Risk Factors Comparison 2023-08-16 to 2022-08-10 Form: 10-K

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The following summary description sets forth an overview of the material risks we are exposed to in the normal course of our business activities. The summary does not purport to be complete and is qualified in its entirety by reference to the full risk factor discussion immediately following this summary description. Our business, results of operations and financial conditions, as well as your investment in our common stock, could be materially and adversely affected by any of the following material risks: ● The majority of our revenues come from our school- as- a- service offering and depends on per pupil funding amounts and payment formulas remaining near levels existing at the time we execute service agreements with the schools we serve; ● ~~The inability~~ **Any failure** to **comply with applicable laws** ~~predict how the COVID- 19 pandemic will continue to impact our~~ - **or** ~~business~~ **regulations, the enactment of new laws or regulations, poor academic performance or misconduct by us or operators of other virtual public schools** ; ● Opponents of public charter schools could prevail in challenging the establishment and expansion of such schools through the judicial process ~~; ● Any failure to comply with applicable laws or regulations, the enactment of new laws or regulations, poor academic performance or misconduct by us or operators of other virtual public schools~~ ; ● Disputes over our inability to invoice and receive payments for our services due to ambiguous enabling legislation and interpretive discrepancies by regulatory authorities; ● Any failure to renew an authorizing charter for a virtual or blended public school; ● Actual or alleged misconduct by current or former directors, officers, key employees or officials; ● Changes in the objectives or priorities of the independent governing bodies of the schools we serve; ● Any **nonpayment or nonperformance by our customers, including due to actions taken by the independent governing authorities of our customers; ● Any** failure to renew a contract for a school- as- a- service offering, which is subject to periodic renewal; ● **Any failure** ~~Schools we serve or the programs we offer may fail~~ to enroll or re- enroll a significant number of students **by the schools we serve** ; ● The enrollment data we present may not fully capture trends in our business performance; ● Our marketing efforts may not be effective **and changes in our marketing efforts and enrollment activities could lead to declines in enrollment** ; ● The student demographics of the schools we serve can lead to higher costs; ● The ability to meet state accountability testing standards and achieve parent and student satisfaction; ● Compliance with curriculum standards and assessments for individual state determinations under the ESSA; ● Risks due to mergers, acquisitions and joint ventures; ● ~~Our business could be negatively~~ -- **Negative impacts caused by the** ~~affected as a result of~~ actions ~~by~~ **of** activist stockholders; ● Market demand for online options in public schooling may decrease or not continue, or additional states may not authorize or adequately fund virtual or blended public schools; ● Increasing competition in the education industry sectors that we serve; ● The continuous evolution of regulatory frameworks on the accessibility of technology and curriculum; ● Differences between our quarterly estimates and the actual funds received and expenses incurred by the schools we serve; ● Seasonal fluctuations in our business; ● Our ability to create new products, expand distribution channels and pilot innovative educational programs; ● Our ability to recruit, train and retain quality certified teachers; ● Higher operating expenses and loss of management flexibility due to collective bargaining agreements; ● Our reliance on third- party service providers to host some of our solutions; ● Any problems with our Company- wide ERP **and other** ~~system~~ **systems** ; ● Our ability to maintain and enhance our product and service brands; ● Our ability to protect our valuable intellectual property rights, or lawsuits against us alleging the infringement of intellectual property rights of others; ● Any legal liability from the actions of third parties; ● Any failure to maintain and support customer facing services, systems, and platforms; ● Any failure to prevent or mitigate a cybersecurity incident affecting our systems, or any significant interruption in the operation of our data centers; ● Our reliance on the Internet to enroll students and to deliver our products and services ~~to children~~ ; ● Failure to comply with data privacy regulations; ● Any failure by the single vendor we use to manage, receive, assemble and ship our learning kits and printed educational materials; ● **Any significant interruption in the operation of AWS or Azure could cause a loss of data and disrupt our ability to manage our technological infrastructure; ●** Scale and capacity limits on some of our technology, transaction processing systems and network hardware and software; ● Our ability to keep pace with changes in our industry and advancements in technology; ● Our ability **to** attract and retain key executives and skilled employees; ~~and~~ ● Our ability to obtain additional capital in the future on acceptable terms **; and ● The possibility that a material misstatement of our annual or interim financial statements, resulting from a material weakness in our internal control over financial reporting, would not be prevented or detected on a timely basis** . ~~Risks~~ **21Risks** Related to Government Funding and Regulation of Public EducationThe majority of our revenues come from our comprehensive school- as- a- service offering in both the General Education and Career Learning markets and depends on per pupil funding amounts and payment formulas remaining near the levels existing at the time we execute service agreements with the schools we serve. If those funding levels or formulas are materially reduced or modified due to economic conditions or political opposition, or new restrictions are adopted or payments delayed, our business, financial condition, results of operations and cash flows could be adversely affected. The public schools we contract with are financed with government funding from federal, state and local taxpayers. Our business is primarily dependent upon those funds with a majority of our revenue coming from our comprehensive ~~21school~~ -- **school** - as- a- service offerings in both the General Education and Career Learning markets. Budget appropriations for education at all levels of government are determined through a legislative process that may be affected by negative views of for- profit education companies, recessionary conditions in the economy at large, or significant declines in public school funding. The results of federal and state elections can also result in shifts in education policy and the amount of funding available for various education programs. The political process and potential variability in general economic conditions, including due to **possible** ~~the ongoing COVID- 19 pandemic~~ **pandemics** , rising inflation and geo- political instability, create a number of risks that could have an adverse effect on our business including the following: ● Legislative proposals can and have resulted in budget or program cuts for public education, including the virtual and blended public schools and school districts we serve, and therefore have reduced and could potentially limit or eliminate the products and services those schools purchase from us, causing our revenues to decline. From time to time, proposals are introduced in state legislatures that single out virtual and blended public schools for disparate treatment. ● Economic conditions, including current and future business disruptions and debt and equity market volatility caused by **changing interest rates** ~~the ongoing COVID- 19 pandemic~~, rising inflation **, the government closures of various banks** and **liquidity concerns at other financial institutions,** geo- political instability **, possible pandemics and the potential for local and / or global economic recession**, could reduce state education funding for all public schools or cause a delay in the payment of government funding to schools and school districts or a delay in payments to us for our products or services, the effects of which could be disproportionate for the schools we serve. Our annual revenue growth is impacted by changes in federal, state and district per pupil funding levels. For example, due to the budgetary problems arising from the 2008 recession, many states reduced per pupil funding for public education affecting many of the public schools we serve, including even abrupt midyear cuts in certain states, which in some cases were retroactively applied to the start of the school year as a result of formulaic adjustments. In addition, as we enter into service and product agreements with multiple schools in a single state, the aggregate impact of funding reductions applicable to those schools could be material. For example, we have agreements with 13 schools in California and while each school is independent with its own governing authority and no single school in California accounts for more than 10 % of our revenue, regulatory actions that affect the level or timing of payments for all similarly situated schools in that state could adversely affect our financial condition. The specific level of federal, state and local funding for the coming years is not yet known for specific states and, when taken as a whole, it is reasonable to believe that a number of the public schools we serve could experience lower per pupil enrollment funding, while others may increase funding, as economic conditions or political conditions change. ● As a public company, we are required to file periodic financial and other disclosure reports with the SEC. This information may be referenced in the legislative process, including budgetary considerations, related to the funding of alternative public school options, including virtual public schools and blended schools. The disclosure of this information by a for- profit education company, regardless of parent satisfaction and student performance, may nonetheless be used by opponents of virtual and blended public schools to propose funding reductions or restrictions. ● From time to time, government funding to schools and school districts is not provided when due, which sometimes causes the affected schools to delay payments to us for our products and services. These payment delays have occurred in the past and can deprive us of significant working capital until the matter is resolved, which could hinder our ability to implement our growth strategies and conduct our business. For example, in ~~fiscal~~ **22fiscal** year 2016, the Commonwealth of Pennsylvania was unable to approve a budget, including funding for public school education, and thus the Agora Cyber Charter School received no funds and could not make timely contractual payments to the Company for our products and services, even though we continued to incur the costs to keep the school operating ~~. We cannot predict with any certainty whether and to what degree the disruption caused by the ongoing COVID- 19 pandemic and reactions thereto will continue and how our business and results of operations will be impacted in the future. While we initially observed increasing demand from prospective students in the earlier part of the COVID- 19 pandemic, we cannot estimate the specific impact of the ongoing COVID- 19 pandemic on future demand trends, and 22there is no assurance that we will continue to experience current demand levels as the COVID- 19 pandemic tapers. As a result, we expect to face difficulties in accurately forecasting financial results~~. Failure to comply with regulatory requirements, poor academic performance, or misconduct by us or operators of other virtual public schools could tarnish the reputation of all the school operators in our industry, which could have a negative impact on our business or lead to punitive legislation. As a non- traditional form of public education, online public school operators will be subject to scrutiny, perhaps even greater than that applied to traditional brick and mortar public schools or public charter schools. Not all virtual public schools will have successful academic programs or operate efficiently, and new entrants may not perform well either. Such underperformance could create the impression that virtual schooling is not an effective way to educate students, whether or not our learning systems achieve satisfactory performance. Consistently poor academic performance, or the perception of poor performance, could also lead to closure of an online public school or termination of an approved provider status in some jurisdictions, or to passage of legislation empowering the state to restructure or close low- performing schools. For example, a 2016 Nevada law expanded a charter authorizer' s ability to terminate a charter based upon academic performance or to reconstitute a school' s governing board, and a 2013 Tennessee law included academic performance criteria applicable only to virtual schools. Beyond academic performance issues, some virtual school operators, including us, have been subject to governmental investigations alleging, among other things, false attendance reporting, the misuse of public funds or failures in regulatory compliance. These allegations have attracted significant adverse media coverage and have prompted legislative hearings and regulatory responses. Investigations have focused on specific companies and individuals, or even entire industries, such as the industry- wide investigation of for- profit virtual schools initiated by the Attorney General of California in 2015. The precise impact of these governmental investigations on our current and future business is difficult to discern, in part because of the number of states in which we operate and the range of purported malfeasance or performance issues involved. If these situations, or any additional alleged misconduct, cause all virtual public schools to be viewed by the public and / or policymakers unfavorably, we may find it difficult to expand into new states or renew our contracts with our clients. Opponents of public charter schools, including virtual and blended, have sought to challenge the establishment and expansion of such schools through the judicial process. If these interests prevail, it could damage our ability to sustain or grow our current business or expand in certain jurisdictions. We have been, and will likely continue to be, subject to public policy lawsuits by those who do not share our belief in the value of this form of public education or the involvement of for- profit education management companies. Whether we are a named party to these lawsuits, legal claims have involved challenges to the constitutionality of authorizing statutes, methods of instructional delivery, funding provisions and the respective roles of parents and teachers that can potentially affect us. For example, the Louisiana Association of Educators, an affiliate of a national teachers union, sought to terminate funding on state constitutional grounds to certain types of charter schools through the judicial process (including to a public school we serve), and while the teachers union was initially successful, the Louisiana Supreme Court reversed that decision in March 2018. See Iberville Parish School Board v. Louisiana State Board of Elementary and Secondary Education. Should we fail to comply with the laws and regulations applicable to our business, such failures could result in a loss of public funding and an obligation to repay funds previously received, which could adversely affect our business, financial condition and results of operations. Once authorized by law, virtual and blended public schools are generally subject to extensive regulation, as are the school districts we serve. These regulations cover specific program standards and financial requirements including, but not limited to: (i) student eligibility standards; (ii) numeric and geographic limitations or caps on enrollments; (iii) state- specific curriculum requirements and standards; (iv) restrictions on open- enrollment policies by and among districts; (v) prescribed teacher- to- student ratios and teacher funding allocations from per pupil funding; (vi) teacher certification and reporting requirements; and (vii) virtual school attendance reporting. State and federal funding authorities conduct regular program and financial audits of the public schools we serve to ensure compliance with applicable regulations. If a final determination of non- compliance is made, funds may be withheld, which could impair that school' s ~~ability~~ **23ability** to pay us for services in a timely manner, or the school could be required to repay funds received during the period ~~23of~~ **of** non- compliance. Additionally, the indemnity provisions in our standard service agreements, with virtual and blended public schools and school districts, may require us to return any contested funds on behalf of the school. As an emerging form of public education with unique attributes, enabling legislation for online public schools is often ambiguous and subject to discrepancies in interpretation by regulatory authorities, which may lead to disputes over our ability to invoice and receive payments for services rendered. Statutory language providing for virtual and blended public schools is sometimes interpreted by regulatory authorities in ways that may vary from year to year making compliance subject to uncertainty. More issues normally arise during our first few school years of doing business in a state because such state' s enabling legislation often does not address specific issues, such as what constitutes proper documentation for enrollment eligibility or attendance reporting in a virtual or blended school. From time to time there are changes to the regulators' approaches to determining the eligibility of students for funding purposes. Another issue may be differing interpretations on what constitutes a student' s substantial completion of a semester in a public school or daily attendance requirements. These regulatory uncertainties may lead to disputes over our ability to invoice and receive payments for services rendered, or to disputes with auditors of public schools, which could adversely affect our business, financial condition and results of operations. For example, in October 2017, the California Department of Education commenced an audit covering, among other things, the average daily attendance records and associated funding provided to the California Virtual Academies (" CAVAs "), dependent on the proper method of counting the time- value and daily engagement of students enrolled in independent study programs provided by non- classroom based charter schools and the regulations applicable to such programs and schools. The operation of virtual and blended public charter schools depends on the maintenance of the authorizing charter and compliance with applicable laws. If these charters are not renewed, our contracts with these schools would be terminated. In many cases, virtual and blended public schools operate under a charter that is granted by a state or local authorizer to the charter holder, such as a community group or an established not- for- profit corporation, which typically is required by state law to qualify for student funding. In fiscal year ~~2022~~ **2023** , a majority of our revenue was derived from our comprehensive school- as- a- service offerings in both the General Education and Career Learning markets, the majority of which were virtual and blended public schools operating under a charter. The service and products agreements for these schools are with the charter holder or the charter board. Non- profit public charter schools qualifying for exemption from federal taxation under Internal Revenue Code Section 501 (c) (3) as charitable organizations must also operate on an arms- length basis in accordance with Internal Revenue Service rules and policies to maintain that status and their funding eligibility. In addition, many state public charter school statutes require periodic reauthorization. If a virtual or blended public school we support fails to maintain its tax- exempt status and funding eligibility, fails to renew its charter, or if its charter is revoked for non- performance or other reasons that may be due to actions of the independent charter board completely outside of our control, our contract with that school would be terminated. For example, in fiscal year 2018, the Buckeye Community Hope Foundation terminated the charter of Insight School of Ohio. Actual or alleged misconduct by current or former directors, officers, key employees or officials could make it more difficult for us to enter into new contracts or renew existing contracts. If we or any of our current or former directors, officers, key employees, or officials are accused or found to be guilty of serious crimes or civil violations, including the mismanagement or improper accounting of public funds, or violations of the federal securities laws, the schools we serve could be barred or discouraged from entering into or renewing service agreements with us. As a result, our business and revenues would be adversely affected. New laws or regulations not currently applicable to for- profit education companies in the K- 12 sector could be enacted and negatively impact our operations and financial results. As the provision of online K- 12 public education matures, policy or business practice issues may arise that could lead to the enactment of new laws or regulations similar to, or in addition to, laws or regulations applicable to other education industry sectors. For example, for- profit education companies that own and operate post- secondary colleges and programs depend in significant part on student loans provided by the federal government to cover tuition expenses and income sharing agreements, and federal laws prohibit incentive compensation for success in securing enrollments or financial aid to any person engaged in student recruiting or admission activities. In contrast, while students in virtual or ~~blended~~ **24blended** public K- 12 schools are entitled to a public education with no federal or state loans necessary for tuition, laws ~~24could~~ -- **could** be enacted that make for- profit management companies serving such schools subject to similar recruitment or other restrictions. In keeping with good business practices, 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. New laws that specifically target for- profit education companies or education management organizations from operating public charter schools could also adversely affect our business, financial condition and results of operation. Risks Related to Our Business and Our IndustryThe schools we contract with and serve are governed by independent governing bodies that may shift their priorities or change objectives in ways that are adverse to us and to the students who attend the school programs we administer, or they may react negatively to acquisitions or other transactions. We contract with and provide a majority of our products and services to virtual and blended public schools governed by independent boards or similar governing bodies. While we typically share a common objective at the outset of our business relationship, over time our interests could diverge resulting in changes adverse to our business or the students enrolled in those schools. The governing boards of the schools we serve in which we hire the Principal or Head of School (“ HoS ”) may seek to employ their own HoS as a condition for contract renewal. This decision may potentially reduce the value of the programs they purchase from us by structurally separating the HoS from regular involvement with our virtual school management experts, employee- based professional development programs, and internal understanding of the proprietary curriculum and innovations we develop to improve academic performance. As these independent boards shift their priorities or change objectives, reduce or modify the scope of services and products we provide, or terminate their relationships with us, our ability to generate revenues consistently over time or to improve academic outcomes would be adversely affected. Our contracts for a school- as- a- service offering are subject to periodic renewal, and each year, some of these agreements are set to expire. If we are unable to renew several such contracts or if a single significant contract expires during a given year, our business, financial condition, results of operations and cash flow could be adversely affected. In fiscal year ~~2022~~ **2023** , we had contracts for our school- as- a- service offerings for ~~80~~ **87** schools in ~~30~~ **31** states and the District of Columbia. A portion of these contracts are scheduled to expire in any given year and may not be renewed or may be renewed on terms much less favorable to us. Most of these contracts include auto renewal provisions having significant advance notice deadlines. The advance notice provisions are intended to allow sufficient time to engage in renewal negotiations before and during the final year of these contracts. A renewed contract could involve a restructuring of our services and management arrangements that could lower our revenue or even change how revenue and expenses are recognized. When the customer prefers the existing contract terms to be extended, it can elect to disregard the advance notice provision and have the contract automatically renew. If we are unable to renew contracts or if contract renewals have significantly less favorable terms or unbundle previously provided services, our business, financial condition, results of operations and cash flow could be adversely affected. If the schools we serve fail to enroll or re- enroll a sufficient number of students, or we fail to enroll a significant number of students in the Career Learning programs for adult learners, our business, financial condition and results of operations will be adversely affected. A majority of our revenues are a direct function of how many students are enrolled in our school- as- a- service offerings, the number of school districts and students who subscribe to such district programs, and the enrollments in our ~~three~~ international and private schools. Because families have alternative choices both within and outside the public school system for educating their children, it is typical during each school year that some students withdraw from schools using our online education services and switch to their traditional local public schools, other charter school alternatives or private schools. While many of our school- as- a- service offerings also accept new student enrollment throughout the year where permitted, generally our average student enrollment declines as the school year progresses such that we serve on average fewer students at the end of any given school year than at the beginning of the year. If our school- as- a- service offerings experience higher withdrawal rates during the year and / or enroll fewer new students as the year progresses than we have experienced in the past, our revenues, results of operations and financial condition would be adversely affected. 25Similarly, at the start of each new school year, students who had remained enrolled through the end of the previous year may have graduated from the terminal grade in a school or have left our school- as- a- service offerings for any number of reasons. To the extent our school- as- a- service offerings do not retain previously enrolled students from the prior year, they must attract new students at the start of the year to sustain their average student enrollment year over year, as well as to grow their enrollment each year, based upon enrollment objectives determined by the governing authority of those schools. If the schools we serve in the aggregate are able only to sustain prior year enrollment levels, our revenues may not grow from the prior year, absent improved revenue capture or the addition of new schools. More fundamentally, if average student enrollment at the schools we serve declines from one year to the next, our revenues, results of operations and financial condition will be adversely affected. We also contract with virtual public schools and school districts to provide marketing and enrollment services, and we provide similar services directly to our international and private schools. However, many of these customers are responsible for their own marketing and enrollment activities. Efforts on our part to sustain or increase enrollments in the face of higher student withdrawals or fewer returning students at the start of a school year may lead to higher costs for us, and may adversely affect our operating margin. If we or the virtual public schools and school districts are unsuccessful in marketing plans or enrollment processes for the schools, the average student enrollment at the schools may not grow or could even decline, and adversely affect our revenues, results of operations and financial condition. We also derive revenues from our Galvanize, Tech Elevator and MedCerts offerings to adult learners. The vast majority of the enrollments in these programs are for shorter periods of time, and re- enrollments are not typical due to the nature of these offerings. Thus, we must continually attract and enroll new adult learners in order to maintain our revenues at current levels or grow our revenues. Efforts on our part to sustain or increase enrollments in the face of lower enrollments compared to prior periods may lead to higher costs for us, and may adversely affect our operating margin. If we are unsuccessful in marketing plans or enrollment processes for these programs for adult learners, the average enrollment in our Galvanize, Tech Elevator or MedCerts offerings may not grow or could even decline, which could adversely affect our revenues, results of operations and financial condition. The enrollment data we present is subject to certain limitations and may not fully capture trends in the performance of our business. We periodically disclose enrollment data for students in our General Education and Career Learning lines of revenue. However, this data may not fully capture trends in the performance of our business for a number of reasons, including: ● 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; ● This data includes enrollments for which Stride receives no public funding or revenue; ● No enrollments are included in Career Learning for Galvanize, Tech Elevator or MedCerts; and ● Over time a student may move from being counted as a General Education enrollment to being counted as a Career Learning enrollment, or vice versa, depending on the educational choices made by each student, which choices in certain cases may be impacted by counseling from Stride employees, and this may result in enrollment growth in one line of revenue being offset by a corresponding decrease in enrollments for the other line of revenue. Accordingly, changes in enrollment data may not entirely correspond with changes in the financial performance of our business, and if the mix of enrollments changes, our revenues will be impacted to the extent the average revenues per enrollments are significantly different. Because the independent governing authorities of our customers may shift priorities or incur new obligations which have financial consequences, we may be exposed to the risk of loss resulting from the nonpayment or nonperformance by our customers and our financial condition, results of operations and cash flows could suffer. **The independent boards or similar governing bodies may shift their priorities or incur new obligations, which may have financial consequences on our customers.** If our customers were to cause or be subjected to situations that lead ~~to~~ **26to** a weakened financial condition, dispute our invoices, withhold payments, or file for bankruptcy, we could experience difficulty and prolonged delays in collecting ~~26receivables~~ -- **receivables** , if at all. Any nonpayment or nonperformance by our customers could adversely affect our business, financial condition, results of operations and cash flows. For example, in fiscal year 2017, as the Agora Cyber Charter School continued to operate as a self-managed charter school, it delayed its payments to us and our accounts receivable from the school have grown significantly, resulting in a revised payment schedule agreement, which accompanied a contract extension. As we continue to refine our marketing efforts, and support the enrollment activities for our school- as- a- service offerings and adult learning programs, changes in our marketing efforts and enrollment activities could lead to a decline in overall enrollment at the schools we serve or at the adult learning programs we offer. As parents evaluate school choices for their children, we are segmenting our marketing efforts to better attract students who are most likely to benefit from and succeed in virtual education programs and who are likely to remain enrolled with a virtual school over several years. Our research leads us to believe that students with parents who are active and regularly engaged in their education are more likely to be successful in a virtual school. In some cases, the governing authorities of these schools may request different enrollment policies or criteria. Our marketing efforts, therefore, may not be wholly successful, and could lead to an overall decline in enrollment for our school- as- a- service, thus adversely affecting our revenue, results of operations and financial condition. Additionally, for our Galvanize, Tech Elevator and MedCerts offerings to adult learners, we are focusing our marketing and enrollment efforts to identify and attract adult learners in the software engineering, healthcare and medical fields, as well as providing staffing and talent development services to employers and government agencies. However, our marketing efforts may not be successful. As a result, our overall enrollment in these adult learning programs may decline, and our revenue, results of operations and financial condition may be adversely affected. The student demographics of the schools we serve can lead to higher costs and affect our ability to sustain or grow our operating income. The schools we serve are publicly funded and are generally obligated to accept all students meeting state or district criteria for enrollment. Because an online education environment may offer a better educational opportunity for students falling behind grade level, our school- as- a- service offerings have experienced in recent years a higher academically at- risk student population, requiring supplemental student and family support services and closer one- on- one involvement by teachers and school personnel, leading to higher costs to us in providing full management and curriculum services to the schools. We consider students academically at- risk if they were not proficient on the previous year' s state assessment, are credit-deficient, have previously dropped out, have failed courses, or score lower than average on diagnostic norm- referenced assessments. Some states have additional or different indicators to determine students who are at risk. These factors are used by the state to identify at- risk students in several states and have been found through research to impact future student performance. The schools we serve also enroll a significant percentage of special needs students with learning and / or physical disabilities, which also adds to the total costs incurred by the schools. Education of high school students is generally more costly than K- 8 as more teachers with subject matter expertise (e. g., chemistry, calculus) must be hired to support an expansive curriculum, electives, and counseling services. As the relative percentage of high school students increases as part of the total average enrollment in our school- as- a- service offerings, our costs are likely to increase. As our cost structure evolves due to the demographics, educational profile and mix of the students enrolled in our school- as- a- service offerings, our profit margins may decline, and we may have increasing difficulty in sustaining or growing our operating income commensurate with our revenues. If student performance falls, state accountability standards are not achieved, teachers or administrators tamper with state test scoring or graduation standards, or parent and student satisfaction declines, a significant number of students may not remain enrolled in a virtual or blended public school that we serve, charters may not be renewed or enrollment caps could be put in place, or enrollment practices could be limited, and our business, financial condition and results of operations will be adversely affected. The success of our business depends in part on the choice of a family to have their child begin or continue his or her education in a virtual or blended public school that we serve. This decision is based on many factors, including student ~~performance~~ **27performance** and parent and student satisfaction. Students may perform significantly below state averages or the virtual or ~~27blended~~ -- **blended** public school may fail to meet state accountability standards. Like many traditional brick and mortar public schools, not all of the public schools we serve meet the requirements of their applicable accountability frameworks, as large numbers of new enrollments from students underperforming in traditional schools can decrease overall results or the underperformance of any one subgroup can lead to the entire school failing to meet accountability expectations and potentially lead to the school' s closure. For example, in Tennessee, the Commissioner of Education has statutory authority to close a virtual school if an accountability trigger is met. In addition, although serving academically at- risk students is an important aspect of our obligation to educate any child regardless of circumstance, the performance of these students can adversely affect a school' s standing under applicable accountability standards. We expect that, as our enrollments increase and the portion of students that have not used our learning systems for multiple years increases, the average performance of all students using our learning systems may decrease, even if the individual performance of other students improves over time. This effect may also be exacerbated if students enrolled in schools that we provide services to or acquire are predominately below state proficiency standards or experience low graduation rates. For example, at- risk students who attended the Electronic Classroom of Tomorrow (ECOT) schools in Ohio, which were closed in mid- school year 2017- 18 by state regulators, and who then transferred to other public schools, including the Ohio Virtual Academy supported by us, could negatively impact a receiving school' s overall academic performance ratings absent a different accountability measure applicable to such students or waiver of such standards. Moreover, under ESSA, state authorities may change their accountability frameworks in ways that negatively impact the schools we serve. Students in the school- as- a- service offerings we serve are required to complete standardized state testing, and the frequency and the results of this testing may have an impact on school enrollment. The significant increase of testing undertaken at the state level has led some parents to opt out of state assessments, a parental right which is now codified in the ESSA, thereby resulting in an incomplete and potentially inaccurate assessment of school and student performance. To avoid the consequences of failing to meet applicable required proficiency, growth or accountability standards, teachers or school administrators may engage in improperly altering student test scores or graduation standards, especially if teacher performance and compensation are evaluated on these results. Finally, parent and student satisfaction may decline as not all parents and students are able to devote the substantial time and effort necessary to complete our curriculum. A student' s satisfaction may also suffer if his or her relationship with the virtual or blended public school teacher does not meet expectations. If student performance or satisfaction declines, students may decide not to remain enrolled in a virtual or blended public school that we serve and our business, financial condition and results of operations could be adversely affected. Compliance with curriculum standards and assessments for individual state determinations under the ESSA may create ongoing challenges to ensure that our curriculum products align with state requirements, which could possibly cause academic performance to decline and dissatisfaction by our school customers which could limit our growth and profitability. Under the ESSA, states will set their own curriculum standards in reading, math and science, and the federal government is prohibited from mandating or incentivizing states to adopt any set of particular standards, such as Common Core. States were also given the authority under the ESSA to craft their own assessment programs to measure the proficiency of their students for college and career readiness, and may also choose to offer already available nationally recognized assessments at the high school level, such as the SAT or ACT tests. As implementation proceeds at the state level, and use of the assessments previously developed by the Partnership for Assessment of Readiness for College and Careers and Smarter Balanced Assessment Consortium consortia continues to erode, a multitude of different standards and assessments may emerge and result in temporary misalignments of our curriculum offerings with state standards, cause academic performance to decline, create a need for additional teacher training and product investments, all of which could adversely affect our relationship with public school contracting with us for a school- as- a- service offering and school district customers, financial condition, contract renewals and reputation. Mergers, acquisitions and joint ventures present many risks, and we may not realize the financial and strategic goals that formed the basis for the transaction. When strategic opportunities arise to expand our business, we may acquire or invest in other companies using cash, stock, debt, asset contributions or any combination thereof, such as the acquisitions of Galvanize in January 2020, Tech Elevator in November 2020 and MedCerts in November 2020. We may face risks in connection with these or other future transactions, including the possibility that we may not realize the anticipated cost and revenue synergies on a timely basis, or at all, or further the strategic purpose of any acquisition if our forecasts do not materialize. The pursuit of ~~acquisitions~~ **28acquisitions** and their integrations may divert the resources that could otherwise be used to support and grow our existing ~~28lines~~ -- **lines** of business. The combination of two or more independent enterprises is a complex, costly and time- consuming process. Acquisitions may create multiple and overlapping product lines that are offered, priced and supported differently, which could cause customer confusion and delays in service. We may have difficulties coordinating sales and marketing efforts to effectively position the combined company' s capabilities. Customers may decline to renew their contracts, or the contracts of acquired businesses might not allow us to recognize revenues on the same basis. These transactions and their integrations may also divert our management' s attention, and our ongoing business may be disrupted by acquisition, transition or integration activities. In addition, we may have difficulty separating, transitioning and integrating an acquired company' s systems, including but not limited to, financial accounting systems, information technology systems, transaction processing systems, internal controls and standards, and procedures and policies, and the associated costs in doing so may be higher than we anticipate. There may also be other adverse effects on our business, operating results or financial condition associated with the expansion of our business through acquisitions. We may fail to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company or technology, which could result in unexpected operating expenses, unexpected accounting treatment, unexpected increases in taxes due or a loss of anticipated tax benefits. The acquired companies may not be able to achieve the levels of revenue, earnings or operating efficiency that we expect. Our use of cash to pay for acquisitions may limit other potential uses of our cash, including investment in other areas of our business, stock repurchases, dividend payments and retirement of outstanding indebtedness. If we issue a significant amount of equity for future acquisitions, existing stockholders may be diluted and earnings per share may decrease. We may pay more than the acquired company or assets are ultimately worth and we may have underestimated our costs in continuing the support and development of an acquired company' s offerings. Our operating results may be adversely impacted by liabilities resulting from a stock or asset acquisition, which may be costly, disruptive to our business, or lead to litigation. We may be unable to obtain required approvals from governmental authorities on a timely basis, if at all, which could, among other things, delay or prevent us from completing a transaction, otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition or have other adverse effects on our current business and operations. We may face contingencies related to intellectual property, financial disclosures, and accounting practices or internal controls. Finally, we may not be able to retain key executives of an acquired company. To execute our business plans, we depend upon the experience and industry knowledge of our officers and other key employees, including those who joined us as part of the Galvanize, Tech Elevator, and MedCerts acquisitions. The combined company' s success will depend, in part, upon our ability to retain key management personnel and other key employees, some of which may experience uncertainty about their future roles with the combined company as a result of the acquisition. This may have a material adverse effect on our ability to attract and retain key personnel. The occurrence of any of these risks could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or several concurrent acquisitions. Our business could be negatively affected as a result of actions by activist stockholders, and such activism could impact the trading value of our securities and harm our business, financial condition and results of operations. Responding to actions by activist stockholders can be costly and time consuming, disrupting our operations and diverting the attention of management and our employees. If activist stockholders were to emerge, their activities could interfere with our ability to execute our strategic plan and divert resources from our business. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention of management and our Board of Directors. Any perceived uncertainties as to our future direction also could affect the market price and volatility of our securities, cause key executives to leave the Company, adversely affect the relationships we have with our school board customers, and harm existing and new business prospects. ~~If~~ **29If** market demand for online options in public schooling does not increase or continue or if additional states do not authorize or adequately fund virtual or blended public schools, our business, financial condition and results of operations could be adversely affected. While historically we grew by opening new virtual public schools in new states, in recent years the pace of state expansion has declined while opening more schools in existing states has increased. In fiscal year ~~2022~~ **2023**, we served ~~80~~ **87** ~~29virtual~~ -- **virtual** public schools and blended schools in ~~30~~ **31** states and the District of Columbia. Without adding additional states, our school- as- a- service revenues may become increasingly dependent on serving more virtual schools in existing states. We may also not be able to fill available enrollment slots as forecasted. If the market demand for virtual and blended public schools does not increase or declines, if the remaining states are hesitant to authorize virtual or blended public schools, if enrollment caps are not removed or raised, or if the funding of such schools is inadequate, our opportunities for growth and our ability to sustain our revenues, results of operations and financial condition would be adversely affected. Increasing competition in the education industry sectors that we serve could lead to pricing pressures, reduced operating margins, loss of market share, departure of key employees and increased capital expenditures. As a general matter, we face varying degrees of competition from a variety of education providers because our learning systems integrate all the elements of the education development and delivery process, including curriculum development, textbook publishing, teacher training and support, lesson planning, testing and assessment, job placement and industry- certified content, and school performance and compliance management. In both our General Education and Career Learning markets, we compete with companies that provide online curriculum and support services. We also compete with public school districts and state departments of education that offer K- 12 online programs of their own or in partnership with other online curriculum vendors. As we pursue our post-secondary Career Learning strategic initiatives through our Galvanize, Tech Elevator and MedCerts subsidiaries, we will be competing with corporate training businesses and some employers that offer education as an employee benefit. We anticipate intensifying competition both from existing competitors and new entrants. Our competitors may adopt superior curriculum content, technology and learning platforms, school support or marketing approaches, and may have different pricing and service packages that may have greater appeal than our offerings. In addition, some of our school- as- a- service offerings could seek to transition to a self- managed school by inviting competitive alternatives to portions of the products and services now provided entirely by us under our integrated fully managed service agreements. If we are unable to successfully compete for new business, win and renew contracts, including fully managed public school contracts, or students fail to realize sufficient gains in academic performance, our revenues, opportunities for growth and operating margins may decline. Price competition from our current and future competitors could also result in reduced revenues, reduced margins or the failure of our product and service offerings to achieve or maintain more widespread market acceptance. We may also face competition from publishers of traditional educational materials that are substantially larger than we are and have significantly greater financial, technical and marketing resources, and may enter the field through acquisitions and mergers. Many of these traditional publishers, or new market entrants, have developed their own online curriculum products and teaching materials that compete directly with our post- secondary Career Learning products. As a result, they may be able to devote more resources and move quickly to develop products and services that are superior to our platform and technologies. We may not have the resources necessary to acquire or compete with technologies being developed by our competitors, which may render our online delivery format less competitive or obsolete. These new and well- funded entrants may also seek to attract our key executives as employees based on their acquired expertise in virtual education where such specialized skills are not widely available. Our future success will depend in large part on our ability to maintain a competitive position with our curriculum and our technology, as well as our ability to increase capital expenditures to sustain the competitive position of our product and retain our talent base. We cannot assure that we will have the financial resources, technical expertise, marketing, distribution or support capabilities to compete effectively. Regulatory frameworks on the accessibility of technology and curriculum are continually evolving due to legislative and administrative developments and the rapid evolution of technology, which could result in increased product development costs and compliance risks. Our online curriculum is made available to students through websites, computers and other display devices connected to the Internet. The website platforms and online curriculum include a combination of software applications that include graphics, pictures, videos, animations, sounds and interactive content that may present challenges to ~~individuals~~ **30individuals** with disabilities. A number of states and federal authorities have considered or are considering how web- based information should be made accessible to persons with such disabilities. To the extent they enact or interpret laws and regulations to require greater accessibility than we currently provide, we may have to modify our offerings to satisfy those requirements. Because there is no federal rule setting a uniform technical standard for determining web accessibility under Section 508 and Title II of the ADA, online service providers have no uniform standard of compliance. Some states have adopted the standards promulgated under Section 508 while others require WCAG Level A and / or Level AA or their own ~~30unique~~ -- **unique** standards. In addition, Section 504 of the Rehabilitation Act of 1973 is designed to ensure that students with disabilities have an equal opportunity to access each school' s website and online learning environment. To the extent that we enter into federal government contracts, different standards of compliance could be imposed on us under Section 508 of the Rehabilitation Act, or by states who apply these federal standards under Section 508 or other standards to education providers, which standards may be changed from time to time. Beyond the significant product development costs associated with these evolving regulations, a failure to meet such requirements could also result in loss or termination of material contracts, inability to secure new contracts, or in potential legal liability. Our revenues from our school- as- a- service offerings are based in part on our estimate of the total funds each school will receive in a particular school year and our estimate of the full year expenses to be incurred by each school. As a result, differences between our quarterly estimates and the actual funds received and expenses incurred could have an adverse impact on our results of operations and cash flows. We recognize revenues ratably from certain of our fees charged to school- as- a- service offerings over the course of our fiscal year. To determine the pro rata amount of revenues to recognize in a fiscal quarter, we estimate the total expected funds each school will receive in a particular school year. Additionally, we take responsibility for any operating deficits incurred at most of the school- as- a- service offerings we serve. Because this may impair our ability to collect the full amount invoiced in a period and therefore collection cannot reasonably be assured, we reduce revenues by the estimated pro rata amount of the school' s net operating loss. We review our estimates of total funds and operating expenses periodically, and we revise as necessary, by adjusting our year- to- date earned revenues to be proportional to the expected revenues to be earned during the fiscal year. Actual school funding received and school operating expenses incurred may vary from our estimates or revisions and could adversely impact our revenues, results of operations and cash flows. Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter- to- quarter and adversely impact our working capital and liquidity throughout the year. Our operating results normally fluctuate as a result of seasonal variations in our business, principally due to the number of months in a fiscal quarter that our school customers are fully operational and serving students. In the typical academic year, our first and fourth fiscal quarters have fewer than three full months of operations, whereas our second and third fiscal quarters will have three complete months of operations. Instructional costs and services increase in the first fiscal quarter, primarily due to the costs incurred to ship learning kits at the beginning of the school year. These instructional costs may increase significantly quarter- to- quarter as school operating expenses increase. The majority of our selling and marketing expenses are incurred in the first and fourth fiscal quarters, as our primary enrollment season is April through September. We expect quarterly fluctuations in our operating results to continue. These fluctuations could result in volatility and adversely affect our cash flow. As our business grows, these seasonal fluctuations may become more pronounced. As a result, we believe that sequential quarterly comparisons of our financial results may not provide an accurate assessment of our financial position. ~~Risks~~ **31Risks** Related to Our OperationsWe plan to continue to create new products, expand distribution channels and pilot innovative educational programs to enhance academic performance. If we are unable to effectively manage these initiatives or they fail to gain acceptance, our business, financial condition, results of operations and cash flows would be adversely affected. As we create and acquire new products, expand our existing customer base and pilot new educational programs, we expect to face challenges distinct from those we currently encounter, including: ● our continual efforts to innovate and pilot new programs to enhance student learning and to foster college and career opportunities, such as our Stride Career Prep schools which offer pathways for Career Learning, may not receive sufficient market acceptance to be economically viable; ● the ongoing transition of our curriculum from Flash to HTML, and our use of third- party educational platforms that we do not control, could create issues with customer satisfaction, early withdrawals and declines in re- registrations, and potentially harm our reputation; ~~31~~ ● the acquisition or opening of additional school- as- a- service offering in states where we already have a contract with other schools can potentially complicate the school selection process for prospective parents, and present marketing differentiation challenges depending on the facts and circumstances in that state; ● our development of public blended schools has raised different operational challenges than those we face with full- time virtual schools. Blended schools require us to lease facilities for classrooms, staff classrooms with teachers, sometimes provide meals and kitchen facilities, adhere to local safety and fire codes, purchase additional insurance and fulfill many other responsibilities; ● operating in international markets may require us to conduct our business differently than we do in the United States or in existing countries. Additionally, we may have difficulty training and retaining qualified teachers or generating sufficient demand for our products and services in international markets. International opportunities will also present us with different legal, operational, tax and currency challenges; ● the use of our curriculum in classrooms will produce challenges with respect to adapting our curriculum for effective use in a traditional classroom setting; ● our creation of curricula and instruction protocols for courses taught through our Galvanize, Tech Elevator and MedCerts subsidiaries requires us to rely upon specialized instructors and curriculum developers; ● our online private school business is dependent on a tuition- based financial model and may not be able to enroll a sufficient number of students over time to achieve long- run profitability or deliver a high level of customer satisfaction; and ● our participation in summer foreign language instruction camps through MIL could generate new legal liabilities and financial consequences associated with our responsibility for students housed on leased college campuses on a 24- hour basis over the duration of the camp. Our failure to manage these business expansion programs, or any new business expansion program or new distribution channel we pursue, may have an adverse effect on our business, financial condition, results of operations and cash flows. High- quality teachers are critical to the success of our learning systems. If we are not able to continue to recruit, train and retain quality certified teachers, our curriculum might not be effectively delivered to students, compromising their academic performance and our reputation. As a result, our brand, business and operating results may be adversely affected. High- quality teachers are critical to maintaining the value of our learning systems and assisting students with their daily lessons. In addition, teachers in the public schools we manage or who provide instruction in connection with ~~the~~ **32the** online programs we offer to school districts, must be state certified (with limited exceptions or temporary waiver provisions in various states), and we must implement effective internal controls in each jurisdiction to ensure valid teacher certifications, as well as the proper matching of certifications with student grade levels and subjects to be taught. Teachers must also possess strong interpersonal communications skills to be able to effectively instruct students in a virtual school setting, and the technical skills to use our technology- based learning systems. There is a limited pool of teachers with these specialized attributes and the public schools and school districts we serve must provide competitive benefits packages to attract and retain such qualified teachers. The teachers in many public schools we serve are not our employees and the ultimate authority relating to those teachers resides with an independent not- for- profit governing body, which oversees the schools. However, under many of our service and product agreements with virtual and blended public schools, we have responsibility to recruit, train and manage these teachers. The teacher recruitment and student assignment procedures and processes for our school- as- a- service offerings must also comply with individual state certification and reporting requirements. We must also provide continuous training to virtual and blended public school teachers so they can stay abreast of changes in student needs, academic standards and other key trends necessary to teach online effectively, including measures of effectiveness. We may not be able to recruit, train and retain enough qualified teachers to keep pace with school demand while maintaining consistent teaching quality in the various public schools we serve. Shortages of qualified teachers, failures to ensure proper ~~32teacher~~ -- **teacher** certifications and course assignments in each state, or decreases in the quality of our instruction, whether actual or perceived, could have an adverse effect on our business. School teachers are subject to union organizing campaigns, and if the teachers employed by us or at the public schools we serve join a union, collective bargaining agreements negotiated with union representatives could result in higher operating expenses and the loss of management flexibility and innovation for which charter schools were created. If the teachers at any one of the public schools we serve were to unionize, as is the case in California, the employer would become subject to a collective bargaining agreement with union representatives. A collective bargaining agreement could impact teacher salaries, benefits, work rules, teacher tenure and provide for restrictions on the teaching work- day and the time devoted to online instruction delivery or communications with students, and place limitations on the flexibility to reassign or remove teachers for inadequate performance. This could result in higher school- related expenses and could impede the sustainability of, or growth in, enrollment at the school due to the loss of management flexibility and innovation. The outcome could result in higher costs to us in providing educational support and curriculum services to the school, which may adversely affect our operating margins, overall revenues and academic performance results. We rely on third- party service providers to host some of our solutions and any interruptions or delays in services from these third parties could impair the delivery of our products and harm our business. We currently outsource some of our hosting services to third parties. We do not control the operation of any third- party facilities. These facilities are vulnerable to damage or interruption from natural disasters, fires, power loss, telecommunications failures and similar events. They are also subject to break- ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. The occurrence of any of these disasters or other unanticipated problems could result in lengthy interruptions in our service. Furthermore, the availability of our proprietary and third- party LMSs could be interrupted by a number of additional factors, including our customers' inability to access the Internet, the failure of our network or software systems due to human or other error, security breaches or the ability of the infrastructure to handle spikes in customer usage. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable. We operate a complex Company- wide enterprise resource planning (" ERP ") system, and if it were to experience significant operating problems, it could adversely affect our business and results of operations. We operate a complex Company- wide, Oracle- hosted, integrated ERP system to handle various business, operating and financial processes, which handles a variety of important functions, such as order entry, invoicing, accounts receivable, accounts payable, financial consolidation and internal and external financial and management reporting matters. If the ERP system experiences significant problems, it could result in operational issues including delayed billing and accounting errors and other operational issues which could adversely affect our business and results of operations. System delays or malfunctioning could also disrupt our ability to timely and accurately process and report results of our ~~operations~~ **33operations** , financial position and cash flows, which could impact our ability to timely complete important business processes. The continued development of our product and service brands is important to our business. If we are not able to maintain and enhance these brands, our business and operating results may suffer. Enhancing brand awareness is critical to attracting and retaining students, and for serving additional virtual and blended public schools, school districts and online private schools, and we intend to spend significant resources to accomplish that objective. These efforts include sales and marketing directed to targeted locations as well as the national marketplace, discrete student populations, the educational community at large, key policy groups, image- makers and the media. As we continue to seek to increase enrollments and extend our geographic reach and product and service offerings, maintaining quality and consistency across all our services and products may become more difficult to achieve, and any significant and well- publicized failure to maintain this quality and consistency will have a detrimental effect on our brands. We cannot provide assurances that our new sales and marketing efforts will be successful in further promoting our brands in a competitive and cost- effective manner. If we are unable to further enhance our brand recognition and increase awareness of our products and services, or if we incur excessive sales and marketing expenses, our business and results of operations could be adversely affected. ~~33Our~~ -- **Our** intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand. Our patents, trademarks, trade secrets, copyrights, domain names and other intellectual property rights are important assets. For example, we have been granted three U. S. patents related to our provision of virtual schooling, including the system components for creating and administering assessment tests and our lesson progress tracker, and two U. S. patents related to foreign language instruction. Additionally, we are the copyright owner of courses in our proprietary curriculum. Various events outside of our control pose a threat to our intellectual property rights. For instance, effective intellectual property protection may not be available in every country in which our products and services are distributed or made available through the Internet. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. If we fail to protect adequately our intellectual property through patents, trademarks and copyrights, license agreements, employment agreements, confidentiality agreements, nondisclosure agreements or similar agreements, our intellectual property rights may be misappropriated by others, invalidated or challenged, and our competitors could duplicate our technology or may otherwise limit any competitive technology advantage we may have. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results. It is possible that we may not be able to sufficiently protect our innovations. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Further, there is always the possibility that the scope of the protection gained will be insufficient or that an issued patent be deemed invalid or unenforceable. We also seek to maintain certain intellectual property as trade secrets. This secrecy could be compromised by outside parties, whether through breach of our network security or otherwise, or by our employees or former employees, intentionally or accidentally, which would cause us to lose the competitive advantage resulting from these trade secrets. Third parties may acquire domain names that are substantially similar to our domain names leading to a decrease in the value of our domain names and trademarks and other proprietary rights. Lawsuits against us alleging infringement of the intellectual property rights of others and such actions would be costly to defend, could require us to pay damages or royalty payments and could limit our ability or increase our costs to use certain technologies in the future. Companies in the Internet, software, technology, education, curriculum and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. Regardless of the merits, intellectual property claims are time- consuming and expensive to litigate or settle. For example, a non- practicing entity sued us alleging that our proprietary learning ~~systems~~ **34systems** infringed three of its patents although its lawsuit was ultimately dismissed on the merits in 2014. In addition, to the extent claims against us are successful, we may have to pay substantial monetary damages or discontinue certain products, services or practices that are found to be in violation of another party' s rights. We may also have to seek a license and make royalty payments to continue offering our products and services or following such practices, which may significantly increase our operating expenses. We may be subject to legal liability resulting from the actions of third parties, including independent contractors, business partners, or teachers, which could cause us to incur substantial costs and damage our reputation. We may be subject, directly or indirectly, to legal claims associated with the actions of or filed by our independent contractors, business partners, or teachers. In the event of accidents or injuries or other harm to students, we could face claims alleging that we were negligent, provided inadequate supervision or were otherwise liable for their injuries and our insurance may not cover the expenses of litigation or settlement amounts. Additionally, we could face claims alleging that our independent curriculum contractors or teachers infringed the intellectual property rights of third parties. A liability claim against us or any of our independent contractors, business partners, or teachers could adversely affect our reputation, enrollment and revenues. Even if unsuccessful, such a claim could create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of management. ~~34We~~ **We** operate in markets that are dependent on Information Technology (IT) systems and technological change. Failure to maintain and support customer facing services, systems, and platforms, including addressing quality issues and execution on time of new products and enhancements, could negatively impact our revenues and reputation. We use complex IT systems and products to support our business activities, including customer- facing systems, back- office processing and infrastructure. We face several technological risks associated with online product service delivery, information technology security (including virus and cyber- attacks, **ransomware,** as well as software related bugs, misconfigurations or other vulnerabilities), e- commerce and enterprise resource planning system implementation and upgrades. From time to time we have experienced verifiable attacks on our system by unauthorized parties, and our plans and procedures to reduce such risks may not be successful. Thus, our business could be adversely affected if our systems and infrastructure experience a significant failure or interruption in the event of future attacks on our system by unauthorized parties. The failure to prevent a cybersecurity incident affecting our systems could result in the disruption of our services and the disclosure or misappropriation of sensitive information, which could harm our reputation, decrease demand for our services and products, expose us to liability, penalties, and remedial costs, or otherwise adversely affect our financial performance. In order to provide our services and solutions, we depend on various hardware, software, infrastructure, online sites and connected networks (hereinafter," IT Systems"), including those of third parties. In addition, as part of our business, we collect, use, process, transmit, host and store information, including personal data related to employees, customers, students, and parents, as well as proprietary business **data and other sensitive** information (collectively," Confidential Information"). ~~Our~~ **The confidentiality, integrity and availability of our** IT Systems and Confidential Information ~~are~~ **is** at risk of being compromised, whether through malicious activity **(including social engineering) by internal** or **external actors, or through** human or technological ~~error~~ **errors that result from negligence or software " bugs " or other vulnerabilities** . Although we dedicate personnel and resources toward protecting against cybersecurity risks and threats, our efforts may fail to prevent a security incident. For example, on December 1, 2020, we announced a security incident involving a ransomware attack. The incident resulted in the attacker accessing certain parts of our corporate back- office systems, including some student and employee information on those systems. We do not believe the incident has had a material impact on our business, operations or financial results. We worked with our cyber insurance provider to make a payment to the ransomware attacker, as a proactive and preventive step to prevent the information obtained by the attacker from being released on the Internet or otherwise disclosed, although there is always a risk that the threat actor will not adhere to negotiated terms.

Any remediation measures that we have taken or that we may undertake in the future in response to this security incident may be insufficient to prevent future attacks. ~~Cyberattacks~~ **35Cyberattacks** are expected to accelerate on a global basis in both frequency and magnitude, and threat actors are increasingly sophisticated in using techniques that circumvent controls, evade detection, and remove forensic evidence, which means that we and critical third parties may be unable to anticipate, contain **, investigate** or recover from future attacks or incidents in a timely or effective manner. In addition, remote **and hybrid** working arrangements that started during the COVID- 19 pandemic may continue in the future, which presents additional opportunities for threat actors to engage in social engineering (for example, phishing) and to exploit vulnerabilities present in many non-corporate networks. Any security incident that results in Confidential Information **, including personal information,** being stolen, accessed **, used** or modified without authorization, or that otherwise disrupts or negatively impacts our operations or IT Systems, could harm our reputation, lead to customer attrition, and expose us to regulatory **investigations,** enforcement ~~action~~ **actions** or litigation, including class actions. We may also be required to expend significant capital and other resources in response to a security incident, including notification under data privacy laws and regulations, and incur expenses related to **investigating and** containing the incident, restoring lost or corrupted data, and remediating our IT Systems. Monetary damages, regulatory fines or penalties and other costs or losses **, as well as injunctive remedies that require changes to our business model or practices,** could be significant and may exceed insurance policy limits or may not be covered by our insurance at all. In addition, a security ~~35incident~~ -- **incident** could require that we expend substantial additional resources related to the security of our IT Systems, diverting resources from other projects and disrupting our businesses. We rely on the Internet to enroll students and to deliver our products and services ~~to children~~ and to market ourselves and schools that contract with us, all of which exposes us to a growing number of legal risks and increasing regulation. We collect information regarding students during the online enrollment process and a significant amount of our curriculum content is delivered over the Internet. As a result, specific federal, state and other jurisdictional laws that could have an impact on our business include the following: ● the COPPA, as implemented by regulations of the Federal Trade Commission (revised July 2013), imposes restrictions on the ability of online companies to collect and use personal information from children under the age of 13; ● the FERPA, which imposes parental or student consent requirements for specified disclosures of student information to third parties, and emerging state student data privacy laws; ● the CDA, which provides website operators immunity from most claims arising from the publication of third- party content; ● numerous state cyberbullying laws which require schools to adopt policies on harassment through the Internet or other electronic communications; ● rapidly emerging state student data privacy laws which require schools to adopt privacy policies and / or require certain contractual commitments from education technology providers are applicable to virtual schools and can significantly vary from one state to another; ● federal and state laws that govern schools' obligations to ELL students and students with disabilities; and ● the European Union General Data Protection Regulation (" GDPR ") which may apply to certain aspects of our private schools. In addition, the laws applicable to the Internet are still developing. These laws impact pricing, advertising, taxation, consumer protection, quality of products and services, and are in a state of change. New or amended laws may also be enacted, which could increase the costs of regulatory compliance for us or force us to change our business practices. As a result, we may be exposed to substantial liability, including significant expenses necessary to comply with such laws and regulations and indemnification of schools we operate for liabilities resulting from a school' s failure to comply with such laws and regulations. ~~Failure~~ **36Failure** to comply with data privacy regulations could result in reputational damage to our brands and adversely affect our business, financial condition and results of operations. Any perceived or actual unauthorized **access,** disclosure of personally identifiable information, whether through breach of our network or a vendor' s network by an unauthorized party, employee theft, misuse or error or otherwise, could harm our reputation, impair our ability to attract and retain our customers, or subject us to claims or litigation arising from damages suffered by individuals. Failure to adequately protect personally identifiable information could potentially lead to penalties, significant remediation costs, reputational damage, the cancellation of existing contracts and difficulty in competing for future business. In addition, we could incur significant costs in complying with relevant laws and regulations regarding the unauthorized disclosure of personal information, which may be affected by any changes to data privacy legislation at both the federal and state levels. Because we serve students residing in foreign countries, we may be subject to privacy laws of other countries and regions, such as the GDPR. In addition to the possibility of penalties, remediation costs and reputational damage, the cost of compliance with foreign laws may outweigh revenue from those countries to such an extent that we may discontinue or restrict our offerings to certain countries. ~~36We~~ **We** utilize a single logistics vendor for the management, receiving, assembly and shipping of all of our learning kits and printed educational materials. In addition, we utilize the same vendor at a second location for the reclamation and redeployment of our student computers. This partnership depends upon execution on the part of us and the vendor. Any material failure to execute properly for any reason, including damage or disruption to any of the vendor' s facilities would have an adverse effect on our business, financial condition and results of operations. Substantially all of the inventory for our learning kits and printed materials is located in one warehouse facility, which is operated by a third- party logistics vendor that handles receipt, assembly and shipping of all physical learning materials. If this logistics vendor were to fail to meet its obligations to deliver learning materials to students in a timely manner, or if a material number of such shipments are incomplete or contain assembly errors, our business and results of operations could be adversely affected. In addition, we provide computers for a substantial number of our students. Execution or merger integration failures which interfere with the reclamation or redeployment of computers may result in additional costs. Furthermore, a natural disaster, fire, power interruption, work stoppage or other unanticipated catastrophic event, especially during the period from April through June when we are awaiting receipt of most of the curriculum materials for the school year and have not yet shipped such materials to students, could significantly disrupt our ability to deliver our products and operate our business. If any of our material inventory items were to experience any significant damage, we would be unable to meet our contractual obligations and our business would suffer. Any significant interruption in the operation of AWS or Azure could cause a loss of data and disrupt our ability to manage our technological infrastructure. ~~Stride has~~ **We have** migrated the applications that form the basis of our products to Amazon Web Services (AWS) and Microsoft Azure. Amazon and Microsoft are global leaders in the cloud services industry and provide world class data centers and capabilities. ~~Additionally~~ **However** , ~~we do not control the operation of these cloud facilities and must rely on AWS and Azure to provide the physical security, facilities management and communications infrastructure services related to~~ our ~~cloud environment. Our~~ reliance on these vendors exposes us to risks outside of our control. **Additionally, we do not control the operation of these cloud facilities and must rely on AWS and Azure to provide the physical security, facilities management and communications infrastructure services related to our cloud environment.** If AWS or Azure encounter financial difficulty, such as bankruptcy or other events beyond our control, that causes it to fail to secure adequately and maintain its hosting facilities or provide the required data communications capacity, students of the schools we serve may experience interruptions in our service or the loss or theft of important customer data. Scale and capacity limits on some of our technology, transaction processing systems and network hardware and software may be difficult to project and we may not be able to expand and upgrade our systems in a timely manner to meet significant unexpected increased demand. As the number of schools we serve increases and our student base grows, the traffic on our transaction processing systems and network hardware and software will rise. In our capacity planning processes, we may be unable to accurately project the rate of increase in the use of our transaction processing systems and network hardware and software. In addition, we may not be able to expand and upgrade our systems and network hardware and software capabilities to accommodate significant unexpected increased or peak use. If we are unable to appropriately upgrade our systems and network hardware and software in a timely manner, our operations and processes may be temporarily disrupted. ~~Our~~ **37Our** efforts to expand capacity may not produce the operational and financial results for which those investments were intended. As we have grown to serve more schools, students and families in an increasing number of states and countries, we have invested in infrastructure systems and technology to keep pace such as new communication systems, enterprise hardware and software systems. In the absence of compatible business processes, adequate employee training, integration with other dependent systems, and sufficient staffing, this expanded capacity alone may not result in improved performance or outcomes. We may be unable to keep pace with changes in our industry and advancements in technology as our business and market strategy evolves. As changes in our industry occur or macroeconomic conditions fluctuate **, including due to changing interest rates, rising inflation, the government closures of various banks and liquidity concerns at other financial institutions, geopolitical instability, artificial intelligence and machine learning, pandemics and the potential for local and / or global economic recession,** we may need to adjust our business strategies or find it necessary to restructure our operations or businesses, which could lead to changes in our cost structure, ~~37the~~ -- **the** need to write down the value of assets, or impact our profitability. We also make investments in existing or new businesses, including investments in technology and expansion of our business lines. These investments may have short- term returns that are negative or less than expected and the ultimate business prospects of the business may be uncertain. As our business and market strategy evolves, we also will need to respond to technological advances and emerging industry standards in a cost- effective and timely manner in order to remain competitive, such as the ubiquitous use of tablets for public school applications **, artificial intelligence and machine learning** , adaptive learning technologies, and web accessibility standards. The need to respond to technological changes may require us to make substantial, unanticipated expenditures. There can be no assurance that we will be able to respond successfully to technological change. We may be unable to attract and retain key executives and skilled employees, and because our employees are located throughout the United States, we may incur additional compliance and litigation costs that could adversely impact our business, financial condition and our results of operations. Our success depends in large part on continued employment of senior management and key personnel who can effectively operate our business, which is necessary in the highly regulated public education sector involving a publicly traded for- profit company. This complexity requires us to attract and retain experienced executive management and employees with specialized skills and knowledge across many disciplines. If any of these employees leave us and we fail to effectively manage a transition to new personnel, or if we fail to attract and retain qualified and experienced professionals on acceptable terms, our business, financial condition and results of operations could be adversely affected. Our success also depends on our having highly trained financial, technical, recruiting, sales and marketing personnel. We will need to continue to hire additional personnel as our business grows. A shortage in the number of people with these skills or our failure to attract them to our Company could impede our ability to increase revenues from our existing products and services, ensure full compliance with federal and state regulations, launch new product offerings, and would have an adverse effect on our business and financial results. We are subject to the Fair Labor Standards Act and other state and federal employment laws. These laws govern such matters as minimum wage, overtime, leave, and other working conditions that can increase our labor costs or subject us to liabilities to our employees. In addition, many state and local jurisdictions are adopting their own laws, such as paid sick leave, to address conditions of employment not covered by federal law and / or to provide additional rights and benefits to employees. These developments and disparate laws could increase our costs of doing business, lead to litigation, or have a material adverse effect on our business, financial condition and results of operations. We may need additional capital in the future, but there is no assurance that funds will be available on acceptable terms. We may need to raise additional funds in order to achieve growth or fund other business initiatives. This financing may not be available in sufficient amounts or on terms acceptable to us and may be dilutive to existing stockholders. Additionally, any securities issued to raise funds may have rights, preferences or privileges senior to those of existing stockholders. If adequate funds are not available or are not available on acceptable terms, our ability to expand, develop ~~or~~ **38or** enhance services or products, or respond to competitive pressures will be limited. **In addition, economic conditions, including current and future business disruptions and debt and equity market volatility caused by changing interest rates, rising inflation, the government closures of various banks and liquidity concerns at other financial institutions, geopolitical instability, possible pandemics and the potential for local and / or global economic recession may impact our ability to raise funds on acceptable terms. Moreover, the Company maintains the majority of**

its cash and cash equivalents in accounts with major U. S. and multi- national financial institutions, and our deposits at certain of these institutions exceed insured limits. Market conditions can impact the viability of these institutions. In the event of failure of any of the financial institutions where we maintain our cash and cash equivalents, there can be no assurance that we would be able to access uninsured funds in a timely manner or at all. Any inability to access or delay in accessing these funds could adversely affect our business, financial condition and results of operations. We have identified a material weakness in our internal control over financial reporting, which could result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected on a timely basis. In connection with the audit of our consolidated financial statements as of and for the year ended June 30, 2023, we have concluded that there is a material weakness relating to our internal control over financial reporting, as described in Part II, Item 9A, " Controls and Procedures. " A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company' s annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Solely as a result of this material weakness, management has concluded that our internal control over financial reporting and disclosure controls and procedures were not effective as of June 30, 2023. As described in Part II, Item 9A, " Controls and Procedures, " we have begun, and are currently in the process of, remediating the material weakness. However, the measures we have taken and expect to take to improve our internal controls may not be sufficient to address the issue, and we may need to take additional measures to ensure that our internal controls are effective or to ensure that the identified material weakness will not result in a material misstatement of our annual or interim consolidated financial statements. If we fail to establish and maintain adequate internal control over financial reporting, including any failure to implement remediation measures and enhancements for internal controls, or if we experience difficulties in their implementation, our business, financial condition and results of operations could be adversely affected. Further, any material weakness or unsuccessful remediation could affect investor confidence in the accuracy and completeness of our financial statements. In addition, perceptions of us among customers, lenders, investors, securities analysts and others could also be adversely affected. We can give no assurances that the measures we have taken to date, or any future measures we may take, will remediate the material weaknesses identified or that any additional material weaknesses will not arise in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTSNone.