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December 20 Curmudgucation– Stride sued for securities fraud. Implications for Ohio charter school business.

Stride, Inc. is a for-profit online education company that has a big footprint in Ohio. In his December 20, Curmudgucation, Peter Greene puts his finger on a litany of legal problems Stride has faced during its existence. (By the way, Ron Packard, a co-founder of Stride, formerly known as K12, Inc., now operates a bevy of charter schools in Ohio.)

Over the years Stride has been paid billions and billions by Ohio taxpayers. According to the Ohio Department of Education and Workforce Development, December 2, 2025, School Funding Payment Report (SFPR), thus far in fiscal year 2026, Stride was paid $138,442,272.40 for two of its schools (Ohio Virtual Academy, $132,425,909.85 and Ohio Digital Learning School, $6,016,362.55.)

In view of all of the litigation problems Stride has had, one would think that state political officials would be scrutinizing Stride closely. They are not!

Stride Sued For Securities Fraud

Stride, Inc. (formerly K12), the 800-pound gorilla of the cyber charter biz, is the subject of a new class action suit alleging securities fraud.

The lawsuit is tied to some legal problems that I've previously covered, so let me recap.

New Mexico Issues

Stride was hired by the Gallup-McKinley County Schools, a New Mexico district that covers almost 5,000 square miles, including some reservations. There are 12,518 students enrolled. 48% of the children in the district live below the poverty line. Stride was supposed to run an online program for the district, but when the district checked to see how things were going, things didn't look so good.

* Graduation rates in GMCS's Stride-managed online program plunged from 55.79% in 2022 to just 27.67% in 2024.
* Student turnover reached an alarming 30%.
* New Mexico state math proficiency scores for Stride students dropped dramatically, falling to just 5.6%.
* Ghost enrollments and a lack of individualized instruction further compromised student learning.

At the special May 16 board meeting to terminate the contract, the board was feeling pretty cranky.

The district said that the company is failing to meet requirements outlined in their contract. “This is something we’ve literally been working on since the beginning of the year with stride, and we just finally had a belly full of it and we’re ready to make a change,” said Chris Mortensen, President of Gallup-McKinley Schools Board of Education.

The board voted unanimously not just to end the contract, but to seek damages. Stride filed a motion for a restraining order to keep the board from firing them. The court said no.

Mortenson has had plenty to say about the situation. From the district's press release:

GMCS School Board President Chris Mortensen stated, "Our students deserve educational providers that prioritize their academic success, not corporate profit margins. Putting profits above kids was damaging to our students, and we refuse to be complicit in that failure any longer."

Stride CEO James Rhyu has admitted to failing to meet New Mexico's legal requirements for teacher-student ratios, an issue that GMCS suspects was not isolated. "We have reason to believe that Stride has raised student-teacher ratios not just in New Mexico but nationwide," said Mortensen. "If true, this could have inflated Stride's annual profit margins by hundreds of millions of dollars. That would mean corporate revenues and stock prices benefited at the expense of students and in some cases, in defiance of the law."

"Gallup-McKinley County Schools students were used to prop up Stride's bottom line," said Mortensen. "This district, like many others, trusted Stride to deliver education. Instead, we got negligence cloaked in corporate branding."

Stride appears to have dealt with all this by mounting a PR campaign to smear the district's superintendent.

But you'll notice the charges that Mortensen leveled against the company go beyond a simple "They cheated us" and went all the way to "They are cheating their shareholders." And apparently somebody heard that message.

The Newest Lawsuit

On November 11, Bleichmar Fonti & Auld LLP filed a class action lawsuit against Stride, Inc. (NYSE: LRN) and senior executives Donna Blackman (CFO) and James Rhyu (CEO) for securities fraud after significant stock drops resulting from the potential violations of the federal securities laws. Investors have until January 12, 2026 to ask the court to be added onto the case. The suit was filed in the Virginia Eastern District Court.

The suit appears to charge that the complaint filed by the district caused the stock value to drop from a closing price of $158.36 per share on September 12, 2025, to $139.76 per share on

September 15, 2025. Then in October, Stride had to fess up that “poor customer experience” resulted in “higher withdrawal rates,” “lower conversion rates,” and drove students away. Stride estimated they had 10,000-15,000 fewer enrollments and predicted a "muted" outlook. That led to a drop of $83.48 per share-- more than half the value.

So, in short, the suit argues that Stride got its great investment results by cheating at its business, and once it got caught cheating, those great investment results went down the toilet. The business fraud facilitated the securities fraud. Folks invested because of claims the company could do a thing when it was just faking doing the thing. Fraud.

Is This a New Problem for Stride?

Are you kidding? Since Stride was founded as K12, they haven't gone a year without some sort of legal problems.

Stride used to be K-12, a for-profit company aimed at providing on-line and blended learning. It was founded in 2000 by Ron Packard, former banker and Mckinsey consultant, and quickly became the leading national company for cyber schooling.

One of its first big investors was Michal Milken. That investment came a decade after he pled guilty to six felonies in the “biggest fraud case in the securities industry” ending his reign as the “junk bond king.” Milken was sentenced to ten years, served two, and was barred from ever securities investment. In 1996, he had established Knowledge Universe, an organization he created with his brother Lowell and Larry Ellison, who both kicked in money for K12.

Also investing in K12, very quietly, was the financial giant Blackrock, founded and run by Larry Fink. Larry graduated from the same high school as Milken. Larry's brother Steve is a member of the Stride board, and at one point ran the division of Knowledge Universe. Larry Fink is noted for his privacy about family, and a search for the two brothers’ names turns up only one article—a Forbes piece from 2000 which notes that Steve Fink, in 1984, moved next door to Micheal Milken and went on to become “one of Milken’s most trusted confidants,” a “guy he’s relied on to fix business trouble.”

In 2011, the New York Times detailed how K12's schools were failing miserably, but still making investors and officers a ton of money. Former teachers wrote tell-alls about their experiences. In 2012. Florida caught them using fake teachers. The NCAA put K12 schools on the list of cyber schools that were disqualified from sports eligibility. In 2014, Packard turned out to be one of the highest paid public workers in the country, "despite the fact that only 28% of K12 schools met state standards in 2011-2012."

In 2013 K12 settled a class action lawsuit in Virginia for $6.75 million after stockholders accused the company of misleading them about “the company’s business practices and academic performance.” In 2014, Middlebury College faculty voted to end a partnership with K12 saying the company's business practices "are at odds with the integrity, reputation and educational mission of the college."

Packard was himself sued for misleading investors with overly positive public statements, and then selling 43% of his own K12 stock ahead of a bad news-fueled stock dip. Shortly thereafter, in 2014, he stepped down from leading K12 to start a new enterprise.

In 2016 K12 got in yet another round of trouble in California for lying about student enrollment, resulting in a $165 million settlement with then Attorney General Kamala Harris. K12 was repeatedly dropped in some states and cities for poor performance.

In 2020, they landed a big contract in Miami-Dade county (after a big lucrative contribution to an organization run by the superintendent); subsequently Wired magazine wrote a story about their "epic series of tech errors." K12 successfully defended itself from a lawsuit in Virginia based on charges they had greatly overstated their technological capabilities by arguing that such claims were simply advertising "puffery."

In November of 2021, K12 announced that it would rebrand itself as Stride.

The New York Times had quoted Packard as calling lobbying a "core competency" of the company, and the company has spread plenty of money around doing just that. And despite all its troubles, Stride was still beloved on Wall Street for its ability to make money.

In 2023, Stride found itself wrapped up in a lawsuit with one of its own division over broken promises and attempts to lie their way out of commitment.

In 2024, analysts at Fuzzy Panda were warning investors away from Stride, saying that, among other things, Stride was lying to investors about how many schools were operating and ghost students being used to inflate enrollment numbers-- in other words, these guys absolutely called it. Later that year, Senator and noted MAGA doofus Markwayne Mullin was in trouble for shenanigans with his Stride stock.

CEO James Rhyu used to be CFO for Stride, and before that had a prolific career as a bean counter for companies like Match.com. I've read a variety of Rhyu depositions, and let's just say he doesn't come across as a straight shooter. Here's an example that captures his style pretty well:

Q: Mr. Rhyu, are you a man of your word?
Rhyu: I'm not sure I understand that question.
Q: Do you do what you say you are going to do, sir?
Rhyu: Under what circumstances?
Q: Do you do what you say you are going to do, Mr. Rhyu?
Rhyu: That's such a broad question. It's hard for me to answer.

Is it? Is that a hard question to answer? Because I feel as if even a dishonest-but-correct answer isn't hard to concoct. But that's Rhyu (for a more detailed story of his slipperiness in action, read this).

For Stride, Education Really Isn't the Point

Stride has never really been in the education business. Stride is in the investment business. Just look at the people who founded and have run it-- not an educator in the bunch, but plenty of high-powered and/or shady investment guys. I've talked to more than a few Stride teachers (none of whom want to go on the record) and the picture that emerges is over-worked widgets whose main job is to keep the numbers looking good, because student "success" is an important part of marketing, whether that success is real or not.

So if investors manage to claw back some of their money, I guess that's fine. Stride has proven remarkably resilient when called out on its misbehavior. I suppose a laser-like focus on its main business helps, but we should never imagine that that business is education.

Posted by Peter Greene on Saturday, December 20, 2025