K12 Inc. Reaches $2.5 Million Settlement with State of California with Resolution of All Claims, No Admission of Liability or Wrongdoing, No Fines or Penalties

July 8, 2016

K12 and the CAVA schools continue to serve families across California

HERNDON, Va., July 08, 2016 (GLOBE NEWSWIRE) -- K12 Inc. (NYSE:LRN), today announced that it has reached a $2.5 million settlement with the State of California, bringing to an end a lengthy investigation of K12 conducted by the Office of Attorney General Kamala Harris. K12 will also contribute $6.0 million toward the Attorney General's investigative costs. The settlement with the state includes no finding or admission of liability or wrongdoing by K12 or by the public, non-profit California Virtual Academies (CAVAs) managed under contracts by K12.

"The Attorney General's claim of $168.5 million in today's announcement is flat wrong," said Stuart Udell, K12's Chief Executive Officer. "Despite our full cooperation throughout the process, the Office of the Attorney General grossly mischaracterized the value of the settlement just as it did with regard to the issues it investigated. There is no 'debt relief' to the CAVA schools. The balance budget credits essentially act as subsidies to protect the CAVA schools, its students and teachers against financial uncertainties. CAVA schools have not paid that money to K12 and K12 never expected to receive it given California's funding environment."

"K12 never accrued these balance budget credits on its financial statements, and the CAVA schools similarly never incurred financial statement liabilities," Udell added.

In the final judgment announced today, K12 and the CAVA schools agreed to improve, or in some cases accelerate, a number of planned and ongoing academic and business program initiatives. In addition, on a number of issues, K12 and the CAVA schools agreed to implement new policies and procedures that go well above and beyond current independent study and charter school laws and regulations.

The settlement with the state resolves both K12 and CAVA's participation in the investigation by the California Department of Justice into an industry-wide probe of "for-profit virtual schools," and a separate private lawsuit alleging misreporting of attendance at the CAVA schools. As part of the settlement, K12 will reimburse the state for the costs of the Attorney General's lengthy investigation, and take certain steps to ensure that students who enroll in the CAVA schools can succeed academically. These changes will further the CAVA schools and K12 as industry leaders.

"The CAVA boards have led the charge to ensure the California Virtual Academies are well run and governed," Udell added. "They have been supportive of the efforts to vigorously defend their schools and provide choice for the families of California."

Today's agreement with the state recognizes that K12 will be strengthening its support for the non-profit public schools where the company provides management services. It provides for timetables and action by K12 and the CAVA schools to improve the customer experience, provide additional information and data to families, and improve the training of corporate and school staff.

Among the provisions in the agreement are new requirements for the student attendance reporting process that exceed those found in current law. Other actions specified in the final judgement include: offering the opportunity for parents to request counseling sessions prior to student start dates to discuss the benefits and challenges of learning in a virtual school environment; adopting policies and conducting trainings for staff related to the services available for limited English proficient students and families; providing timely updates to data related to parent satisfaction and academic performance; continuing progress already made to ensure that the schools' learning environment is accessible for students with disabilities; and, working with an independent, third-party expert to review and enhance K12's special education policies.

Udell also detailed the financial portion of the settlement, which involves no fines or penalties.

K12 will be making an $8.5 million payment to the state. Of that amount, $6.0 million is to defray the cost to taxpayers of the Attorney General's investigation, and $2.5M are settlement costs related to the separate private lawsuit alleging misreporting of attendance at the CAVA schools.

In addition, K12 and the CAVA schools will implement a series of conduct provisions, most of which K12 had planned on investing in over the next three years. These include accessibility improvements in the company's curriculum and technology platform. Udell pointed out that these investments would have been made by the Company in the ordinary course of compliance and product and service enhancements to improve the student experience regardless of the Attorney General's actions.

"Opponents of K12 and skeptics of public online education have spent years making wild, attention-grabbing charges about us and our business," said Udell. "The State of California used the full authority and investigative resources of the Office of the Attorney General to investigate these charges for over eight months. In the end, we demonstrated industry leading levels of service and compliance with regulations and benefits to families. There is a reason families keep coming to our programs and it's because we are committed to deliver valuable education services within the laws and rules of every state."

Conference Call

The Company will hold a conference call for investors and analysts on Monday, July 11, 2016 at 8:30 a.m. eastern time (ET) to discuss the Settlement Agreement.

To participate in the live call, investors and analysts should dial (877) 407-4019 (domestic) or (201) 689-8337 (international) at 8:15 a.m. (ET). No passcode is required.

A replay of the call will be available starting on July 11, 2016 at 11:00 a.m. ET through August 11, 2016 at 11:00 a.m. ET, at (877) 660-6853 (domestic) or (201) 612-7415 (international) using conference ID 13641198.

Special Note on Forward-Looking Statements

This press release contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We have tried, whenever possible, to identify these forward-looking statements using words such as "anticipates," "believes," "estimates," "continues," "likely," "may," "opportunity," "potential," "projects," "will," "expects," "plans," "intends" and similar expressions to identify forward looking statements, whether in the negative or the affirmative. These statements reflect our current beliefs and are based upon information currently available to us. Accordingly, such forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties, factors and contingencies include, but are not limited to: reduction of per pupil funding amounts at the schools we serve; inability to achieve sufficient levels of new enrollments to sustain or to grow our business model; failure of the schools we serve to comply with regulations resulting in a loss of funding or an obligation to repay funds previously received; declines or variations in academic performance outcomes as curriculum and testing standards evolve; harm to our reputation resulting from poor performance or misconduct by operators or us in any school in our industry and in any school in which we operate; legal and regulatory challenges from opponents of virtual public education, public charter schools or for-profit education companies; discrepancies in interpretation of legislation by regulatory agencies that may lead to payment or funding disputes; termination of our contracts with schools due to a loss of authorizing charter; failure to enter into new school contracts or renew existing contracts, in part or in their entirety; unsuccessful integration of mergers, acquisitions and joint ventures; failure to further develop, maintain and enhance our technology, products, services and brands; inadequate recruiting, training and retention of effective teachers and employees; infringement of our intellectual property; non-compliance with laws and regulations related to operating schools in a foreign jurisdiction; entry of new competitors with superior competitive technologies and lower prices; and other risks and uncertainties associated with our business described in the Company's filings with the Securities and Exchange Commission. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that the expectations will be attained or that any deviation will not be material. All information in this release is as of July 8, 2016, and the Company undertakes no obligation to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations.

About K12 Inc.

K12 Inc. (NYSE:LRN) is driving innovation and advancing the quality of education by delivering state-of-the-art, digital learning platforms and technology to students and school districts across the globe. K12's award winning curriculum serves over 2,000 schools and school districts and has delivered more than four million courses over the past decade. K12 is a company of educators with the nation's largest network of K-12 online school teachers, providing instruction, academic services, and learning solutions to public schools and districts, traditional classrooms, blended school programs, and directly to families. The K12 program is offered through K12 partner public schools in 33 states and the District of Columbia, and through school districts and public and private schools serving students in all 50 states and more than 100 countries. More information can be found at K12.com.

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