining lease term, weighted-average discount rate and certain other cash flows as it relates to its operating leases for the three and six months ended December 31, 2022 and 2021:

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(in thousands)			
Lease cost				
Finance lease cost:				
Amortization of right-of-use assets	\$ 10,018	\$ 9,368	\$ 19,952	\$ 16,988
Interest on lease liabilities	507	445	895	862
Instructional costs and services:				
Operating lease cost	2,640	3,931	6,354	7,866
Short-term lease cost	31	16	56	35
Sublease income	(270)	(247)	(552)	(579)
Selling, general, and administrative expenses:				
Operating lease cost	586	1,777	1,172	3,443
Short-term lease cost	47	4	140	9
Sublease income	(80)	(182)	(160)	(311)
Total lease cost	<u>\$ 13,479</u>	<u>\$ 15,112</u>	<u>\$ 27,857</u>	<u>\$ 28,313</u>
Other information				
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	\$ (3,361)	\$ (5,341)	\$ (5,966)	\$ (10,662)
Financing cash flows from finance leases	(10,624)	(7,724)	(19,938)	(14,744)
Right-of-use assets obtained in exchange for new finance lease liabilities	5,305	6,898	25,212	20,881
Right-of-use assets obtained in exchange for new operating lease liabilities	—	—	576	6,805
Weighted-average remaining lease term - finance leases			1.84 yrs.	2.27 yrs.
Weighted-average remaining lease term - operating leases			6.35 yrs.	6.73 yrs.
Weighted-average discount rate - finance leases			3.31 %	2.40 %
Weighted-average discount rate - operating leases			2.77 %	2.76 %

6. Debt

The following is a summary, as of December 31, 2022 and June 30, 2022, respectively, of the components of the Company's outstanding long-term debt:

	<u>December 31, 2022</u>	<u>June 30, 2022</u>
	(in thousands)	
Convertible Senior Notes due 2027	\$ 420,000	\$ 420,000
Less: unamortized debt issuance costs	(7,740)	(8,562)
Total debt	412,260	411,438
Less: current portion of debt	—	—
Long-term debt	<u>\$ 412,260</u>	<u>\$ 411,438</u>

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Convertible Senior Notes due 2027

In August and September 2020, the Company issued \$420.0 million aggregate principal amount of 1.125% Convertible Senior Notes due 2027 (“Notes”). The Notes are governed by an indenture (the “Indenture”) between the Company and U.S. Bank National Association, as trustee. The net proceeds from the offering of the Notes were approximately \$408.6 million after deducting the underwriting fees and other expenses paid by the Company.

The Notes bear interest at a rate of 1.125% per annum, payable semi-annually in arrears on March 1st and September 1st of each year, beginning on March 1, 2021. The Notes will mature on September 1, 2027. During the three months ended December 31, 2022 and 2021, the Company recorded coupon interest expense of \$1.2 million and \$1.2 million, respectively, and \$2.4 million and \$2.4 million, respectively, for the six months ended December 31, 2022 and 2021.

The Company incurred debt issuance costs of \$11.4 million which are amortized over the contractual term of the Notes. During the three months ended December 31, 2022 and 2021, the Company recorded interest expense related to the amortization of the debt issuance costs of \$0.4 million and \$0.4 million, respectively, and \$0.8 million and \$0.8 million, respectively, during the six months ended December 31, 2022 and 2021.

Before June 1, 2027, noteholders will have the right to convert their Notes only upon the occurrence of certain events. After June 1, 2027, noteholders may convert their Notes at any time at their election until two days prior to the maturity date. The Company will settle conversions by paying cash up to the outstanding principal amount, and at the Company’s election, will settle the conversion spread by paying or delivering cash or shares of its common stock, or a combination of cash and shares of its common stock. The initial conversion rate is 18.9109 shares of common stock per \$1,000 principal amount of Notes, which represents an initial conversion price of approximately \$52.88 per share of common stock (lower strike price). The Notes will be redeemable at the Company’s option at any time after September 6, 2024 at a cash redemption price equal to the principal amount of the Notes, plus accrued and unpaid interest, subject to certain stock price hurdles as discussed in the Indenture.

In connection with the Notes, the Company entered into privately negotiated capped call transactions (the “Capped Call Transactions”) with certain counterparties. The Capped Call Transactions are expected to cover the aggregate number of shares of the Company’s common stock that initially underlie the Notes, and are expected to reduce potential dilution to the Company’s common stock upon any conversion of Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted Notes. The upper strike price of the Capped Call Transactions is \$86.174 per share. The cost of the Capped Call Transactions was \$60.4 million and was recorded within additional paid-in capital.

7. Credit Facility

On January 27, 2020, the Company entered into a \$100.0 million senior secured revolving credit facility (“Credit Facility”) to be used for general corporate operating purposes with PNC Capital Markets LLC. The Credit Facility has a five-year term and incorporates customary financial and other covenants, including but not limited to a maximum leverage ratio and a minimum interest coverage ratio. The majority of the Company’s borrowings under the Credit Facility were at LIBOR plus an additional rate ranging from 0.875% - 1.50% based on the Company’s leverage ratio as defined in the agreement. The Credit Facility is secured by the Company’s assets. The Credit Facility agreement allows for an amendment to establish a new benchmark interest rate when LIBOR is discontinued during the five-year term. As of December 31, 2022, the Company was in compliance with the financial covenants. As part of the proceeds received from the Notes, the Company repaid its \$100.0 million outstanding balance and as of December 31, 2022, the Company had no amounts outstanding on the Credit Facility. The Credit Facility also includes a \$200.0 million accordion feature.

8. Equity Incentive Plan

On December 9, 2022, the Company’s stockholders approved an amendment and restatement of the 2016 Equity Incentive Award Plan (the “2016 Plan”). The amended and restated 2016 Plan reflects an increase in the number of shares of common stock available for issuance by 1,045,000 shares, the removal of certain provisions that were otherwise required for awards to qualify as performance-based compensation under an exception to Section 162(m) of the Internal Revenue

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Code of 1986, as amended, prior to its repeal, an extension of the term of the amended and restated 2016 Plan to October 7, 2032, an increase to the limit on the number of shares that may be issued upon the exercise of incentive stock options, and a prohibition on the payment of dividends and dividend equivalents on unvested awards.

The amended and restated 2016 Plan is designed to attract, retain and motivate employees who make important contributions to the Company by providing such individuals with equity ownership opportunities. Awards granted under the Plan may include stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock-based awards. Under the amended and restated 2016 Plan, unissued shares related to forfeited or cancelled awards granted under the amended and restated 2016 Plan or awards granted under the Company's 2007 Equity Incentive Award Plan (the "Prior Plan") (to the extent such awards granted under the Prior Plan were outstanding as of December 15, 2016 and were forfeited or cancelled prior to September 19, 2022), will again be available for issuance under the amended and restated 2016 Plan. Notwithstanding the foregoing, shares tendered to pay the exercise price or tax withholding with respect to a stock option, or shares that are not issued in connection with the settlement of a stock appreciation right on exercise thereof, or shares purchased on the open market with the cash proceeds from the exercise of options will not again be available for issuance under the amended and restated 2016 Plan.

As of December 31, 2022, the remaining aggregate number of shares of the Company's common stock authorized for future issuance under the amended and restated 2016 Plan was 2,457,533. As of December 31, 2022, there were 1,666,099 shares of the Company's common stock that remain outstanding or nonvested under the amended and restated 2016 Plan and Prior Plan.

Compensation expense for all equity-based compensation awards is based on the grant-date fair value. The Company recognizes these compensation costs on a straight-line basis over the requisite service period, which is generally the vesting period of the award. The vesting of performance-based awards is contingent on the achievement of certain performance metrics. Compensation expense is recognized retroactively, through a cumulative catch-up adjustment, when the performance conditions are satisfied or when the Company determines that it is probable that the performance conditions will be satisfied. The amount of compensation expense recognized for a performance-based award is affected by the level of achievement attained. Management has established three levels of attainment: threshold, target, and outperform. Stock-based compensation expense is recorded within selling, general, and administrative expenses on the consolidated statements of operations.

Stock Options

Each stock option is exercisable pursuant to the vesting schedule set forth in the stock option agreement granting such stock option, generally over four years. No stock option shall be exercisable after the expiration of its option term. The Company has granted stock options under the Prior Plan and the Company has also granted stock options to executive officers under stand-alone agreements outside the Prior Plan.

Stock option activity including stand-alone agreements during the six months ended December 31, 2022 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, June 30, 2022	1,350	\$ 14.77	0.98	\$ 35,127
Granted	—	—		
Exercised	(675)	14.77		
Forfeited or canceled	—	—		
Outstanding and exercisable, December 31, 2022	675	\$ 14.77	0.56	\$ 11,144

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on

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December 31, 2022. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock. The total intrinsic value of options exercised during the six months ended December 31, 2022 and 2021 was \$0.0 million and \$0.2 million, respectively.

As of December 31, 2022, there was no unrecognized compensation expense related to nonvested stock options granted. During the three and six months ended December 31, 2022 and 2021, the Company recognized zero stock-based compensation expense related to stock options.

Restricted Stock Awards

The Company has approved grants of restricted stock awards ("RSA") pursuant to the Plan and Prior Plan. Under the Plan and Prior Plan, employees, outside directors and independent contractors are able to participate in the Company's future performance through the awards of restricted stock. Each RSA vests pursuant to the vesting schedule set forth in the restricted stock agreement granting such RSAs, generally over three years. Under the Plan and Prior Plan, there have been no awards of restricted stock to independent contractors.

Restricted stock award activity during the six months ended December 31, 2022 was as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested, June 30, 2022	1,131,466	\$ 33.27
Granted	537,096	38.32
Vested	(548,315)	31.91
Canceled	(64,004)	36.01
Nonvested, December 31, 2022	<u>1,056,243</u>	<u>\$ 36.63</u>

Performance-Based Restricted Stock Awards (included above)

During the six months ended December 31, 2022, zero new performance-based restricted stock awards were granted and in total, 44,128 remain nonvested at December 31, 2022. During the six months ended December 31, 2022, 330,237 performance-based restricted stock awards vested. Vesting of the performance-based restricted stock awards is contingent on the achievement of certain financial performance goals and service vesting conditions.

During fiscal year 2020, the Company granted 358,294 performance-based restricted stock awards to the Company's then CEO with a weighted average grant-date fair value of \$27.91 per share. These awards were granted pursuant to the Plan and are subject to the achievement of target free cash flow metrics in each of the fiscal years 2020 through 2022. The metrics are measured at the end of each fiscal year; however if either of the first two tranches are not achieved, the awards may still vest if the free cash flow metric in aggregate is met over the three-year life of the award. In August 2021, the second tranche was achieved at above target resulting in the vesting of 119,431 shares. In August 2022, the first and third tranches were achieved at target resulting in the vesting of 238,863 shares.

Service-Based Restricted Stock Awards (included above)

During the six months ended December 31, 2022, 537,096 new service-based restricted stock awards were granted and in total, 1,012,116 remain nonvested at December 31, 2022. During the six months ended December 31, 2022, 218,078 service-based restricted stock awards vested.

Summary of All Restricted Stock Awards

As of December 31, 2022, there was \$28.0 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 2.0 years. The fair value of restricted stock awards granted for the six months ended December 31, 2022 and 2021 was \$20.9 million and \$15.3 million, respectively. The total fair value of shares vested for the six months ended December 31, 2022 and 2021 was

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\$20.4 million and \$15.4 million, respectively. During the three months ended December 31, 2022 and 2021, the Company recognized \$3.9 million and \$4.2 million, respectively, of stock-based compensation expense related to restricted stock awards. During the six months ended December 31, 2022 and 2021, the expense was \$8.5 million and \$9.5 million, respectively.

Performance Share Units (“PSU”)

The Company has approved grants of performance share units (“PSU”) pursuant to the Plan. Each PSU is earned through the achievement of a performance-based metric, combined with the continuation of employee service over a defined period. The level of performance determines the number of PSUs earned, and is generally measured against threshold, target and outperform achievement levels of the award. 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 or liability award. When the grant is a fixed monetary amount, and the number of shares is not determined until achievement and the value of the Company’s stock on that day, the PSU is a liability-classified award. Each PSU vests pursuant to the vesting schedule found in the respective PSU agreement.

In addition to the performance conditions of the PSUs, there is a service vesting condition which is 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. PSUs are generally subject to graduated vesting schedules and stock-based compensation expense is computed by tranche and recognized on a straight-line basis over the tranches’ applicable vesting period based on the expected achievement level.

Performance share unit activity (excluding liability-classified awards) during the six months ended December 31, 2022 was as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested, June 30, 2022	355,302	\$ 32.62
Granted	366,507	33.87
Vested	(119,467)	30.48
Canceled	(81,893)	25.89
Nonvested, December 31, 2022	520,449	\$ 35.06

Fiscal Year 2023 LTIP

During the six months ended December 31, 2022, the Company granted 289,640 PSUs at target under a Long Term Incentive Plan (“LTIP”) which are tied to operating income targets and stock price performance. These PSUs had a grant date fair value of \$10.0 million, or a weighted average grant-date fair value of \$34.41 per share. Fifty percent of the earned award is based on operating income performance (“Tranche #1”) and fifty percent is based on the performance of the Company’s stock price (“Tranche #2”), both of which will vest after achievement is certified during the first quarter of fiscal year 2026. The grant date fair value of Tranche #1 was remeasured in October 2022 as a result of a modification of the terms of the award. Originally, performance was tied to gross margin. The metric was changed to operating income to better align with shareholder feedback and technology industry and peer group common practice. The modification of the performance criteria from gross margin to operating income resulted in a new fair market value as of the modification date of \$4.8 million, a decrease of \$0.8 million. For Tranche #1, the level of performance will determine the number of PSUs earned as measured against threshold, target and outperform achievement levels. For Tranche #2, the number of PSUs will be earned based on the Company’s compounded annual stock price growth over a completed three-year performance period. In all cases, vesting is dependent upon continuing service by the grantee as an employee of the Company. The fair value of Tranche #2 was determined using a Monte Carlo simulation model and is amortized on a straight-line basis over the vesting period. Tranche #2 is a market-based award, and therefore is not subject to any probability assessment by the Company. The Company determined the likelihood of achievement of the performance condition for Tranche #1 is not

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able to be determined at this time.

Fiscal Year 2022 LTIP

During fiscal year 2022, the Company granted 250,250 PSUs at target under a Long Term Incentive Plan (“LTIP”) which are tied to gross margin targets and stock price performance. These PSUs had a grant date fair value of \$9.1 million, or a weighted average grant-date fair value of \$36.30 per share. Fifty percent of the earned award is based on gross margin performance (“Tranche #1”) and fifty percent is based on the performance of the Company’s stock price (“Tranche #2”), both of which will vest after achievement is certified during the first quarter of fiscal year 2025. For Tranche #1, the level of performance will determine the number of PSUs earned as measured against threshold, target and outperform achievement levels. For Tranche #2, the number of PSUs will be earned based on the Company’s compounded annual stock price growth over a completed three-year performance period. In all cases, vesting is dependent upon continuing service by the grantee as an employee of the Company. The fair value of Tranche #2 was determined using a Monte Carlo simulation model and is amortized on a straight-line basis over the vesting period. Tranche #2 is a market-based award, and therefore is not subject to any probability assessment by the Company. The Company determined the likelihood of achievement of the performance condition for Tranche #1 is not able to be determined at this time.

Fiscal Year 2021 Tech Elevator MIP

During fiscal year 2021, the Company granted to the executive team of Tech Elevator a time-based award with a value of \$4.0 million and a performance-based award with a target value of \$4.0 million under a Management Incentive Plan (“MIP”). The time-based award vests equally over three years on the anniversary of the closing date of the acquisition of Tech Elevator which was November 30, 2020. During the second quarter of fiscal year 2022, one-third vested and was settled with the issuance of 38,575 PSUs. During the second quarter of fiscal year 2023, an additional one-third vested and was settled with the issuance of 37,886 PSUs. The performance-based award is tied to the achievement of certain revenue and EBITDA targets of Tech Elevator. Seventy percent of the award is based on Tech Elevator’s revenues for the calendar year 2023 (“Tranche #1”) and thirty percent of the earned award is based on Tech Elevator’s EBITDA for the calendar year 2023 (“Tranche #2”), both of which are expected to vest after achievement is certified in January 2024. The level of performance will determine the number of PSUs earned as measured against threshold and target achievement levels. In all cases, vesting is dependent upon continuing service by the grantee as an employee of the Company. The MIP is a liability-classified award. The Company determined the likelihood of achievement of the performance conditions is not able to be determined at this time.

Fiscal Year 2021 LTIP

During fiscal year 2021, the Company granted 111,450 PSUs at target under a LTIP which are tied to the achievement of certain individualized financial and non-financial performance targets. These PSUs had a grant date fair value of \$2.7 million, or a weighted average grant-date fair value of \$24.15 per share. In December 2022, achievement was certified related to two metrics – one at threshold and one at 123% of target. Forty percent, or 4,533 shares vested immediately and the additional sixty percent, or 6,797 shares will vest in December 2023, subject to continuing service by the grantee as an employee of the Company. The remaining shares tied to metrics that were not achieved were forfeited. The fiscal year 2021 LTIP is an equity-classified award.

Fiscal Year 2020 Galvanize TRIP

During fiscal year 2020, the Company granted to the executive team of Galvanize a target level of \$12.3 million under a Transaction Related Incentive Plan (“TRIP”) which is tied to the achievement of certain revenue and EBITDA targets of Galvanize. Seventy percent of the earned award is based on the performance of Galvanize for the calendar year 2021 (“Tranche #1”) and thirty percent of the earned award is based on the performance of Galvanize for the calendar year 2022 (“Tranche #2”), both of which are expected to vest after achievement is certified in January following each of the calendar year ends. The revenue and EBITDA targets are split sixty percent and forty percent, respectively, for both tranches. In all cases, vesting is dependent upon continuing service by the grantee as an employee of the Company. The level of performance will determine the number of PSUs earned as measured against threshold, target and outperform achievement levels. In January 2022, the Company determined that the metrics for calendar year 2021 were not met and Tranche #1

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was forfeited. In January 2023, the Company determined that the metrics for calendar year 2022 were not met and Tranche #2 was also forfeited. The TRIP is a liability-classified award.

Fiscal Year 2019 LTIP

During fiscal year 2019, the Company granted 263,936 PSUs at target under a LTIP which are tied to certain career learning revenue targets and enrollment levels, as well as students' academic progress. These PSUs had a grant date fair value of \$7.9 million, or a weighted average grant-date fair value of \$30.05 per share. During fiscal year 2020, the Company granted an additional 34,030 PSUs at target with a grant date fair value of \$0.8 million, or \$23.51 per share. Forty-five percent of the earned award is based on students' academic progress ("Tranche #1") and twenty-five percent of the earned award is based on certain enrollment levels ("Tranche #2"). In October 2021, Tranche #2 achievement was certified at approximately 193% of target resulting in the vesting of 115,223 shares, while Tranche #1 was not achieved resulting in 107,397 forfeited shares. The remaining thirty percent of the earned award is based on certain revenue targets ("Tranche #3"). In August 2022, Tranche #3 achievement was certified at 200% of target resulting in the vesting of 77,048 shares.

Summary of All Performance Share Units

As of December 31, 2022, there was \$7.7 million of total unrecognized compensation expense related to nonvested PSUs that are expected to vest based on the Company's probability assumptions discussed above. The cost is expected to be recognized over a weighted average period of 2.2 years. During the three months ended December 31, 2022 and 2021, the Company recognized \$1.0 million and (\$3.6) million, respectively, of stock-based compensation expense related to PSUs. During the six months ended December 31, 2022 and 2021, the expense was \$1.9 million and \$(0.6) million, respectively. Included in the stock-based compensation expense above, for the three months ended December 31, 2022 and 2021 is \$0.3 million and \$0.3 million, respectively, and for the six months ended December 31, 2022 and 2021 is \$0.6 million and \$0.7 million, respectively, related to the Tech Elevator time-based portion of the MIP. This amount was recorded in accrued liabilities on the condensed consolidated balance sheets because it is a liability-classified award.

Deferred Stock Units ("DSU")

The DSUs vest on the grant-date anniversary and are settled in the form of shares of common stock issued to the holder upon separation from the Company. DSUs are specific only to board members.

Deferred stock unit activity during the six months ended December 31, 2022 was as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested, June 30, 2022	69,117	\$ 24.27
Granted	19,614	33.03
Vested	—	—
Canceled	—	—
Nonvested, December 31, 2022	88,731	\$ 26.20

Summary of All Deferred Stock Units

As of December 31, 2022, there was \$0.6 million of total unrecognized compensation expense related to nonvested DSUs. The cost is expected to be recognized over a weighted average period of 0.6 years. During the three months ended December 31, 2022 and 2021, the Company recognized \$0.1 million and \$0.1 million, respectively, of stock-based compensation expense related to DSUs. During the six months ended December 31, 2022 and 2021, the expense was \$0.2 million and \$0.2 million, respectively.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

9. Related Party Transactions

The Company contributed to Future of School, a charity focused on access to quality education. Future of School is a related party as an executive officer of the Company serves on its Board of Directors. For the three months ended December 31, 2022 and 2021, contributions made by the Company to Future of School were zero and \$0.2 million, respectively, and zero and \$0.8 million, respectively, for the six months ended December 31, 2022 and 2021. In fiscal year 2019 and 2021, the Company accrued \$2.5 million and \$3.5 million, respectively, for contributions expected to be made in subsequent years. The amounts shown for the three and six months ended December 31, 2022 and 2021 reduced the remaining balance and as of December 31, 2022, \$2.5 million remains outstanding as related to the fiscal year 2021 accrual.

10. 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 vigorously defends these claims; however, no assurances can be given as to the outcome of any pending legal proceedings. The Company believes, 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 its business, financial condition, liquidity or results of operations.

Securities Litigation

On November 19 and December 11, 2020, respectively, two putative securities class action lawsuits captioned Yun Chau Lee v. K12 Inc., et al, Case No. 1:20-cv-01419 (the "Lee Case"), and Jennifer Baig v. K12 Inc., et al, Case No. 1:20-cv-01528 (the "Baig Case") were filed against the Company and two of its former officers in the United States District Court for the Eastern District of Virginia, purportedly on behalf of a class of persons who purchased or otherwise acquired the Company's common stock between April 27, 2020 and September 18, 2020. On February 17, 2021, the District Court consolidated the Lee Case and the Baig Case under the caption In re K12 Inc. Securities Litigation, Case No. 1:20-cv-01419 (the "Consolidated Securities Class Action"), and appointed a lead plaintiff. The lead plaintiff filed a consolidated amended complaint on April 5, 2021, alleging violations by the Company and the individual defendants of Section 10(b) of 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 alleged, among other things, that the Company and the individual defendants made false or misleading statements and/or omitted to disclose material facts concerning the Company's technological capabilities and expertise to support increased demand for virtual and blended education related to the global emergence of COVID-19, its cybersecurity protocols and protections, and its administrative support and training to teachers, students, and parents. The complaint sought unspecified monetary damages and other relief. The Company filed a motion to dismiss the complaint in its entirety on May 20, 2021, which the District Court granted, without prejudice, on September 16, 2021. The plaintiffs did not file a second amended complaint, but appealed the District Court's dismissal decision to the United States Court of Appeals for the Fourth Circuit on December 1, 2021. On November 22, 2022, the Fourth Circuit issued a published opinion affirming the District Court's decision and upholding the dismissal of the case.

On December 21, 2020 and April 30, 2021, respectively, related derivative lawsuits captioned Larry Shemen, et al v. Aida M. Alvarez, et al, Case No. 1:20-cv-01731 (the "Shemen Case"), and Wajid Ahmed v. Aida M. Alvarez, et al, Case No. 1:21-cv-00618 (the "Ahmed Case") were filed by three of the Company's shareholders in the United States District Court for the District of Delaware. The plaintiffs purported to assert claims on the Company's behalf against certain of its officers and directors for breach of fiduciary duty, unjust enrichment, and waste of corporate assets, and for violation of Sections 14(a) and 20(a) of the Exchange Act, based on substantially the same facts alleged in the Consolidated Securities Class Action. By stipulation of the parties on May 14, 2021, the Court consolidated the Shemen Case and the Ahmed Case under the caption In re Stride Inc. Derivative Litigation, Case No. 20-01731 (the "Consolidated Derivative Action"), designated as operative the complaint filed in the Ahmed Case, and stayed all proceedings pending final resolution of the Consolidated Securities Class Action. On December 29, 2022, upon stipulation of the parties, the Court approved the voluntary dismissal of the plaintiffs' claims, without prejudice, in light of the dismissal of the Consolidated Securities Class Action.

STRIDE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

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. All agreements provide for employment on an “at-will” basis. If the employee resigns for “good reason” or is terminated without cause, the employee is entitled to salary continuation, and in some cases benefit continuation, for varying periods depending on the agreement.

Off-Balance Sheet Arrangements

As of December 31, 2022, the Company provided guarantees of approximately \$0.3 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.

Risks and Uncertainties

Impacts of COVID-19 on Stride’s Business

While the long-term impact of the global emergence of COVID-19 is not estimable or determinable, in late fiscal year 2020 through fiscal year 2022, we experienced an increase in demand for our products and services. The effects of the pandemic or the ending of the pandemic on our business, are not estimable.

The Company continues to conduct business as usual with some modifications to employee travel, employee work locations, and cancellation of certain events. The Company will continue to actively monitor the situation and may take further actions that alter its business operations as may be required by federal, state or local authorities or that it determines is in the best interests of its employees, customers, partners, suppliers and stockholders. It is not clear what the potential effects any such alterations or modifications may have on the Company’s business, including the effects on its customers and prospects, or on its long-term financial results.

11. Acquisitions and Investments

Investments in Limited Partnerships

The Company invested in three early stage funds focused on career education with a total commitment of \$15.0 million. The Company invested in Rethink Education III, LP (“Rethink”) and New Markets Education Partners II, L.P. and New Markets Education Partners III, L.P. (collectively, “New Markets”) to support the development of new technologies that will advance online learning, to find early opportunities to adopt those new technologies at Stride, and to simultaneously achieve a reasonable return on investment. As of December 31, 2022, the Company has contributed an aggregate \$10.4 million to these funds: \$3.2 million is an investment in New Markets and is recorded at cost and will be adjusted, as necessary, for impairment; and \$7.2 million is an investment in Rethink and is recorded under the equity method of accounting. The Company’s investments in these funds are included in deposits and other assets on the condensed consolidated balance sheets.

STRIDE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

Investment in Tallo, Inc. and Acquisition of Assets

In August 2018, the Company made an initial investment of \$6.7 million for a 39.5% minority interest in Tallo, Inc. (“Tallo”). In August 2020, the Company invested an additional \$2.3 million which increased its minority interest to 46.1%. These investments in preferred stock, which contain additional rights over common stock and have no readily determinable fair value, were recorded at cost and will be adjusted, as necessary, for impairment. In the event Tallo issues equity at a materially different price than what the Company paid, the Company would also assess changing the carrying value. In conjunction with the Company’s initial investment in August 2018, Tallo also issued a convertible note to the Company for \$5.0 million that is being accounted for as an available-for-sale debt security and adjusted to fair value quarterly. The note bears interest at the mid-term Applicable Federal Rate plus 25 bps per annum with a maturity of 48 months. The note is convertible at the Company’s option into 3.67 million Series D Preferred Shares that, combined with the shares resulting from the conversion of the accrued interest, would give the Company an effective ownership of 55% if exercised. In October 2021, the Company agreed to loan Tallo up to \$3.0 million. This promissory note bears interest at 5% and has a maturity date of five years. The promissory note does not contain any means of conversion into additional ownership by the Company. During the second and third quarters of fiscal year 2022, the Company funded \$3.0 million under the promissory note.

During fiscal year 2022, the Company adjusted its investment in Tallo preferred stock to fair value and recorded an impairment charge of \$4.5 million to other income (expense), net on the consolidated statements of operations. Also, during fiscal year 2022, the Company recorded a credit loss expense of \$4.1 million to reduce the carrying amount of the convertible note and \$3.0 million to reduce the carrying amount of the promissory note. The credit loss expenses were recorded within selling, general, and administrative expenses on the consolidated statements of operations. Additionally, the Company reversed an aggregate \$0.4 million of accrued interest on both instruments and made an accounting policy election to record this within interest income (expense), net on the consolidated statements of operations. During the year ended June 30, 2022, the Company’s investment in Tallo, the convertible note, and promissory note were included in deposits and other assets on the consolidated balance sheets.

On July 8, 2022, the Company purchased the assets of Tallo in exchange for \$1.0 million, plus \$0.4 million in working capital. As part of the closing of the transaction, the promissory note was cancelled and the convertible note was converted into additional equity. That additional equity and previously held equity interests were cancelled, and combined with the cash, resulted in a purchase price of \$7.3 million. The acquisition of Tallo further expands the Company’s ability to match students to internships, jobs, and scholarships with colleges and companies looking for talent. The acquisition has been accounted for as a business combination under the acquisition method of accounting, which results in acquired assets and assumed liabilities being measured at their fair values as of July 8, 2022, the acquisition date. The allocation of the purchase price resulted in goodwill of \$5.7 million and intangible assets of \$1.3 million, both of which are deductible for income tax purposes. The recognized goodwill is primarily associated with future customer relationships and an acquired assembled work force. The intangible assets primarily consist of customer relationships which will be amortized over 10 years. During the second quarter of fiscal year 2023, the Company made an adjustment to the allocation of the purchase price resulting in an increase of goodwill from \$5.2 million to \$5.7 million.

STRIDE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

12. Supplemental Disclosure of Cash Flow Information

	Six Months Ended December 31,	
	2022	2021
	(In thousands)	
Cash paid for interest	\$ 3,328	\$ 3,286
Cash paid for taxes	\$ 22,434	\$ 13,099
Supplemental disclosure of non-cash financing activities:		
Right-of-use assets obtained from acquisitions	\$ 385	—
Right-of-use assets obtained in exchange for new finance lease liabilities	25,212	20,881
Supplemental disclosure of non-cash investing activities:		
Stock-based compensation expense capitalized on software development	\$ 215	\$ 143
Stock-based compensation expense capitalized on curriculum development	44	57
Non-cash purchase price related to business combinations	5,861	1,145
Business combinations:		
Acquired assets	\$ 1,132	\$ 464
Intangible assets	1,309	2,157
Goodwill	5,655	568
Assumed liabilities	(385)	(42)
Deferred revenue	(441)	(1,084)

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

Certain statements in Management's Discussion and Analysis or MD&A, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Historical results may not indicate future performance. Our forward-looking statements reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by these statements. Factors that may cause differences between actual results and those contemplated by forward-looking statements include, but are not limited to, those discussed in "Risk Factors" in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended June 30, 2022, which we refer to as our Annual Report, and in Part II, Item 1A of this Quarterly 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 Stride, 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 three and six months ended December 31, 2022.
- *Critical Accounting Estimates* — a discussion of critical accounting estimates requiring judgments and the application of critical accounting policies.
- *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 an education services company providing virtual and blended learning. Our technology-based products and services enable our clients to attract, enroll, educate, track progress, and support students. These products and services, spanning curriculum, systems, instruction, and support services are designed to help learners of all ages reach their full potential through inspired teaching and personalized learning.

Our clients are primarily public and private schools, school districts, and charter boards. Additionally, we offer solutions to employers, government agencies and consumers.

We offer a wide range of individual products and services, as well as customized solutions, such as our most comprehensive school-as-a-service offering which supports our clients in operating full-time virtual or blended schools. More than three million students have attended schools powered by Stride curriculum and services since our inception. In our most recent academic year ended June 30, 2022, we graduated 11,775 high school students.

Our solutions address two growing markets: General Education and Career Learning.

General Education	Career Learning
• School-as-a-service • Stride Private Schools	• Stride Career Prep school-as-a-service • Learning Solutions Career Learning software and services sales
• Learning Solutions software and services sales	• Adult Learning

Products and services for the General Education market are predominantly focused on core subjects including math, English, science and history, for kindergarten through twelfth grade students to help build a common foundation of knowledge. These programs provide an alternative to traditional school options and address a range of student needs including safety concerns, increased academic support, scheduling flexibility, physical/health restrictions or advanced learning. Products and services are sold as a comprehensive school-as-a-service offering or à la carte.

Career Learning products and services are focused on developing skills to enter and succeed in careers in high-growth, in-demand industries—including information technology, health care and general business. We provide middle and high school students with Career Learning programs that complement their core general education coursework in math, English, science and history. Stride offers multiple career pathways supported by a diverse catalog of Career Learning courses. The middle school program exposes students to a variety of career options and introduces career skill development. In high school, students may engage in industry content pathway courses, project-based learning in virtual teams, and career development services. High school students also have the opportunity to progress toward certifications, connect with industry professionals, earn college credits while in high school, and participate in job shadowing and/or work-based learning experiences that facilitate success in today’s digital, tech-enabled economy. A student enrolled in a school that offers Stride’s General Education program may elect to take Career Learning courses, but that student and the associated revenue is reported as a General Education enrollment and General Education revenue. A student and the associated revenue is counted as a Career Learning enrollment or Career Learning revenue only if the student is enrolled in a Career Learning program or school. Like General Education products and services, the products and services for the Career Learning market are sold as a comprehensive school-as-a-service offering or à la carte. We also offer focused post-secondary career learning programs to adult learners, through Galvanize, Inc. (“Galvanize”), Tech Elevator, Inc. (“Tech Elevator”), and MedCerts, LLC (“MedCerts”). These include skills training in the software engineering, healthcare, and medical fields, as well as providing staffing and talent development services to employers. These programs are offered directly to consumers, as well as to employers and government agencies.

For both the General Education and Career Learning markets, the majority of revenue is derived from our comprehensive school-as-a-service offering which includes an integrated package of curriculum, technology systems, instruction, and support services that we administer on behalf of our customers. The average duration of the agreements for our school-as-a-service offering is greater than five years, and most provide for automatic renewals absent a customer notification of non-renewal. During any fiscal year, we may enter into new agreements, receive non-automatic renewal notices, negotiate replacement agreements, terminate such agreements or receive notices of termination, or customers may transition a school to a different offering. For the 2022-2023 school year, we provide our school-as-a-service offering for 85 schools in 31 states and the District of Columbia in the General Education market, and 52 schools or programs in 27 states and the District of Columbia in the Career Learning market.

We generate a significant portion of our revenues from the sale of curriculum, administration support and technology services to virtual and blended public schools. The amount of revenue generated from these contracts is impacted largely by the number of enrollments, the mix of enrollments across grades and states, state or district per student funding levels and attendance requirement, among other items. The average duration of the agreements for our school-as-a-service offering is greater than five years, and most provide for automatic renewals absent a customer notification within a

negotiated time frame.

The two key financial metrics that we use to assess financial performance are revenues and operating income. For the six months ended December 31, 2022, revenues increased to \$883.6 million from \$809.7 million in the prior year, an increase of 9.1%. Over the same period, operating income decreased to \$39.4 million from \$49.9 million in the prior year, a decrease of 21.0%. The decrease in operating income was driven by increases in selling, general, and administrative expenses; partially offset by increases in revenue. Additionally, we use the non-financial metric of total enrollments to assess performance, as enrollment is a key driver of our revenues. Total enrollments for the six months ended December 31, 2022 were 176.6 thousand, a decrease of 11.4 thousand, or 6.1%, over the prior year. Our revenues are subject to annual school district financial audits, which incorporate enrollment counts, funding and other routine financial audit considerations. The results from these audits and other routine changes in funding estimates are incorporated into the Company's monthly funding estimates for the current and prior periods. Historically, aggregate funding estimates differed from actual reimbursements by less than 2% of annual revenue, which may vary from quarter to quarter.

While the long-term impact of the global emergence of COVID-19 is not estimable or determinable, in late fiscal year 2020 through fiscal year 2022, we experienced an increase in demand for our products and services. The effects of the pandemic or the ending of the pandemic on our business, are not estimable.

Environmental, Social and Governance

As overseers of risk and stewards of long-term enterprise value, Stride's Board of Directors plays a vital role in assessing our organization's environmental and social impacts. They are also responsible for understanding the potential impact and related risks of environmental, social and governance ("ESG") issues on the organization's operating model. Our Board and management are committed to identifying those ESG issues most likely to impact business operations and growth. We craft policies that are appropriate for our industry and that are of concern to our employees, investors, customers and other key stakeholders. Our Board ensures that the Company's leaders have ample opportunity to leverage ESG for the long-term good of the organization, its stakeholders, and society. Each Committee of the Board monitors ESG efforts in their respective areas, with the Nominating and Governance Committee coordinating across all Committees.

Since our inception twenty years ago, we have removed barriers that impact academic equity. We provide high-quality education for anyone—particularly those in underserved communities—as a means to foster economic empowerment and address societal inequities from kindergarten all the way through college and career readiness. We reinforced our commitment in this area by launching several initiatives including initially offering scholarships to advance education and career opportunities for students in underserved communities, expanding career pathways in socially responsible law enforcement and increasing employment of teachers in underserved communities at Stride-powered schools. We developed interactive, modular courses focused on racial equity and social justice that are being made available for free to every public school.

Among the many ESG issues we support within the Company, we endeavor to promote diversity and inclusion across every aspect of the organization. We sponsor employee resource groups to provide support for female, minority, differently abled, LGBTQ+, and veteran employees and support employee volunteer efforts. Our commitment is evident in the make-up of our leadership team. We have more minorities in executive management and more women in executive management than the representative population. Importantly, our Board of Directors is also diverse with female, Hispanic, and black or African American members.

Our commitment to ESG initiatives is an endeavor both the Board and management undertake for the general betterment of those both inside and outside of our Company.

The nature of our business supports environmental sustainability. Most of our employees work from home and most students at Stride-powered schools attend virtual classes, even prior to the COVID-19 crisis, reducing the carbon output from commuting in cars or buses. Our online curriculum reduces the need for paper. Our meetings are most often held virtually using digital first presentations rather than paper.

Critical Accounting 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 that affect the amounts reported in our

condensed consolidated financial statements and accompanying notes. 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 and estimates are disclosed in our Annual Report. There have been no significant updates to our critical accounting estimates disclosed in our Annual Report.

Results of Operations

Impacts of COVID-19 on Stride's Business

While the long-term impact of the global emergence of COVID-19 is not estimable or determinable, in late fiscal year 2020 through fiscal year 2022, we experienced an increase in demand for our products and services. The effects of the pandemic or the ending of the pandemic on our business, are not estimable.

We continue to conduct business as usual with some modifications to employee travel, employee work locations, and cancellation of certain events. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, partners, suppliers and stockholders. It is not clear what the potential effects any such alterations or modifications may have on our business, including the effects on our customers and prospects, or on our long-term financial results.

Lines of Revenue

We operate 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. The Chief Operating Decision Maker evaluates profitability based on consolidated results. We have two lines of revenue: (i) General Education and (ii) Career Learning.

Enrollment Data

The following table sets forth total enrollment data for students in our General Education and Career Learning lines of revenue. Enrollments for General Education and Career Learning only include those students in full service public or private programs where Stride provides a combination of curriculum, technology, instructional and support services inclusive of administrative support. No enrollments are included in Career Learning for Galvanize, Tech Elevator or MedCerts. This data includes enrollments for which Stride receives no public funding or revenue.

If the mix of enrollments changes, our revenues will be impacted to the extent the average revenue per enrollment is significantly different. We do not award or permit incentive compensation to be paid to our public school program enrollment staff or contractors based on the number of students enrolled.

The following represents our current enrollment for each of the periods indicated:

	Three Months Ended December 31,		2022 / 2021		Six Months Ended December 31,		2022 / 2021	
	2022	2021	Change	Change %	2022	2021	Change	Change %
(In thousands, except percentages)								
General Education (1)	111.2	145.6	(34.4)	(23.6%)	111.5	146.1	(34.6)	(23.7)%
Career Learning (1) (2)	66.3	41.9	24.4	58.2%	65.1	41.9	23.2	55.4%
Total Enrollment	177.5	187.5	(10.0)	(5.3%)	176.6	188.0	(11.4)	(6.1%)

(1) Enrollments reported for the first quarter are equal to the official count date number, which was September 30, 2022 for the first quarter of fiscal year 2023 and September 30, 2021 for the first quarter of fiscal year 2022.

(2) No enrollments are included in Career Learning for Galvanize, Tech Elevator or MedCerts.

Revenue Data

Revenues are captured by market based on the underlying customer contractual agreements. Where customers

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purchase products and services for both General Education and Career Learning markets we allocate revenues based on the program for which each student is enrolled. All kindergarten through fifth grade students are considered General Education students. Periodically, a middle school or high school student enrollment may change line of revenue classification.

The following represents our current revenues for each of the periods indicated:

	Three Months Ended December 31,		Change 2022 / 2021		Six Months Ended December 31,		Change 2022 / 2021	
	2022	2021	\$	%	2022	2021	\$	%
(In thousands, except percentages)								
General Education	\$ 274,764	\$ 313,241	\$ (38,477)	(12.3%)	\$ 546,422	\$ 619,582	\$ (73,160)	(11.8%)
Career Learning								
Middle - High School	153,795	75,287	78,508	104.3%	279,330	146,699	132,631	90.4%
Adult	29,876	20,979	8,897	42.4%	57,833	43,452	14,381	33.1%
Total Career Learning	183,671	96,266	87,405	90.8%	337,163	190,151	147,012	77.3%
Total Revenues	<u>\$ 458,435</u>	<u>\$ 409,507</u>	<u>\$ 48,928</u>	11.9%	<u>\$ 883,585</u>	<u>\$ 809,733</u>	<u>\$ 73,852</u>	9.1%

Products and Services

Stride has invested over \$600 million in the last twenty years to develop curriculum, systems, instructional practices and support services that enable us to support hundreds of thousands of students. The following describes the various products and services that we provide to customers. Products and services are provided on an individual basis as well as customized solutions, such as our most comprehensive school-as-a-service offering which supports our clients in operating full-time virtual or blended schools. Stride is continuously innovating to remain at the forefront of effective educational techniques to meet students' needs. It continues to expand upon its personalized learning model, improve the user experience of its products, and develop tools and partnerships to more effectively engage and serve students, teachers, and administrators.

Curriculum and Content – Stride has one of the largest digital research-based curriculum portfolios for the K-12 online education industry that includes some of the best in class content available in the market. Our customers can select from hundreds of high-quality, engaging, online coursework and content, as well as many state customized versions of those courses, electives, and instructional supports. Since our inception, we have built core courses on a foundation of rigorous standards, following the guidance and recommendations of leading educational organizations at the national and state levels. State standards are continually evolving, and we continually invest in our curriculum to meet these changing requirements. Through our subsidiaries Galvanize, Tech Elevator and MedCerts, we have added high-quality, engaging, online coursework and content in software engineering, healthcare, and medical fields.

Systems – We have established a secure and reliable technology platform, which integrates proprietary and third-party systems, to provide a high-quality educational environment and gives us the capability to grow our customer programs and enrollment. Our end-to-end platform includes single-sign on capability for our content management, learning management, student information, data reporting and analytics, and various support systems that allow customers to provide a high-quality and personalized educational experience for students. A la carte offerings can provide curriculum and content hosting on customers' learning management systems, or integration with customers' student information systems.

Instructional Services – We offer a broad range of instructional services that includes customer support for instructional teams, including recruitment of state certified teachers, training in research-based online instruction methods and Stride systems, oversight and evaluation services, and ongoing professional development. Stride also provides training options to support teachers and parents to meet students' learning needs. Stride's range of training options are designed to enhance skills needed to teach using an online learning platform, and include hands-on training, on-demand courses, and support materials.

Support Services – We offer a broad range of support services, including marketing and enrollment, supporting prospective students through the admission process, assessment management, administrative support (e.g., budget

proposals, financial reporting, and student data reporting), and technology and materials support (e.g., provisioning of student computers, offline learning kits, internet access and technology support services).

Financial Information

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2022		2021		2022		2021	
	(Dollars in thousands)							
Revenues	\$ 458,435	100.0 %	\$ 409,507	100.0 %	\$ 883,585	100.0 %	\$ 809,733	100.0 %
Instructional costs and services	288,347	62.9	261,950	64.0	583,848	66.1	535,774	66.2
Gross margin	170,088	37.1	147,557	36.0	299,737	33.9	273,959	33.8
Selling, general, and administrative expenses	102,015	22.3	90,642	22.1	260,383	29.5	224,021	27.7
Income from operations	68,073	14.8	56,915	13.9	39,354	4.5	49,938	6.2
Interest expense, net	(2,082)	(0.5)	(1,875)	(0.5)	(4,128)	(0.5)	(3,868)	(0.5)
Other income, net	3,970	0.9	3,884	0.9	5,007	0.6	3,795	0.5
Income before income taxes and loss from equity method investments	69,961	15.3	58,924	14.4	40,233	4.6	49,865	6.2
Income tax expense	(18,860)	(4.1)	(15,928)	(3.9)	(11,353)	(1.3)	(13,035)	(1.6)
Loss from equity method investments	(396)	(0.1)	(992)	(0.2)	(847)	(0.1)	(709)	(0.1)
Net income attributable to common stockholders	\$ 50,705	11.1 %	\$ 42,004	10.3 %	\$ 28,033	3.2 %	\$ 36,121	4.5 %

Comparison of the Three Months Ended December 31, 2022 and 2021

Revenues. Our revenues for the three months ended December 31, 2022 were \$458.4 million, representing an increase of \$48.9 million, or 11.9%, from \$409.5 million for the same period in the prior year. General Education revenues decreased \$38.5 million, or 12.3%, year over year. The decrease in General Education revenues was primarily due to the 23.6% decrease in enrollments, school mix (distribution of enrollments by school), and other factors. Career Learning revenues increased \$87.4 million, or 90.8%, primarily due to a 58.2% increase in enrollments and school mix.

Instructional costs and services expenses. Instructional costs and services expenses for the three months ended December 31, 2022 were \$288.3 million, representing an increase of \$26.3 million, or 10.0%, from \$262.0 million for the same period in the prior year. This increase in expense was due to the timing of hiring of personnel and salary increases. Instructional costs and services expenses were 62.9% of revenues during the three months ended December 31, 2022, a decrease from 64.0% for the three months ended December 31, 2021.

Selling, general, and administrative expenses. Selling, general, and administrative expenses for the three months ended December 31, 2022 were \$102.0 million, representing an increase of \$11.4 million, or 12.6% from \$90.6 million for the same period in the prior year. The increase was primarily due to an increase of \$10.3 million in personnel and related benefit costs, including stock-based compensation. Selling, general, and administrative expenses were 22.3% of revenues during the three months ended December 31, 2022, an increase from 22.1% for the three months ended December 31, 2021.

Income tax expense. Income tax expense was \$18.9 million for the three months ended December 31, 2022, or 27.1% of income before income taxes, as compared to an expense of \$15.9 million, or 27.5% of income before income taxes for

the same period in the prior year. The decrease in the effective tax rate for the three months ended December 31, 2022 was primarily due to the impact of non-deductible compensation.

Comparison of the Six Months Ended December 31, 2022 and 2021

Revenues. Our revenues for the six months ended December 31, 2022 were \$883.6 million, representing an increase of \$73.9 million, or 9.1%, from \$809.7 million for the same period in the prior year. General Education revenues decreased \$73.2 million, or 11.8%, year over year. The decrease in General Education revenues was primarily due to the 23.7% decrease in enrollments, school mix (distribution of enrollments by school), and other factors. Career Learning revenues increased \$147.0 million, or 77.3%, primarily due to a 55.4% increase in enrollments and school mix.

Instructional costs and services expenses. Instructional costs and services expenses for the six months ended December 31, 2022 were \$583.8 million, representing an increase of \$48.0 million, or 9.0%, from \$535.8 million for the same period in the prior year. This increase in expense was due to the timing of hiring of personnel and salary increases. Instructional costs and services expenses were 66.1% of revenues during the six months ended December 31, 2022, a decrease from 66.2% for the six months ended December 31, 2021.

Selling, general, and administrative expenses. Selling, general, and administrative expenses for the six months ended December 31, 2022 were \$260.4 million, representing an increase of \$36.4 million, or 16.3% from \$224.0 million for the same period in the prior year. The increase was primarily due to an increase of \$24.6 million in professional services and marketing expenses and \$14.4 million increase in personnel and related benefit costs, including stock-based compensation, partially offset by a decrease of \$2.0 million in operating lease expense. Selling, general, and administrative expenses were 29.5% of revenues during the six months ended December 31, 2022, an increase from 27.7% for the six months ended December 31, 2021.

Income tax expense. Income tax expense was \$11.4 million for the six months ended December 31, 2022, or 28.8% of income before income taxes, as compared to an expense of \$13.0 million, or 26.5% of income before income taxes for the same period in the prior year. The increase in the effective tax rate for the six months ended December 31, 2022 was primarily due to the reserve related to the capital losses that resulted from the Tallo transaction.

Liquidity and Capital Resources

As of December 31, 2022, we had net working capital, or current assets minus current liabilities, of \$679.6 million. Our working capital includes cash and cash equivalents of \$318.3 million and accounts receivable of \$442.2 million. Our working capital provides a significant source of liquidity for our normal operating needs. Our accounts receivable balance fluctuates throughout the fiscal year based on the timing of customer billings and collections and tends to be highest in our first fiscal quarter as we begin billing for students. In addition, our cash and accounts receivable were significantly in excess of our accounts payable and short-term accrued liabilities at December 31, 2022.

During the first quarter of fiscal year 2021, we issued \$420.0 million aggregate principal amount of 1.125% Convertible Senior Notes due 2027 (“Notes”). The Notes are governed by an indenture (the “Indenture”) between us and U.S. Bank National Association, as trustee. The net proceeds from the offering of the Notes were approximately \$408.6 million after deducting the underwriting fees and other expenses paid by the Company. The Notes bear interest at a rate of 1.125% per annum, payable semi-annually in arrears on March 1st and September 1st of each year, beginning on March 1, 2021. The Notes will mature on September 1, 2027. In connection with the Notes, we entered into privately negotiated capped call transactions (the “Capped Call Transactions”) with certain counterparties. The Capped Call Transactions are expected to cover the aggregate number of shares of the Company’s common stock that initially underlie the Notes, and are expected to reduce potential dilution to the Company’s common stock upon any conversion of Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted Notes. The upper strike price of the Capped Call Transactions is \$86.174 per share. The cost of the Capped Call Transactions was \$60.4 million and was recorded within additional paid-in capital.

Before June 1, 2027, noteholders will have the right to convert their Notes only upon the occurrence of certain events. After June 1, 2027, noteholders may convert their Notes at any time at their election until two days prior to the maturity date. We will settle conversions by paying cash up to the outstanding principal amount, and at our election, will settle the conversion spread by paying or delivering cash or shares of our common stock, or a combination of cash and shares of our common stock. The initial conversion rate is 18.9109 shares of common stock per \$1,000 principal amount of Notes, which

represents an initial conversion price of approximately \$52.88 per share of common stock. The Notes will be redeemable at our option at any time after September 6, 2024 at a cash redemption price equal to the principal amount of the Notes, plus accrued and unpaid interest, subject to certain stock price hurdles as discussed in the Indenture.

On January 27, 2020, we entered into a \$100.0 million senior secured revolving credit facility (“Credit Facility”) to be used for general corporate operating purposes with PNC Capital Markets LLC. The Credit Facility has a five-year term and incorporates customary financial and other covenants, including but not limited to a maximum leverage ratio and a minimum interest coverage ratio. The majority of our borrowings under the Credit Facility were at LIBOR plus an additional rate ranging from 0.875% - 1.50% based on our leverage ratio as defined in the agreement. The Credit Facility is secured by our assets. The Credit Facility agreement allows for an amendment to establish a new benchmark interest rate when LIBOR is discontinued during the five-year term. As of December 31, 2022, we were in compliance with the financial covenants. As part of the proceeds received from the Notes, we repaid our \$100.0 million outstanding balance and as of December 31, 2022, we had no amounts outstanding on the Credit Facility. The Credit Facility also includes a \$200.0 million accordion feature.

We are a lessee under finance leases for student computers and peripherals under agreements with Banc of America Leasing & Capital, LLC (“BALC”) and CSI Leasing, Inc. (“CSI Leasing”). As of December 31, 2022 and June 30, 2022, the finance lease liability was \$73.3 million and \$66.3 million, respectively, with lease interest rates ranging from 1.52% to 5.83%.

We entered into an agreement with BALC in April 2020 for \$25.0 million (increased to \$41.0 million in July 2020) to provide financing for our leases through March 2021 at varying rates. We entered into additional agreements during fiscal year 2021 to provide financing of \$54.0 million for our student computers and peripherals leases through October 2022 at varying rates. Individual leases with BALC include 36 month payment terms, fixed rates ranging from 1.52% to 5.83%, and a \$1 purchase option at the end of each lease term. We pledged the assets financed to secure the outstanding leases.

We entered into an agreement with CSI Leasing in August 2022 to provide financing for our leases. Individual leases under the agreement with CSI Leasing include 36-month payments terms, at varying rates. We did not enter into any individual leases under the agreement through December 31, 2022.

Our cash requirements consist primarily of day-to-day operating expenses, capital expenditures and contractual obligations with respect to interest on our Notes, 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, borrowing on our Credit Facility and net working capital on hand will be adequate to finance our ongoing operations for the foreseeable future. In addition, we continue to explore acquisitions, strategic investments and joint ventures related to our business that we may acquire using cash, stock, debt, contribution of assets or a combination thereof.

Operating Activities

Net cash provided by operating activities for the six months ended December 31, 2022 was \$21.2 million compared to net cash used in operating activities of \$11.7 million for the six months ended December 31, 2021. The increase of \$32.9 million was primarily due to improved collections of accounts receivable during the six months ended December 31, 2022, as compared to the prior year.

Investing Activities

Net cash used in investing activities for the six months ended December 31, 2022 was \$55.0 million compared to \$59.7 million for the six months ended December 31, 2021, a decrease of \$4.7 million. The decrease was primarily due to lower net purchases of marketable securities of \$12.3 million, partially offset by \$5.2 million in proceeds related to the sale of a minority investment during the six months ended December 31, 2021 and an increase in capital expenditures year over year of \$4.2 million.

Financing Activities

Net cash used in financing activities for the six months ended December 31, 2022 was \$37.3 million compared to \$57.8 million during the six months ended December 31, 2021, a decrease of \$20.5 million. The decrease was primarily due to a decrease in the repurchase of restricted stock for income tax withholding of \$25.1 million and a \$7.9 million payment of deferred purchase consideration in fiscal year 2022, partially offset by a payment of contingent consideration of \$7.0 million and an increase in the repayment of finance lease obligations incurred for the acquisition of student computers of \$5.2 million.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Inflation Risk

Current inflation has resulted in higher personnel costs, marketing expenses and supply chain expenses. There can be no assurance that future inflation will not have an adverse or material impact on our operating results and financial condition.

Interest Rate Risk

As of December 31, 2022 and June 30, 2022, we had cash and cash equivalents totaling \$318.3 million and \$389.4 million, respectively. Our excess cash has been invested in money market funds, government securities, corporate debt securities and similar investments. At December 31, 2022, a 1% gross increase in interest rates for our variable-interest instruments would result in a \$3.2 million annualized increase in interest income. Additionally, the fair value of our investment portfolio is subject to changes in market interest rates.

Our short-term debt obligations under our Credit Facility are subject to interest rate exposure. At December 31, 2022, we had no outstanding balance on our Credit Facility.

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

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

Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2022.

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.*

See Item 1 of Part I, “Financial Statements – Note 10 – Commitments and Contingencies - Litigation.”

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, 2022, as filed with the SEC on August 10, 2022.

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

None.

Item 3. *Defaults Upon Senior Securities.*

None.

Item 4. *Mine Safety Disclosures.*

None.

Item 5. *Other Information.*

None.

Item 6. *Exhibits.*

(a) Exhibits.

Number	Description
10.1	Form of Performance Share Unit Agreement under the 2016 Equity Incentive Award Plan
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
32.2	Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
101	The following financial statements and footnotes from the Stride, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2022, formatted in Inline XBRL (Inline 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).
104	The cover page from this Quarterly Report on Form 10-Q, formatted in Inline XBRL (contained in Exhibit 101).

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.

Stride, Inc.

/s/ DONNA M. BLACKMAN

Name: Donna M. Blackman
Title: Chief Financial Officer, Principal Accounting Officer
and Authorized Signatory

Date: January 25, 2023

STRIDE, INC. 2016 INCENTIVE AWARD PLAN

PERFORMANCE SHARE UNIT GRANT NOTICE

Capitalized terms not specifically defined in this Performance Share Unit Grant Notice (the “**Grant Notice**”) have the meanings given to them in the 2016 Incentive Award Plan (as amended from time to time, the “**Plan**”) of Stride, Inc. (the “**Company**”).

The Company hereby grants to you (“**Participant**”) the Performance Share Units described in this Grant Notice (the “**PSUs**”), subject to the terms and conditions of the Plan and the Performance Share Unit Agreement (the “**Agreement**”), both of which are incorporated into this Grant Notice by reference.

Participant:

Grant Date:

Target Number of PSUs:

Vesting: The PSUs are eligible to vest as set forth in Appendix A

By Participant’s signature below, Participant agrees to be bound by the terms of this Grant Notice, the Plan and the Agreement. Participant has reviewed the Plan, this Grant Notice and the Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of the Plan, this Grant Notice and the Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator of the Plan upon any questions arising under the Plan, this Grant Notice or the Agreement.

STRIDE, INC.

PARTICIPANT

By: _____

Print Name:

Title:

By: _____

Print Name:

PSU Agreement

STRIDE, INC. PERFORMANCE SHARE UNIT AGREEMENT

Pursuant to the Performance Share Unit Grant Notice (the “**Grant Notice**”) which is governed by this Performance Share Unit Agreement (the “**Agreement**”), Stride, Inc., a Delaware corporation (the “**Company**”) has granted you (“**Participant**”) the number of Performance Share Units under the 2016 Incentive Award Plan, as amended from time to time (the “**Plan**”), as set forth in the Grant Notice.

ARTICLE I. GENERAL

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

1.2 Incorporation of Terms of Plan. The PSUs represent a performance-based Restricted Stock Unit granted under the Plan and are subject to the terms and conditions set forth in this Agreement and the Plan, which is incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

ARTICLE II. AWARD OF PERFORMANCE SHARE UNIT

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

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

ARTICLE III. VESTING; FORFEITURE AND SETTLEMENT

3.1 Vesting; Forfeiture. The PSUs will be earned according to the performance conditions set forth in Appendix A and, to the extent earned, the PSUs will vest at such time(s) as set forth in Appendix A. Any PSUs that are not earned in accordance with the performance conditions set forth in Appendix A, will immediately and automatically be cancelled and forfeited without consideration as of the date of determination. In addition, in the event of Participant’s Termination of Service for any reason, all unvested PSUs will immediately and automatically be cancelled and forfeited without consideration, except (i) as otherwise determined by the Administrator, (ii) as otherwise set forth in this Agreement (including Appendix A), or (iii) as provided in a separate binding written agreement between Participant and the Company.

3.2 Settlement of PSUs.

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

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

ARTICLE IV. TAXATION AND TAX WITHHOLDING

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

4.2 Tax Withholding. Notwithstanding any other provision of this Agreement:

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

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

ARTICLE V. OTHER PROVISIONS

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

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

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

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

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

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

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

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

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

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

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

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

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, James J. Rhyu, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Stride, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 25, 2023

/s/ JAMES J. RHYU

James J. Rhyu
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Donna M. Blackman, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Stride, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 25, 2023

/s/ DONNA M. BLACKMAN

Donna M. Blackman

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

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

Section 906 Certification

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Stride, Inc., a Delaware corporation (the “Company”), hereby certifies, to such officer’s knowledge, that:

- (1) the accompanying Quarterly Report of the Company on Form 10-Q for the period ended December 31, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 25, 2023

/s/ JAMES J. RHYU

James J. Rhyu

Chief Executive Officer

(Principal Executive Officer)

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

Section 906 Certification

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Stride, Inc., a Delaware corporation (the “Company”), hereby certifies, to such officer’s knowledge, that:

- (1) the accompanying Quarterly Report of the Company on Form 10-Q for the period ended December 31, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 25, 2023

/s/ DONNA M. BLACKMAN

Donna M. Blackman

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)
