UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015

OR

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

For the transition period from to

Commission File Number: 001-33883

K12 Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-4774688** (IRS Employer Identification No.)
2300 Corporate Park Drive **Herndon, VA** (Address of principal executive offices)	**20171** (Zip Code)

(703) 483-7000

(Registrant s telephone number, including area code)

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

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

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

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

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

As of January 22, 2016 the Registrant had 39,004,035 shares of common stock, $0.0001 par value per share outstanding.

Table of Contents

K12 Inc.

Form 10-Q

For the Quarterly Period Ended December 31, 2015

Index

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements (Unaudited).***

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2015	June 30, 2015
	(In thousands, except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 171,277	$ 195,852
Accounts receivable, net of allowance of $9,842 and $9,657 at December 31, 2015 and June 30, 2015, respectively	229,589	188,246
Inventories, net	17,858	29,571
Deferred tax asset	4,661	8,989
Prepaid expenses	21,239	11,428
Other current assets	25,105	24,877
Total current assets	469,729	458,963
Property and equipment, net	28,661	34,407
Capitalized software, net	66,360	62,683
Capitalized curriculum development costs, net	57,311	58,696
Intangible assets, net	19,964	21,195
Goodwill	66,160	66,160
Deposits and other assets	6,806	6,495
Total assets	$ 714,991	$ 708,599
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current liabilities		
Current portion of capital lease obligations	$ 14,369	$ 16,635
Accounts payable	16,760	29,819
Accrued liabilities	10,893	12,486
Accrued compensation and benefits	17,301	26,790
Deferred revenue	57,083	24,927
Total current liabilities	116,406	110,657
Capital lease obligations, net of current portion	10,059	13,022
Deferred rent, net of current portion	7,179	7,692
Deferred tax liability	27,529	22,456
Other long-term liabilities	8,714	8,233
Total liabilities	169,887	162,060
Commitments and contingencies		
Redeemable noncontrolling interest	9,801	9,601
Stockholders equity		
Common stock, par value $0.0001; 100,000,000 shares authorized; 42,423,963 and 41,837,894 shares issued and 38,921,365 and 38,335,296 shares outstanding at December 31, 2015 and June 30, 2015, respectively	4	4
Additional paid-in capital	665,807	663,461

Accumulated other comprehensive loss		(791)		(1,065)
Accumulated deficit		(54,717)		(50,462)
Treasury stock of 3,502,598 shares at cost at December 31, 2015 and June 30, 2015		(75,000)		(75,000)
Total stockholders equity		535,303		536,938
Total liabilities, redeemable noncontrolling interest and equity	$	714,991	$	708,599

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

Table of Contents

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014
	(In thousands, except share and per share data)			
Revenues	$ 208,811	$ 231,304	$ 430,041	$ 468,017
Cost and expenses				
Instructional costs and services	129,616	145,029	268,619	291,872
Selling, administrative, and other operating expenses	61,440	62,557	160,710	162,101
Product development expenses	3,028	3,245	6,441	6,727
Total costs and expenses	194,084	210,831	435,770	460,700
Income (loss) from operations	14,727	20,473	(5,729)	7,317
Interest (expense) income, net	(190)	151	(495)	182
Income (loss) before income tax expense and noncontrolling interest	14,537	20,624	(6,224)	7,499
Income tax (expense) benefit	(6,653)	(8,663)	1,444	(2,125)
Net income (loss)	7,884	11,961	(4,780)	5,374
Adjust net loss attributable to noncontrolling interest	654	370	525	183
Net income (loss) attributable to common stockholders	$ 8,538	$ 12,331	$ (4,255)	$ 5,557
Net income (loss) attributable to common stockholders per share				
Basic and Diluted	$ 0.23	$ 0.33	$ (0.11)	$ 0.15
Weighted average shares used in computing per share amounts:				
Basic	37,559,999	37,096,480	37,496,747	37,396,081
Diluted	37,680,879	37,160,829	37,496,747	37,599,930

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

Table of Contents

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014
	(In thousands)			
Net income (loss)	$ 7,884	$ 11,961	$ (4,780)	$ 5,374
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment	120	(569)	274	(1,115)
Total other comprehensive income (loss), net of tax	8,004	11,392	(4,506)	4,259
Comprehensive loss attributable to noncontrolling interest	654	370	525	183
Comprehensive income (loss) attributable to common stockholders	$ 8,658	$ 11,762	$ (3,981)	$ 4,442

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

Table of Contents

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF EQUITY

	K12 Inc Stockholders							
(In thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Other Accumulated Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total
Balance, June 30, 2015	41,837,894	$ 4	$ 663,461	$ (1,065)	$ (50,462)	(3,502,598)	$ (75,000)	$ 536,938
Net loss (1)					(4,255)			(4,255)
Foreign currency translation adjustment				274				274
Stock-based compensation expense			9,541					9,541
Exercise of stock options	1,000		14					14
Excess tax from stock-based compensation			(4,143)					(4,143)
Issuance of restricted stock awards	810,179							
Forfeiture of restricted stock awards	(65,413)							
Accretion of redeemable noncontrolling interests to estimated redemption value			(726)					(726)
Retirement of restricted stock for tax withholding	(159,697)		(2,340)					(2,340)
Balance, December 31, 2015	42,423,963	$ 4	$ 665,807	$ (791)	$ (54,717)	(3,502,598)	$ (75,000)	$ 535,303

(1) Net loss excludes $0.5 million due to the redeemable noncontrolling interests related to Middlebury Interactive Languages and LearnBop, which are reported outside of permanent equity in the accompanying unaudited condensed consolidated balance sheets.

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

Table of Contents

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014
	(In thousands)	
Cash flows from operating activities		
Net (loss) income	$ (4,780)	$ 5,374
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	33,035	34,509
Stock-based compensation expense	9,541	8,969
Excess tax benefit from stock-based compensation	(6)	(7)
Deferred income taxes	5,745	5,203
Provision for doubtful accounts	2,766	836
Provision for excess and obsolete inventory	456	459
Benefit for student computer shrinkage and obsolescence	(389)	(226)
Expensed leased computer peripherals	1,995	
Changes in assets and liabilities:		
Accounts receivable	(44,104)	(72,415)
Inventories	11,257	13,856
Prepaid expenses	(9,812)	(4,255)
Other current assets	(228)	(3,558)
Deposits and other assets	(42)	(466)
Accounts payable	(13,059)	(14,377)
Accrued liabilities	(2,063)	(10,683)
Accrued compensation and benefits	(9,488)	1,684
Deferred revenue	32,156	39,630
Deferred rent and other liabilities	(31)	2,476
Net cash provided by operating activities	12,949	7,009
Cash flows from investing activities		
Purchase of property and equipment	(2,024)	(6,687)
Capitalized software development costs	(16,925)	(17,093)
Capitalized curriculum development costs	(6,867)	(7,267)
Investment in LearnBop, Inc.		(6,512)
Net cash used in investing activities	(25,816)	(37,559)
Cash flows from financing activities		
Repayments on capital lease obligations	(9,370)	(11,487)
Purchase of treasury stock		(26,452)
Proceeds from exercise of stock options	14	161
Excess tax benefit from stock-based compensation	6	7
Retirement of restricted stock for income tax withholding	(2,340)	(1,468)
Net cash used in financing activities	(11,690)	(39,239)
Effect of foreign exchange rate changes on cash and cash equivalents	(18)	(2,086)
Net change in cash and cash equivalents	(24,575)	(71,875)
Cash and cash equivalents, beginning of period	195,852	196,109
Cash and cash equivalents, end of period	$ 171,277	$ 124,234

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

7

Table of Contents

K12 INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business

K12 Inc., together with its subsidiaries (K12 or the Company), is a technology-based education company. The Company offers proprietary curriculum, software systems and educational services designed to facilitate individualized learning for students primarily in kindergarten through 12th grade (K-12). The Company s mission is to maximize a child s potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. The Company s learning systems combine curriculum, instruction and related support services to create an individualized learning approach well-suited for virtual and blended public schools, school districts, charter schools and private schools that utilize varying degrees of online and traditional classroom instruction, and other educational applications. These unique set of products and services are provided primarily to three lines of business: Managed Public School Programs (curriculum and services sold to managed public schools in 33 states and the District of Columbia), Institutional (curriculum, technology and services provided to school districts, public schools and other educational institutions that the Company does not manage), and Private Pay Schools and Other (private schools for which the Company charges student tuition and makes direct consumer sales).

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

2. Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2015, the condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended December 31, 2015 and 2014, the condensed consolidated statements of cash flows for the six months ended December 31, 2015 and 2014, and the condensed consolidated statement of equity for the six months ended December 31, 2015 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 six months ended December 31, 2015 are not necessarily indicative of the results to be expected for the year ending June 30, 2016, or for any other interim period or future fiscal year. The condensed consolidated balance sheet as of June 30, 2015 has been derived from the audited consolidated financial statements at that date.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended (the Exchange Act). Accordingly, the Company does not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these statements 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. 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 4, 2015, which contains the Company s audited financial statements for the fiscal year ended June 30, 2015.

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

Table of Contents

3. Summary of Significant Accounting Policies

Revenue Recognition

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

Where the Company has determined that it is the primary obligor for substantially all expenses under these contracts, the Company records the associated per student revenue received by the school from its state funding school district up to the expenses incurred in accordance with Accounting Standards Codification (ASC) 605, *Revenue Recognition*. As a result of being the primary obligor, amounts recorded as revenues and school operating expenses for the three months ended December 31, 2015 and 2014 were $72.3 million and $84.1 million, respectively, and for the six months ended December 31, 2015 and 2014 were $134.5 million and $152.8 million, respectively. For contracts where the Company is not the primary obligor, the Company records revenue based on its net fees earned under the contractual agreement.

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

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

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

To determine the pro rata amount of revenues to recognize in a fiscal quarter, the Company estimates the total funds each school will receive in a particular school year. Total funds for a school are primarily a function of the number of students enrolled in the school and established per enrollment funding levels which are generally published on an annual basis by the state or school district. The Company reviews its estimates of funding periodically, and revises as necessary, amortizing any adjustments to earned revenues over the remaining portion of the fiscal year. Actual school funding may vary from these estimates and the impact of these differences could impact the Company s results of operations. Since the end of the school year coincides with the end of the Company s fiscal year, annual revenues are generally based on actual school funding and actual costs incurred (including costs for the Company s services to the schools plus other costs the schools may incur) in the calculation of school operating losses. The Company s schools reported results are subject to annual school district financial audits, which incorporate enrollment counts, funding and other routine financial audit considerations. The results of these audits are incorporated into the Company s monthly funding estimates and for the reported three and six months ended December 31, 2015 and 2014.

Table of Contents

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

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

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

Management periodically reviews its estimates of full-year school revenues and operating expenses and amortizes the net impact of any changes to these estimates over the remainder of the fiscal year. Actual school operating losses may vary from these estimates or revisions, and the impact of these differences could have a material impact on results of operations. Since the end of the school year coincides with the end of the Company s fiscal year, annual revenues are generally based on actual school funding and actual costs incurred (including costs for the Company s services to the schools plus other costs the schools may incur) in the calculation of school operating losses. For the three months ended December 31, 2015 and 2014, the Company s revenue included a reduction for these school operating losses of $12.5 million and $15.1 million, respectively, and for the six months ended December 31, 2015 and 2014, were $26.6 million and $32.7 million, respectively.

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

Other revenues are generated from individual customers who prepay and have access for one to two years to company-provided online curriculum. The Company recognizes these revenues pro rata over the

Table of Contents

maximum term of the customer contract. Revenues from associated offline learning kits are recognized upon shipment.

During the three and six months ended December 31, 2015, the Company had a contract with one school that represented approximately 11% and 10% of revenue, respectively. During the three and six months ended December 31, 2014, the Company had a contract with a different school that represented approximately 14% and 13% of revenue, respectively. Approximately 3% and 9% of accounts receivable was attributable to each customer at December 31, 2015 and June 30, 2015.

In fiscal year 2015, the Agora Cyber Charter School (Agora) renegotiated its service agreement and entered into a three-year contract with the Company to purchase the Company s curriculum and certain technology services and the school board assumed daily operational responsibilities, including its charter renewal process and marketing and enrollment activities. The net impact of this contract change on revenues for the three and six months ended December 31, 2015 resulted in an approximate $26.7 million and $50.2 million, respectively, decrease as compared to the prior year.

Reclassifications

The Company has reclassified certain prior year income tax accounts on the unaudited condensed consolidated statements of cash flows to conform to the current year presentation. There was no effect on related income tax assets or liabilities, or the income statement from such reclassification. The reclassification had no effect on net cash flows.

Consolidation

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

Inventories

Inventories consist primarily of textbooks and curriculum materials, a majority of which are supplied to virtual public schools and blended public schools and utilized directly by students. Inventories represent items that are purchased and held for sale, and are recorded at the lower of cost (first-in, first-out method) or market value. Excess and obsolete inventory reserves are established based upon the evaluation of the quantity on hand relative to demand. The excess and obsolete inventory reserves were $2.6 million and $2.2 million at December 31, 2015 and June 30, 2015, respectively.

Other Current Assets

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is calculated using the straight-line method over the estimated useful life of the asset (or the lesser of the term of the lease and the estimated useful life of the asset under capital lease). Amortization of assets capitalized under capital lease arrangements is included in depreciation expense. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful life of the asset. The Company determines the lease term in accordance with ASC 840, *Leases*, as the fixed non-cancelable term of the lease plus all periods for which failure to renew the lease imposes a penalty on the lessee in an amount such that renewal appears, at the inception of the lease, to be reasonably assured. Depreciation expense for the three and six months ended December 31, 2015 and 2014 was $5.1 million and $7.2 million, respectively, and $10.3 million and $14.6 million, respectively. Additionally, beginning in fiscal 2016, the Company no longer recovers peripheral equipment as it was determined to be uneconomical. Accordingly, the Company fully expenses peripherals upon shipment and the impact was immaterial.

Table of Contents

Property and equipment are depreciated over the following useful lives:

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

The Company updates its estimate of unreturned computers based on an analysis of recent trends of returns and utilization rates. During the three and six months ended December 31, 2015, the Company wrote off $0.8 million and $1.5 million, respectively, related to the estimate which was recorded in depreciation expense. During the three and six months ended December 31, 2014, the Company wrote off $1.4 million and $2.7 million, respectively, related to the estimate which was recorded in depreciation expense.

Capitalized Software Costs

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

Capitalized software development additions totaled $16.9 million and $17.1 million for the six months ended December 31, 2015 and 2014, respectively. Amortization expense for the three and six months ended December 31, 2015 and 2014 was $6.8 million and $5.3 million, respectively, and $13.2 million and $10.1 million, respectively.

Capitalized Curriculum Development Costs

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

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

Total capitalized curriculum development additions were $6.9 million and $7.3 million for the six months ended December 31, 2015 and 2014, respectively. These amounts are recorded on the accompanying condensed consolidated balance sheets net of amortization charges. Amortization is recorded in product development expenses on the accompanying condensed consolidated statements of operations. Amortization expense for the three and six months ended December 31, 2015 and 2014 was $4.0 million and $4.5 million, respectively, and $8.3 million and $8.5 million, respectively.

Income Taxes

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

Table of Contents

Redeemable Noncontrolling Interests

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

Goodwill and Intangible Assets

The Company records as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. Finite-lived intangible assets acquired in business combinations subject to amortization are recorded at their fair value. Finite-lived intangible assets include trade names, acquired customers and non-compete agreements. Such intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense for the three and six months ended December 31, 2015 and 2014 was $0.6 million and $0.6 million, respectively, and $1.2 million and $1.3 million, respectively. Future amortization of intangible assets is $1.2 million, $1.9 million, $1.9 million, $1.9 million and $1.9 million in the fiscal years ending June 30, 2016 through June 30, 2020, respectively, and $10.7 million thereafter. At both December 31, 2015 and June 30, 2015, the goodwill balance was $66.2 million.

At December 31, 2015, the Company s stock market capitalization was below its net book value. However the Company continues to operate profitably and generate cash flow from operations, which is anticipated to continue in 2016 and beyond. At December 31, 2015, we didn t believe the decline in market value was a triggering event; however, we will continue to monitor the market capitalization and assess the potential of a triggering event to the extent the decline is not other than temporary.

ASC 350 prescribes a two-step process for impairment testing of goodwill and intangible assets with indefinite lives, which is performed annually, as well as when an event triggering impairment may have occurred. ASC 350 also allows the Company to qualitatively assess goodwill impairment through a screening process which would permit companies to forgo Step 1 of their annual goodwill impairment process. This qualitative screening process will hereinafter be referred to as Step 0 . Goodwill and intangible assets deemed to have an indefinite life are tested for impairment on an annual basis, or earlier when events or changes in circumstances suggest the carrying amount may not be fully recoverable. The Company has elected to perform its annual assessment on May 31st. The Step 0 analysis focused on a number of events and circumstances that may be considered when making this qualitative assessment.

On July 31, 2014, the Company acquired a 51% majority interest in LearnBop Inc. (LearnBop), for $6.5 million in cash (see Note 11). The purchase price allocation for the acquisition was finalized in fiscal year 2015.

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

Table of Contents

The following table represents the balance of intangible assets as of December 31, 2015 and June 30, 2015:

Intangible Assets:

	December 31, 2015	June 30, 2015