STRAYER EDUCATION INC
Form 10-Q
October 30, 2017

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the

Securities Exchange Act of 1934

For the quarterly period ended September 30, 2017

Commission File No. 0-21039

Strayer Education, Inc.

(Exact name of registrant as specified in this charter)

Maryland	52-1975978
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
2303 Dulles Station Boulevard	
Herndon, VA	20171
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (703) 561-1600

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

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

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

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

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

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

As of October 23, 2017, there were outstanding 11,167,425 shares of Common Stock, par value $0.01 per share, of the Registrant.

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STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2016	September 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 129,245	$ 150,483
Tuition receivable, net	20,532	20,626
Income taxes receivable	—	2,734
Other current assets	10,766	12,917
Total current assets	160,543	186,760
Property and equipment, net	73,124	74,335
Deferred income taxes	31,096	34,609
Goodwill	20,744	20,744
Other assets	13,189	12,127
Total assets	$ 298,696	$ 328,575
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 41,132	$ 50,514
Income taxes payable	1,883	—
Deferred revenue	16,691	21,784
Other current liabilities	133	—
Total current liabilities	59,839	72,298
Other long-term liabilities	50,483	40,788
Total liabilities	110,322	113,086
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01; 20,000,000 shares authorized; 11,093,489 and 11,167,425 shares issued and outstanding at December 31, 2016 and September 30, 2017, respectively	111	112
Additional paid-in capital	35,453	44,021
Retained earnings	152,810	171,356
Total stockholders' equity	188,374	215,489
Total liabilities and stockholders' equity	$ 298,696	$ 328,575

The accompanying notes are an integral part of these condensed consolidated financial statements.

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STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2017	2016	2017
Revenues	$ 102,156	$ 108,512	$ 321,809	$ 336,144
Costs and expenses:				
Instruction and educational support	56,295	56,987	176,175	180,059
Marketing	25,388	26,790	61,434	64,734
Admissions advisory	4,691	5,318	13,171	14,813
General and administration	10,952	11,193	33,211	36,017
Total costs and expenses	97,326	100,288	283,991	295,623
Income from operations	4,830	8,224	37,818	40,521
Investment income	115	303	327	737
Interest expense	161	162	481	481
Income before income taxes	4,784	8,365	37,664	40,777
Provision for income taxes	1,906	2,138	14,580	13,670
Net income	$ 2,878	$ 6,227	$ 23,084	$ 27,107
Earnings per share:				
Basic	$ 0.27	$ 0.58	$ 2.18	$ 2.54
Diluted	$ 0.27	$ 0.56	$ 2.14	$ 2.43
Weighted average shares outstanding:				
Basic	10,616	10,701	10,608	10,671
Diluted	10,828	11,210	10,803	11,174

The accompanying notes are an integral part of these condensed consolidated financial statements.

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STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Total
Balance at December 31, 2015	11,027,177	$ 110	$ 24,738	$ 118,008	$ 142,856
Tax shortfall associated with stock-based compensation arrangements	—	—	(51)	—	(51)
Restricted stock grants, net of forfeitures	66,781	1	(1)	—	—
Stock-based compensation	—	—	7,330	—	7,330
Net income	—	—	—	23,084	23,084
Balance at September 30, 2016	11,093,958	$ 111	$ 32,016	$ 141,092	$ 173,219

	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Total
Balance at December 31, 2016	11,093,489	$ 111	$ 35,453	$ 152,810	$ 188,374
Restricted stock grants, net of forfeitures	73,936	1	(1)	—	—
Stock-based compensation	—	—	8,569	—	8,569
Common stock dividends	—	—	—	(8,561)	(8,561)
Net income	—	—	—	27,107	27,107
Balance at September 30, 2017	11,167,425	$ 112	$ 44,021	$ 171,356	$ 215,489

The accompanying notes are an integral part of these condensed consolidated financial statements.

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STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Nine Months Ended September 30,	
	2016	2017
Cash flows from operating activities:		
Net income	$ 23,084	$ 27,107
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of gain on sale of assets	(211)	(133)
Amortization of deferred rent	(919)	(1,351)
Amortization of deferred financing costs	197	197
Depreciation and amortization	13,276	13,718
Deferred income taxes	(5,543)	(3,728)
Stock-based compensation	7,330	8,569
Changes in assets and liabilities:		
Tuition receivable, net	425	(454)
Other current assets	(3,895)	(2,151)
Other assets	(2,264)	1,200
Accounts payable and accrued expenses	2,825	9,711
Income taxes payable and income taxes receivable	(4,854)	(4,401)
Deferred revenue	5,940	5,386
Other long-term liabilities	(5,284)	(9,298)
Net cash provided by operating activities	30,107	44,372
Cash flows from investing activities:		
Purchases of property and equipment	(7,501)	(14,573)
Cash used in acquisition, net of cash acquired	(7,635)	—
Net cash used in investing activities	(15,136)	(14,573)
Cash flows from financing activities:		
Payments of contingent consideration	(1,358)	—
Common dividends paid	—	(8,561)
Net cash used in financing activities	(1,358)	(8,561)
Net increase in cash and cash equivalents	13,613	21,238
Cash and cash equivalents — beginning of period	106,889	129,245
Cash and cash equivalents — end of period	$ 120,502	$ 150,483
Noncash transactions:		
Purchases of property and equipment included in accounts payable	$ 112	$ 749

The accompanying notes are an integral part of these condensed consolidated financial statements.

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STRAYER EDUCATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Nature of Operations

Strayer Education, Inc. (the “Company”), a Maryland corporation, conducts its operations through its wholly-owned subsidiaries, Strayer University (the “University”) and New York Code and Design Academy (“NYCDA”). The University is an accredited institution of higher education that provides undergraduate and graduate degrees in various fields of study through physical campuses, predominantly located in the eastern United States, and online. NYCDA is a New York City-based provider of web and application software development courses. NYCDA courses are delivered primarily on-ground to students seeking to further their career in software application development. The Company has only one reportable segment.

2. Significant Accounting Policies

Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. On January 13, 2016, the Company acquired all of the outstanding stock of NYCDA, and the results of NYCDA are included with the Company from the acquisition date. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

All information as of December 31, 2016 and September 30, 2016 and 2017, and for the three and nine months ended September 30, 2016 and 2017 is unaudited but, in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the condensed consolidated financial position, results of operations, and cash flows of the Company. Certain amounts in the prior period financial statements have been reclassified to conform to the current period’s presentation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In addition, the Company had no items of other comprehensive income in the periods presented and accordingly comprehensive income is equal to net income. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full fiscal year.

Revenue Recognition

The Company’s educational programs typically are offered on a quarterly basis and such periods coincide with the Company’s quarterly financial reporting periods. During the nine months ended September 30, 2017, most of the Company’s revenue came from the University, which derived approximately 96% of its revenues from tuition revenue, which is recognized in the quarter of instruction. Tuition revenue is assessed for collectibility on a student-by-student basis throughout the quarter of instruction, and is shown net of any refunds, withdrawals, corporate discounts, scholarships, and employee tuition discounts. This collectibility assessment considers available sources of funds for the student including financial aid programs provided through Title IV of the Higher Education Act. The Company reassesses the collectibility of tuition revenue that it may earn based on new information and changes in the facts and circumstances relevant to a student’s ability to pay, including the timing of a student’s withdrawal from a program of study.

At the start of each academic term or program, a liability (deferred revenue) is recorded for academic services to be provided and a tuition receivable is recorded for the portion of the tuition not paid in advance. Any cash received prior to the start of an academic term or program is recorded as deferred revenue. Some students may be eligible for scholarship awards, the estimated value of which will be realized in the future and is deducted from revenue when earned, based on historical student attendance and completion behavior. Deferred revenue is recorded as a current or long-term liability in the unaudited condensed consolidated balance sheets based on when the benefit is expected to be realized. Revenues also include textbook-related income, certificate revenue, certain academic fees, licensing revenue, and other income, which are recognized when earned.

The Company’s refund policy typically permits students who complete less than half of a course to receive a partial refund of tuition for that course. Refunds reduce the tuition revenue that would have otherwise been recognized for that student. Since the University’s academic terms coincide with the Company’s financial reporting periods, nearly all refunds are processed and

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recorded within the same quarter as the corresponding revenue. The amount of tuition revenue refundable to students may vary based on the student's state of residence. Unused books and related academic materials may be returned for a full refund within 21 days of the start of class; however, purchases of electronic content are not refundable if downloaded. Revenues derived from fees are not eligible for a refund.

Graduation Fund

In the third quarter of 2013, the University introduced the Graduation Fund, which allows new undergraduate students to earn tuition credits that are redeemable in the final year of a student's course of study if he or she successfully remains in the program. New students registering in credit-bearing courses in any undergraduate program receive one free course for every three courses that are successfully completed. Students must meet all of the University's admission requirements, and must be enrolled in a bachelor's degree program. The Company's employees and their dependents are not eligible for the program. Students who have more than one consecutive term of non-attendance lose any Graduation Fund credits earned to date, but may earn and accumulate new credits if the student is reinstated or readmitted by the University in the future.

Revenue from students participating in the Graduation Fund is recorded in accordance with the Revenue Recognition Topic, ASC 605-50. The Company defers the value of benefits estimated to be redeemed in the future based on the underlying revenue transactions that result in progress by the student toward earning the benefit. The Company's estimate of the benefits that will be redeemed in the future is based on its historical experience of student persistence toward completion of a course of study within this program and similar programs. Each quarter, the Company assesses its methodologies and assumptions underlying these estimates and, to date, any adjustments to the estimates have not been material. The amount estimated to be redeemed in the next 12 months is $19.3 million and is included in deferred revenue as a current liability in the unaudited condensed consolidated balance sheets.

The table below presents activity in the Graduation Fund for the nine months ended September 30, 2016 and 2017 (in thousands):

	September 30, 2016	September 30, 2017
Balance at beginning of period	$ 20,937	$ 29,499
Revenue deferred	14,753	17,494
Benefit redeemed	(9,139)	(12,551)
Balance at end of period	$ 26,551	$ 34,442

Restricted Cash

A significant portion of the Company's revenues are funded by various federal and state government programs. The Company generally does not receive funds from these programs prior to the start of the corresponding academic term. The Company may be required to return certain funds for students who withdraw from the University during the academic term. The Company had approximately $13,000 and $8,000 as of December 31, 2016 and September 30, 2017, respectively, of these unpaid obligations, which are recorded as restricted cash and included in other current assets in the unaudited condensed consolidated balance sheets.

As part of commencing operations in Pennsylvania in 2003, the Company was required to maintain a "minimum protective endowment" of at least $0.5 million in an interest-bearing account. These funds are required as long as the Company operates its campuses in the state. The Company holds these funds in an interest-bearing account which is included in other assets.

Tuition Receivable and Allowance for Doubtful Accounts

The Company records tuition receivable and deferred revenue for its students upon the start of the academic term or course of instruction. Therefore, at the end of the quarter (and academic term), tuition receivable generally represents amounts due from students for educational services already provided and deferred revenue generally represents advance payments from students for academic services to be provided in the future. Tuition receivables are not collateralized; however, credit risk is minimized as a result of the diverse nature of the University's student base. An allowance for doubtful accounts is established primarily based upon historical collection rates by age of receivable, net of estimated recoveries. These collection rates incorporate historical performance based on a student's current enrollment status and likelihood of future enrollment. The Company periodically assesses its methodologies for estimating bad debts in consideration of actual experience.

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The Company’s tuition receivable and allowance for doubtful accounts were as follows as of December 31, 2016 and September 30, 2017 (in thousands):

	December 31, 2016	September 30, 2017
Tuition receivable	$ 30,733	$ 33,183
Allowance for doubtful accounts	(10,201)	(12,557)
Tuition receivable, net	$ 20,532	$ 20,626

Approximately $2.3 million and $2.6 million of tuition receivable is included in other assets as of December 31, 2016 and September 30, 2017, respectively, because these amounts are expected to be collected after 12 months.

The following table illustrates changes in the Company’s allowance for doubtful accounts for the three and nine months ended September 30, 2016 and 2017 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2017	2016	2017
Allowance for doubtful accounts, beginning of period	$ 9,981	$ 11,760	$ 10,024	$ 10,201
Additions charged to expense	3,865	5,364	11,069	14,835
Write-offs, net of recoveries	(4,052)	(4,567)	(11,299)	(12,479)
Allowance for doubtful accounts, end of period	$ 9,794	$ 12,557	$ 9,794	$ 12,557

Fair Value

The Fair Value Measurement Topic, ASC 820-10 (“ASC 820-10”), establishes a framework for measuring fair value, establishes a fair value hierarchy based upon the observability of inputs used to measure fair value, and expands disclosures about fair value measurements. Assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. Under ASC 820-10, fair value of an investment is the price that would be received to sell an asset or to transfer a liability to an entity in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to assets and liabilities with readily available quoted prices in an active market and lowest priority to unobservable inputs which require a higher degree of judgment when measuring fair value, as follows:

- Level 1 assets or liabilities use quoted prices in active markets for identical assets or liabilities as of the measurement date;

- Level 2 assets or liabilities use observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities; and

- Level 3 assets or liabilities use unobservable inputs that are supported by little or no market activity.

The Company's assets and liabilities that are subject to fair value measurement are categorized in one of the three levels above. Fair values are based on the inputs available at the measurement dates, and may rely on certain assumptions that may affect the valuation of fair value for certain assets or liabilities.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of the purchase price of an acquired business over the amount assigned to the assets acquired and liabilities assumed. Indefinite-lived intangible assets, which include trade names, are recorded at fair market value on their acquisition date. An indefinite life was assigned to the trade names because they have the continued ability to generate cash flows indefinitely.

Goodwill and the indefinite-lived intangible assets are assessed at least annually for impairment during the fourth quarter, or more frequently if events occur or circumstances change between annual tests that would more likely than not reduce the fair value of the respective reporting unit below its carrying amount.

During the three months ended September 30, 2017, the Company updated its revenue projections used to estimate the fair value of contingent consideration related to its acquisition of NYCDA (see Note 3). Accordingly, the Company reassessed the

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recoverability of goodwill assigned to NYCDA and performed Step 1 of the goodwill impairment test as well as a quantitative impairment test of the indefinite-lived intangible asset. Based on these tests, the Company determined the fair value of NYCDA exceeded its carrying value and there was no impairment of the goodwill and indefinite-lived intangible asset assigned to NYCDA as of September 30, 2017.

Authorized Stock

The Company has authorized 20,000,000 shares of common stock, par value $.01, of which 11,093,489 and 11,167,425 shares were issued and outstanding as of December 31, 2016 and September 30, 2017, respectively. The Company also has authorized 8,000,000 shares of preferred stock, none of which has been issued or outstanding since 2004. Before any preferred stock may be issued in the future, the Board of Directors would need to establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, and the terms or conditions of the redemption of the preferred stock.

In July 2017, the Company’s Board of Directors declared a regular, quarterly cash dividend of $0.25 per share of common stock. The dividend was paid on September 18, 2017.

Stock-Based Compensation

As required by the Stock Compensation Topic, ASC 718, the Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors, including employee stock options, restricted stock, restricted stock units, and employee stock purchases related to the Company’s Employee Stock Purchase Plan, based on estimated fair values. Stock-based compensation expense recognized in the unaudited consolidated statements of income for each of the three and nine months ended September 30, 2016 and 2017 is based on awards ultimately expected to vest and, therefore, has been adjusted for estimated forfeitures. The Company estimates forfeitures at the time of grant and revises the estimate, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The forfeiture rate used is based on historical experience. The Company also assesses the likelihood that performance criteria associated with performance-based awards will be met. If it is determined that it is more likely than not that performance criteria will not be achieved, the Company revises its estimate of the number of shares it believes will ultimately vest.

Effective January 1, 2017, the Company adopted ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 impacts several aspects of the accounting for share-based payment transactions, including classification of certain items on the consolidated statement of cash flows and accounting for income taxes. Specifically, ASU 2016-09 requires excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in earnings, which may introduce significant volatility to the Company’s provision for income taxes. Also, all tax-related cash flows resulting from share-based payments will now be reported as operating activities in the statement of cash flows. The Company has elected to apply this cash flow guidance prospectively and there was no impact to the prior period presentation. In addition, pursuant to ASU 2016-09 the Company has elected to continue to estimate forfeitures ratably over the life of awards. The adoption of ASU 2016-09 has not materially impacted the Company's financial statements. See note 6 for additional information.

Net Income Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the periods. Diluted earnings per share reflects the potential dilution that could occur assuming conversion or exercise of all dilutive unexercised stock options, restricted stock and restricted stock units. The dilutive effect of stock awards was determined using the treasury stock method. Under the treasury stock method, all of the following are assumed to be used to repurchase shares of the Company's common stock: (1) the proceeds received from the exercise of stock options and (2) the amount of compensation cost associated with the stock awards for future service not yet recognized by the Company. Stock options are not included in the computation of diluted earnings per share when the stock option exercise price of an individual grant exceeds the average market price for the period.

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Set forth below is a reconciliation of shares used to calculate basic and diluted earnings per share for the three and nine months ended September 30, 2016 and 2017 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2017	2016	2017
Weighted average shares outstanding used to compute basic earnings per share	10,616	10,701	10,608	10,671
Incremental shares issuable upon the assumed exercise of stock options	—	38	—	38
Unvested restricted stock and restricted stock units	212	471	195	465
Shares used to compute diluted earnings per share	10,828	11,210	10,803	11,174

Income Taxes

The Company provides for deferred income taxes based on temporary differences between financial statement and income tax bases of assets and liabilities using enacted tax rates in effect in the year in which the differences are expected to reverse.

The Income Taxes Topic, ASC 740, requires the company to determine whether uncertain tax positions should be recognized within the Company's financial statements. The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expense. Uncertain tax positions are recognized when a tax position, based solely on its technical merits, is determined to be more likely than not to be sustained upon examination. Upon determination, uncertain tax positions are measured to determine the amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. A tax position is derecognized if it no longer meets the more likely than not threshold of being sustained.

The tax years 2014-2016 remain open for Federal tax examination and the tax years 2013-2016 remain open to examination by state and local taxing jurisdictions in which the Company is subject.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period reported. The most significant management estimates include allowances for doubtful accounts, useful lives of property and equipment, fair value of future contractual operating lease obligations, potential sublease income and vacancy periods, accrued expenses, forfeiture rates and the likelihood of achieving performance criteria for stock-based awards, value of free courses earned by students that will be redeemed in the future, valuation of goodwill and intangible assets, fair value of contingent consideration, and the provision for income taxes. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”) which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of ASU 2014-09 is for a company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The effective date of ASU 2014-09 is for fiscal years, and interim periods within those years, beginning after December 15, 2017. During 2016 and 2017, the FASB issued additional ASUs amending certain aspects of ASU 2014-09. ASU 2014-09 allows either a full retrospective adoption to all periods presented or a modified retrospective adoption approach, with the cumulative effect of initial application of the revised guidance recognized at the date of initial application.

The Company is finalizing its assessment of key revenue streams, including a comparison of current accounting policies and practices to the new standard, and is determining the appropriate changes to business processes and controls. Based on its evaluation to date, the Company believes that under the new standard the allocation of revenue to certain performance obligations may result in changes in the timing of revenue recognition between interim periods for one of its performance obligations. However, any changes associated with the adoption of ASU 2014-09 are not expected to have a significant impact on annual revenue recognized, and are not expected to have a material impact on the Company’s consolidated financial statements. The Company plans to adopt ASU 2014-09 using the modified retrospective approach and accordingly will complete the analysis of

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the cumulative effect adjustment to retained earnings and prepare enhanced disclosures pertaining to revenue recognition for the quarterly and annual filings beginning in the first quarter of 2018.

In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). The new guidance requires the recognition of right-of-use assets and lease liabilities on the balance sheet for most leases. Under current guidance, operating leases are off-balance sheet. ASU 2016-02 also requires more extensive quantitative and qualitative disclosures about leasing arrangements. ASU 2016-02 applies to fiscal periods beginning after December 15, 2018, using the modified retrospective method, with early adoption permitted. The Company anticipates that the impact of ASU 2016-02 on its consolidated balance sheet will be material as the Company will record significant asset and liability balances in connection with its leased properties.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses, which applies to ASC Topic 326, Measurement of Credit Losses on Financial Instruments. The new guidance revises the accounting requirements related to the measurement of credit losses and will require organizations to measure all expected credit losses for financial assets based on historical experience, current conditions and reasonable and supportable forecasts about collectibility. Assets must be presented in the financial statements at the net amount expected to be collected. The guidance will be effective for the Company's annual and interim reporting periods beginning January 1, 2020, with early adoption permitted. The Company is evaluating the impact this standard will have on its financial condition, results of operations, and disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash (Topic 230) (“ASU 2016-18”). Under ASU 2016-18, an entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and the Company does not expect adoption of ASU 2016-18 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill. The amendments in this update should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019, though early adoption is permitted. The Company is evaluating the impact this standard will have on its financial condition, results of operations, and disclosures.

Other ASUs issued by the FASB but not yet effective are not expected to have a material effect on the Company’s consolidated financial statements.

3. Acquisition of New York Code and Design Academy

On January 13, 2016, the Company acquired all of the outstanding stock of New York Code and Design Academy, Inc. (“NYCDA”), a provider of web and application software development courses primarily based in the New York City area (the “Acquisition”). The Acquisition supports the Company’s strategy to complement its traditional degree offerings with a broader platform of educational services. The Company incurred transaction costs of approximately $0.2 million, which were included in general and administrative costs in the unaudited consolidated statements of income in the period those costs were incurred. The Acquisition was accounted for as a business combination.

The purchase price included $2.4 million paid up front in cash, plus contingent cash payments of (a) up to $12.5 million payable based on NYCDA’s results of operations over a five-year period (the “Earnout”), and (b) $5.5 million payable based on NYCDA’s receipt of state regulatory permits. Pursuant to the Acquisition, $1.0 million of the Earnout may be accelerated upon receipt of one of the state regulatory permits. The Company recorded total contingent consideration of $14.5 million at the time of acquisition. In April 2016 and August 2016, NYCDA received the state regulatory permits and the Company paid $6.0 and $0.5 million of contingent consideration to the sellers, respectively.

In addition, the Company paid a total of $4.6 million to two of NYCDA’s founders who are required to remain employed for at least three years from the acquisition date. If either of them terminates employment voluntarily, or is terminated for cause (as defined), he is required to reimburse the Company his respective portion of the retention amount. This amount was classified as prepaid compensation and is amortized to compensation expense over three years.

Total potential cash payments for the Acquisition, including the contingent cash payments and prepaid compensation, could total $25.0 million.

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The allocation of the purchase price was as follows (in thousands):

	Purchase Price Allocation	Useful Life
Cash	$ 790	
Other assets	1,265	
Intangibles:		
Trade name	5,660	Indefinite
Goodwill	13,944	
Liabilities assumed	(4,734)	
Total assets acquired and liabilities assumed, net	16,925	
Less: contingent consideration	(14,500)	
Less: cash acquired	(790)	
Cash paid for acquisition, net of cash acquired	$ 1,635	

The fair value of the Earnout was originally measured by applying a probability discounted cash flow model based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 4.5% and expected future value of payments, at the time, of $12.5 million. Following its initial recognition, the Company assesses the carrying value of the Earnout to the fair value of the remaining payments. Fair value is then adjusted as necessary to reflect revisions to the business plan, expectations relative to achieving the performance targets over the earnout period, and the impact of the discount rate. No adjustment to the Earnout was recorded in the three and nine months ended September 30, 2016. During the three months ended June 30, 2017, the Company updated its near-term revenue projections for NYCDA and reduced the balance of the contingent consideration by $2.3 million. During the three months ended September 30, 2017, following delays in implementing its marketing strategy to enroll new students, the Company further updated its revenue projections during the Earnout measurement period resulting in a reduction in the contingent consideration balance by an additional $5.5 million. The fair value of the Earnout at September 30, 2017 is zero, and the maximum possible amount that could be paid is $11.5 million.

The fair value of assets acquired and liabilities assumed was determined based on assumptions that reasonable market participants would use while employing the concept of highest and best use of the respective items. The following assumptions were used, the majority of which include significant unobservable inputs (Level 3), and valuation methodologies to determine fair value:

· Intangibles – Income approaches were used to value the substantial majority of the acquired intangibles. The trade name was valued using the relief-from-royalty method, which represents the benefit of owning these intangible assets rather than paying royalties for their use.

· Other assets and liabilities – The carrying value of all other assets and liabilities approximated fair value at the time of acquisition.

4. Restructuring and Related Charges

In October 2013, the Company implemented a restructuring to better align the Company’s resources with student enrollments at the time. This restructuring included the closing of 20 physical locations and reductions in the number of campus-based and corporate employees. A liability for lease obligations, some of which continue through 2022, was recorded and is measured at fair value using a discounted cash flow approach encompassing significant unobservable inputs (Level 3). The estimation of future cash flows includes non-cancelable contractual lease costs over the remaining terms of the leases discounted at the Company’s marginal borrowing rate of 4.5%, partially offset by estimated future sublease rental income discounted at credit-adjusted rates. The Company’s estimates, which involve significant judgment, also consider the amount and timing of sublease rental income based on subleases that have been executed and subleases expected to be executed based on current commercial real estate market data and conditions, and other qualitative factors specific to the facilities. The estimates are subject to adjustment as market conditions change or as new information becomes available, including the execution of additional sublease agreements.

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The following details the changes in the Company's restructuring liability for lease and related costs during the nine months ended September 30, 2016 and 2017 (in thousands):

	September 30, 2016	September 30, 2017
Balance at beginning of period(1)	$ 20,055	$ 11,985
Adjustments(2)	(1,695)	375
Payments	(4,434)	(2,884)
Balance at end of period(1)	$ 13,926	$ 9,476

(1) The current portion of restructuring liabilities was $4.2 million and $3.2 million as of December 31, 2016 and September 30, 2017, respectively, which are included in accounts payable and accrued expenses. The long-term portion is included in other long-term liabilities.

(2) Adjustments include accretion of interest on lease costs, partially offset by changes in the timing and expected income from sublease agreements.

5. Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis consist of the following as of September 30, 2017 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	September 30, 2017	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 15,199	$ 15,199	$ —	$ —
Liabilities:				
Deferred payments	$ 4,424	$ —	$ —	$ 4,424

Assets and liabilities measured at fair value on a recurring basis consist of the following as of December 31, 2016 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	December 31, 2016	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 5,103	$ 5,103	$ —	$ —
Liabilities:				
Deferred payments	$ 11,741	$ —	$ —	$ 11,741

The Company measures the above items on a recurring basis at fair value as follows:

· Money market funds – Classified in Level 1 is excess cash the Company holds in both taxable and tax-exempt money market funds and are included in cash and cash equivalents in the accompanying unaudited condensed consolidated balance sheets. The Company records any net unrealized gains and losses for changes in fair value as a component of accumulated other comprehensive income in stockholders' equity. The Company's cash and cash equivalents held at December 31, 2016 and September 30, 2017 approximate fair value and are not disclosed in the above tables because of the short-term nature of the financial instruments.

· Deferred payments – The Company acquired certain assets and entered into deferred payment arrangements with the sellers in transactions that occurred in 2011 and 2016. The deferred payments are classified within Level 3 as there is no liquid market for similarly priced instruments and are valued using models that encompass significant unobservable inputs to estimate the operating results of the acquired assets. The assumptions used to prepare the discounted cash flows include estimates for interest rates, enrollment growth, retention rates, obtaining regulatory approvals for expansion into

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new markets, and pricing strategies. These assumptions are subject to change as the underlying data sources evolve and the programs mature. The short-term portion of deferred payments was $1.4 million as of September 30, 2017 and is included in accounts payable and accrued expense.

The Company did not change its valuation techniques associated with recurring fair value measurements from prior periods, and no assets or liabilities were transferred between levels of the fair value hierarchy during the nine months ended September 30, 2016 or 2017.

Changes in the fair value of the Company's Level 3 deferred payment liabilities during the nine months ended September 30, 2016 and 2017 are as follows (in thousands):

	September 30, 2016	September 30, 2017
Balance at beginning of period	$ 3,278	$ 11,741
Amounts paid	(7,358)	(1,133)
Contingent consideration in connection with NYCDA acquisition	14,500	—
Other adjustments to fair value	1,920	(6,184)
Balance at end of period	$ 12,340	$ 4,424

6. Stock Options, Restricted Stock and Restricted Stock Units

On May 5, 2015, the Company's shareholders approved the Strayer Education, Inc. 2015 Equity Compensation Plan (the "2015 Plan"), which provides for the granting of restricted stock, restricted stock units, stock options intended to qualify as incentive stock options, options that do not qualify as incentive stock options, and other forms of equity compensation and performance-based awards to employees, officers and directors of the Company, or to a consultant or advisor to the Company, at the discretion of the Board of Directors. Vesting provisions are at the discretion of the Board of Directors. Options may be granted at option prices based at or above the fair market value of the shares at the date of grant. The maximum term of the awards granted under the 2015 Plan is ten years. The number of shares of common stock reserved for issuance under the 2015 Plan is 500,000 authorized but unissued shares, plus the number of shares available for grant under the Company's previously existing equity compensation plans at the time of stockholder approval of the 2015 Plan, and plus the number of shares which may in the future become available under any previously existing equity compensation plan due to forfeitures of outstanding awards.

In February 2017, the Company's Board of Directors approved grants of 67,599 shares of restricted stock to certain employees. These shares, which vest over a four-year period, were granted pursuant to the 2015 Plan. The Company's stock price closed at $81.66 on the date of these grants.

In May 2017, the Company's Board of Directors approved grants of 7,541 shares of restricted stock. These shares, which vest annually over a three-year period, were awarded to non-employee members of the Company's Board of Directors, as part of the Company's annual director compensation program and the 2015 Plan. The Company's stock price closed at $86.83 on the date of these grants.

Dividends paid on unvested restricted stock are reimbursed to the Company if the recipient forfeits his or her shares as a result of termination of employment prior to vesting in the award, unless waived by the Board of Directors.

Restricted Stock and Restricted Stock Units

The table below sets forth the restricted stock and restricted stock units activity for the nine months ended September 30, 2017:

	Number of shares or units	Weighted-average Grant price
Balance, December 31, 2016	727,100	$ 97.53
Grants	75,140	82.18
Vested shares	(84,718)	66.60
Forfeitures	(1,204)	62.28
Balance, September 30, 2017	716,318	$ 99.64

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Stock Options

The table below sets forth the stock option activity and other stock option information as of and for the nine months ended September 30, 2017:

	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value(1) (in thousands)
Balance, December 31, 2016	100,000	$ 51.95	4.1	$ 2,868
Grants	—	—		
Exercises	—	—		
Forfeitures/Expirations	—	—		
Balance, September 30, 2017	100,000	$ 51.95	3.3	$ 3,532
Exercisable, September 30, 2017	100,000	$ 51.95	3.3	$ 3,532

(1) The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the respective trading day and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holder had all options been exercised on the respective trading day. The amount of intrinsic value will change based on the fair market value of the Company's common stock.

Valuation and Expense Information under Stock Compensation Topic ASC 718

At September 30, 2017, total stock-based compensation cost which has not yet been recognized was $17.8 million for unvested restricted stock, restricted stock units, and stock option awards. This cost is expected to be recognized over the next 24 months on a weighted-average basis. Awards of approximately 561,000 shares of restricted stock and restricted stock units are subject to performance conditions. The accrual for stock-based compensation for performance awards is based on the Company's estimates that such performance criteria are probable of being achieved over the respective vesting periods. Such a determination involves judgment surrounding the Company's ability to maintain regulatory compliance. If the performance targets are not reached during the respective vesting period, or it is determined it is more likely than not that the performance criteria will not be achieved, related compensation expense is adjusted.

The following table sets forth the amount of stock-based compensation expense recorded in each of the expense line items for the three and nine months ended September 30, 2016 and 2017 (in thousands):

	For the three months ended September 30, 2016	For the three months ended September 30, 2017	For the nine months ended September 30, 2016	For the nine months ended September 30, 2017
Instruction and educational support	$ 522	$ 548	$ 678	$ 1,363
Marketing	—	—	—	—
Admissions advisory	—	—	—	—
General and administration	1,882	2,366	6,652	7,206
Stock-based compensation expense included in operating expense	2,404	2,914	7,330	8,569
Tax benefit	957	1,151	2,857	3,384
Stock-based compensation expense, net of tax	$ 1,447	$ 1,763	$ 4,473	$ 5,185

During the nine months ended September 30, 2016, the Company recognized a tax shortfall related to share-based payment arrangements of approximately $51,000, which was recorded as an adjustment to additional paid-in capital. During the nine months ended September 30, 2017, the Company recognized a tax windfall related to share-based payment arrangements of approximately $0.6 million, which was recorded as an adjustment to the provision for income taxes following the adoption of ASU 2016-09. No stock options were exercised during the nine months ended September 30, 2016 or 2017.

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7. Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	December 31, 2016	September 30, 2017
Deferred revenue, net of current portion	$ 17,981	$ 18,274
Deferred rent and other facility costs	8,251	7,406
Loss on facilities not in use	7,813	6,227
Deferred payments related to acquisitions	13,754	5,979
Lease incentives	2,684	2,902
Other long-term liabilities	$ 50,483	$ 40,788

Deferred Revenue

The Company provides for certain scholarship and awards programs, such as the Graduation Fund (see Note 2 for additional information), that can be redeemed in the future by students after meeting certain eligibility requirements. The Company also has licensed certain of its non-credit bearing course content to a third party. Long-term deferred revenue represents the amount of revenue under these arrangements that the Company expects will be realized after one year.

Deferred Rent and Other Facility Costs and Loss on Facilities Not in Use

The Company records a liability for lease costs of campuses and non-campus facilities that are not currently in use (see Note 4). For facilities still in use, the Company records rent expense on a straight-line basis over the initial term of a lease. The difference between the rent payment and the straight-line rent expense is recorded as a liability.

Deferred Payments Related to Acquisitions

In the first quarter of 2016, the Company acquired NYCDA and entered into deferred payment arrangements with the sellers in connection with this transaction. In April and August 2016, NYCDA received state regulatory permits and the Company subsequently paid $6.0 million and $0.5 million of deferred payments to the sellers, respectively. The fair value of the deferred payment arrangements at September 30, 2017 is zero, and the maximum possible amount that could be paid is $11.5 million. See Note 3 for further information on the NYCDA deferred payments.

In 2011, the Company acquired certain assets and entered into deferred payment arrangements with the sellers. The deferred payment arrangements are valued at approximately $3.4 million and $3.2 million as of December 31, 2016 and September 30, 2017, respectively. In addition, one of the sellers contributed $2.8 million to the Company representing the seller's continuing interest in the assets acquired.

Lease Incentives

In conjunction with the opening of new campuses or renovating existing ones, the Company, in some instances, was reimbursed by the lessors for improvements made to the leased properties. In accordance with ASC 840-20, the underlying assets were capitalized as leasehold improvements and a liability was established for the reimbursements. The leasehold improvements and the liability are amortized on a straight-line basis over the corresponding lease terms, which generally range from five to ten years.

8. Income Taxes

The Company had $0.3 million of unrecognized tax benefits at September 30, 2017, resulting from tax positions taken during the nine months ended September 30, 2017. In addition, the Company recognized approximately $0.3 million of benefits in each of the nine months ended September 30, 2016 and 2017 related to tax positions taken during prior years. The Company did not incur expense for interest and penalties in the nine months ended September 30, 2017, and recorded approximately $0.1 million of expense for interest and penalties in the nine months ended September 30, 2016.

The Company does not expect its unrecognized tax benefits will be realized. If amounts accrued are different than amounts ultimately assessed by taxing authorities, the Company would record an adjustment to income tax expense. The Company does not anticipate significant changes to other unrecognized tax benefits.

The Company paid $25.0 million and $21.8 million in income taxes during the nine months ended September 30, 2016 and 2017, respectively.

9. Litigation

From time to time, the Company is involved in litigation and other legal proceedings arising out of the ordinary course of its business. There are no pending material legal proceedings to which the Company is subject or to which the Company's property is subject.

10. Regulation

The Company, the University, and NYCDA are subject to significant state regulatory oversight, as well as federal regulatory oversight, in the case of the Company and the University.

Gainful Employment

Under the Higher Education Act, a proprietary institution offering programs of study other than a baccalaureate degree in liberal arts (for which there is a limited statutory exception) must prepare students for gainful employment in a recognized occupation. On October 31, 2014, the Department of Education (the "Department") published final regulations related to gainful employment. The regulations went into effect on July 1, 2015, with the exception of new disclosure requirements that were originally scheduled to go into effect January 1, 2017, but which have now been delayed, to some extent, until July 1, 2018. Additionally, the Department announced, on June 16, 2017, its intention to conduct negotiated rulemaking proceedings to revise the gainful employment regulations. Those proceedings are expected to begin in December 2017.

The gainful employment regulations include two debt-to-earnings measures, consisting of an annual income rate and a discretionary income rate. The annual income rate measures student debt in relation to earnings, and the discretionary income rate measures student debt in relation to discretionary income. A program passes if the program's graduates:

· have an annual income rate that does not exceed 8%; or

- have a discretionary income rate that does not exceed 20%.

In addition, a program that does not pass either of the debt-to-earnings metrics, and that has an annual income rate between 8% and 12%, or a discretionary income rate between 20% and 30%, is considered to be in a warning zone. A program fails if the program's graduates have an annual income rate of 12% or greater and a discretionary income rate of 30% or greater. A program would become Title IV-ineligible for three years if it fails both metrics for two out of three consecutive years, or fails to pass at least one metric for four consecutive award years. The regulations provide a means by which an institution may challenge the Department's calculation of any of the debt metrics prior to loss of Title IV eligibility. On January 8, 2017, Strayer received its final 2015 debt-to-earnings measures. None of Strayer's programs failed the debt-to-earnings metrics. Two active programs, the Associate in Arts in Accounting and Associate in Arts in Business Administration, are "in the zone," which means each program remains fully eligible unless (1) either program has a combination of zone and failing designations for four consecutive years, in which case it would become Title IV-ineligible in the fifth year; or (2) either program fails the metrics for two out of three consecutive years, in which case the program could become ineligible for the following award year.

If an institution is notified by the Secretary of Education that a program could become ineligible, based on its final rates, for the next award year:

- The institution must provide a warning with respect to the program to students and prospective students indicating, among other things, that students may not be able to use Title IV funds to attend or continue in the program; and

- The institution must not enroll, register or enter into a financial commitment with a prospective student until a specified time after providing the warning to the prospective student.

The new regulations also require institutions annually to report student- and program-level data to the Department, and comply with additional disclosure requirements. Final regulations adopted by the Department, which generally became effective on July 1, 2011, require an institution to use a template designed by the Department to disclose to prospective students, with respect to

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each gainful employment program, occupations that the program prepares students to enter, total cost of the program, on-time graduation rate, job placement rate, if applicable, and the median loan debt of program completers for the most recently completed award year. The regulations that became effective July 1, 2015 expanded upon those existing disclosure requirements, and institutions were expected to update their disclosure templates to comply by January 1, 2017. However, the Department delayed the requirements until April 3, 2017 and then until July 1, 2017. On June 30, 2017, the Department further delayed, until July 1, 2018, the requirements that an institution include the disclosure template, or a link thereto, in its gainful employment program promotional materials and directly distribute the disclosure templates to prospective students. The Department did not change the July 1, 2017 effective date for the requirement to provide an updated disclosure template, or a link thereto, on gainful employment program web pages. The University is in compliance with that requirement.

In addition, the gainful employment regulations require institutions to certify, among other things, that each eligible gainful employment program is programmatically accredited if required by a federal governmental entity or a state governmental entity of a state in which it is located or is otherwise required to obtain state approval. Institutions also must certify that each eligible program satisfies the applicable educational prerequisites for professional licensure or certification requirements in each state in which it is located or is otherwise required to obtain state approval, so that a student who completes the program and seeks employment in that state qualifies to take any licensure or certification exam that is needed for the student to practice or find employment in an occupation that the program prepares students to enter. The University has timely made the required certification.

Under the gainful employment regulations, an institution may establish a new program's Title IV eligibility by updating the list of the institution's programs maintained by the Department. However, an institution may not update its list of eligible programs to include a failing or zone program that the institution voluntarily discontinued or that became ineligible, or a gainful employment program that is substantially similar to such a program, until three years after the loss of eligibility or discontinuance.

The requirements associated with the gainful employment regulations may substantially increase the Company's administrative burdens and could affect the University's program offerings, student enrollment, persistence, and retention. Further, although the regulations provide opportunities for an institution to correct any potential deficiencies in a program prior to the loss of Title IV eligibility, the continuing eligibility of the University's academic programs will be affected by factors beyond management's control such as changes in the University's graduates' income levels, changes in student borrowing levels, increases in interest rates, changes in the percentage of former students who are current in the repayment of their student loans, and various other factors. Even if the University were able to correct any deficiency in the gainful employment metrics in a timely manner, the disclosure requirements associated with a program's failure to meet at least one metric may adversely affect student enrollments in that program and may adversely affect the reputation of the University.

Borrower Defenses to Repayment

Pursuant to the Higher Education Act and following negotiated rulemaking, on November 1, 2016, the Department published final regulations that, inter alia, would have specified the acts or omissions of an institution that a borrower may assert as a defense to repayment of a loan made under the Direct Loan Program. Although the regulations were scheduled to become effective on July 1, 2017, on June 16, 2017, the Department delayed indefinitely the effective date of selected provisions of the regulations and announced its intention to conduct negotiated rulemaking proceedings to revise the regulations. Those proceedings are expected to begin in November 2017. On October 24, 2017, the Department published an interim final rule to delay until July 1, 2018 the effective date of the selected provisions. On October 24, 2017, the Department also published a notice of proposed rulemaking to delay until July 1, 2019 the effective date of the selected provisions.

The Clery Act

The University must comply with the campus safety and security reporting requirements as well as other requirements in the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the "Clery Act") including changes made to the Clery Act by the Violence Against Women Reauthorization Act of 2013. On October 20, 2014, the Department promulgated regulations, effective July 1, 2015, implementing amendments to the Clery Act. In addition, the Department has interpreted Title IX to categorize sexual violence as a form of prohibited sex discrimination and to require institutions to follow certain disciplinary procedures with respect to such offenses. On September 22, 2017, the Department withdrew the statements of policy and guidance reflected in two guidance documents issued under the Obama administration and issued interim guidance about campus sexual misconduct. In the interim guidance, the Department announced that it intends to conduct negotiated rulemaking proceedings to revise its regulations related to institutions' Title IX responsibilities. Failure by the University to comply with the Clery Act or Title IX requirements or regulations thereunder could result in action by the Department fining the University or limiting or

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suspending its participation in Title IV programs, could lead to litigation, and could harm the University's reputation. The Company believes that the University is in compliance with these requirements.

Compliance Reviews

The University is subject to announced and unannounced compliance reviews and audits by various external agencies, including the Department, its Office of Inspector General, state licensing agencies, guaranty agencies, and accrediting agencies. In 2014, the Department conducted four campus-based program reviews of University locations in three states and the District of Columbia. The reviews covered federal financial aid years 2012-2013 and 2013-2014, and two of the reviews also covered compliance with the Clery Act, the Drug-Free Schools and Communities Act, and regulations related thereto. For three of the program reviews, the University received correspondence from the Department in 2015 closing the program reviews with no further action required by the University. For the other program review, in 2016, the University received a Final Program Review Determination Letter identifying a payment of less than $500 due to the Department based on an underpayment on a return to Title IV calculation, and otherwise closing the review. The University remitted payment, and received a letter from the Department indicating that no further action was required and that the matter was closed.

Program Participation Agreement

Each institution participating in Title IV programs must enter into a Program Participation Agreement with the Department. Under the agreement, the institution agrees to follow the Department's rules and regulations governing Title IV programs. On October 13, 2017, the Department informed the University that it was approved to participate in Title IV programs with full certification through June 30, 2021.

NYCDA

NYCDA currently provides on-ground courses in New Jersey, New York, Pennsylvania, Utah, and the District of Columbia, and in the Netherlands, but is not accredited, does not participate in state or federal student financial aid programs, and is not subject to the regulatory requirements applicable to accredited schools and schools that participate in such financial aid programs such as those described above. Programs such as those offered by NYCDA are regulated by each individual state.

11. Subsequent Event

On October 29, 2017, the Company, Sarg Sub Inc., a Minnesota corporation and a direct, wholly owned subsidiary of the Company (“Merger Sub”), and Capella Education Company, a Minnesota corporation (“Capella”), entered into an Agreement and Plan of Merger (the “Merger Agreement”). Pursuant to the Merger Agreement, and subject to the satisfaction or waiver of the conditions specified therein, Merger Sub will be merged with and into Capella (the “Merger”), with Capella surviving as a direct, wholly owned subsidiary of the Company.

At the effective time of the Merger (the “Effective Time”), each share of common stock of Capella (“Capella Common Stock”) issued and outstanding immediately prior to the Effective Time (other than the shares that are owned by Capella, the Company, Merger Sub or any wholly owned subsidiary of Capella, the Company or Merger Sub) will be converted into the right to receive 0.875 of a newly issued share of common stock of the Company (the “Company Common Stock”) (“Merger Consideration”). No fractional shares of Company Common Stock will be issued in the Merger, and Capella shareholders will receive cash in lieu of fractional shares as part of the Merger Consideration, as specified in the Merger Agreement.

The respective boards of directors of the Company and Capella have unanimously approved the Merger Agreement, and the board of directors of Capella has agreed to recommend that Capella’s shareholders adopt the Merger Agreement. In addition, the board of directors of the Company has agreed to recommend that the Company’s stockholders approve the issuance of shares of Company Common Stock in the Merger and the amendment to the Company certificate of incorporation to, among other things (i) change the Company’s name to “Strategic Education, Inc.” and (ii) increase the number of shares of Company Common Stock that the Company is authorized to issue to 32,000,000 shares to, among other things, allow for the payment of the Merger Consideration.

The consummation of the Merger is subject to customary closing conditions, including, but not limited to, (i) the approval of Company stockholders and Capella stockholders, (ii) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and (iii) the receipt of certain regulatory approvals from educational agencies

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(including the Department of Education and Capella University's accreditor). The parties expect the Merger will be completed in the third quarter of 2018.

The Merger Agreement provides for certain termination rights for both Capella and the Company. Upon termination of the Merger Agreement under certain specified circumstances (including to accept a superior proposal), the Company may be required to pay Capella a termination fee of $25,000,000, and upon termination of the Merger Agreement under certain specified circumstances (including to accept a superior proposal), Capella may be required to pay the Company a termination fee of $25,000,000. In addition, if the Merger Agreement is terminated by either party as a result of Capella's failure to obtain stockholder approval, or is terminated by the Company due to Capella's breach of its representations and covenants and such breach would result in the closing conditions not being satisfied, then Capella may be required to reimburse transaction expenses up to $8,000,000. The Company may be required to reimburse transaction expenses up to $8,000,000 in reciprocal circumstances.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Notice Regarding Forward-Looking Statements

Certain of the statements included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as elsewhere in this Quarterly Report on Form 10-Q are forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995 ("Reform Act"). Such statements may be identified by the use of words such as "expect," "estimate," "assume," "believe," "anticipate," "will," "forecast," "outlook," "plan," "project words, and include, without limitation, statements relating to future enrollment, revenues, revenues per student, earnings growth, operating expenses and capital expenditures. These statements are based on the Company's current expectations and are subject to a number of assumptions, risks and uncertainties. In accordance with the Safe Harbor provisions of the Reform Act, the Company has identified important factors that could cause the actual results to differ materially from those expressed in or implied by such statements. The assumptions, risks and uncertainties include the pace of growth of student enrollment, our continued compliance with Title IV of the Higher Education Act, and the regulations thereunder, as well as regional accreditation standards and state regulatory requirements, rulemaking by the Department of Education and increased focus by the U. S. Congress on for-profit education institutions, competitive factors, risks associated with the opening of new campuses, risks associated with the offering of new educational programs and adapting to other changes, risks associated with the acquisition of existing educational institutions, risks relating to the timing of regulatory approvals, our ability to implement our growth strategy, risks associated with the ability of our students to finance their education in a timely manner, and general economic and market conditions. Further information about these and other relevant risks and uncertainties may be found in the Company's Annual Report on Form 10-K and its other filings with the Securities and Exchange Commission, including in Part II, "Item 1A. Risk Factors" in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017, and in this Quarterly Report on Form 10-Q. The Company undertakes no obligation to update or revise forward-looking statements.

Additional Information

We maintain a website at http://www.strayereducation.com. The information on our website is not incorporated by reference in this Quarterly Report on Form 10-Q, and our web address is included as an inactive textual reference only. We make available, free of charge through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Background and Overview

We are an education services holding company that owns Strayer University (the "University") and, as of January 13, 2016, the New York Code and Design Academy ("NYCDA"). The University is an institution of higher education which offers undergraduate and graduate degree programs at physical campuses, predominantly located in the eastern United States, and online. NYCDA provides non-degree courses in web and application software development, primarily at campuses in New York City and Philadelphia, PA. NYCDA's results of operations are included in our results from the acquisition date.

Most of our revenue comes from the University, which derives approximately 96% of its revenue from tuition for educational programs, whether delivered in person at a physical campus or delivered online. The academic year of the University is divided into four quarters, which approximately coincide with the four quarters of the calendar year. Students at the University and at NYCDA make payment arrangements for the tuition for each course at the time of enrollment. Tuition revenue is recognized ratably over the course of instruction. If a student withdraws from a course prior to completion, the University refunds a portion of the tuition depending on when the withdrawal occurs. Tuition revenue is shown net of any refunds, withdrawals, corporate discounts, employee tuition discounts and scholarships. The University also derives revenue from other sources such as textbook-related income, certificate revenue, certain academic fees, licensing revenue, and other income, which are all recognized when earned.

Tuition receivable and deferred revenue for our students are recorded upon the start of the course, which for the University is the start of the academic term. Because the University's academic quarters coincide with the calendar quarters, at the end of the fiscal quarter (and academic term), tuition receivable generally represents amounts due from students for educational services already provided and deferred revenue generally represents advance payments for academic services to be provided in the future. Based upon past experience and judgment, the University establishes an allowance for doubtful accounts with respect to accounts receivable. Any uncollected account more than one year past due is charged against the allowance. Accounts less than one year past due are reserved according to the length of time the balance has been outstanding. In establishing reserve amounts, we also consider the status of students as to whether or not they are currently enrolled for the next term, as well as the likelihood of recovering balances that have previously been written off, based on historical experience. Bad debt expense as a percentage of revenues for the third quarter of 2016 and 2017 was 3.8% and 4.9%, respectively.

Below is a description of the nature of the consolidated costs included in our operating expense categories:

- Instruction and educational support expenses generally contain items of expense directly attributable to educational activities. This expense category includes salaries and benefits of faculty and academic administrators, as well as administrative personnel who support faculty and students. Instruction and educational support expenses also include costs of educational supplies and facilities, including rent for campus facilities, certain costs of establishing and maintaining computer laboratories and all other physical plant and occupancy costs, with the exception of costs attributable to the corporate offices. Bad debt expense incurred on delinquent student account balances is also included in instruction and educational support expenses.

- Marketing expenses include the costs of advertising and production of marketing materials and related personnel costs.

- Admissions advisory expenses include salaries, benefits and related costs of personnel engaged in admissions.

- General and administration expenses include salaries and benefits of management and employees engaged in accounting, human resources, legal, regulatory compliance, and other corporate functions, along with the occupancy and other related costs attributable to such functions.

Investment income consists primarily of earnings and realized gains or losses on investments and interest expense consists of interest incurred on our outstanding borrowings, unused revolving credit facility fees, and amortization of deferred financing costs.

Critical Accounting Policies and Estimates

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates and judgments related to its allowance for doubtful accounts; income tax provisions; the useful lives of property and equipment; redemption rates for scholarship programs; fair value of future contractual operating lease obligations for facilities that have been closed; valuation of deferred tax assets, goodwill, and intangible assets; forfeiture rates and achievability of performance targets for stock-based compensation plans; and accrued expenses. Management bases its estimates and judgments on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Management regularly reviews its estimates and judgments for reasonableness and may modify them in the future. Actual results may differ from these estimates under different assumptions or conditions.

Management believes that the following critical accounting policies are its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue recognition — Like many traditional institutions, the University offers its educational programs on a quarter system having four academic terms, which coincide with our quarterly financial reporting periods. NYCDA's revenues are recognized as services are provided, generally ratably over the length of a course. Approximately 96% of the University's revenues during the nine months ended September 30, 2017 consisted of tuition revenue. Tuition revenue is recognized ratably over the course of instruction as the University provides academic services in a given term, whether delivered in person at a physical campus or online. Tuition revenue is shown net of any refunds, withdrawals, corporate discounts, scholarships, and employee tuition discounts. The University also derives revenue from other sources such as textbook-related income, certificate revenue, certain academic fees, licensing revenue, and other income, which are all recognized when earned. At the start of each academic term or program, a liability (deferred revenue) is recorded for academic services to be provided and a tuition receivable is recorded for

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the portion of the tuition not paid in advance. Any cash received prior to the start of an academic term or program is recorded as deferred revenue.

Students of the University finance their education in a variety of ways, and historically about three quarters of our students have participated in one or more financial aid programs provided through Title IV of the Higher Education Act. In addition, many of our working adult students finance their own education or receive full or partial tuition reimbursement from their employers. Those students who are veterans or active duty military personnel have access to various additional government-funded educational benefit programs.

A typical class is offered in weekly increments over a ten-week period and is followed by an exam. Students who withdraw from a course may be eligible for a refund of tuition charges based on the timing of the withdrawal. We use the student's last date of attendance for this purpose. Student attendance is based on physical presence in class for on-ground classes. For online classes, attendance consists of logging into one's course shell and performing an academically-related activity (e.g., engaging in a discussion post or taking a quiz).

If a student withdraws from a course prior to completion, a portion of the tuition may be refundable depending on when the withdrawal occurs. Our refund policy typically permits students who complete less than half of a course to receive a partial refund of tuition for that course. Refunds reduce the tuition revenue that would have otherwise been recognized for that student. Since the University's academic terms coincide with our financial reporting periods, nearly all refunds are processed and recorded in the same quarter as the corresponding revenue. The amount of tuition revenue refundable to students may vary based on the student's state of residence.

For undergraduate students who withdraw from all their courses during the quarter of instruction, we reassess collectibility of tuition and fees for revenue recognition purposes. In addition, we cease revenue recognition when a student fully withdraws from all of his or her courses in the academic term. Tuition charges billed in accordance with our billing schedule may be greater than the pro rata revenue amount, but the additional amounts are not recognized as revenue unless they are collected in cash.

For students who receive funding under Title IV, funds are subject to return provisions as defined by the Department of Education. The University is responsible for returning Title IV funds to the Department of Education and then may seek payment from the student of prorated tuition or other amounts charged to him or her. Loss of financial aid eligibility during an academic term is rare and would normally coincide with the student's withdrawal from the institution. As discussed above, we cease revenue recognition upon a student's withdrawal from all of his or her classes in an academic term.

New students registering in credit-bearing courses in any undergraduate program for the summer 2013 term (fiscal third quarter) and subsequent terms qualify for the Graduation Fund, whereby qualifying students earn tuition credits that are redeemable in the final year of a student's course of study if he or she successfully remains in the program. Students must meet all of the University's admission requirements and not be eligible for any previously offered scholarship program. Our employees and their dependents are not eligible for the program. To maintain eligibility, students must be enrolled in a bachelor's degree program. Students who have more than one consecutive term of non-attendance lose any Graduation Fund credits earned to date, but may earn and accumulate new credits if the student is reinstated or readmitted by the University in the future. In their final academic year, qualifying students will receive one free course for every three courses that were successfully completed. Revenue and the value of the benefit earned by students participating in the Graduation Fund is recognized based on a systematic and rational allocation of the cost of honoring the benefit earned to each of the underlying revenue transactions that result in progress by the student toward earning the benefit. The estimated value of awards under the Graduation Fund that will be recognized in the future is based on historical experience of students' persistence in completing their course of study and earning a degree. Estimated redemption rates of eligible students vary based on their term of enrollment. As of September 30, 2017, we had deferred $34.4 million for estimated redemptions earned under the Graduation Fund, as compared to $29.5 million at December 31, 2016. Each quarter, we assess our methodologies and assumptions underlying our estimates for persistence and estimated redemptions based on actual experience. To date, any adjustments to our estimates have not been material. However, if actual persistence or redemption rates change, adjustments to the reserve may be necessary and could be material.

Tuition receivable — We record estimates for our allowance for doubtful accounts for tuition receivable from students primarily based on our historical collection rates by age of receivable, net of recoveries, and consideration of other relevant factors. Our experience is that payment of outstanding balances is influenced by whether the student returns to the institution as we require students to make payment arrangements for their outstanding balances prior to enrollment. Therefore, we monitor outstanding tuition receivable balances through subsequent terms, increasing the reserve on such balances over time as the likelihood of returning to the institution diminishes and our historical experience indicates collection is less likely. We periodically assess our

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methodologies for estimating bad debts in consideration of actual experience. If the financial condition of our students were to deteriorate, resulting in evidence of impairment of their ability to make required payments for tuition payable to us, additional allowances or write-offs may be required. For the third quarter of 2017, our bad debt expense was 4.9% of revenue, compared to 3.8% for the same period in 2016. A change in our allowance for doubtful accounts of 1% of gross tuition receivable as of September 30, 2017 would have changed our income from operations by approximately $0.4 million.

Accrued lease and related costs — We estimate potential sublease income and vacancy periods for space that is not in use, adjusting our estimates when circumstances change. If our estimates change or if we enter into subleases at rates that are substantially different than our current estimates, we will adjust our liability for lease and related costs. During the nine months ended September 30, 2017 and 2016, we reduced our liability for leases by approximately $0.3 million and $2.0 million, respectively.

Other estimates — We record estimates for contingent consideration, certain of our accrued expenses, and income tax liabilities. We estimate the useful lives of our property and equipment, assess goodwill and intangible assets for impairment, and periodically review our assumed forfeiture rates and ability to achieve performance targets for stock-based awards and adjust them as necessary. Should actual results differ from our estimates, revisions to our contingent consideration, accrued expenses, carrying amount of goodwill and intangible assets, stock-based compensation expense, and income tax liabilities may be required.

Results of Operations

In the third quarter of 2017, we generated $108.5 million in revenue, a 6% increase compared to 2016, principally due to a 7% increase in total enrollment and partially offset by a 1% decline in revenue per student. Income from operations was $8.2 million for the third quarter of 2017. During the third quarter of 2017, we recorded approximately $2.1 million in net benefits related to a reduction in the value of contingent consideration payable under the NYCDA acquisition, partially offset by nonrecurring personnel costs associated with a one-time staff reduction program. Income from operations for the third quarter of 2016 was $4.8 million, which includes a $0.2 million noncash benefit to reduce our liability for leases on facilities no longer in use. Net income in the third quarter of 2017 was $6.2 million, including approximately $2.4 million in after-tax benefits from the nonrecurring adjustments described above, compared to $2.9 million for the same period in 2016, which reflected approximately $0.1 million in after-tax benefits from the nonrecurring adjustments described above. Diluted earnings per share was $0.56 compared to $0.27 for the same period in 2016. Diluted earnings per share for the third quarter of 2017 and 2016 was $0.34 and $0.25 per share, respectively, after the nonrecurring adjustments

Key enrollment trends by quarter for the University were as follows:

Enrollment

% Change vs Prior Year

25

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Since 2013, we have introduced a number of initiatives in response to the variability in our enrollment. Recognizing that affordability is an important factor in a prospective student's decision to seek a college degree, we reduced the University undergraduate tuition for new students by 20% beginning in our 2014 winter academic term. We also introduced the Graduation Fund in mid-2013, whereby qualifying students can receive one free course for every three courses successfully completed. The free courses are redeemable in the student's final academic year. In 2015, we launched Strayer@Work, which works with Fortune 1000 companies to structure customized education and training programs for their employees, often with significant discounts to our published tuition rates. In January 2016, we acquired NYCDA, which charges variable tuition by program based on the number of hours of instruction. These initiatives had a net negative impact on revenue per student, which declined 1% in 2016, and is expected to decrease slightly in 2017, by approximately 2%.

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Enrollment. Total enrollments at the University for the summer term 2017 increased to 41,679 students, from 38,813 for the summer term 2016. New student enrollments increased by 7%, and continuing student enrollments increased by 8%.

Revenues. Revenues increased 6% to $108.5 million in the third quarter of 2017 from $102.2 million in the third quarter of 2016, principally due to total enrollment growth of 7%, partially offset by a decline in revenue per student of 1%. The decline in revenue per student is largely attributable to a new pricing structure which was implemented for the first quarter of 2014 which reduced tuition for new undergraduate students by approximately 20%, and gave eligible students access to the Graduation Fund. Revenues for undergraduate students increased 11% in the three months ended September 30, 2017, driven by an increase in total undergraduate enrollment of 13%, partially offset by a decline in revenue per student of 2%. We expect this decline in revenue per student to continue at the undergraduate level as we enroll more new undergraduate students. For graduate students, revenues decreased 5% in 2017, driven by a decline in total graduate enrollment of 6%.

Instruction and educational support expenses. Instruction and educational support expenses increased $0.7 million to $57.0 million in the third quarter of 2017 from $56.3 million in the third quarter of 2016, principally due to increases in bad debt expense and nonrecurring personnel costs associated with a one-time staff reduction program, offset by a noncash adjustment to reduce the value of contingent consideration related to our acquisition of NYCDA. Instruction and educational support expenses as a percentage of revenues decreased to 52.5% in the third quarter of 2017 from 55.1% in the third quarter of 2016.

Marketing expenses. Marketing expenses increased $1.4 million, or 6%, to $26.8 million in the third quarter of 2017 from $25.4 million in the third quarter of 2016, principally due to increased investments in branding initiatives. Marketing expenses as a percentage of revenues decreased to 24.7% in 2017 from 24.9% in 2016.

Admissions advisory expenses. Admissions advisory expenses increased $0.6 million, or 13%, to $5.3 million in the third quarter of 2017 from $4.7 million in the third quarter of 2016 due primarily to increased personnel costs. Admissions advisory expenses as a percentage of revenues increased to 4.9% in the third quarter of 2017 from 4.6% in the third quarter of 2016.

General and administration expenses. General and administration expenses increased $0.2 million to $11.2 million in the third quarter of 2017 from $11.0 million in the third quarter of 2016, related primarily to increased personnel and corporate compliance costs. General and administration expenses as a percentage of revenues decreased to 10.3% in the third quarter of 2017 from 10.7% in the third quarter of 2016.

Income from operations. Income from operations increased $3.4 million, or 70%, to $8.2 million in the third quarter of 2017 from $4.8 million in the third quarter of 2016.

Investment income and interest expense. Investment income increased to $0.3 million in the third quarter of 2017 compared to $0.1 million in the third quarter of 2016 as a result of higher yields and an increase in our cash balances. Interest expense was $0.2 million in the third quarter of both 2017 and 2016. We have $150.0 million available under our revolving credit facility and no borrowings outstanding as of September 30, 2017.

Provision for income taxes. Income tax expense was $2.1 million in the third quarter of 2017, compared to $1.9 million in the third quarter of 2016. Our effective tax rate for the quarter was 25.6% and was favorably impacted by the reduction in the value of contingent consideration related to the NYCDA acquisition, which is not subject to income tax. We expect our effective tax rate, including the effect of tax benefits associated with the vesting of restricted stock and the impacts of the contingent consideration adjustments referenced above, to be approximately 34.0% for 2017.

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Net income. Net income increased $3.3 million to $6.2 million in the third quarter of 2017 from $2.9 million in the third quarter of 2016 due to the factors discussed above.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Enrollment. Average enrollments at the University increased 6% to 42,826 students for the nine months ended September 30, 2017 compared to 40,238 students for the same period in 2016.

Revenues. Revenues increased 4% to $336.1 million in the nine months ended September 30, 2017 from $321.8 million in the nine months ended September 30, 2016, principally due to total enrollment growth of 6%, partially offset by a decline in revenue per student of 2%. The decline in revenue per student is largely attributable to a new pricing structure which was implemented for the first quarter of 2014 which reduced tuition for new undergraduate students by approximately 20%, and gave eligible students access to the Graduation Fund. Revenues for undergraduate students increased 10% in the nine months ended September 30, 2017, driven by an increase in total undergraduate enrollment of 13%, partially offset by a decline in revenue per student of 3%. We expect this decline in revenue per student to continue at the undergraduate level as we enroll more new undergraduate students. For graduate students, revenues decreased 7% in 2017, driven by a decline in total graduate enrollment of 8%, partially offset by an increase in revenue per student of 1%. The increase in graduate revenue per student was due primarily to increased average tuition per class compared to 2016.

Instruction and educational support expenses. Instruction and educational support expenses increased $3.9 million, or 2%, to $180.1 million in the nine months ended September 30, 2017 from $176.2 million in the nine months ended September 30, 2016. The increase primarily resulted from increases in personnel costs associated with a one-time staff reduction program and increased bad debt expense, offset by adjustments to reduce the value of contingent consideration related to our acquisition of NYCDA. Instruction and educational support expenses as a percentage of revenues decreased to 53.6% in the nine months ended September 30, 2017 from 54.7% in the nine months ended September 30, 2016.

Marketing expenses. Marketing expenses increased $3.3 million, or 5%, to $64.7 million in the nine months ended September 30, 2017 from $61.4 million in the nine months ended September 30, 2016, principally due to increased investments in branding initiatives. Marketing expenses as a percentage of revenues increased to 19.3% in the nine months ended September 30, 2017 from 19.1% in the nine months ended September 30, 2016.

Admissions advisory expenses. Admissions advisory expenses increased $1.6 million, or 12%, to $14.8 million in the nine months ended September 30, 2017 from $13.2 million in the nine months ended September 30, 2016, primarily due to increased personnel costs. Admissions advisory expenses as a percentage of revenues increased to 4.4% in the nine months ended September 30, 2017 from 4.1% in the nine months ended September 30, 2016.

General and administration expenses. General and administration expenses increased $2.8 million to $36.0 million in the nine months ended September 30, 2017 from $33.2 million in the nine months ended September 30, 2016. During the nine months ended September 30, 2016, we recorded a $2.0 million noncash benefit associated with adjustments to our reserve for leases on facilities no longer in use. General and administration expenses as a percentage of revenues increased to 10.7% in the nine months ended September 30, 2017 from 10.3% in the nine months ended September 30, 2016.

Income from operations. Income from operations increased $2.7 million, or 7%, to $40.5 million in the nine months ended September 30, 2017 from $37.8 million in the nine months ended September 30, 2016.

Investment income and interest expense. Investment income increased to $0.7 million in the nine months ended September 30, 2017 compared to $0.3 million in the nine months ended September 30, 2016, as a result of higher yields and an increase in our cash balances. Interest expense was $0.5 million in both of the nine months ended September 30, 2017 and 2016. We have $150.0 million available under our revolving credit facility and no borrowings outstanding as of September 30, 2017.

Provision for income taxes. Income tax expense decreased to $13.7 million in the nine months ended September 30, 2017 from $14.6 million in the nine months ended September 30, 2016. This decrease reflects a tax surplus recorded in the current year associated with the vesting of certain shares of restricted stock. In addition, we recognized tax benefits resulting from the reduction in the value of contingent consideration related to the NYCDA acquisition. We expect our effective tax rate, including the effect of tax benefits associated with the vesting of restricted stock and the impacts of the contingent consideration adjustments referenced above, to be approximately 34.0% for 2017 compared to 39.3% in 2016.

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Net income. Net income increased $4.0 million to $27.1 million in the nine months ended September 30, 2017 from $23.1 million in the nine months ended September 30, 2016 due to the factors discussed above.

Liquidity and Capital Resources

At September 30, 2017, we had cash and cash equivalents of $150.5 million compared to $129.2 million at December 31, 2016 and $120.5 million at September 30, 2016. At September 30, 2017, most of our cash was held in demand deposit accounts at high credit quality financial institutions.

We are party to a credit agreement which provides for a $150 million revolving credit facility and an option to establish incremental term loans under certain conditions. The credit agreement has a maturity date of July 2, 2020. We had no borrowings outstanding under the revolving credit facility during each of the nine months ended September 30, 2016 and 2017, and as of September 30, 2017.

Borrowings under the revolving credit facility bear interest at LIBOR or a base rate, plus a margin ranging from 1.75% to 2.25%, depending on our leverage ratio. An unused commitment fee ranging from 0.25% to 0.35%, depending on our leverage ratio, accrues on unused amounts under the revolving credit facility. During each of the nine months ended September 30, 2017 and 2016, we paid unused commitment fees of $0.3 million. We were in compliance with all applicable covenants related to the credit agreement as of September 30, 2017.

Our net cash from operating activities for the nine months ended September 30, 2017 increased to $44.4 million, as compared to $30.1 million for the same period in 2016. The increase in net cash from operating activities was largely due to the payment of retention agreements in connection with the NYCDA acquisition in January 2016, cash provided by changes in working capital, and the timing of income tax payments in 2017 compared to 2016.

Capital expenditures were $14.6 million for the nine months ended September 30, 2017, compared to $7.5 million for the same period in 2016.

The Board of Directors declared an annual dividend of $1.00 per common share, payable quarterly. During the nine months ended September 30, 2017, we have paid a total of $8.6 million in cash dividends on our common stock. For the nine months ended September 30, 2017, we did not repurchase any shares of common stock and, at September 30, 2017, had $70 million in repurchase authorization to use through December 31, 2017.

For the third quarter of 2017, bad debt expense as a percentage of revenue was 4.9% compared to 3.8% for the third quarter of 2016.

We believe that existing cash and cash equivalents, cash generated from operating activities, and if necessary, cash borrowed under our revolving credit facility, will be sufficient to meet our requirements for at least the next 12 months. Currently, we maintain our cash in mostly demand deposit bank accounts and money market funds, which is included in cash and cash equivalents at September 30, 2017 and 2016. During the nine months ended September 30, 2017 and 2016, we earned interest income of $0.7 million and $0.3 million, respectively.

The table below sets forth our contractual commitments associated with operating leases, excluding subleases as of September 30, 2017 (in thousands):

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	$ 119,061	$ 31,782	$ 49,750	$ 26,384	$ 11,145

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to the impact of interest rate changes and may be subject to changes in the market values of our future investments. We invest our excess cash in bank overnight deposits, money market funds and marketable securities. We have not used derivative financial instruments in our investment portfolio. Earnings from investments in bank overnight deposits, money market mutual funds, and marketable securities may be adversely affected in the future should interest rates decline, although such a decline may reduce the interest rate payable on any borrowings under our revolving credit facility. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates. As of September 30, 2017, a 1% increase or decrease in interest rates would not have a material impact on our future earnings, fair values, or cash flows related to investments in cash equivalents or interest earning marketable securities.

Changing interest rates could also have a negative impact on the amount of interest expense we incur. On July 2, 2015, we used approximately $116 million of our existing cash and cash equivalents to prepay our term loan and terminate an interest rate swap as part of an amendment to our credit and term loan agreement. The credit agreement provides for a $150 million revolving credit facility and an option to establish incremental term loans under certain conditions. The credit agreement has a maturity date of July 2, 2020. We had no borrowings outstanding under the revolving credit facility after prepayment of the term loan facility, and as of September 30, 2017. Borrowings under the revolving credit facility bear interest at LIBOR or a base rate, plus a margin ranging from 1.75% to 2.25%, depending on our leverage ratio. An unused commitment fee ranging from 0.25% to 0.35%, depending on our leverage ratio, accrues on unused amounts under the revolving credit facility. An increase in LIBOR would affect interest expense on any outstanding balance of the revolving credit facility. For every 100 basis points increase in LIBOR, we would incur an incremental $1.5 million in interest expense per year assuming the entire $150 million revolving credit facility was utilized.

ITEM 4: CONTROLS AND PROCEDURES

a) Disclosure Controls and Procedures. The Company’s management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures as of September 30, 2017. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company had in place, as of September 30, 2017, effective disclosure controls and procedures designed to ensure that information required to be disclosed by the Company (including consolidated subsidiaries) in the reports it files or submits under the Securities Exchange Act of 1934, as amended, and the rules thereunder, is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Securities Exchange Act is accumulated and communicated to the Company’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

b) Internal Control Over Financial Reporting. There have not been any changes in the Company’s internal control over financial reporting during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in litigation and other legal proceedings arising out of the ordinary course of our business. There are no pending material legal proceedings to which we or our property are subject.

Item 1A. Risk Factors

You should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017, which could materially affect our business, adversely affect the market price of our common stock and could cause you to suffer a partial or complete loss of your investment. There have been no material changes to the risk factors previously described in Part I, "Item 1A. Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017, except that we have updated two of the risk factors to reflect recent developments occurring after the filing of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017. The risks described in our Annual Report on Form 10-K, as updated by our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017, and this Quarterly Report on Form 10-Q, are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also could materially adversely affect our business. See "Cautionary Notice Regarding Forward-Looking Statements."

The following risk factors update and supersede the risk factors with the same captions in our Annual Report on Form 10-K for the year ended December 31, 2016, as updated by our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017.

We are subject to compliance reviews, which, if they resulted in a material finding of noncompliance, could affect our ability to participate in Title IV programs.

Because we operate in a highly regulated industry, we are subject to compliance reviews and claims of noncompliance and related lawsuits by government agencies, accrediting agencies and third parties, including claims brought by third parties on behalf of the federal government. For example, the Department of Education regularly conducts program reviews of educational institutions that are participating in Title IV programs, and the Office of Inspector General of the Department of Education regularly conducts audits and investigations of such institutions. The Department of

Education could limit, suspend, or terminate our participation in Title IV programs, place us on a more restrictive, slower payment method for receipt of Title IV program funds, or impose other penalties such as requiring us to make refunds, pay liabilities, or pay an administrative fine upon a material finding of noncompliance.

The Department of Education conducted four campus-based program reviews of Strayer University's administration of Title IV programs in three states and the District of Columbia, with one on-site review conducted August 18-20, 2014; one on-site review conducted September 8-11, 2014; and two on-site reviews conducted September 22-26, 2014. On October 21, 2014, the Department of Education issued an Expedited Final Program Review Determination Letter for one of the program reviews conducted the week of September 22, 2014, closing the program review with no further action required by us. On November 17, 2014, we received a Program Review Report for the program review conducted in August 2014, and provided a response to the Department of Education on December 15, 2014. On January 7, 2015, we received a Final Program Review Determination letter from that August 2014 review, closing the program review with no further action required by us. On March 24, 2015, the Company received a Program Review Report for another program review, and provided a response to the Department on April 21, 2015. On April 29, 2015, the Company received a Final Program Review Determination Letter closing the review and identifying a payment of less than $500 due to the Department of Education based on an underpayment on a return to Title IV calculation. The Company remitted payment, and received a letter from the Department on May 26, 2015, indicating that no further action was required and that the matter was closed. On September 15, 2015, the Company received a Program Review Report for the final program review, and provided a response to the Department on October 5, 2015. On January 5, 2016, the Company received a Final Program Review Determination Letter for the final program review, indicating that this program review was closed and no further action was required.

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If we fail to obtain recertification by the Department of Education when required, we would lose our ability to participate in Title IV programs.

An institution generally must seek recertification from the Department of Education at least every six years and possibly more frequently depending on various factors, such as whether it is provisionally certified. The Department of Education may also review an institution's continued eligibility and certification to participate in Title IV programs, or scope of eligibility and certification, in the event the institution undergoes a change in ownership resulting in a change of control or expands its activities in certain ways, such as the addition of certain types of new programs, or, in certain cases, changes to the academic credentials that it offers. In certain circumstances, the Department of Education must provisionally certify an institution. The Department of Education may withdraw our certification if it determines that we are not fulfilling material requirements for continued participation in Title IV programs. If the Department of Education does not renew, or withdraws our certification to participate in Title IV programs, our students would no longer be able to receive Title IV program funds, which would have a material adverse effect on our business.

Each institution participating in Title IV programs must enter into a Program Participation Agreement with the Department of Education. Under the agreement, the institution agrees to follow the Department of Education's rules and regulations governing Title IV programs. On October 13, 2017, the Department informed the University that it was approved to participate in Title IV programs with full certification through June 30, 2021.

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

During the three months ended September 30, 2017, we did not repurchase any shares of common stock under our repurchase program. The remaining authorization for our common stock repurchases was $70.0 million as of September 30, 2017, and is available for use through December 31, 2017.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

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Item 6. Exhibits

3.1	Amended Articles of Incorporation and Articles Supplementary of the Company (incorporated by reference to Exhibit 3.01 of the Company's Annual Report on Form 10-K (File No. 000-21039) filed with the Commission on March 28, 2002).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Commission on November 4, 2010).
3.3	First Amendment to the Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Commission on April 17, 2017).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.	INS XBRL Instance Document
101.	SCH XBRL Schema Document
101.	CAL XBRL Calculation Linkbase Document
101.	DEF XBRL Definition Linkbase Document
101.	LAB XBRL Label Linkbase Document
101.	PRE XBRL Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STRAYER EDUCATION, INC.

By: /s/ Daniel W. Jackson
Daniel W. Jackson
Executive Vice President
and Chief Financial Officer
Date: October 30, 2017