

STRAYER EDUCATION INC  
Form 10-K  
February 19, 2016  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

Commission file number: 0-21039

STRAYER EDUCATION, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	52-1975978
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2303 Dulles Station Boulevard, Herndon, VA 20171	
(Address of principal executive offices)	

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE: (703) 247-2500

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

COMMON STOCK, \$.01 PAR VALUE	NASDAQ GLOBAL SELECT MARKET
(Title of class)	(Name of each exchange on which registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:  
NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:  
 Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:  
 Yes  No

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 last 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates (computed by reference to the price at which the common stock was last sold) as of June 30, 2015, the last business day of the Registrant's most recently completed second fiscal quarter, was \$452.6 million.

The total number of shares of common stock outstanding as of February 1, 2016 was 11,027,177.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrant's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders (which is expected to be filed with the Commission within 120 days after the end of the Registrant's 2015 fiscal year) are incorporated by reference into Part III of this Report.

STRAYER EDUCATION, INC.

FORM 10-K

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PART I

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS:

This document and the documents incorporated by reference herein include “forward-looking statements,” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including, in particular, the statements about our plans, strategies and prospects under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” We have typically used the words “may,” “will,” “expect,” “believe,” “estimate,” “plan,” “intend” and similar expressions in this document and the documents incorporated by reference herein to identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. Actual results could differ materially from those projected in the forward-looking statements. These forward-looking statements are subject to many risks, uncertainties and assumptions, including, among other things:

- student enrollment;
- our continued compliance with Title IV of the Higher Education Act of 1965, as amended (the “Higher Education Act”), and the regulations thereunder, as well as state regulatory requirements and accrediting agency requirements;
- changes in regulation of the U.S. education industry and eligibility of proprietary schools to participate in U.S. federal student financial aid programs;
- risks related to the timing of regulatory approvals;
- competitive factors;
- our ability to continue to implement our online growth strategy;
- risks associated with the opening of new campuses;
- risks associated with the offering of new educational programs and adapting to other program changes;
- risks associated with the acquisition of educational institutions;
- risks associated with the ability of our students to finance their education in a timely manner; and
- general economic and market conditions.

You should not put undue reliance on any forward-looking statements. You should understand that many important factors, including those discussed under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” could cause our results to differ materially from those expressed or suggested in any forward-looking statements. Further information about these and other relevant risks and uncertainties may be found in Item 1A (“Risk Factors”) below and elsewhere in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission. We undertake no obligation to update or revise forward-looking statements, except as required by law.

References to “we,” “our” and the “Company” refer to Strayer Education, Inc., together in each case with our consolidated subsidiary Strayer University, but do not include our new subsidiary, the New York Code and Design Academy, unless the context suggests otherwise.



Item 1. Business

Overview

Our company provides post-secondary education services. We offer a variety of academic programs through two wholly-owned subsidiaries, Strayer University (the “University”) and the New York Code and Design Academy (“NYCDA”).

Founded in 1892, Strayer University is an institution of higher learning that offers undergraduate and graduate degree programs in business administration, accounting, information technology, education, health services administration, nursing, public administration, and criminal justice at 76 physical campuses, predominantly located in the Mid-Atlantic and Southern regions of the United States, and online. Strayer University also offers an executive MBA online through its Jack Welch Management Institute. For the 2015 fall term, we had 42,975 students enrolled in our programs. Strayer University is accredited by the Middle States Commission on Higher Education (“Middle States” or “Middle States Commission”), one of the six regional collegiate accrediting agencies recognized by the U.S. Department of Education (“Department of Education”). Middle States is located at 3624 Market Street, Philadelphia, PA 19104 (267-284-5000). By offering its programs both online and in physical classrooms, the University provides its working adult students more flexibility and convenience. Strayer University, with its online offerings, attracts students from around the country and throughout the world.

The New York Code and Design Academy provides non-degree courses in web and application software development, primarily at its campus in New York City. NYCDA is licensed by the New York Bureau of Proprietary School Supervision, but is not accredited and does not participate in state or federal student financial aid programs. We acquired NYCDA on January 13, 2016, thus the acquisition did not impact our 2015 results.

We generated net revenue of \$434 million in 2015. For more information regarding our revenues, profits and financial condition, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in this Annual Report on Form 10-K.

Industry Background

The market for post-secondary education is large and highly fragmented. The U.S. Census Bureau has reported that approximately 62 million adults over the age of 25 in the United States do not have more than a high school education and approximately 35 million adults over the age of 25 have some college experience but no college degree. Although demand for post-secondary education has been reduced during the past few years, we believe that over time the demand will increase as a result of demographic, economic and social trends, including:

- increasing demand by employers for certain types of professional and skilled workers;
- growth in the number of high school graduates from 2.8 million in 1999-2000 to an estimated 3.3 million in 2015-2016, according to the National Center for Education Statistics;
- the significant and measurable income premium and enhanced employment prospects attributable to post-secondary education; and
- a number of initiatives underway to reduce the cost of a post-secondary education.

The adult education market is a significant component of the post-secondary education market. We believe that the market for post-secondary adult education should increase as working adults seek additional education to update and improve their skills. In addition, we believe that many working adults will seek degree programs from regionally accredited institutions that provide flexibility to accommodate the fixed schedules and time commitments associated

with their professional, family and personal obligations.

According to the National Center for Education Statistics, in 2014-2015 there were 3,011 four-year degree-granting institutions in the United States, including 701 public colleges and universities, 1,584 not-for-profit colleges and universities, and 726 for-profit institutions.

Growth in the market for post-secondary education has recently been negatively affected by weakness in the economy as well as by the uncertainty associated with legislative and regulatory proposals. Controversy about the cost of higher education and the unemployment, or under-employment, of college graduates due to the difficult economic conditions may also have caused some prospective students to question the value proposition of higher education. According to the National Student Clearinghouse Research Center, college enrollments declined 1.3%

and 1.7% in fall 2014 and 2015, respectively. The industry is heavily dependent on continued availability of funding for programs under Title IV of the Higher Education Act (“Title IV programs”) and concerns about potential reductions in such funding also can reduce the level of growth.

### Company Strengths

Strayer University has been in operation since 1892 and has a track record of providing practical and convenient education programs for working adults. We believe the following strengths position us to capitalize on the demand for post-secondary education:

- Consistent operating history. The University has been in continuous operation since 1892 and has demonstrated an ability to operate consistently and grow profitably.
- Practical and diversified curricula. We offer core curricula in practical areas of adult education. In order to keep pace with a changing knowledge-based economy, we constantly strive to meet the evolving needs of our students and their current and prospective employers by regularly refining, updating, and adding to our portfolio of educational programs. In January 2016, we acquired NYCDA, which offers high-demand non-degree courses in software development. In December 2011, Strayer University acquired the Jack Welch Management Institute, an online leadership education program that enables us to offer a differentiated executive MBA degree and executive certificates to students and employees of leading corporations. Across Strayer University and NYCDA, we currently offer approximately 90 different degree, diploma, certificate, and non-degree training programs and concentrations.
- Focus on adults pursuing career-relevant degree and non-degree programs. We focus on serving adults who are pursuing undergraduate and graduate degrees as well as non-degree certificates and training programs that will help them advance their careers and employment opportunities.
- Flexible program offerings. We maintain flexible programs that allow students to attend classes and complete coursework at day, evening and weekend classes throughout the calendar year. Online programs offered through Strayer University enable students to take some or all of their classes via the Internet. Approximately 71% of our students enrolled for the 2015 fall term were taking all of their courses online.
- Attractive and convenient campus locations. Our campuses are located in growing metropolitan areas, mostly in the Mid-Atlantic and Southern regions where there are large populations of adults with demographic characteristics similar to those of our typical students. Strayer University’s campuses are attractive and modern, offering conducive learning environments in convenient locations.
- Established brand name and alumni support. With a 124-year operating history, Strayer University is an established brand name in post-secondary adult education, and our students and graduates work throughout corporate America. Our alumni network fosters additional referral opportunities for students.

### Company Strategy

Our goal is to be a leading provider of career relevant education programs, primarily in the areas of business, accounting, information technology and software development, that prepare students for advancement in their careers and professional lives. We have identified the following strategic priorities as key to achieving our goal:

- Improve student success — Our success as a Company depends on the success of our students. The more we focus on helping our students succeed, the more likely it is that we will succeed. In order to improve student success, we must continue to hire outstanding faculty, individuals who are experts in their fields and who are great at teaching. We must also offer high quality course content that is relevant in today’s job market.



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- Enhance student experience — Our students are predominately working adults who are furthering their education in order to advance their careers and professional lives. Our students are busy with work and family responsibilities that leave little time for other endeavors. Thus, we must make sure every interaction with our students is a productive one. We are constantly looking for ways to serve them better. This includes providing outstanding service not only in the classroom, but also in areas such as student advising, tutoring, registration, technology, and administration. We measure our performance through student surveys and focus groups.

- Address affordability — The cost of a post-secondary education has increased substantially over the last ten years while average earnings have failed to keep up. Recognizing that affordability is an important factor in a prospective student's decision to further his or her education, in late 2013, we commenced an effort at Strayer University to make our degree programs more affordable. In the 2013 summer academic term, we introduced our Graduation Fund. Under this program, qualifying students enrolled in a bachelor's degree program are eligible to receive one free course for every three courses successfully completed towards a bachelor's degree. The free courses earned are redeemable in one's final academic year. Furthermore, beginning the winter term 2014, we reduced undergraduate tuition for new students by 20%. We continue to monitor and assess the impact of our affordability initiatives and explore other ways to make our offerings as affordable as possible.
- Establish new platforms for growth — We are constantly exploring new avenues for growth. Like the acquisition of the Jack Welch Management Institute in 2011, our recent acquisition of NYCDA represents another significant opportunity to leverage our operating track record and our physical campus and online infrastructure. We continue to leverage the strong reputation and track record of Strayer University to develop new programs like the Bachelor of Science in Nursing degree, which began enrolling new students in the fall 2015 academic term.
- Build a high performing culture — In order to be a leading provider of educational services, we must have talented and motivated faculty and employees who are passionate about serving students. We strive to attract the best talent and then develop and retain them. We want to be known as an employer of choice and be a place where one can build a long-term career.

Strayer University

## Curriculum

Strayer University offers business, information technology and professional curricula to equip students with specialized and practical knowledge and skills for careers in business, industry and government. Our academic leaders regularly review and revise the University's course offerings to improve our educational programs and respond to competitive changes in job markets. We regularly evaluate new programs and degrees to ensure that we stay current with the needs of our students and their employers.

Strayer University offers programs in the following areas:

### **Graduate Programs**

- Master of Business Administration (M.B.A.) Degree
- Jack Welch Executive Master of Business Administration (M.B.A.) Degree
- Master of Education (M.Ed.) Degree
- Master of Science in Health Services Administration (M.S.H.S.A.) Degree
- Master of Public Administration (M.P.A.) Degree
- Master of Science (M.S.) Degree
  - Information Assurance
  - Information Systems
  - Accounting
  - Human Resource Management
  - Management

### **Undergraduate Programs**

- Bachelor of Science (B.S.) Degree
  - Accounting
  - Information Systems
  - Information Technology
  - Economics
  - Criminal Justice
- Bachelor of Business Administration (B.B.A.) Degree
- Associate in Arts (A.A.) Degree
  - Accounting
  - Acquisitions and Contract Management
  - Business Administration
  - Information Systems
  - Information Technology
  - Economics
  - Marketing
- Diploma Program

Acquisition and Contract Management  
•Certificate in Business Administration

Each undergraduate degree program includes courses in oral and written communication skills as well as mathematics and various disciplines in the humanities and social sciences. In addition to our degree, diploma and certificate programs, we offer classes to non-degree and non-program students wishing to take courses for personal or professional enrichment.

Although all of our programs are generally offered at our campuses and online, the University adapts its course offerings to the demands of the student population at each location. Strayer University students may enroll in courses at more than one campus and take courses online.

Strayer University structures its curricula to allow students to advance sequentially from one learning level to another by applying credits earned in one program toward attainment of a more advanced degree. For example, a student originally pursuing an associate's degree in information systems can extend his or her original educational objective by taking additional courses leading to a bachelor's degree in information systems, and ultimately a master's degree in information systems. This curriculum design provides students a level of competency and a measure of attainment in the event they interrupt their education or choose to work in their field of concentration prior to obtaining their final degree.

#### Online

In August 1997, the University began offering classes online. Students may take classes online using either a synchronous ("real time") or asynchronous ("on demand") format. The asynchronous format was first introduced by the University in the summer 2001 academic term and has grown significantly due to increasing demand. Currently, almost all students taking classes online choose the asynchronous format. Students may take all of their courses online or may take online courses in combination with classroom-based courses. A student taking classes online has the same admission and financial aid requirements, is subject to substantially the same policies and procedures, and receives the same student services and support as campus-based Strayer University students. Tuition for online courses is the same as campus-based courses.

#### Faculty

The University appoints faculty who hold appropriate academic credentials, are dedicated, active professionals in their field, and are enthusiastic and committed to teaching working adults. In accordance with our educational mission, the University faculty focuses its efforts on teaching. The normal course load for a full-time faculty member is five courses per quarter for each of three quarters, or 15 courses per academic year. Further, many full-time faculty members participate actively in the University by providing leadership, curriculum, setting academic policy, and serving on assessment committees.

We provide financial support for faculty members seeking to enhance their skills and knowledge. The University maintains a professional development funding program that reimburses eligible faculty and deans for completing courses, continuing education, seminars, and various programs that enhance their current credentials and knowledge base to improve their content expertise. Full-time faculty (and all other full-time employees) receive a 90% discount for all Strayer University courses. The University also conducts annual in-house faculty workshops in each discipline. We believe that our dedicated and capable faculty is one of the keys to our success.

## Organization of Strayer University

Overall academic and business decisions of the University, including review and approval of the annual financial budget, are directed by its Board of Trustees. The Board of Trustees consists of Dr. Charlotte F. Beason, Chairwoman, and currently eight other members. The University By-Laws prescribe that a majority of members be independent from the University and Strayer Education, Inc. to assure independent oversight of all academic programs and services. Of the nine members, five are independent from the University and Strayer Education, Inc. The current Trustees are listed below:

### Board of Trustees

Dr. Charlotte F. Beason

Dr. Beason is the Chairwoman of the Board of Trustees. She has served as a member of the Board of Trustees since 1996. She has extensive experience in education, distance learning, and the accreditation of education programs. (See Item 10 below for additional biographical information.)

Mr. Mark C. Brown

Mr. Brown is Vice Chairman of the Board of Trustees. In 2015, he retired from his role as Executive Vice President and Chief Financial Officer of Strayer Education, Inc., a position he held for 14 years, and joined the University's Board of Trustees. Mr. Brown was previously the Chief Financial Officer of the Kantar Group, the information and consultancy division of WPP Group, a multi-national communications services company. Prior to that, for nearly 12 years, Mr. Brown held a variety of management positions at PepsiCo, Inc., including Director of Corporate Planning for Pepsi Bottling Group and Business Unit Chief Financial Officer for Pepsi-Cola International. Mr. Brown is a Certified Public Accountant who started his career with PricewaterhouseCoopers, LLP. Mr. Brown holds a bachelor's degree in accounting from Duke University and a master's degree in business administration from Harvard University.

Dr. Jonathan Gueverra\*

Dr. Gueverra was elected to the Board of Trustees in 2012. He now serves as the President and Chief Executive Officer of Florida Keys Community College. Prior to this appointment, he was the founding Chief Executive Officer of the Community College of the District of Columbia, the first community college in Washington, D.C. With over 25 years of higher education experience, Dr. Gueverra has served in a variety of administrative and faculty positions in two-year and four-year colleges and universities along the nation's east coast. In 2015, he was elected to the board of trustees for the Southern Association of Schools and Colleges, Commission on Colleges. Prior to this, he served as a member of the board of the American Association for Community Colleges and co-chaired the Commission on Workforce Development. In addition, Dr. Gueverra serves on the Steering Committee and the Communications Committee for the Council of Presidents for the Florida College System. Dr. Gueverra holds an associate degree from Newbury College, a bachelor's degree from Providence College, and a master's degree in business administration and a doctorate in education both from the University of Massachusetts.

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Mr. Brian W. Jones

Mr. Jones was elected to the Board of Trustees in 2015 as an ex officio member and has served as Strayer University President since 2015. Mr. Jones joined Strayer University in 2012 as the General Counsel. (See Item 10 below for additional biographical information.)

Mr. Todd A. Milano

Mr. Milano has served as a member of the Board of Trustees since 1992 and has more than 30 years of experience in post-secondary education. He is President Emeritus and Ambassador for Central Penn College, where he has devoted his entire professional career, having served as President and Chief Executive Officer from 1989 to 2012. (See Item 10 below for additional biographical information.)

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Dr. William C. Reha, MD\*

Dr. Reha has served as a member of the Board of Trustees since 2007 and is Chair of its Alumni and Student Affairs Committee. He is a Board Certified Urologic Surgeon in Woodbridge, Virginia. Dr. Reha is active in Strayer University alumni affairs and is the 2005 Outstanding Alumni Award winner. Dr. Reha has served as President of the Prince William County Medical Society, the Potomac Hospital Medical Staff, and the Virginia Urological Society. He was also Speaker and is the immediate former President of the Medical Society of Virginia. He serves on the Virginia Delegation to the American Medical Association and is a State Society Network Representative for the American Association of Clinical Urologists. Dr. Reha is a Fellow of the Claude Moore Physician Leadership Institute and holds a bachelor's degree in biochemistry from Binghamton University, an M.D. from New York Medical College, and a master's in business administration from Strayer University. He completed his residency in Surgery/Urology at Georgetown University.

Dr. Peter D. Salins\*

Dr. Salins has served as a member of the Board of Trustees since 2002 and is Chair of its Curriculum and Assessment Committee. Having served as Provost and Vice Chancellor for Academic Affairs of the State University of New York (SUNY) system from 1997 to 2006, he is currently University Professor of Political Science at SUNY's Stony Brook University and Director of its graduate program in public policy. Dr. Salins is a Fellow of the American Institute of Certified Planners and a Director of the Citizens Housing and Planning Council of New York. Dr. Salins holds a bachelor's degree in architecture, a master's degree in regional planning and a doctorate in metropolitan studies and regional planning, all from Syracuse University.

Dr. Carol Shapiro, MD\*

Dr. Shapiro was elected to the Board of Trustees in 2015. Dr. Shapiro, a plastic surgeon, is the Medical Director of the Wound Healing Center of Sentara Northern Virginia Medical Center. She has served as President of the medical staff of the two hospitals in the county in which she practices. She has also served as President of the Prince William County Medical Society and was the first woman to be elected President of the Medical Society of Virginia. She chaired the Virginia Delegation of the American Medical Society. Dr. Shapiro served as President of the National Capital Society of Plastic Surgeons, and was appointed to serve on the Ethics and Judicial Committees of the American Society of Plastic Surgeons. Additionally, she has served on the Board of Trustees of the Prince William Hospital and Potomac Hospital. Currently, she is the Vice Chair of the Potomac Health Foundation and Chair of the Grants Committee, and serves on the Board of Trustees of Sentara Northern Virginia Medical Center. Dr. Shapiro did her undergraduate work at the University of Pittsburgh and earned her MD at the Woman's Medical College in Philadelphia. After completing a residency in General Surgery and Plastic Surgery at Georgetown University, she started a solo practice in Woodbridge, Virginia. For several years, Dr. Shapiro was a Clinical Instructor at Georgetown University Department of Plastic Surgery. In 1996, she earned an MBA from George Mason University.

Dr. J. Chris Toe\*

Dr. Toe has served as a member of the Board of Trustees since 2003. He served as President of Strayer University from 2003 to April 2006 and as Minister of Agriculture of the Republic of Liberia from 2006 to 2009. Dr. Toe now serves as Executive Chairman of Agrifore Advisory & Investment Services (AAIS), Incorporated in Liberia and Senior Advisor for Country Strategic Planning for the World Food Programme in Rome, Italy. Dr. Toe holds a bachelor's degree in economics from the University of Liberia, and a master's degree in agricultural economics and a doctorate in economics, both from Texas Tech University.

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\* Independent member.

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Within the academic, strategic and financial parameters set by the Board of Trustees, the University is managed on a daily basis by the University President. The President is charged with the responsibility of overseeing the implementation of the policies established by the Board of Trustees and is supported in this function by senior administrative officers, including the Chief Academic Officer and the Chief Operating Officer of the University. The majority of the University's operations are centralized within the President's Office or the University's senior administrative staff offices. These operations include academic programs, academic intelligence, academic services, student affairs, accounting and auditing, human resources, operations, marketing, public relations, facilities, information technology, and regulatory compliance, including oversight of the University's participation in federal student financial aid programs.

Within this centralized structure, responsibilities fit within the purview of either the Chief Academic Officer or the Chief Operating Officer, both of whom report to the University President. The senior administrative officers that support the Chief Academic Officer in performing academic functions include six Academic Program Directors, a Vice President of Student and Faculty Resources, a Vice President of Student Affairs, a Vice President of Institutional Research, and a Vice President for Content. Together, these individuals are responsible for faculty hiring and management, curriculum development, policy oversight, and student learning outcomes. Each academic function receives further support from the University Registrar.

Operational functions including Student Financial Services, Information Technology, and campus operations are the primary responsibility of the Chief Operating Officer of the University. Other senior administrative officers also support the President in areas such as legal compliance, accounting and auditing, computer technology, insurance and human resources. All of the senior administrative officers collaborate to ensure that University operations meet the annual budget established by the Board of Trustees and all applicable regulatory requirements.

#### University Senior Management

Brian Jones is University President. His biographical information is set forth in Item 10 below. At the regional and campus levels, the academic functions are overseen by the Regional Vice Provost and an Academic Services Administrator. Day-to-day business operations are managed by a Campus Manager. Campuses are staffed with personnel performing academic advising, financial aid, student services, admissions and career development functions. A learning resource center at each campus supports the University's instructional programs. Each learning resource center contains a library and computer laboratories and is operated by a full-time manager and support staff who assist students in the use of research resources.

#### Strayer Education, Inc. Executive Officers

For a description of Strayer Education, Inc.'s senior management, see the biographical information set forth in Item 10 below.

#### Outreach

To identify potential students, we engage in a broad range of activities to inform working adults and their employers about the programs offered at Strayer University. These activities include direct and digital marketing, marketing to our existing students and graduates, print and broadcast advertising, student referrals, and corporate and government outreach activities. Direct response methods (direct and digital marketing) are used to generate inquiries from potential students. Strayer University maintains booths and information tables at appropriate conferences and expos, as well as at transfer days at community colleges. We also depend on the recommendation of our alumni network to maintain and enhance Strayer University's reputation and promote its quality education. Our business-to-business outreach efforts include personal telephone calls, distribution of information through corporate intranets and human resource departments, and on-site information meetings. We record inquiries in our database and track them through to application and registration. Additionally, we provide information about new programs to students and alumni to

encourage them to return for further education.

#### Student Profile

The majority of Strayer University students are working adults completing their first college degree to improve their job skills and advance their careers. Of the students enrolled in Strayer University's programs at the beginning of the 2015 fall quarter, approximately 66% were age 31 or older and approximately 85% were engaged in part-time study (fewer than three courses each quarter for undergraduate students and fewer than two for graduate students).

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In the 2015 fall quarter, our undergraduate students registered for an average of approximately two courses and our graduate students for an average of approximately one course.

Strayer University has a very diverse student population. At the beginning of the 2015 fall quarter, approximately 76% of students reporting ethnicity were minorities and approximately 65% of students were women. Approximately 1% of the University's students were international, and approximately 1% were active duty military personnel. Strayer University prides itself on making post-secondary education accessible to working adults who were previously unable to take advantage of educational opportunities.

The following is a breakdown of Strayer University students by program level as of the 2015 fall term:

Program	Number of students	Percentage of total students	
Bachelor's	26,324	61	%
Master's	13,147	30	%
Associate	3,270	8	%
Total Degree	42,741	99	%
Diploma	17		*
Undergraduate Certificate	13		*
Graduate Certificate	6		*
Undeclared	198		*
Total Non-Degree	234	1	%
Total Students	42,975	100	%

\* Represents less than 1%.

Our business is seasonal and as a result, our quarterly results of operations tend to vary within the year due to student enrollment patterns. Enrollment generally is lowest in the third quarter, or summer term.

### Student Admissions

Students attending Strayer University's undergraduate programs must possess a high school diploma or a General Educational Development (GED) Certificate. Students attending Strayer University's graduate programs must have a bachelor's degree from an accredited institution and meet certain other requirements. If a student's undergraduate major varies widely from the student's proposed graduate course of study, certain undergraduate prerequisite courses may also be necessary for admission. To maximize undergraduate students' chances for academic success and to ensure they receive the support they need, Strayer University evaluates incoming students' proficiency in fundamental English and math prior to the first quarter's registration.

International students applying for admission must meet the same admission requirements as other students. Those students whose native language is not English must provide evidence that they are able to use the English language with sufficient facility to perform college-level work in an English-speaking institution.

### Tuition and Fees

Strayer University charges tuition by the course. Tuition rates may vary in states with specific regulations governing tuition costs. Each course is 4.5 credit hours. As of January 1, 2016, undergraduate students who were new to the University after January 1, 2014 are charged \$1,420 per course. Undergraduate students who initially enrolled at Strayer prior to January 1, 2014 are charged \$1,700 per course if the student attends on a full-time basis or \$1,775 per

course if the student attends on a part-time basis. As of January 1, 2016, graduate students who were new to the University after January 1, 2015 are charged at a rate of \$2,450 per course while all other graduate students are charged at a rate of \$2,325 per course. For the Jack Welch Management Institute, students who were new as of July 1, 2014 are charged at a rate of \$3,250 per course; new as of July 1, 2013 at a rate of \$3,000 per course; and new prior to July 1, 2013 at a rate of \$2,580 per course. Under a variety of different programs and in connection with various corporate and government sponsorship and tuition reimbursement arrangements, Strayer University offers scholarships and tuition discounts to students. One of these programs, the Graduation Fund, offers a student in a bachelor's program an opportunity to earn up to a 25% reduction of the tuition required for a degree. A new undergraduate student seeking to obtain a bachelor's degree in four years and who was eligible for our Graduation fund would currently pay on average approximately \$11,000 per year in tuition.

## Career Development Services

Although most of Strayer University's students are already employed, the University actively assists its students and alumni with career-related matters. The focus for Career Services at Strayer University is to provide career guidance and resources to assist students and alumni in reaching their educational and professional goals. Services are delivered through various media including online, in person, recorded video, books, periodicals, and by telephone. The services provided include career webinars, recorded seminars, career teleconferences, career advising and resume review.

We regularly conduct alumni surveys to monitor the career progression of our graduates and to support outcome assessment efforts required by Middle States and state regulators.

## Employees

As of December 31, 2015, we had a total of 1,401 full-time employees including 273 full-time faculty members and 1,128 non-faculty staff. Full-time faculty members teach on average 4-5 courses per quarter. The balance of classes are taught by adjunct faculty who normally teach 1-2 courses per quarter. Although we had approximately 1,600 adjunct faculty, not all of them teach every quarter. In the 2015 fall quarter, approximately 25% of our courses were taught by full-time faculty. Because we are not a research university, all faculty members are expected to spend their time teaching and advising students. In addition to our faculty, our non-faculty staff, including 63 part-time employees, serve in the areas of information systems, financial aid, recruitment and admissions, student administration, marketing, human resources, corporate accounting, and other administrative functions.

## Intellectual Property

In the ordinary course of business, we develop many kinds of intellectual property that are or will be the subject of copyright, trademark, service mark, patent, trade secret or other protections. Such intellectual property includes, but is not limited to, our courseware materials for classes taught online or other distance-learning means and business know-how and internal processes and procedures developed to respond to the requirements of our operations and various education regulatory agencies. We also claim rights to certain marks, and have obtained federal registration of the marks, including the mark "STRAYER" for educational services.

## Competition

The higher education industry is highly competitive, but with no single participant possessing a significant market share. We compete for students with traditional public and private two-year and four-year degree-granting accredited colleges and universities, other proprietary degree-granting accredited schools and also alternatives to higher education. In addition, we face competition from various nontraditional, credit-bearing and noncredit-bearing education programs, provided by both proprietary and not-for-profit providers, including massive open online courses offered worldwide without charge by traditional educational institutions and other direct-to-consumer education services. As the proportion of traditional colleges providing alternative learning modalities increases, we will face increasing competition for students from traditional colleges, including colleges with well-established reputations for excellence. As the online and distance learning segment of the post-secondary education market matures, we believe that the intensity of the competition we face will continue to increase.

We believe the key factors affecting our competitive position include the quality of the programs offered, the quality of other services provided to students, our reputation among students and in the general marketplace, the cost and perceived value of our offerings, the employment rate and terms of employment for our graduates, the ease of access to our offerings, the quality and reputation of our faculty and other employees, the quality of our campus facilities and online platform, the time commitment required to complete our program and obtain a degree, the quality and size of our alumni base, and our relationship with other learning institutions.

## Regulation

### Regulatory Environment

As an institution of higher education accredited by Middle States and operating in multiple jurisdictions, Strayer University is subject to accreditation rules and varying state licensing and regulatory requirements. In addition, the federal Higher Education Act and the regulations promulgated thereunder require all higher education institutions that participate in the various Title IV programs, including Strayer University, both to comply with detailed substantive

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and reporting requirements and to undergo periodic regulatory scrutiny. The Higher Education Act mandates specific regulatory responsibility for each of the following components of the higher education regulatory triad: (1) the institutional accrediting agencies recognized by the U.S. Secretary of Education (“Secretary of Education”); (2) state education regulatory bodies; and (3) the federal government through the Department of Education. The regulations, standards and policies of these regulatory agencies are subject to frequent change.

#### Accreditation

Strayer University has been institutionally accredited since 1981 by Middle States, a regional accrediting agency recognized by the Secretary of Education. Strayer University’s current period of accreditation by Middle States extends through 2017. Accreditation is a system for recognizing educational institutions and their programs for integrity, educational quality, faculty, physical resources, administrative capability and financial stability that signifies that they merit the confidence of the educational community and the public. In the United States, this recognition comes primarily through private voluntary associations of institutions and programs of higher education. These associations establish criteria for accreditation, conduct peer-review evaluations of institutions and programs, and publicly designate those institutions that meet their standards. Accredited schools are subject to periodic review by accrediting bodies to determine whether such schools maintain the performance, integrity and quality required for accreditation.

Middle States accredits degree-granting public and private colleges and universities in its region (including Delaware, Washington, D.C., Maryland, New Jersey, New York, Pennsylvania, Puerto Rico and the U.S. Virgin Islands), including distance education programs offered by those institutions. Accreditation by Middle States is an important attribute of Strayer University. Colleges and universities depend on accreditation in evaluating transfers of credit and applications to graduate schools. Employers rely on the accreditation status of institutions when evaluating a candidate’s credentials or considering tuition reimbursement programs. Students rely on accreditation status for assurance that an institution maintains quality educational standards.

In order for institutions to be eligible to participate in federal student financial assistance programs, they must be accredited by an institutional accreditor recognized by the Department of Education. The Higher Education Act charges the National Advisory Committee on Institutional Quality and Integrity (“NACIQI”) with recommending to the Secretary of Education which accrediting or state approval agencies should be recognized as reliable authorities for judging the quality of post-secondary institutions and programs. In December 2014, NACIQI renewed its recognition of Middle States through fall 2017.

As with all its regulatory relationships, Strayer University strives to maintain close contact with, and to provide frequent status updates to, Middle States regarding matters pertinent to accrediting standards and policies. This regular contact keeps Middle States informed of the University’s planned activities and aims to ensure that the University’s performance continues to meet Middle States’ expectations. To this end, Strayer University is committed to evaluating periodically its own performance, submitting reports to Middle States and making any necessary improvements to continue meeting Middle States’ accreditation standards as the University grows and expands geographically. If an institution’s performance were ever not to meet its accrediting agency’s (or other regulator’s) expectations or applicable standards, then its operations could be conditioned, severely constrained or even curtailed, depending on the severity of the non-compliance.

Accordingly, Strayer University endeavors proactively to keep Middle States (and all of its other regulators) fully informed and satisfied with its performance and strives to maintain good regulatory relationships as a key University priority. Beginning in 2013, Middle States undertook a review of its accreditation standards and, in June 2014, approved revised accreditation standards. Both accreditation standards remain in effect, and Middle States will begin measuring some institutions against the revised standards starting with the 2016-2017 institutional evaluations, but institutions scheduled for evaluations during that time frame were given the opportunity to proceed under either set of standards. Strayer’s next evaluation, which commenced with a self-study begun in spring 2015, will proceed under the accreditation standards in place prior to the revision.

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In 2006, Strayer University completed a comprehensive self-study report, which was submitted to Middle States in support of Strayer University's request for early reaffirmation of accreditation prior to Middle States' next scheduled accreditation review in 2011. Our objective is to provide a high quality post-secondary education to working adult students, and participation in academic peer review processes is an important way to help us meet that objective. Middle States reviewed Strayer University's report and on June 28, 2007, reaffirmed Strayer University's



accreditation for 10 years through 2017. In accordance with Middle States' accreditation standards, every accredited institution must file a periodic review report at the mid-point between its decennial evaluations. Strayer University filed its periodic review report on May 15, 2012, demonstrating that the institution continues to meet Middle States' standards. At its regular meeting on November 15, 2012, Middle States accepted the Periodic Review Report and reaffirmed Strayer University's accreditation. Strayer University subsequently filed a progress report in November 2013, and the next evaluation visit is scheduled for 2016-2017. All of Strayer University's substantive changes require prior Middle States approval.

In 2000, the agencies that accredit higher education institutions in various regions of the United States adopted a Policy Statement on Evaluation of Institutions Operating Interregionally. Under that policy, both the home regional accreditor and the host regional accreditor cooperate to evaluate an institution that delivers education at a physical site in the host accreditor's region. Although the home region is solely responsible for final accreditation actions, as we open campuses in regions outside Middle States' region, the host regional accreditors may elect to participate in the accreditation process of such expansion operations.

In addition to our institutional accreditation, we have obtained specialized or programmatic accreditation, or professional recognition, from the following organizations for specific programs: The Accreditation Council for Business Schools and Programs, The Society for Human Resource Management, The National Security Agency's Committee on National Security Systems, and the Council for the Accreditation of Educator Preparation (formerly the Teacher Education Accreditation Council).

#### State Education Licensure

##### Licensure of Physical Campuses

Strayer University is required by the federal Higher Education Act and certain state laws to be legally authorized to provide educational programs in the states in which the University is physically located. We are authorized to offer our programs by the applicable educational regulatory agencies in all states where our physical campuses and online delivery facilities are located. We are dependent upon the authorization of each state where we are physically located to allow us to operate and to grant degrees, diplomas or certificates to students in those states. We are subject to extensive regulation in each jurisdiction in which our campuses are located, including in 2015: Alabama, Arkansas, Delaware, Florida, Georgia, Louisiana, Maryland, Mississippi, New Jersey, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, West Virginia, and Washington, D.C. We will be subject to similar extensive regulation in those additional states in which we may expand our operations in the future. State laws and regulations affect our operations and may limit our ability to introduce educational programs or establish new campuses. At the end of 2013, we implemented a restructuring intended to better align our resources with our current student enrollments, and have closed campus locations in eight states, including Louisiana in 2015.

On October 29, 2010, the Department of Education adopted new regulations, effective July 1, 2011, that set new requirements for state authorization for purposes of Title IV eligibility. We believe that every state above in which Strayer is authorized has processes in place that comply with these new requirements.

##### Licensure of Online Programs

The increasing popularity and use of the Internet and other technology for the delivery of education has led, and may continue to lead, to the adoption of new laws and regulatory practices in the United States or foreign countries or to interpretation of existing laws and regulations to apply to such services. These new laws and interpretations may relate to issues such as the requirement that online education institutions be licensed as a school in one or more jurisdictions even where they have no physical location. New laws, regulations, or interpretations related to doing business over the Internet could increase Strayer University's cost of doing business, affect its ability to increase enrollments and revenues, or otherwise have a material adverse effect on our business.

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On October 29, 2010, the Department of Education adopted new regulations, which were to be effective July 1, 2011, regarding state authorization of online programs. The revised rules specified that that if an institution offers post-secondary education through distance or correspondence education to students in a state in which it is not physically located or in which it is otherwise subject to state jurisdiction as determined by the state, the institution must meet any state requirements for it to be legally offering post-secondary distance or correspondence education in that state. On May 6, 2011, the Department of Education issued a Dear Colleague Letter interpreting this new regulation, stating that

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it “will not initiate any action to establish repayment liabilities or limit student eligibility for distance education activities undertaken by an institution before July 1, 2014, so long as the institution is making good faith efforts to identify and obtain necessary State authorizations before that date.” On July 12, 2011, the U.S. District Court for the District of Columbia vacated the regulation relating to state authorization for distance education, which decision was upheld by the U.S. Court of Appeals for the District of Columbia Circuit on June 5, 2012. In April 2013, the Department of Education announced that it would add state authorization of distance education to a negotiated rulemaking previously initiated in May 2012. While four negotiated rulemaking sessions were conducted from February through May 2014, no consensus was reached. To date the Department of Education has not issued a proposed rulemaking on this issue.

#### Department of Education

To be eligible to participate in Title IV programs, Strayer University must comply with specific standards and procedures set forth in the Higher Education Act and the regulations issued thereunder by the Department of Education. An institution must, among other things, be authorized to offer its educational programs by each state in which it is physically located and maintain institutional accreditation by a recognized accrediting agency as discussed above. The institution also must be certified by the Department of Education to participate in Title IV programs and follow Department of Education rules regarding the awarding and processing of funds issued under the Title IV programs. For purposes of the Title IV programs, Strayer University and all of its campuses are considered to be a single institution of higher education, such that Department of Education requirements applicable to an institution of higher education are generally applied to all of Strayer University’s campuses in the aggregate rather than on an individual basis. On October 1, 2014, Strayer University received an executed provisional Program Participation Agreement with the Department of Education allowing it to participate in Title IV programs until June 30, 2017. The Program Participation Agreement is provisional because of the program reviews that were open at the time the agreement was issued (described below).

#### Other Approvals

Strayer University is approved by appropriate authorities for the education of veterans and members of the selective reserve and their dependents, as well as for the rehabilitation of veterans. In addition, Strayer University is authorized by the U.S. Department of Homeland Security to admit foreign students for study in the United States subject to applicable requirements. The U.S. Department of Homeland Security, working with the U.S. Department of State, has implemented a mandatory electronic reporting system for schools that enroll foreign students and exchange visitors. The University is also authorized to participate in state financial aid programs in Pennsylvania, Florida and Vermont.

#### Financing Student Education

Students finance their Strayer University education in a variety of ways, and historically about three quarters of our students participated in one or more Title IV programs. Many financial aid programs are designed to assist eligible students whose financial resources are inadequate to meet the cost of education. With these programs, financial aid is awarded on the basis of financial need, generally defined under the Higher Education Act as the difference between the cost of attending a program of study and the amount a student reasonably can be expected to contribute to those expenses. All recipients of federal student financial aid must maintain a satisfactory grade point average (“GPA”) and progress in a timely manner toward completion of a program of study. Undergraduate students must have a 2.0 cumulative GPA to graduate; graduate students other than JWMI students must have a 3.0 cumulative GPA to graduate; and JWMI students must have a 2.5 cumulative GPA to graduate.

In addition, many of our working adult students finance their own education or receive full or partial tuition reimbursement from their employers. Congress has enacted several tax credits for students pursuing higher education and has provided for a tax deduction for interest on student loans and exclusions from income of certain tuition reimbursement amounts. Eligible students at Strayer University may also participate in educational assistance

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programs administered by the Commonwealth of Pennsylvania, the State of Florida, the State of Vermont, private organizations, the U.S. Department of Veterans Affairs (and related state agencies), and the U.S. Department of Defense (“DOD”).

Congress recently expanded education benefits available to veterans who have served on active duty since September 11, 2001. Under the relevant law, known as the Post-9/11 Veterans Educational Assistance Act of 2009 (as amended August 1, 2011), sometimes referred to as the “New GI Bill,” eligible veterans may receive, among other

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benefits, tuition benefits up to the net cost to the student (after accounting for state and federal aid, scholarships, institutional aid, fee waivers, and similar assistance), subject to a cap of \$21,085 for non-public domestic institutions for 2015-2016. In addition, eligible students pursuing an educational program solely through distance learning are eligible to receive a housing stipend, equal to half the amount available to students attending certain classroom-based programs or programs that combine classroom learning and distance learning.

DOD promulgated regulations, published December 7, 2012 and effective January 7, 2013, requiring all institutions participating in DOD military tuition assistance programs to sign a Memorandum of Understanding (“MOU”) by March 1, 2013. At that time, Strayer University executed such an MOU with DOD. In 2014, the DOD revised the MOU and required participating institutions to execute a new MOU. Strayer University participates in DOD military tuition assistance programs under a revised Memorandum of Understanding with the DOD, executed on September 5, 2014, and various branches of the armed services. Thereunder, the University agrees to comply with DOD rules and procedures regarding the receipt of tuition assistance on behalf of active duty military personnel (and qualifying family members) in attendance at the University.

#### Title IV Programs

Strayer University maintains eligibility for its students to participate in the following Title IV programs:

- **Federal Grants.** Grants under the Federal Pell Grant program are available to eligible students based on financial need and other factors. In April 2011, year-round Pell Grant awards beginning with the 2011-2012 award year were permanently eliminated. In addition, effective July 1, 2012, eligibility for Pell Grants was reduced from 18 semesters to 12 semesters.
- **Campus-Based Programs.** The campus-based Title IV programs include the Federal Supplemental Educational Opportunity Grant program, the Federal Perkins Loan, and the Federal Work-Study Program. Strayer University does not actively participate in the Perkins Loan or the Federal Work-Study Program.
- **Federal Direct Student Loans.** Under the William D. Ford Federal Direct Loan Program, the Department of Education makes loans directly to students and their parents. Students who demonstrate financial need may qualify for a subsidized loan. With a subsidized loan, the federal government will pay the interest on the loan while the student is in school and during any approved periods of deferment, until the student’s obligation to repay the loan begins. Unsubsidized loans are available to students who do not qualify for a subsidized loan or, in some cases, in addition to a subsidized loan. PLUS loans, including Graduate PLUS loans, are unsubsidized. The Budget Control Act of 2011, signed into law on August 2, 2011, eliminated federal direct subsidized loans for graduate and professional students as of July 1, 2012. The terms and conditions of subsidized loans originated prior to July 1, 2012 are not affected by the change.

#### Federal Financial Aid Regulation

To be eligible to participate in Title IV programs, Strayer University must comply with specific standards and procedures set forth in the Higher Education Act and the regulations issued thereunder by the Department of Education. As part of those participation standards, the Department of Education determines whether, among other things, the institution meets certain standards of administrative capability and financial responsibility. The institution must also follow extensive Department of Education rules regarding the awarding and processing of funds issued under the Title IV programs. Some of the key provisions regarding institutional eligibility and processing federal financial aid are described below.

#### Program Participation Agreement

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. Strayer University's provisional Program Participation Agreement with the Department of Education allows it to participate in Title IV programs until June 30, 2017.

#### Provisional Certification

In certain circumstances, the Department of Education may certify an institution's continuing eligibility to participate in Title IV programs on a provisional basis for up to three complete award years (July 1 – June 30) from the date of provisional certification. During the period of provisional certification, the institution must

comply with any additional conditions included in its program participation agreement. If the Department of Education determines that a provisionally certified institution is unable to meet its responsibilities under its program participation agreement, it may seek to revoke or further condition the institution's certification to participate in Title IV programs with fewer due process protections for the institution than if it were fully certified. Should the Department of Education seek to revoke eligibility during the provisional period, the institution will have an opportunity to show cause why such revocation is not warranted and the Department of Education's decision to accept or reject such cause will constitute final agency action. Strayer University is operating under a provisional Program Participation Agreement through June 30, 2017, and the only material additional condition with which the University must comply as a result of this provisional certification is obtaining the Department of Education's approval for substantial changes, including the addition of any new location, level of academic offering, or non-degree and degree programs.

#### Administrative Capability

Department of Education regulations specify extensive criteria by which an institution must establish that it has the requisite administrative capability to participate in Title IV programs. To meet the administrative capability standards, an institution, among other things, must comply with all applicable Title IV program regulations, must not have cohort default rates above specified levels, must have various procedures in place for safeguarding federal funds, must not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension, must submit in a timely manner all reports and financial statements required by the regulations and must not otherwise appear to lack administrative capability.

#### Financial Responsibility

The Higher Education Act and Department of Education regulations establish extensive standards of financial responsibility that institutions such as Strayer University must satisfy in order to participate in Title IV programs. These standards generally require that an institution provide the services described in its official publications and statements, properly administer the Title IV programs in which it participates and meet all of its financial obligations, including required refunds and any repayments to the Department of Education for debts and liabilities incurred in programs administered by the Department of Education.

Department of Education standards utilize a complex formula to assess financial responsibility. The standards focus on three financial ratios: (1) equity ratio (which measures the institution's capital resources and ability to borrow); (2) primary reserve ratio (which measures the institution's financial viability and liquidity) and (3) net income ratio (which measures the institution's ability to operate at a profit or within its means). An institution's financial ratios must yield a composite score of at least 1.5 for the institution to be deemed financially responsible without alternative measures and further federal oversight. Strayer University has applied the financial responsibility standards to its financial statements as of and for the year ended December 31, 2015, and based on its composite score and other relevant factors, we believe that Strayer University meets the Department of Education's financial responsibility standards.

#### Student Loan Defaults

Under the Higher Education Act, an educational institution may lose its eligibility to participate in some or all of the Title IV programs if defaults on the repayment of Direct Loan or Federal Family Education Loan ("FFEL") Program loans by its students exceed certain levels. The Department of Education uses a specific methodology to determine default rates and imposes varying sanctions based upon the results of that calculation. As discussed below, the cohort default rate calculation and threshold for regulatory sanctions changed effective 2014 as a result of the reauthorization of the Higher Education Act through the Higher Education Opportunity Act ("HEOA"), which was effective August 18, 2008.

The Department of Education calculates a rate of student defaults (known as a cohort default rate) for each institution with 30 or more borrowers entering repayment in a given federal fiscal year. The Department of Education includes in the cohort all student borrowers at the institution who entered repayment on any Direct or FFEL Program loan during that year. The cohort default rate is the percentage of those borrowers who become subject to their repayment obligation in the relevant federal fiscal year and default by the end of the second federal fiscal year following that fiscal year, resulting in a three-year cohort default rate. Because of the need to collect data on defaults, the Department of Education publishes cohort default rates three years in arrears; for example, in the fall of 2015, the Department of Education issued cohort default rates for federal fiscal year 2012.



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The Department of Education may take adverse action against an institution if it has excessive cohort default rates, including the following:

- If an institution's cohort default rate is 30% or more in a given fiscal year, the institution will be required to assemble a "default prevention task force" and submit to the Department of Education a default improvement plan.
- If an institution's cohort default rate exceeds 30% for two consecutive years, the institution will be required to review, revise and resubmit its default improvement plan. The Department of Education may direct that the plan be amended to include actions, with measurable objectives, that it determines will promote loan repayment.
- If an institution's cohort default rate exceeds 30% for two out of three consecutive years, the Department of Education may subject the institution to provisional certification. The institution may file a timely appeal on specified grounds according to specified procedures, and if the Secretary of Education determines that the institution demonstrated a basis for relief, the Secretary may not subject the institution to provisional certification based solely on the institution's cohort default rate.
- If an institution's cohort default rate is equal to or greater than 30% for each of the three most recent federal fiscal years for which data are available, the institution will be ineligible to participate in the Direct Loan Program and Federal Pell Grant Program.

An institution generally loses eligibility to participate in Title IV programs if its most recent cohort default rate is greater than 40%, and institutions with a cohort default rate equal to or greater than 15% for any of the three most recent fiscal years for which data are available are subject to a 30-day delayed disbursement period for first-year, first-time undergraduate borrowers. Because its cohort default rate for 2010 was 15.1%, Strayer disburses Direct Loans in this manner.

Strayer's official three-year cohort default rates for 2010, 2011, and 2012, as well as the average official three-year cohort default rates for proprietary institutions nationally, were as follows:

	Strayer University	National Average Proprietary Institutions
2012	11.6%	15.8%
2011	14.9%	19.1%
2010	15.1%	21.8%

As part of its compliance program related to the cohort default rate, Strayer University provides entrance and exit counseling to its students and engages the services of a third party to counsel students once they are in repayment status regarding their repayment obligations.

### The 90/10 Rule

A requirement of the Higher Education Act, commonly referred to as the 90/10 Rule, applies only to proprietary institutions of higher education, which includes Strayer University. Under this rule, a proprietary institution is prohibited from deriving more than 90% of its revenues (as revenues are computed under the Department of Education's methodology) from Title IV funds on a cash accounting basis (except for certain institutional loans) for any fiscal year.

The 90/10 Rule is a compliance obligation that is part of an institution's program participation agreement with the Department of Education. A proprietary institution of higher education that violates the 90/10 Rule for any fiscal year will be placed on provisional status for up to two fiscal years. Proprietary institutions of higher education that violate the 90/10 Rule for two consecutive fiscal years will become ineligible to participate in Title IV programs for at least

two fiscal years and will be required to demonstrate compliance with Title IV eligibility and certification requirements for at least two fiscal years prior to resuming Title IV program participation. In addition, the Department of Education discloses on its website any proprietary institution of higher education that fails to meet the 90/10 requirement, and reports annually to Congress the relevant ratios for each proprietary institution of higher education.

HEOA changes in 2008 generally codified the regulatory formula for 90/10 rule calculations, but also expanded on the Department of Education's formula in certain respects, including by broadening the categories of funds that may be counted as non-Title IV revenue for 90/10 Rule purposes. The HEOA provisions were effective on August 14, 2008, and the Department of Education issued final regulations implementing the 90/10 Rule and certain

other HEOA provisions that were effective July 1, 2010, but institutions could have, at their discretion, implemented the 90/10 Rule regulations on or after November 1, 2009. These regulations clarify the treatment of certain types of revenue, and require institutions to report in their annual financial statement audits not only the percentage of revenues derived from Title IV funds during the fiscal year, but also the dollar amounts of the numerator and denominator of the 90/10 calculation and specified categories of revenue. The regulations also shorten from 90 to 45 days the time period within which institutions must notify the Secretary after the end of a fiscal year in which the institution failed to meet the 90/10 Rule requirement.

Using the HEOA formula, Strayer University derived approximately 73% of its cash-basis revenues from Title IV program funds in 2014. Our computation for 2015 has not yet been finalized and audited; however, we believe we will remain in compliance with the 90/10 Rule requirement.

The key components of non-Title IV revenue for Strayer University are individual student payments, employer tuition reimbursement payments, veterans' benefits, vocational rehabilitation funds, private loans, state grants, and scholarships. Certain members of Congress have proposed to revise the 90/10 Rule to count DOD tuition assistance and veterans' education benefits along with Title IV revenue toward the 90% limit and to reduce the limit to 85% of total revenue.

#### Incentive Compensation

As a part of an institution's program participation agreement with the Department of Education and in accordance with the Higher Education Act, the institution may not provide any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruitment, admissions or financial aid awarding activity. Failure to comply with the incentive payment rule could result in loss of certification to participate in federal student financial aid programs, limitations on participation in the federal student financial aid programs, or financial penalties.

Effective July 1, 2011, the Department of Education eliminated 12 "safe harbors" that had been established in 2002 to define circumstances under which an institution would not run afoul of the incentive payment prohibition. The final rules prohibit payments made "in any part," directly or indirectly, upon the success of securing enrollments or financial aid, apply to all employees at an institution who are engaged in or responsible for any student recruitment or admission activity, limit "profit-sharing payments," and set rules for third-party contracts. The Department of Education published Dear Colleague Letter GEN-11-05 interpreting this regulation. We believe we are in compliance with the regulation.

#### 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. The Department of Education previously attempted to define "an eligible program of training to prepare students for gainful employment in a recognized occupation." After a federal court invalidated the Department of Education's regulation (except for disclosure requirements), the Department of Education established a negotiated rulemaking committee to again consider the issue of gainful employment, and appointed Strayer University's then-General Counsel to serve on the committee. The Committee did not achieve the required consensus, allowing the Department of Education to put forth its own proposed rules. On March 25, 2014, the Department of Education issued a Notice of Proposed Rulemaking for public comment, and on October 31, 2014, the Department of Education published the final regulation which became effective on July 1, 2015.

The new requirements 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. Under the new gainful employment regulation, a program

would pass if the program's graduates:

- have an annual income rate ratio 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%, would be considered to be in a warning zone. A program would fail 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.

If an institution is notified by the Secretary 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 regulation also requires institutions to report student and program level data to the Department of Education, and comply with additional disclosure requirements beginning in January 2017. The University timely submitted the required reporting in July and September 2015. On October 9, 2015, the Department of Education notified the University that it was not in full compliance with reporting requirements for gainful employment programs and thus no decisions on new programs or locations will be issued. Although the University had timely reported all information for gainful employment programs, the Department did not recognize the submissions as complete due to erroneous academic program codes in the Common Origination and Disbursement system. The University has remediated the errors, and the Department of Education has acknowledged the University's submissions as complete.

In addition, the gainful employment regulation requires institutions to certify by December 31, 2015, 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, and 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 timely made the required certification.

The requirements associated with the gainful employment regulations may substantially increase our administrative burdens and could affect our 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 our academic programs may be affected by factors beyond management's control, such as changes in our graduates' employment and income levels, changes in student borrowing levels, increases in interest rates, and various other factors. Even if we 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 our institution.

#### Return of Federal Funds

Under the Higher Education Act's return-of-funds provision, an institution must return Title IV funds to a Title IV program in a timely manner if a student received funds from that program but did not earn them due to the student's withdrawal from the institution. In order to determine if funds should be returned, the institution must first determine the amount of Title IV program funds that the student earned. If the student attends the institution, but withdraws during the first 60% of any period of enrollment or payment period, the amount of Title IV program funds that the student earned is equal to a pro rata portion of the funds for which the student would otherwise be eligible. Strayer University uses the student's last day of attendance as the withdrawal date for purposes of return to Title IV. Effective July 1, 2011, institutions that use the last day of attendance are required to measure the last day of attendance based on official attendance records, and "attendance" for online classes must include participation in an academically related activity. Strayer University's systems allow for measurement on this basis. If the student withdraws after the 60% point, then the student has earned 100% of the Title IV program funds. The institution must return to the appropriate Title IV programs, in a specified order, the lesser of the unearned Title IV program funds or the institutional charges incurred by the student for the period multiplied by the percentage of unearned Title IV program funds. An institution

must return the funds no later than 45 days after the date that the institution determines that a student withdrew.

If the funds are not returned in a timely manner, an institution may be subject to adverse action, including being required to submit a letter of credit equal to 25% of the refunds the institution should have made in its most recently completed fiscal year. Under Department of Education regulations, if late returns of Title IV program funds

constitute 5% or more of students sampled in the institution's annual compliance audit for either of its two most recently completed fiscal years, an institution generally must submit an irrevocable letter of credit payable to the Secretary of Education.

#### Third-Party Servicers

Department of Education regulations permit an institution to enter into a written contract with a third-party servicer for the administration of any aspect of the institution's participation in Title IV programs. The third-party servicer must, among other obligations, comply with Title IV requirements and be jointly and severally liable with the institution to the Secretary of Education for any violation by the servicer of any Title IV provision. An institution must report to the Department of Education new contracts or any significant modifications to contracts with third-party servicers as well as other matters related to third-party servicers. Strayer University has written contracts with third-party servicers to perform activities related to Strayer University's participation in Title IV programs. Strayer University also has a contract with Heartland Payment Systems, Inc. for processing stipends due to students. For loan default prevention, Strayer University had contracted with General Revenue Corporation through February 2015, and with i3 Group, LLC for the remainder of 2015. Prior to September 30, 2011, Strayer University utilized Global Financial Aid Services, Inc., for services including certifying Title IV loan applications, preparing reports from Strayer University to the Department of Education, and issuing federal grant program payments. The University's agreement with Global Financial Aid Services expired on September 30, 2011, at which point Strayer University in-sourced its financial aid processing.

#### Lender Relationships

As part of an institution's program participation agreement with the Department of Education, the institution must adopt a code of conduct pertaining to student loans. Strayer University has a code of conduct that it believes complies with the provisions of HEOA in all material respects. In addition to the code of conduct requirements that apply to institutions, HEOA contains provisions that apply to lenders, prohibiting lenders from engaging in certain activities as they interact with institutions.

Prior to the termination of the FFEL Program on June 30, 2010, Strayer University was subject to rules applicable to institutions that make available a list of recommended or suggested federal loan lenders for use by potential borrowers. Strayer University remains subject to those rules with respect to private education loans.

#### Restrictions on Adding Locations and Educational Programs

State requirements and accrediting agency standards limit the ability of Strayer University to establish additional locations and programs. Most states require approval before institutions can add new programs, campuses or teaching locations. Middle States requires institutions that it accredits to notify it in advance of implementing new programs or locations, which may require additional approval. At its discretion, Middle States may also conduct site visits to additional locations to ensure that accredited institutions that experience rapid growth in the number of additional locations, among other reasons, maintain educational quality. All new Strayer University campus locations require Middle States approval before students are enrolled, and the Higher Education Act requires Middle States to monitor institutions with significant enrollment growth. In addition, under Strayer University's provisional certification, the Department of Education must approve any new campus location, level of academic offering and non-degree and degree programs.

The Higher Education Act requires proprietary institutions of higher education to be in full operation for two years before qualifying to participate in Title IV programs. However, the applicable regulations in many circumstances permit an institution that is already qualified to participate in Title IV programs to establish additional locations that are exempt from the two-year rule. These additional locations generally may qualify immediately for participation in the Title IV programs, unless the location was acquired from another institution that has ceased offering educational

programs at that location and has Title IV liabilities that it is not repaying in accordance with an agreement to do so, and the acquiring institution does not agree, among other matters, to be responsible for certain liabilities of the acquired institution. The new location must satisfy all other applicable requirements for institutional eligibility, including approval of the additional location by the relevant state authorizing agency and the institution's accrediting agency. Strayer University's expansion plans assume its continued ability to establish new campuses as additional locations of Strayer University under such applicable regulations and thereby to avoid incurring the two-year delay in participation in Title IV programs. The loss of state authorization or accreditation of Strayer University or an existing campus, or the failure of Strayer University or a new campus to obtain state authorization



or accreditation, would render Strayer University ineligible to participate in Title IV programs at least in that state or at that location. Department of Education regulations require institutions to report to the Department of Education a new additional location at which at least 50% of an eligible program will be offered, if the institution wants to disburse Title IV program funds to students enrolled at that location. Under its provisional Program Participation Agreement with the Department of Education, Strayer University must obtain Department of Education approval for the addition of any new location. Institutions are responsible for knowing whether they need approval, and institutions that add locations and disburse Title IV program funds without having obtained any necessary approval may be subject to administrative repayments and other sanctions.

The gainful employment regulation that became effective July 1, 2015 provides that an institution may establish a new program's Title IV eligibility by updating the list of the institution's programs maintained by the Department of Education, and thereby making the certification required by the regulation. However, an institution may not update its list of eligible programs to include a gainful employment program, or a gainful employment program that is substantially similar to a failing or zone program that the institution voluntarily discontinued or became ineligible, that was subject to the three-year loss of eligibility until that three-year period expires.

#### Other Regulations Governing Title IV Programs

The Department of Education has enacted a comprehensive set of regulations governing an institution's participation in the Title IV programs. If Strayer University were not to continue to comply with these regulations, such non-compliance might affect the operations of the University and its ability to participate in Title IV programs.

#### Compliance Reviews

Strayer University is subject to announced and unannounced compliance reviews and audits by various external agencies, including the Department of Education, its Office of Inspector General, state licensing agencies, guaranty agencies, and accrediting agencies. The Higher Education Act and Department of Education regulations also require an institution to submit annually to the Secretary of Education a compliance audit of its administration of the Title IV programs conducted by an independent certified public accountant in accordance with Government Auditing Standards and applicable audit guides of the Department of Education's Office of Inspector General. In addition, to enable the Secretary of Education to make a determination of financial responsibility, an institution must submit annually to the Secretary of Education audited financial statements prepared in accordance with Department of Education regulations.

In an August 2010 letter to members of the Senate Health, Education, Labor and Pensions (HELP) Committee, the Secretary of Education announced plans to increase the number of program reviews by 50%, from 200 conducted in 2010 to 300 in 2011. The Department of Education conducted four campus-based program reviews of Strayer University locations 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. The reviews covered federal financial aid years 2012-2013 and 2013-2014, and two of the reviews also covered compliance with the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act, the Drug-Free Schools and Communities Act, and regulations related thereto. On October 21, 2014, the Department 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 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 the program review was closed and no further action was required.

### Potential Effect of Regulatory Violations

If Strayer University fails to comply with the regulatory standards governing Title IV programs, the Department of Education could impose one or more sanctions, including transferring Strayer University from the advance payment method to the reimbursement or cash monitoring system of payment, seeking to require repayment of certain Title IV funds, requiring the University to post a letter of credit in favor of the Department of Education as a condition for continued Title IV certification, taking emergency action against the University, referring the matter for criminal prosecution or initiating proceedings to impose a fine or to limit, condition, suspend or terminate Strayer University's participation in Title IV programs. Although there are no such sanctions currently in force, if such sanctions or proceedings were imposed against Strayer University and resulted in a substantial curtailment, or termination, of the University's participation in Title IV programs or resulted in substantial fines or monetary liabilities, Strayer University would be materially and adversely affected.

If Strayer University lost its eligibility to participate in Title IV programs, or if Congress reduced the amount of available federal student financial aid, the University would seek to arrange or provide alternative sources of revenue or financial aid for students. Although the University believes that one or more private organizations would be willing to provide financial assistance to students attending Strayer University, there is no assurance that this would be the case, and the interest rate and other terms of such student financial aid are unlikely to be as favorable as those for Title IV program funds. Strayer University might be required to guarantee all or part of such alternative assistance in a manner that complies with rules governing schools' relationships with lenders or might incur other additional costs in connection with securing alternative sources of financial aid. Accordingly, the loss of eligibility of Strayer University to participate in Title IV programs, or a reduction in the amount of available federal student financial aid, would be expected to have a material adverse effect on Strayer University, even if it could arrange or provide alternative sources of revenue or student financial aid.

In addition to the actions that may be brought against us as a result of our participation in Title IV programs, we also may be subject, from time to time, to complaints and lawsuits relating to regulatory compliance brought not only by our regulatory agencies, but also by other government agencies and third parties.

### Change in Ownership Resulting in a Change of Control

Many states and accrediting agencies require institutions of higher education to report or obtain approval of certain changes in ownership or other aspects of institutional status, but the types of and triggers for such reporting or approval vary among states and accrediting agencies. In addition, Strayer University's accrediting agency, Middle States, requires institutions that it accredits to inform it in advance of any substantive change, including a change that significantly alters the ownership or control of the institution. Examples of substantive changes requiring advance notice to and approval of Middle States include changes in the legal status, ownership or form of control of the institution, such as the sale of a proprietary institution. Middle States must approve a substantive change in advance in order to include the change in the institution's accreditation status. Middle States will undertake a site visit to an institution that has undergone a change in ownership or control no later than six months after the change.

The Higher Education Act provides that an institution that undergoes a change in ownership resulting in a change of control loses its eligibility to participate in the Title IV programs and must apply to the Department of Education in order to reestablish such eligibility. An institution is ineligible to receive Title IV program funds during the period prior to recertification. The Higher Education Act provides that the Department of Education may temporarily, provisionally certify an institution seeking approval of a change of ownership and control based on preliminary review by the Department of Education of a materially complete application received by the Department of Education within 10 business days after the transaction. The Department of Education may continue such temporary, provisional certification on a month-to-month basis until it has rendered a final decision on the institution's application. If the Department of Education determines to approve the application after a change in ownership and control, it issues a provisional certification, which extends for a period expiring not later than the end of the third complete award year

following the date of provisional certification. The Higher Education Act defines one of the events that would trigger a change in ownership resulting in a change of control as the transfer of the controlling interest of the stock of the institution or its parent corporation. For a publicly traded corporation, the securities of which are required to be registered under the Exchange Act, such as Strayer, the Department of Education regulations implementing the Higher Education Act define a change in ownership resulting in a change of control as occurring when a person acquires ownership and control of a corporation such that the corporation is required to file a Form 8-K with the Securities and Exchange Commission (SEC) publicly disclosing the change of

control. The regulations also provide that a change in ownership and control of a publicly traded corporation occurs if a person who is a controlling stockholder of the corporation ceases to be a controlling stockholder. A controlling stockholder is a stockholder who holds or controls through agreement both 25% or more of the total outstanding voting stock of the corporation and more shares of voting stock than any other stockholder.

The U.S. Department of Homeland Security, working with the U.S. Department of State, has implemented a mandatory electronic reporting system for schools that enroll foreign students and exchange visitors. Strayer University currently is authorized by the U.S. Department of Homeland Security to admit foreign students for study in the United States subject to applicable requirements. In certain circumstances, the Department of Homeland Security may require an institution to obtain approval for a change in ownership and control.

Pursuant to federal law providing benefits for veterans and reservists, some of the programs offered by Strayer University are approved for the enrollment of persons eligible to receive U.S. Department of Veterans Affairs educational benefits by the state approving agencies. In 2015, we had such approval in Alabama, Arkansas, Delaware, Florida, Georgia, Louisiana, Maryland, Mississippi, New Jersey, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, West Virginia, Wisconsin, and Washington, D.C. In certain circumstances, state approving agencies may require an institution to obtain approval for a change in ownership and control.

If Strayer University underwent a change of control that required approval by any state authority, Middle States or any federal agency, and any required regulatory approval were significantly delayed, limited or denied, there could be a material adverse effect on Strayer University's ability to offer certain educational programs, award certain degrees, diplomas or certificates, operate one or more of its locations, admit certain students or participate in Title IV programs, which in turn would materially and adversely affect Strayer University's operations. A change that required approval by a state regulatory authority, Middle States or a federal agency could also delay Strayer University's ability to establish new campuses or educational programs and may have other adverse regulatory effects. Furthermore, the suspension from Title IV programs and the necessity of obtaining regulatory approvals in connection with a change of control may materially limit Strayer University's flexibility in future financing or acquisition transactions.

#### Recent or Pending Legislative and Regulatory Activity

Congress has been considering legislation that would make further changes in the Higher Education Act and other education-related federal laws. Congressional activity may adversely affect enrollment in for-profit educational institutions. We cannot predict the impact, if any, of these recent or pending legislative changes on our long-term business model, or whether future congresses will consider similar legislation, although uncertainty associated with Congressional activity has had a negative impact on the industry as a whole.

As discussed more fully above, the Department of Education recently issued a final regulation on gainful employment, which became effective on July 1, 2015. This regulation establishes debt-to-earnings metrics that a Title IV eligible program must pass in order to maintain eligibility. A program failing both debt-to-earnings metrics in two out of three consecutive years, or failing or in a warning zone for four consecutive years, would be deemed ineligible to receive Title IV funds for a period of three years.

#### Congress

Congress historically has reauthorized the Higher Education Act ("HEA"), which is the law governing Title IV programs, approximately every five to six years. On July 31, 2008, Congress reauthorized the HEA through the end of 2013, by passing the HEOA, which President Bush signed into law on August 14, 2008. The HEOA provisions became effective upon enactment, unless otherwise specified in the law. HEOA includes numerous new and revised requirements for higher education institutions. In October 2009, the Department of Education published final regulations to implement HEOA changes to Title IV of the Higher Education Act. Those regulations were effective July 1, 2010. Congress extended funding for Title IV through September 30, 2016, through the Consolidated and

Further Continuing Appropriations Act, 2015. Both the House and Senate have continued to hold hearings regarding the reauthorization of the HEA. We cannot predict what the final reauthorization will, or will not do, or when or how it will be enacted, or its effects on Strayer University.

In addition to HEOA, three other laws to amend and reauthorize aspects of the Higher Education Act have been enacted over the last few years. In February 2006, President Bush signed the Deficit Reduction Act of 2005, which included the Higher Education Reconciliation Act of 2005, or HERA. Among other measures, HERA

reauthorized the Higher Education Act with respect to the federal guaranteed student loan programs. In September 2007, President Bush signed the College Cost Reduction and Access Act, which increased benefits to students under the Title IV programs and reduced payments to and raised costs for lenders that participate in the federal student loan programs. In May 2008, President Bush signed the Ensuring Continued Access to Student Loans Act of 2008, or ECASLA, which was designed to facilitate student loan availability and to increase student access to federal financial aid in light of then-current market conditions. Congress extended ECASLA for an additional year, to June 30, 2010. In March 2010, Congress passed the Student Aid and Fiscal Responsibility Act of 2009, which eliminated the FFEL Program and required all institutions participating in Title IV programs to convert exclusively to the Direct Loan Program by July 1, 2010.

The Consumer Financial Protection Bureau (“CFPB”) submitted two reports to Congress in 2012 with specific recommendations for restructuring the student borrowing experience, including requiring institutions to certify that a student is not eligible for any further federal funds before a private loan may be issued to such student. On October 16, 2014, the CFPB Student Loan Ombudsman released its third annual report analyzing more than 5,300 complaints the CFPB received from private student loan borrowers between October 1, 2013 and September 30, 2014. The report stated that, as Congress considers HEA reauthorization, it may be useful to assess whether certain reforms related to the servicing of credit cards and mortgages might also strengthen loan servicing. We do not know what steps the CFPB or Congress may take in response to these actions and whether such actions (if any) will have an adverse effect on our business or results of operations.

On August 9, 2013, the Bipartisan Student Loan Certainty Act became law. Under the Act, interest rates on all Direct loans to undergraduates are pegged to the 10-year T-bill rate plus 2.05%, with a cap at 8.25%. Interest rates on Direct loans to post-graduate students will be at the T-bill rate plus 3.6%, with a cap at 9.5%. Interest rates on Direct PLUS loans are set at the T-bill rate plus 4.6%, with a cap at 10.5%. Direct consolidation loan rates will be a weighted average of the interest rates of the consolidated loans rounded to the nearest 1/8th of 1%. Interest rates would be reset every July 1st and effective for loans taken out from July 1st to June 30th of the next year. Those interest rates would be effective for the life of the loan.

On December 19, 2013, Senator Jack Reed (D-RI) introduced legislation in the Senate that would create a risk sharing program for those institutions with more than 25% of its students participating in a student loan program. Institutions in the program would be assessed between 5 and 20 percent of the amount students owe on their loans, depending on the degree to which the institution’s cohort default rate exceeded 15%. Senator Reed again introduced such legislation in the Senate on April 4, 2015. Similar legislation was introduced in the House in September 2014 and May 2015. The POST Act of 2013, introduced in the Senate by Senator Richard Durbin (D-IL) and in the House by Representative Steve Cohen (D-TN), would require proprietary institutions to derive at least 15% of their revenue from non-federal funding sources, and federal funding sources would be redefined to include funds from the Department of Defense and Department of Veterans Affairs except any housing stipend provided under the Post-9/11 Veterans Assistance Education Program. The POST Act of 2015 was reintroduced in the Senate on November 10, 2015 and in the House on November 19, 2015. We cannot predict whether these or similar bills, and others affecting our business, will be reintroduced in the 114th Congress and will pass or what, if any, impact they would have on our business.

#### Appropriations

Congress reviews and determines appropriations for Title IV programs on an annual basis. An elimination of certain Title IV programs, a reduction in federal funding levels of such programs, material changes in the requirements for participation in such programs, or the substitution of materially different programs could reduce the ability of certain students to finance their education. This, in turn, could lead to lower enrollments at Strayer University or require us to increase our reliance upon alternative sources of student financial aid. Given the significant percentage of our revenues that are derived indirectly from the Title IV programs, the loss of or a significant reduction in Title IV program funds available to our students could have a material adverse effect on Strayer University.

Senate Health, Education, Labor and Pensions (HELP) Committee

In 2010, the U.S. Congress increased its focus on proprietary education institutions, including regarding participation in Title IV programs and DOD oversight of tuition assistance for military service members. Since June 2010, the Senate HELP Committee, formerly led by Senator Harkin, has held hearings to examine the proprietary education sector. Other committees of the U.S. Congress have also held hearings into, among other



things, the standards and procedures of accrediting agencies, credit hours and program length, the portion of federal student financial aid going to proprietary institutions, and the receipt of veterans and military education benefits by students enrolled at proprietary institutions. Strayer University has cooperated with these inquiries. A number of legislators have variously requested the Government Accountability Office (GAO) to review and make recommendations regarding, among other things, recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in Title IV programs, and the percentage of proprietary institutions' revenue coming from Title IV and other federal funding sources. The GAO released four reports on for-profit post-secondary education: first, a report in August 2010 (subsequently revised in November 2010) that concluded, based on a three-month undercover investigation, that employees at a non-random sample of 15 proprietary institutions (not including Strayer University) made deceptive statements to students about accreditation, graduation rates, job placement, program costs, and financial aid; second, a report in October 2010 critical of the Department of Education's efforts to enforce the ban on incentive payments; third, a report in October 2011 critical of the student experience and instructor performance at some for-profit online institutions; and fourth, a report in December 2011 comparing various student outcomes across proprietary, non-profit, and public institutions.

On July 30, 2012, the then-majority of the Senate HELP Committee, led by Democrats, released its final report on the for-profit sector of higher education entitled "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success." While acknowledging that for-profit institutions have a role to play in higher education, the report criticized the proprietary institution industry on many fronts. However, the report also concluded that Strayer University's "performance, measured by student withdrawal and default rates, is one of the best of any company examined, and it appears that students are faring well at this degree based for-profit college." S. Rept. 112-37. The report ultimately recommended several measures for reform which could change the participation of proprietary institutions in Title IV funding, including the following:

- Tie access to federal financial aid to minimum student outcome thresholds.
- Prohibit institutions from funding marketing, advertising and recruiting activities with federal financial aid dollars.
- Expand the reporting period for cohort default rates beyond three years.
- Require that for-profits receive 15% of revenues from non-federal sources.
- Extend the ban on incentive compensation to include all employees of institutions of higher education, and clarify that this ban extends to numeric threshold or quota-based termination policies.

The report was not adopted by the full Committee, and the Republican minority released their own report criticizing the majority's investigation in many aspects, including that it did not include a review of all institutions of higher education. In addition, on July 30, 2014, the then-majority of the Committee released a report entitled "Is the New G.I. Bill Working?: For-Profit Colleges Increasing Veteran Enrollment and Federal Funds," detailing the amount of Post-9/11 GI Bill Benefits paid to for-profit colleges, including Strayer, and recommending that the 90/10 rule be "strengthened." The report states that at least four companies, including Strayer, "appear to be receiving close to or more than half of their reported non-federal financial aid revenue on the 10 side of the equation from Post-9/11 GI bill benefit funds." Of the top ten proprietary institutions mentioned receiving such funds, Strayer University was noted as receiving one of the lowest amounts of Post-9/11 GI Bill funds.

On September 21, 2012, a group of Democratic senators wrote a letter to the Federal Trade Commission urging it to evaluate the marketing practices utilized by many proprietary institutions through the use of third-party lead generators. In addition, legislation was introduced in the Senate by then Senator Harkin in April 2012, which would prevent institutions from using Title IV funds for marketing activities. Similar legislation may be introduced in the 114th Congress.

This increased congressional activity is expected to continue and may result in legislation, further rulemaking affecting participation in Title IV programs, and other governmental actions.

U.S. Department of Education

Title IV regulations applicable to Strayer University have been subject to frequent revisions, many of which have increased the level of scrutiny to which higher education institutions are subjected and have raised applicable standards. In October 2009, the Department of Education published final regulations to implement

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the HEOA's numerous new and revised requirements for higher education institutions. These regulations were effective July 1, 2010. On October 29, 2010, the Department of Education published final regulations regarding program integrity at higher education institutions (Program Integrity Regulations), most of which became effective July 1, 2011. On November 25, 2014, the Department of Education issued a Notice of Proposed Rulemaking related to teacher preparation programs which would, among other things, encourage states to develop systems to identify high- and low-performing teacher preparation programs and report annually on the performance of such programs. On August 20, 2015, the Department of Education initiated a new negotiated rulemaking process to develop proposed regulations for determining which acts or omissions of an institution a borrower may assert as a defense to repayment of a loan made under the Direct Loan Program and the consequences of such borrower defenses for borrowers, institutions, and the Secretary of Education. The negotiations began in January 2016. On October 30, 2015, the Department of Education published final regulations amending the Department's cash management regulations and rules related to repeat coursework. On October 30, 2015, the Department of Education also published final regulations creating a new income-contingent repayment plan and implementing changes to streamline and enhance existing processes for borrowers.

On February 8, 2016, the Department of Education announced the creation of a Student Aid Enforcement Unit to enable the Department to respond more quickly and efficiently to allegations of illegal actions by higher education institutions. The Enforcement Unit will consist of four divisions, including an Investigations Group, a Borrower Defense Group, an Administrative Actions and Appeals Service Group, and a Clery Group. The creation of the Enforcement Unit is designed to ensure that the Department can support more reviews of high-risk institutions, respond to concerns raised by states' and other federal agencies' investigations, and respond to complaints and claims for loan forgiveness by students.

Strayer 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, or Clery Act, including recent changes made to the Clery Act by the Violence Against Women Reauthorization Act of 2013, which was signed into law on March 7, 2013. On April 1, 2014, a negotiated rulemaking committee reached consensus on proposed regulations, and on October 20, 2014, the Department of Education promulgated final regulations implementing the recent amendments to the Clery Act. In addition, the Department of Education has interpreted Title IX of the Education Amendments of 1972 ("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. Failure to comply with Clery Act or Title IX requirements or regulations thereunder could result in action by the Department of Education to require corrective action, fine the University or limit or suspend its participation in Title IV programs, could lead to litigation, and could harm the University's reputation.

#### State Licensure

Under the Program Integrity Regulations regarding state licensure, a proprietary institution is considered legally authorized by a state if the state has a process to review and appropriately act on complaints concerning the institution, including enforcing applicable state laws, and the institution complies with certain state approval or licensure requirements consistent with the Program Integrity Regulations. These requirements became effective July 1, 2011, but the Department of Education issued a series of extensions of the implementation date provided certain conditions were met, the last of which expired on June 30, 2015. As of July 1, 2015, these requirements are fully operative.

On October 29, 2010, the Department of Education adopted new regulations, which were to be effective July 1, 2011, regarding state authorization of online programs. The revised rules specified that if an institution offers post-secondary education through distance or correspondence education to students in a state in which it is not physically located or in which it is otherwise subject to state jurisdiction as determined by the state, the institution must meet any state requirements for it to be legally offering post-secondary distance or correspondence education in that state. On June 5, 2012, the Court of Appeals upheld a lower court's ruling vacating the state authorization of online programs requirement. On July 27, 2012, the Department of Education issued a Dear Colleague Letter

cautioning education institutions to remain in compliance with all applicable state laws and regulations related to distance education. In April 2013, the Department of Education announced that it would add state authorization of distance education to a negotiated rulemaking previously initiated in May 2012. While four negotiated rulemaking sessions were conducted from February through May 2014, no consensus was reached. To date, the Department of Education has not issued a proposed rulemaking on this issue.

The Program Integrity Regulations also amended the general provisions regarding student consumer information. Under this revision, the institution must make available for review to any enrolled or prospective student upon request, a copy of the documents describing the institution's accreditation and its state, federal, or tribal approval or licensing. The institution must also provide its students or prospective students with contact information for filing complaints with its accreditor and with its state approval or licensing entity and any other relevant state official or agency that would appropriately handle a student's complaint.

We are authorized to offer our programs by the applicable educational regulatory agencies in all states where our physical campuses and online delivery facilities are located, and these states have the applicable complaint processes in place as required by the regulations.

#### Incentive Compensation

Institutions participating in the Title IV programs may not pay any commission, bonus, or other incentive payment based directly or indirectly on securing enrollments or financial aid to personnel engaged in recruitment or admissions or making decisions about awarding Title IV aid. Previously, there were 12 "safe harbors" relating to payment and compensation plans that institutions may practice without fear of violating the prohibition. The Program Integrity Regulations removed the safe harbors when they became effective on July 1, 2011. In June 2015, the Department of Education announced in a memorandum that it will revise its approach to measuring damages for noncompliance with the incentive payment prohibition. The Department of Education will calculate the amount of institutional liability based on the cost to the Department of the Title IV funds improperly received by the institution, including the cost to the Department of all Title IV funds received by the institution over a period of time if those funds were obtained through implementation of a policy or practice in which students were recruited in violation of the incentive payment prohibition.

The regulations prohibit incentive compensation to employees engaged in any student recruitment or admission activity or in making decisions regarding the award of Title IV funds that is based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid. Merit-based adjustments to employee compensation may be made if they are not based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid. Profit-sharing payments may be made as long as they are not provided to any person who is engaged in student recruitment or admission activity or in making decisions regarding the award of Title IV funds. The regulations also obligate a third-party servicer to refer to the Office of Inspector General of the Department of Education any information indicating payment of any commission, bonus, or other incentive payment based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid to any person or entity engaged in any student recruitment or admission activity or in making decisions regarding the award of Title IV funds.

#### Misrepresentation

Under the Higher Education Act, the Department of Education may fine, suspend or terminate the participation in Title IV programs by an institution that engages in substantial misrepresentation of the nature of its educational program, its financial charges, or the employability of its graduates. The Program Integrity Regulations set forth the types of activities that constitute misrepresentation and describe the adverse actions that the Department of Education may take if it finds that an institution or a third party that provides educational programs, marketing, advertising, recruiting or admissions services to the institution engaged in substantial misrepresentation. The new rule specifies the types of statements that can subject the institution to liability for misrepresentation, the nature and form of misleading statements, and provides that an institution may not describe the eligible institution's participation in Title IV programs in a manner that suggests approval or endorsement by the U.S. Department of Education of the quality of its educational programs. On June 5, 2012, the U.S. Court of Appeals for the District of Columbia Circuit held that the Department of Education's expansion of the definition of misrepresentation to include "any statement that has the likelihood or tendency to deceive or confuse" was unsupported by law, and thus vacated that portion of the regulation.

In response to the court's ruling, on September 20, 2013, the Department of Education published technical amendments to the regulation.

## Gainful Employment Reporting and Disclosure

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. The Program Integrity Regulations established new annual reporting requirements that are applicable to these programs. For each such program, Strayer University reported specific information regarding the program, the students enrolled in the program, and students who completed the program, including the amount the student received from private educational loans and institutional financing plans. In addition, the Program Integrity Regulations require institutions with gainful employment programs to disclose to prospective students certain information relating to those programs, including the occupations that the program prepares students to enter; the on-time graduation rate; tuition, fees, and costs; job placement rates, if applicable; and median loan debt of students who completed the program. Strayer University makes such disclosures on its website and in promotional materials. The June 30, 2012 U.S. District Court for the District of Columbia decision related to Gainful Employment vacated the reporting requirements, but the disclosure requirements remain in effect. The Department of Education required institutions to make the first disclosures by July 1, 2011 to update the disclosures for the 2011-2012 award year by January 31, 2013, and to update the disclosures for the 2012-2013 award year, using a newly developed template released by the Department of Education in November 2013 by January 31, 2014, which was subsequently updated in September 2014. We made our first disclosures in 2011, and completed timely updates of the disclosures for the 2011-2012, 2012-2013, and 2013-2014 years.

The new gainful employment regulations, which became effective on July 1, 2015, re-established reporting requirements previously invalidated by the U.S. District Court, with the first reporting required by July 31, 2015 of information related to the previous second through seventh award years. In addition, institutions will be required every year thereafter to report certain student and program level information to the Department of Education every subsequent year for the most recently concluded award year. In addition, the new regulation will sunset the current program disclosures on December 31, 2016, with new disclosures required, as determined by subsequent releases to be published by the Department of Education in the Federal Register, starting in January 2017.

## New Programs

The new gainful employment regulation that became effective July 1, 2015 provides that an institution may establish a new program's Title IV eligibility by updating the list of the institution's programs maintained by the Department of Education. However, an institution may not update its list of eligible programs to include a gainful employment program, or a gainful employment program that is substantially similar to a failing or zone program that the institution voluntarily discontinued or became ineligible, that was subject to the three-year loss of eligibility until that three-year period expires.

## Administration of Financial Aid

Several of the Program Integrity Regulations relate to the administration of financial aid, including the areas of the definition of online attendance, definition of credit hours, measuring satisfactory academic progress, return of federal funds when a student withdraws, verification and disbursement.

## College Affordability and Transparency Lists

The Department of Education publishes on its website lists of the top 5% of institutions, in each of nine categories, with (1) the highest tuition and fees for the most recent academic year, (2) the highest "net price" for the most recent academic year, (3) the largest percentage increase in tuition and fees for the most recent three academic years, and (4) the largest percentage increase in net price for the most recent three academic years. An institution that is placed on a list for high percentage increases in either tuition and fees or in net price must submit a report to the Department of Education explaining the increases and the steps that it intends to take to reduce costs. The Department of Education

will report annually to Congress on these institutions and will publish their reports on its website. The Department of Education also posts lists of the top 10% of institutions in each of the nine categories with lowest tuition and fees or the lowest net price for the most recent academic year. Under HEOA, net price means average yearly price actually charged to first-time, full-time undergraduate students who receive student aid at a higher education institution after such aid is deducted.



## College Scorecard

On December 19, 2014, the Department of Education issued a framework for a college ratings system, which was to include predominantly four-year and two-year institutions. On June 25, 2015, the Department of Education stated that in lieu of the previously announced college ratings system, it would instead create a consumer-driven website that will allow users to compare colleges based on measures that may be of importance to them. In September 2015, the Department of Education publicly released its “College Scorecard” website. Among other characteristics, the College Scorecard allows users to search for schools based upon programs offered, location, size, tax status, mission, and religious affiliation.

## Executive Order on Military and Veterans Benefits Programs

In April 2012, President Obama issued an Executive Order directing the Departments of Defense and Veterans Affairs, along with other Executive Branch agencies, to implement actions to establish “Principles of Excellence” to apply to educational institutions receiving funding from Federal military and veterans educational benefits programs, including benefits programs provided by the Post-9/11 GI Bill and the tuition assistance program. The Principles of Excellence relate broadly to information regarding tuition and fees, academic quality, marketing, and state authorization requirements. The Principles of Excellence require federal agencies to create a centralized complaint system for students receiving federal military and veterans’ educational benefits to register complaints that relevant agencies can track and address. On January 30, 2014, the Department of Defense, Department of Veterans Affairs, Department of Education, and Federal Trade Commission, in collaboration with the CFPB and the U.S. Department of Justice, announced a new online student complaint system for service members, veterans, and their families to report negative experiences at education institutions and training programs administering the Post-9/11 GI Bill, Department of Defense tuition assistance programs, and other military-related education benefit programs.

## Credit Hours

In 2009, the Department of Education’s Office of Inspector General criticized three accreditors, including Middle States, for deficiency in their oversight of institutions’ credit hour allocations. In June 2010, the House Education and Labor Committee held a hearing concerning accrediting agencies’ standards for assessing institutions’ credit hour policies. The Program Integrity Regulations define the term “credit hour” for the first time and require accrediting agencies and/or state authorization agencies to review the reliability and accuracy of an institution’s credit hour assignments. If an accreditor does not comply with this requirement, its recognition by the Department of Education could be jeopardized. If an accreditor identifies systematic or significant noncompliance in one or more of an institution’s programs, the accreditor must notify the Secretary of Education. If the Department of Education determines that an institution is out of compliance with the credit hour definition, the Department of Education could impose liabilities or other sanctions.

## Additional Information

We maintain a website at [www.strayereducation.com](http://www.strayereducation.com). The information on our website is not incorporated by reference in this Annual Report on Form 10-K and our web address is included as an inactive textual reference only. We make available on 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 Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

The Form 10-K and other reports filed with the SEC can be read or copied at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC; the website address is [www.sec.gov](http://www.sec.gov).



Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this Annual Report on Form 10-K or in the documents incorporated by reference herein before making an investment decision. The occurrence of any of the following risks could materially harm 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. Additional risks not presently known to us or that we currently deem immaterial may also materially harm our business and operations. See “Cautionary Notice Regarding Forward-Looking Statements.”

Risks Related to Extensive Regulation of Our Business

If we fail to comply with the extensive regulatory requirements for our business, we could face significant monetary liabilities, fines and penalties, including loss of access to federal student loans and grants for our students.

As a provider of higher education, we are subject to extensive regulation on both the federal and state levels. In particular, the Higher Education Act and related regulations subject Strayer University and all other higher education institutions that participate in the various Title IV programs to significant regulatory scrutiny.

The Higher Education Act mandates specific regulatory responsibilities for each of the following components of the higher education regulatory triad: (1) the federal government through the Department of Education; (2) the accrediting agencies recognized by the U.S. Secretary of Education (Secretary of Education); and (3) state education regulatory bodies. In addition, other federal agencies such as the Consumer Financial Protection Bureau and Federal Trade Commission, and various state agencies and state Attorneys General enforce consumer protection laws applicable to post-secondary educational institutions.

The regulations, standards and policies of these regulatory agencies frequently change, and changes in, or new interpretations of, applicable laws, regulations, standards or policies could have a material adverse effect on our accreditation, authorization to operate in various states, permissible activities, receipt of funds under Title IV programs or costs of doing business.

Title IV requirements are enforced by the Department of Education and in some instances by private plaintiffs. If we are found to be in noncompliance with these laws, regulations, standards or policies, we could lose our access to Title IV program funds, which would have a material adverse effect on our business. Findings of noncompliance also could result in our being required to pay monetary damages, or being subjected to fines, penalties, injunctions, restrictions on our access to Title IV program funds or other censure that could have a material adverse effect on our business.

Our failure to comply with the Department of Education’s gainful employment regulations could result in heightened disclosure requirements and loss of Title IV eligibility.

To be eligible for Title IV funding, academic programs offered by proprietary institutions of higher education must prepare students for gainful employment in a recognized occupation. After a federal court invalidated the previously adopted gainful employment regulations, the Department of Education convened a negotiated rulemaking to propose new regulations related to gainful employment, which negotiations did not yield the required consensus. On March 25, 2014, the Department of Education published a Notice of Proposed Rulemaking for public comment, and on October 31, 2014, the Department of Education published the final regulation, effective July 1, 2015. The new requirements 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. Under the new regulation, a program would pass 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%, would be considered to be in a warning zone. A program would fail 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 of Education's calculation of any of the debt metrics prior to loss of Title IV eligibility.

The requirements associated with the gainful employment regulations may substantially increase our administrative burdens and could affect our 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 our academic programs will be affected by factors beyond management's control such as changes in our graduates' employment and income levels, changes in student borrowing levels, increases in interest rates, and various other factors. Even if we 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 our institution.

Congressional examination of for-profit post-secondary education could lead to legislation or other governmental action that may negatively affect the industry.

In 2010, the U.S. Congress increased its focus on for-profit higher education institutions, including regarding participation in Title IV programs and oversight by the Department of Defense of tuition assistance for military service members attending for-profit colleges. Since June 2010, the Senate HELP Committee, formerly led by Senator Harkin, has held hearings to examine the proprietary education sector, and the final report of the majority Members of the Committee was critical of the industry as a whole. Further, the report recommended various reforms which would affect proprietary institutions' participation in Title IV programs. Other Committees of the U.S. Congress have also held hearings into, among other things, the standards and procedures of accrediting agencies, credit hours and program length, the portion of federal student financial aid going to proprietary institutions, and the receipt of veterans and military education benefits by students enrolled at proprietary institutions. Strayer University has cooperated with these inquiries. A number of legislators have variously requested the GAO to review and make recommendations regarding, among other things, recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in Title IV programs, and the percentage of proprietary institutions' revenue coming from Title IV and other federal funding sources. GAO released four reports on for-profit post-secondary education: first, a report in August 2010 (subsequently revised in November 2010) that concluded, based on a three-month undercover investigation, that employees at a non-random sample of 15 proprietary institutions (not including Strayer University) made deceptive statements to students about accreditation, graduation rates, job placement, program costs, and financial aid; second, a report in October 2010 critical of the Department of Education's efforts to enforce the ban on incentive payments; third, a report in October 2011 critical of the student experience and instructor performance at some for-profit online institutions; and fourth, a report in December 2011 comparing various student outcomes across proprietary, non-profit, and public institutions.

On July 30, 2012, the then-majority of the Senate HELP Committee, led by Democrats, released a report entitled "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success." The report concluded that Strayer University's "performance, measured by student withdrawal rates, is one of the best of any company examined, and it appears that students are faring well at this degree based for-profit college." S. Rept. 112-37. While acknowledging that for-profit institutions have a role to play in higher education, the report criticized the proprietary institution industry on many fronts. The report ultimately recommended several measures for reform which could change the participation of proprietary institutions in Title IV funding, including the following:

- Tie access to federal financial aid to minimum student outcome thresholds.
- Prohibit institutions from funding marketing, advertising and recruiting activities with federal financial aid dollars.

- Expand the reporting period for cohort default rates beyond three years.
- Require that for-profits receive 15% of revenues from non-federal sources.
- Extend the ban on incentive compensation to include all employees of institutions of higher education, and clarify that this ban extends to numeric threshold or quota-based termination policies.

The report was not adopted by the full Committee, and the Republican minority released their own report criticizing the majority's investigation in many aspects, including that it did not include a review of all institutions of higher education. In addition, on July 30, 2014, the then-majority of the Committee released a report entitled "Is the New G.I. Bill Working?: For-Profit Colleges Increasing Veteran Enrollment and Federal Funds," detailing the amount of Post-9/11 GI Bill Benefits paid to for-profit colleges, including Strayer, and recommending that the 90/10 rule be "strengthened." The report states that at least four companies, including Strayer, "appear to be receiving close to or more than half of their reported non-federal financial aid revenue on the 10 side of the equation from Post-9/11 GI bill benefit funds." Of the top ten proprietary institutions mentioned receiving such funds, Strayer University was noted as receiving one of the lowest amounts of Post-9/11 GI Bill funds.

On September 21, 2012, a group of Democratic senators wrote a letter to the Federal Trade Commission urging it to evaluate the marketing practices utilized by many proprietary institutions through the use of third-party lead generators. In addition, legislation was introduced in the Senate by then Senator Harkin in April 2012 that would prevent institutions from using Title IV funds for marketing activities. Similar legislation may be introduced in the future.

This increased activity is expected to continue and may result in legislation, further rulemaking affecting participation in Title IV programs, and other governmental actions. In addition, concerns generated by Congressional activity may adversely affect enrollment in and revenues of for-profit educational institutions. Limitations on the amount of federal student financial aid for which our students are eligible under Title IV could materially and adversely affect our business.

We are dependent on the renewal and maintenance of Title IV programs.

The Higher Education Act ("HEA"), which is the law authorizing Title IV programs, is subject to periodic reauthorization. Congress completed the most recent reauthorization through multiple pieces of legislation and may reauthorize the HEA in a piecemeal manner in the future. Additionally, Congress determines the funding level for each Title IV program on an annual basis. Any action by Congress that significantly reduces funding for Title IV programs or the ability of our school or students to participate in these programs could materially harm our business. A reduction in government funding levels could lead to lower enrollments at our school and require us to arrange for alternative sources of financial aid for our students. Lower student enrollments or our inability to arrange such alternative sources of funding could adversely affect our business. The automatic extension of the HEA expired at the end of 2014, but Congress extended funding for Title IV programs through September 30, 2016, through the Consolidated and Further Continuing Appropriations Act, 2015.

We are subject to compliance reviews, which, if they resulted in a material finding of non-compliance, 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 non-compliance 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. In August 2010, the Secretary of Education announced plans to increase the number of program reviews by 50% to 300 in 2011. The Department of Education could limit, suspend, or terminate our participation in Title IV programs or impose other penalties such as requiring us to make refunds, pay liabilities, or pay an administrative fine upon a material finding of non-compliance. 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 the program review was closed and no further action was required.

On August 21, 2014, the Department of Education notified Strayer University that its Program Participation Agreement was approved on a provisional basis because of the Department of Education's program reviews open at the time of issuance. On October 1, 2014, we received a fully executed provisional Program Participation Agreement which allows us to continue to administer Title IV aid through June 30, 2017, subject to the condition that Strayer University must obtain the Department of Education's approval for substantial changes, including the addition of any new location, level of academic offering, or non-degree and degree programs.

If we fail to maintain our institutional accreditation or if our institutional accrediting body loses recognition by the Department of Education, we would lose our ability to participate in Title IV programs.

The loss of Strayer University's accreditation by Middle States or Middle States' loss of recognition by the Department of Education would render Strayer University ineligible to participate in Title IV programs and would have a material adverse effect on our business. In addition, an adverse action by Middle States other than loss of accreditation, such as issuance of a warning, could have a material adverse effect on our business. In November 2015, the Department of Education announced a set of executive actions and legislative proposals to increase transparency and rigor in accreditation. On January 20, 2016, the Department of Education issued additional recommendations related to accreditation. Increased scrutiny of accreditors by the Secretary of Education in connection with the Department of Education's recognition process may result in increased scrutiny of institutions by accreditors or have other adverse consequences.

If we fail to maintain any of our state authorizations, we would lose our ability to operate in that state and to participate in Title IV programs there.

Each Strayer University campus is authorized to operate and to grant degrees, diplomas or certificates by the applicable education agency of the state where the campus is located. Such state authorization is required for students at the campus to participate in Title IV programs. The loss of state authorization would, among other things, render Strayer University ineligible to participate in Title IV programs at least at those state campus locations, limit Strayer University's ability to operate in that state and could have a material adverse effect on our business.

Effective July 1, 2011, Department of Education regulations provide that a proprietary institution is considered legally authorized by a state if the state has a process to review and appropriately act on complaints concerning the institution, including enforcing applicable state laws, and the institution complies with any applicable state approval or licensure requirements consistent with the new rules. However, if a state in which Strayer has a physical campus fails to comply in the future with the provisions of the new rule or fails to provide the University with legal authorization, it could limit Strayer University's ability to operate in that state and have a material adverse effect on our operations.

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 1, 2014, Strayer University received an executed provisional Program Participation Agreement with the Department of Education allowing it to participate in Title IV programs until June 30, 2017. The Program Participation Agreement was issued on a provisional basis because of the Department of Education's program reviews open at the time of issuance. Under the provisional agreement, the only material additional condition that the University must comply with is obtaining Department of Education approval for substantial changes, including the addition of any new location, level of academic offering, or non-degree and degree programs.

A failure to demonstrate financial responsibility or administrative capability may result in the loss of eligibility to participate in Title IV programs.

To be eligible to participate in Title IV programs, Strayer University must comply with specific standards and procedures set forth in the Higher Education Act and the regulations issued thereunder by the Department of Education, including, among other things, certain standards of financial responsibility and administrative capability. If we fail to demonstrate financial responsibility or maintain administrative capability under the Department of Education's regulations, we could lose our eligibility to participate in Title IV programs or have that eligibility adversely conditioned, which would have a material adverse effect on our business.

Student loan defaults could result in the loss of eligibility to participate in Title IV programs.

In general, under the Higher Education Act, an educational institution may lose its eligibility to participate in some or all Title IV programs if, for three consecutive federal fiscal years, 30% or more of its students who were required to begin repaying their student loans in the relevant federal fiscal year default on their payment by the end of the second federal fiscal year following that fiscal year. Institutions with a cohort default rate equal to or greater than 15% for any of the three most recent fiscal years for which data are available are subject to a 30-day delayed disbursement period for first-year, first-time borrowers. Because its cohort default rate for 2010 was 15.1%, Strayer University disburses Direct Loans in this manner. In addition, an institution may lose its eligibility to participate in some or all Title IV programs if its default rate for a federal fiscal year was greater than 40%.

If we lose eligibility to participate in Title IV programs because of high student loan default rates, it would have a material adverse effect on our business. Strayer University's three-year cohort default rates for federal fiscal years 2010, 2011 and 2012, were 15.1%, 14.9%, and 11.6%, respectively. The average official cohort default rates for proprietary institutions nationally were 21.8%, 19.1% and 15.8% for federal fiscal years 2010, 2011, and 2012, respectively.

Strayer University could lose its eligibility to participate in federal student financial aid programs or be provisionally certified with respect to such participation if the percentage of our revenues derived from those programs were too high.

A proprietary institution may lose its eligibility to participate in the federal Title IV student financial aid program if it derives more than 90% of its revenues, on a cash basis, from Title IV programs for two consecutive fiscal years. A proprietary institution of higher education that violates the 90/10 Rule for any fiscal year will be placed on provisional status for up to two fiscal years. Using the formula specified in the Higher Education Opportunity Act, we derived approximately 73% of our cash-basis revenues from these programs in 2014. Certain members of Congress have proposed to revise the 90/10 Rule to count tuition assistance provided by the Department of Defense and veterans education benefits, along with Title IV revenue, toward the 90% limit and to reduce the limit to 85% of total revenue, which proposals could make it difficult for us to comply with the 90/10 rule. If we were to violate the 90/10 Rule, the loss of eligibility to participate in the federal student financial aid programs would have a material adverse effect on our business.

Our failure to comply with the Department of Education's incentive compensation rules could result in sanctions and other liability.

If we pay a bonus, commission or other incentive payment in violation of applicable Department of Education rules or if the Department of Education or other third parties interpret our compensation practices as such, we could be subject to sanctions or other liability, which could have a material adverse effect on our business.

Our failure to comply with the Department of Education's misrepresentation rules could result in sanctions and other liability.

The Higher Education Act prohibits an institution that participates in Title IV programs from engaging in "substantial misrepresentation" of the nature of its educational program, its financial charges, or the employability of its graduates. The Department of Education's Program Integrity Regulations, which took effect July 1, 2011, interpret this provision to prohibit any statement on those topics, made by the institution or a third party that provides educational programs, marketing, advertising, recruiting, or admissions services to the institution, that has the likelihood or tendency to confuse. Although the U.S. Court of Appeals for the District of Columbia held on June 5, 2012, that the term "substantial misrepresentation" could not include true, nondeceitful statements that are merely confusing, the misrepresentation rules are expansive. In the event of substantial misrepresentation, the Department of Education may revoke an institution's program participation agreement, limit the institution's participation in Title IV programs, deny applications from the institution such as to add new programs or locations, initiate proceedings to fine the institution or limit, suspend, or terminate its eligibility to participate in Title IV programs. If the Department of Education or other third parties interpret statements made by us or on our behalf to be in violation of the new regulations, we could be subject to sanctions and other liability, which could have a material adverse effect on our business.

Our failure to comply with the Department of Education's credit hour rule could result in sanctions and other liability.

In 2009, the Department of Education's Office of Inspector General criticized three accreditors, including Middle States, for deficiency in their oversight of institutions' credit hour allocations. In June 2010, the House Education and Labor Committee held a hearing concerning accrediting agencies' standards for assessing institutions' credit hour policies. The Program Integrity Regulations defined, effective July 1, 2011, the term "credit hour" for the first time and require accrediting agencies and state authorization agencies to review the reliability and accuracy of an institution's credit hour assignments. If an accreditor does not comply with this requirement, its recognition by the Department of Education could be jeopardized. If an accreditor identifies systematic or significant noncompliance in one or more of an institution's programs, the accreditor must notify the Secretary of Education. If the Department of Education determines that an institution is out of compliance with the credit hour definition, the Department of Education could impose liabilities or other sanctions, which could have a material adverse effect on our business.

Our failure to comply with the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act or Title IX of the Education Amendments of 1972 could result in sanctions and other liability.

Strayer 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, or Clery Act, including recent changes made to the Clery Act by the Violence Against Women Reauthorization Act of 2013, which was signed into law on March 7, 2013. On April 1, 2014, a negotiated rulemaking committee reached consensus on proposed regulations, and on October 20, 2014, the Department of Education promulgated final regulations implementing the recent amendments to the Clery Act. In addition, the Department of Education 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. Failure to comply with Clery Act or Title IX requirements or regulations thereunder could result in action by the Department of Education to require corrective action, fine the University or limit or suspend its participation in Title IV programs, could lead to litigation, and could harm the University's reputation.

We are subject to sanctions if we fail to calculate accurately and make timely payment of refunds of Title IV program funds for students who withdraw before completing their educational program.

The Higher Education Act and Department of Education regulations require us to calculate refunds of unearned Title IV program funds disbursed to students who withdraw from their educational program before completing it. If refunds are not properly calculated or timely paid, we may be required to post a letter of credit with the Department of

Education or be subject to sanctions or other adverse actions by the Department of Education, which could have a material adverse effect on our business.

Investigations, legislative and regulatory developments and general credit market conditions related to the student loan industry may result in fewer lenders and loan products and increased regulatory burdens and costs.

The HEOA contains new requirements pertinent to relationships between lenders and institutions. In 2009, the Department of Education promulgated regulations that address these relationships, and state legislators have also passed or may be considering legislation related to relationships between lenders and institutions. In addition, new procedures introduced and recommendations made by the Consumer Financial Protection Bureau create uncertainty about whether Congress will impose new burdens on private student lenders. These developments, as well as legislative and regulatory changes such as those relating to gainful employment and repayment rates creating uncertainty in the industry and general credit market conditions, may cause some lenders to decide not to provide certain loan products and may impose increased administrative and regulatory costs. Such actions could reduce demand for and/or availability of private education loans, decrease Strayer University's non-Title IV revenue and thereby increase Strayer University's 90/10 ratio and have a material adverse effect on our business.

We rely on one or more third parties to administer our participation in Title IV programs and failure to comply with applicable regulations by a third party or by us could cause us to lose our eligibility to participate in Title IV programs.

Until September 30, 2011, Global Financial Aid Services, Inc. assisted us with the administration of our participation in Title IV programs, and other third parties continue to assist us with other aspects of our participation in the Title IV programs. Because Strayer University is jointly and severally liable to the Department of Education for the actions of third-party servicers, failure of such servicers to comply with applicable regulations could have a material adverse effect on Strayer University, including loss of eligibility to participate in Title IV programs. If any of the third-party servicers discontinue providing such services to us, we may not be able to replace them in a timely, cost-efficient, or effective manner, or at all, and we could lose our ability to comply with the requirements of the Title IV programs, which could adversely affect our enrollment, revenues and results of operations.

Since September 30, 2011, we have directly administered Strayer University's participation in Title IV programs. If our financial aid personnel, processes, and quality assurance procedures fail to comply with applicable regulation, such failure could have a material adverse effect on Strayer University, including loss of eligibility to participate in Title IV programs.

Our business could be harmed if we experience a disruption in our ability to process student loans under the Federal Direct Loan Program.

We collected the majority of our fiscal year 2015 total consolidated net revenue from receipt of Title IV financial aid program funds, principally from federal student loans under the Federal Direct Loan Program. Any processing disruptions by the Department of Education may affect our students' ability to obtain student loans on a timely basis. If we experience a disruption in our ability to process student loans through the Federal Direct Loan Program, either because of administrative challenges on our part or the inability of the Department of Education to process the volume of direct loans on a timely basis, our business, financial condition, results of operations and cash flows could be adversely and materially affected.

Our business could be harmed if Congress makes changes to the availability of Title IV funds.

We collected the majority of our fiscal year 2015 total consolidated net revenue from receipt of Title IV financial aid program funds, principally from federal student loans under the Federal Direct Loan Program. Changes in the availability of these funds or a reduction in the amount of funds disbursed may have a material adverse effect on our enrollment, financial condition, results of operations and cash flows. Congress eliminated further federal direct subsidized loans for graduate and professional students as of July 1, 2012. On August 9, 2013, Congress passed legislation that ties interest rates on Title IV loans to the rate paid on U.S. Treasury bonds. Interest rates are set every

July 1st for loans taken out from July 1st to June 30th of the following year. In April 2011, Congress eliminated year-round Pell Grant awards beginning with the 2011-2012 award year and in July 2012, Congress reduced eligibility for Pell Grants from 18 semesters to 12 semesters. To date these changes have not had a material impact on our business, but future changes in the availability of Title IV funds could impact students' ability to fund their education and thus may have a material adverse effect on our enrollment, financial condition, results of operations and cash flows.



## Risks Related to Our Business

Our enrollment rate is uncertain, and we may not be able to assess our future enrollments effectively.

Our growth depends on a number of factors, including increased unemployment and the resulting lower confidence in job prospects, and many of the regulatory risks discussed above. In 2011, we revised our business model to acknowledge lower growth or reductions in enrollments. Our enrollment in 2016 will be affected by legislative uncertainty, regulatory activity, and market conditions. Until legislative, regulatory, and market uncertainty are resolved, it may be difficult to assess whether and to what extent there is an impact on our long-term growth prospects. In 2013, 2014 and 2015, we closed physical locations to better align our resources with our current student enrollments. Although we may continue to invest in new campuses and to pursue our strategic goals in the future, there can be no assurance as to what our growth rate will be or as to the steps we may need to take if regulatory and legislative matters are not clarified or if market conditions do not stabilize.

Opening new campuses and adding new services are dependent on our forecast of the demand for adult-focused post-secondary education and on regulatory approvals.

Establishing new locations and adding new services require us to expend significant resources, including making human capital and financial capital investments, incurring marketing expenses and reallocating other resources. Since significant growth in enrollment in new campuses is required for them to become profitable, our willingness to add new campuses depends on our ability to predict growth in enrollment. The recent activity by the Department of Education and the U.S. Congress has introduced uncertainties into our business model and has slowed our pace of opening of new campuses, and we do not currently have plans to open new campuses in 2016. To open a new location, we are required to obtain appropriate federal, state, and accrediting agency approvals, which may be conditioned or delayed in a manner that could significantly affect our growth plans. We cannot assure investors that we will continue to open new campus locations or add new services in the future.

Our future success depends in part upon our ability to recruit and retain key personnel.

Our success to date has been, and our continuing success will be, substantially dependent upon our ability to attract and retain highly qualified executive officers, faculty and administrators and other key personnel. If we cease to employ any of these integral personnel or fail to manage a smooth transition to new personnel, our business could suffer.

Our success depends in part on our ability to update and expand the content of existing academic programs and develop new programs in a cost-effective manner and on a timely basis.

Our success depends in part on our ability to update and expand the content of our academic programs, develop new programs in a cost-effective manner and meet students' needs in a timely manner. Prospective employers of our graduates increasingly demand that their entry-level employees possess appropriate technological and other skills. The update and expansion of our existing programs and the development of new programs may not be received favorably by students, prospective employers or the online education market. If we cannot respond to changes in industry requirements, our business may be adversely affected. Even if we are able to develop acceptable new programs, we may not be able to introduce these new programs as quickly as students require due to regulatory constraints or as quickly as our competitors introduce competing new programs.

Our financial performance depends in part on our ability to continue to develop awareness of the academic programs we offer among working adult students.

The continued development of awareness of the academic programs we offer among working adult students is critical to the continued acceptance and growth of our programs. If we are unable to continue to develop awareness of the

programs we offer, this could limit our enrollments and negatively impact our business. The following are some of the factors that could prevent us from successfully marketing our programs:

- the emergence of more successful competitors;
- customer dissatisfaction with our services and programs;
- performance problems with our online systems; and
- our failure to maintain or expand our brand or other factors related to our marketing.

Congressional and other governmental activities could damage the reputation of Strayer University and limit our ability to attract and retain students.

Since 2010, the U.S. Congress has increased its focus on proprietary educational institutions, including administration of Title IV programs, military assistance programs, and other federal programs. The Department of Education has indicated to Congress that it intends to increase its regulation of and attention to proprietary educational institutions, and the Government Accountability Office has released several reports of investigations into proprietary educational institutions. In 2014, the Department of Education announced the creation of an interagency task force to oversee proprietary educational institutions by coordinating the activities of several agencies and promote information sharing among the agencies, which include the Departments of Justice, VA, the CFPB, the FTC, and the Securities and Exchange Commission as well as state attorneys general. These and other governmental activities, including new regulations on program integrity and gainful employment, even if resulting in no adverse findings or actions against Strayer, singly or cumulatively could affect public perception of investor-funded higher education, damage the reputation of Strayer University, and limit our ability to attract and retain students.

We face strong competition in the post-secondary education market.

Post-secondary education in our market area is highly competitive. We compete with traditional public and private two-year and four-year colleges, other for-profit schools and alternatives to higher education, such as employment and military service. Public colleges may offer programs similar to those of Strayer University at a lower tuition level as a result of government subsidies, government and foundation grants, tax-deductible contributions and other financial sources not available to proprietary institutions. Some of our competitors in both the public and private sectors have substantially greater financial and other resources than we do. Congress, the Department of Education, and other agencies require increasing disclosure of information to consumers. While we believe that Strayer University provides valuable education to its students, we cannot predict the bases on which individual students and potential students will choose among the range of educational and other options available to them. This strong competition could adversely affect our business.

Strayer University relies on exclusive proprietary rights and intellectual property, and competitors may attempt to duplicate Strayer programs and methods.

Third parties may attempt to develop competing programs or duplicate or copy aspects of Strayer University's curriculum, online library, quality management and other proprietary content. Any such attempt, if successful, could adversely affect our business. In the ordinary course of its business, Strayer develops intellectual property of many kinds that is or will be the subject of copyright, trademark, service mark, patent, trade secret or other protections. Such intellectual property includes but is not limited to Strayer's courseware materials for classes taught online and business know-how and internal processes and procedures developed to respond to the requirements of its various education regulatory agencies.

Seasonal and other fluctuations in our operating results could adversely affect the trading price of our common stock.

Our business is subject to seasonal fluctuations, which cause our operating results to fluctuate from quarter to quarter. This fluctuation may result in volatility or have an adverse effect on the market price of our common stock. We experience, and expect to continue to experience, seasonal fluctuations in our revenue. Historically, our quarterly revenues and income have been lowest in the third quarter (July through September) because fewer students are enrolled during the summer months. We also incur significant expenses in the third quarter in preparing for our peak enrollment in the fourth quarter (October through December), including investing in online and campus infrastructure necessary to support increased usage. These investments result in fluctuations in our operating results which could result in volatility or have an adverse effect on the market price of our common stock. In addition, the online education market is a rapidly evolving market, and we may not be able to forecast accurately future enrollment growth and revenues.

Regulatory requirements may make it more difficult to acquire us.

A change in ownership resulting in a change of control of Strayer would trigger a requirement for recertification of Strayer University by the Department of Education for purposes of participation in federal student financial aid programs, a review of Strayer University's accreditation by Middle States and reauthorization of Strayer University by certain state licensing and other regulatory agencies. If we underwent a change of control that required approval

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by any state authority, Middle States or any federal agency, and any required regulatory approval were significantly delayed, limited or denied, there could be a material adverse effect on our ability to offer certain educational programs, award certain degrees, diplomas or certificates, operate one or more of our locations, admit certain students or participate in Title IV programs, which in turn could have a material adverse effect on our business. These factors may discourage takeover attempts.

Capacity constraints or system disruptions to Strayer University's computer networks could damage the reputation of Strayer University and limit our ability to attract and retain students.

The performance and reliability of Strayer University's computer networks, especially the online educational platform, is critical to our reputation and ability to attract and retain students. Any system error or failure, or a sudden and significant increase in traffic, could result in the unavailability of Strayer University's computer networks. We cannot assure you that Strayer University, including its online educational platform, will be able to expand its program infrastructure on a timely basis sufficient to meet demand for its programs. Strayer University's computer systems and operations could be vulnerable to interruption or malfunction due to events beyond its control, including natural disasters and telecommunications failures. Any interruption to Strayer University's computer systems or operations could have a material adverse effect on our ability to attract and retain students.

Strayer University's computer networks may be vulnerable to security risks that could disrupt operations and require it to expend significant resources.

Strayer University's computer networks may be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in operations. As a result, Strayer University may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches.

The personal information that we collect may be vulnerable to breach, theft or loss that could adversely affect our reputation and operations.

Possession and use of personal information in our operations subject us to risks and costs that could harm our business. We collect, use, and retain large amounts of personal information regarding our students and their families, including social security numbers, tax return information, personal and family financial data and credit card numbers. We also collect and maintain personal information of our employees in the ordinary course of our business. Some of this personal information is held and managed by certain vendors. Although we use security and business controls to limit access and use of personal information, a third party may be able to circumvent those security and business controls, which could result in a breach of student or employee privacy. In addition, errors in the storage, use or transmission of personal information could result in a breach of student or employee privacy. Possession and use of personal information in our operations also subjects us to legislative and regulatory burdens that could require notification of data breaches and restrict our use of personal information. We cannot assure you that a breach, loss or theft of personal information will not occur. A breach, theft or loss of personal information regarding our students and their families or our employees that is held by us or our vendors could have a material adverse effect on our reputation and results of operations and result in liability under state and federal privacy statutes and legal actions by state authorities and private litigants, any of which could have a material adverse effect on our business.

Strayer University, with its online programs, operates in a highly competitive market with rapid technological changes and it may not compete successfully.

Online education is a highly fragmented and competitive market that is subject to rapid technological change. Competitors vary in size and organization from traditional colleges and universities, many of which have some form of online education programs, to for-profit schools, corporate universities and software companies providing online

education and training software. We expect the online education and training market to be subject to rapid changes in technologies. Strayer University's success will depend on its ability to adapt to these changing technologies.

We may not be able to complete or integrate any future acquisitions successfully.

As part of our growth strategy, we expect to consider selective acquisitions. We cannot assure investors that we will be able to complete successfully any acquisitions on favorable terms, or that if we do, we will be

able to integrate successfully the personnel, operations and technologies of any such acquisitions. Our failure to complete or integrate successfully future acquisitions could disrupt our business and materially and adversely affect our profitability and liquidity by distracting our management and employees and increasing our expenses. In addition, because an acquisition is considered a change in ownership and control of the acquired institution under applicable regulatory standards, we must seek approval from the Department of Education if the acquired institution participates in Title IV programs, and most applicable state agencies and accrediting agencies and possibly other regulatory bodies when we acquire an institution. If we were unable to obtain such approvals of an institution we acquired, depending on the size of that acquisition, that failure could have a material adverse effect on our business.

#### Item 1B. Unresolved Staff Comments

There are no SEC staff comments on our periodic SEC reports which are unresolved.

#### Item 2. Properties

Except for five campus facilities which we own, our campus and administrative facilities are leased. Our facilities are located predominantly in the Eastern United States. The Company's corporate headquarters is located at 2303 Dulles Station Blvd., Herndon, VA 20171, while the headquarters and main campus of Strayer University is located at 1133 15th Street, Washington, DC 20005. Our leases generally range from five to 10 years with one to two renewal options for extended terms. As of December 31, 2015, we leased 88 campus and administrative facilities consisting of approximately 1.7 million square feet. The facilities that we own consist of approximately 110,000 square feet.

As announced in October 2013, we closed 20 physical locations predominantly in the Midwest. We have subleased or terminated arrangements on some of this space, and to date approximately 200,000 square feet remains vacant, with remaining lease obligations ranging from six months to six years. We are evaluating various options to address unused facility space including sublets, both short-term and long-term, and lease buyouts.

We evaluate current utilization of our facilities and anticipated enrollment to determine facility needs. We do not anticipate any significant addition of campus or administrative space in 2016.

For more information regarding our ongoing lease commitments, see Notes to Consolidated Financial Statements below.

#### Item 3. 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 are subject or to which our property is subject.

#### Item 4. Mine Safety Disclosures

Not applicable.

## PART II

## Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market under the symbol “STRA.” The following table sets forth, for the periods indicated, the high, low, and closing sale prices of our common stock, as reported on the NASDAQ Stock Market.

	High	Low	Close
2014			
First Quarter	\$ 51.12	\$ 33.51	\$ 46.43
Second Quarter	\$ 59.99	\$ 41.52	\$ 52.51
Third Quarter	\$ 61.58	\$ 47.47	\$ 59.88
Fourth Quarter	\$ 79.77	\$ 57.27	\$ 74.28
2015			
First Quarter	\$ 74.69	\$ 53.26	\$ 53.41
Second Quarter	\$ 55.97	\$ 42.20	\$ 43.10
Third Quarter	\$ 57.91	\$ 41.50	\$ 54.97
Fourth Quarter	\$ 63.85	\$ 49.12	\$ 60.12

As of February 1, 2016, there were 11,027,177 shares of common stock outstanding, and approximately 97 holders of record.

We did not pay a regular quarterly dividend in 2014 or 2015. Whether to declare dividends and the amount of dividends to be paid in the future will be reviewed periodically by our Board of Directors in light of our earnings, cash flow, financial condition, capital needs, investment opportunities and regulatory considerations. There is no requirement or assurance that common dividends will be paid in the future.

## Peer Group Performance Graph

The following performance graph compares the cumulative stockholder return on our common stock since December 31, 2010 with The NASDAQ Stock Market (U.S.) Index and a self-determined peer group consisting of American Public Education, Inc. (APEI), Apollo Education Group, Inc. (APOL), Bridgepoint Education, Inc. (BPI), Capella Education Company (CPLA), Career Education Corporation (CECO), DeVry Education Group Inc. (DV), Grand Canyon Education, Inc. (LOPE), ITT Educational Services Inc. (ESI), K12 Inc. (LRN), Lincoln Educational Services Corporation (LINC) and Universal Technical Institute, Inc. (UTI). At present, there is no comparative index for the education industry. This graph is not deemed to be “soliciting material” or to be filed with the SEC or subject to the SEC’s proxy rules or to the liabilities of Section 18 of the Securities Exchange Act, and the graph shall not be deemed to be incorporated by reference into any of our prior or subsequent filings under the Securities Act or the Securities Exchange Act.



Comparison of 60 Month Cumulative Total Return\*  
 Among Strayer Education, Inc.  
 The NASDAQ Stock Market (U.S.) Index and a Peer Group

Name	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Strayer Education, Inc.	100	64	37	23	49	39
NASDAQ Stock Market (U.S.)	100	98	114	157	179	189
Peer Group	100	81	56	84	77	48

\* The comparison assumes \$100 was invested on December 31, 2010 in our common stock, the NASDAQ Stock Market (U.S.) Index and the peer companies selected by us.

There were no sales by us of unregistered securities during the year ended December 31, 2015.

In November 2003, our Board of Directors authorized us to repurchase shares of common stock in open market purchases from time to time at the discretion of our management, depending on market conditions and other corporate considerations. Our Board of Directors amended the program on various dates, increasing the repurchase amount authorized and extending the expiration date. At December 31, 2015, \$70.0 million of our share repurchase authorization was remaining for repurchases through the end of 2016. All of our share repurchases have been effected in compliance with Rule 10b-18 under the Exchange Act. Some repurchases have been made in accordance with a share repurchase plan adopted by us under Rule 10b5-1 under the Exchange Act. Our share repurchase program may be modified, suspended or terminated at any time by us without notice.

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A summary of our share repurchases since the inception of the plan is as follows:

	Total number of shares repurchased	Average dollar price paid per share	Cost of share repurchases (millions)
2003	32,350	\$ 99.57	\$ 3.2
2004	346,444	106.13	36.8
2005	410,071	92.59	38.0
2006	349,066	100.39	35.0
2007	260,818	146.05	38.1
2008	603,382	180.86	109.1
2009	451,613	177.34	80.1
2010	687,340	168.06	115.5
2011	1,581,444	128.15	202.7
2012	484,841	51.56	25.0
2013	495,085	50.49	25.0
2014	—	—	—
2015	—	—	—
Total	5,702,454	\$ 124.24	\$ 708.5

We did not make any share repurchases in 2014 or 2015.

## Item 6. Selected Financial Data

The following table sets forth, for the periods and at the dates indicated, selected consolidated financial and operating data. The financial information has been derived from our consolidated financial statements. The information set forth below is qualified by reference to and should be read in conjunction with our consolidated financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other information included elsewhere or incorporated by reference in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(Dollar and share amounts in thousands, except per share data)				
<b>Income Statement</b>					
<b>Data:</b>					
Revenues	\$ 627,434	\$ 561,979	\$ 503,600	\$ 446,041	\$ 434,437
Costs and expenses:					
Instruction and educational support	292,003	300,098	310,446	236,303	234,097
Marketing	74,293	71,864	75,426	66,495	70,084
Admissions advisory	26,531	26,374	20,390	16,661	16,304
General and administration	55,464	50,056	64,637	44,835	44,254
Total costs and expenses	448,291	448,392	470,899	364,294	364,739
Income from operations	179,143	113,587	32,701	81,747	69,698
Investment and other income	152	4	2	117	283
Interest expense	3,773	4,616	5,419	5,248	3,850
Income before income taxes	175,522	108,975	27,284	76,616	66,131
Provision for income taxes	69,478	43,045	10,859	30,260	26,108
Net income	\$ 106,044	\$ 65,930	\$ 16,425	\$ 46,356	\$ 40,023
Net income per share:					
Basic	\$ 8.91	\$ 5.79	\$ 1.55	\$ 4.39	\$ 3.78
Diluted	\$ 8.88	\$ 5.76	\$ 1.55	\$ 4.35	\$ 3.73
Weighted average shares outstanding:					
Basic	11,906	11,390	10,584	10,561	10,588
Diluted(a)	11,943	11,440	10,624	10,650	10,740
<b>Other Data:</b>					
Depreciation and amortization	\$ 21,525	\$ 23,973	\$ 35,563	\$ 20,630	\$ 18,104
Stock-based compensation expense	\$ 13,234	\$ 5,464	\$ 9,291	\$ 9,453	\$ 10,213
Capital expenditures	\$ 29,991	\$ 24,733	\$ 8,726	\$ 6,902	\$ 12,692
Cash dividends per common share (paid)	\$ 4.00	\$ 4.00	\$ —	\$ —	\$ —
Average enrollment(b)	53,901	49,323	43,969	40,254	40,450
Campuses(c)	92	97	100	79	76

Full-time  
employees(d)  
43

2,140

2,019

1,485

1,455

1,401

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	At December 31,				
	2011	2012	2013	2014	2015
	(In thousands)				
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and marketable securities	\$ 57,137	\$ 47,517	\$ 94,760	\$ 162,283	\$ 106,889
Working capital(e)	17,484	46,631	82,182	140,316	81,207
Total assets	231,133	227,792	254,266	307,815	248,434
Long-term debt	90,000	121,875	118,750	112,500	—
Other long-term liabilities	21,656	21,905	51,456	46,248	47,987
Total liabilities	188,840	186,804	215,364	215,083	105,578
Total stockholders' equity	42,293	40,988	38,902	92,732	142,856

- (a) Diluted weighted average shares outstanding include common shares issued and outstanding, and the dilutive impact of restricted stock, restricted stock units, and outstanding stock options using the Treasury Stock Method.
- (b) Reflects average student enrollment for the four academic terms for each year indicated.
- (c) Reflects number of campuses offering classes during the fourth quarter of each year indicated. In October 2013, we announced that 20 physical locations would be closed after classes were taught in the fall academic term. The University now has 76 physical campuses.
- (d) Reflects full-time employees including full-time faculty as of December 31 of each year.
- (e) Working capital is calculated by subtracting current liabilities from current assets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with "Selected Financial Data," our consolidated financial statements and the notes thereto, the "Cautionary Notice Regarding Forward-Looking Statements," Item 1A entitled "Risk Factors" and the other information appearing elsewhere, or incorporated by reference, in this Annual Report on Form 10-K.

Background and Overview

We are an education services holding company that owns Strayer University and, as of January 13, 2016, the New York Code and Design Academy. Strayer 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.

Set forth below are average Strayer University enrollment, full-time undergraduate tuition rates, revenues, income from operations, net income, and diluted net income per share for the last three years.

	Year Ended December 31,		
	2013	2014	2015
Average enrollment	43,969	40,254	40,450
% Change from prior year	(11 % )	(8 % )	<1 %
	\$ 1,700	\$ 1,420	\$ 1,420

Full-time tuition for a new student (per course)

% Change from prior year	3	%	(16	% )	—	
Revenues (in thousands)	\$ 503,600		\$ 446,041		\$ 434,437	
% Change from prior year	(10	% )	(11	% )	(3	% )
Income from operations (in thousands)	\$ 32,701		\$ 81,747		\$ 69,698	
% Change from prior year	(71	% )	(150	% )	(15	% )
Net income (in thousands)	\$ 16,425		\$ 46,356		\$ 40,023	
% Change from prior year	(75	% )	182	%	(14	% )
Diluted net income per share	\$ 1.55		\$ 4.35		\$ 3.73	
% Change from prior year	(73	% )	181	%	(14	% )

Strayer University 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 make payment arrangements for the tuition for each course at the time of enrollment. Tuition revenue is recognized in the quarter 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 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 represents amounts due from students for educational services already provided and deferred revenue 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 years ended December 31, 2013, 2014, and 2015, was 4.4%, 3.8% and 3.0%, respectively.

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

- Instruction and educational support expenses generally contain items of expense directly attributable to educational activities of the University. This expense category includes salaries and benefits of faculty and academic administrators, as well as administrative personnel who support and serve student interests. 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.

We acquired the New York Code and Design Academy ("NYCDA") on January 13, 2016. NYCDA provides non-degree courses in web and application software development, primarily at its campus in New York City. The acquisition did not impact our 2015 results and NYCDA's results of operations will be included in our results from the acquisition date.

#### 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, Strayer University offers its educational programs on a quarter system having four academic terms, which coincide with our quarterly financial reporting periods. Approximately 96% of our revenues during the year ended December 31, 2015 consisted of tuition revenue. Tuition revenue is recognized ratably in the quarter 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, 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 is recorded as deferred revenue.

Students finance their education in a variety of ways, and historically about three quarters of our students 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 is 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. If Title IV funds are returned to the Department of Education, the student is responsible for paying the amount of prorated tuition 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 December 31, 2015, we had deferred \$20.9 million for estimated redemptions earned under the Graduation Fund. 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 significantly 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 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. During 2014 and 2015, our bad debt expense was 3.8% and 3.0% of revenue, respectively. A change in our allowance for doubtful accounts of 1% of gross tuition receivable as of December 31, 2015 would have changed our income from operations by approximately \$0.3 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. In 2014 and 2015, we reduced our liability for leases by approximately \$4.1 million and \$0.4 million, respectively.

**Other estimates** — We record estimates for certain of our accrued expenses and income tax liabilities. We estimate the useful lives of our property and equipment. We periodically assess goodwill and intangible assets for impairment. We 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 accrued expenses, carrying amount of goodwill and intangible assets, stock-based compensation expense, and income tax liabilities may be required.

## Results of Operations

In 2015, we generated \$434.4 million in revenue, a 3% decrease compared to 2014, principally due to a 3% decline in revenue per student. Income from operations was \$69.7 million in 2015, and includes approximately \$0.4 million in adjustments to reduce our liability for losses on facilities no longer in use. Income from operations in 2014 was \$81.7 million, which includes \$4.1 million in adjustments related to the Company's restructuring implemented in the fourth quarter of 2013. Net income in 2015 was \$40.0 million, including approximately \$0.3 million in after-tax benefits from adjustments to the Company's liability for facilities no longer in use, compared to \$46.4 million for the same period in 2014, which reflected approximately \$2.6 million in after-tax charges related to the restructuring. Diluted earnings per share was \$3.73 compared to \$4.35 for the same period in 2014. Diluted earnings per share for 2015 includes \$0.03 per share in after-tax earnings related to the reduction of the Company's liability for losses on facilities no longer in use, and diluted earnings per share for 2014 reflects approximately \$0.23 per share in after-tax charges related to the restructuring.

Key enrollment trends by quarter for our total population of students were as follows:

Academic Term	2014	2015
---------------	------	------

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			% Change in total students		% Change in new students	
Winter	41,098	40,728	-1	%	-1	%
Spring	41,327	40,875	-1	%	-1	%
Summer	36,403	37,221	2	%	4	%
Fall	42,189	42,975	2	%	-1	%
Average	40,254	40,450	<1	%	<1	%

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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 Strayer 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 degree and certificate programs for their employees, often with significant discounts to our published tuition rates. These initiatives had a negative impact on Strayer University revenue per student, which declined 3% in 2015 and is expected to decline approximately 2-3% in 2016.

Partially as a result of these measures, we experienced stable enrollment in 2015. Should the 2015 enrollment trends continue in 2016 we would expect Strayer University revenue for the full year 2016 to be down slightly due to the decline in revenue per student, and Strayer University operating expenses in 2016 to be flat to up 2-3%.

The following table sets forth certain income statement data as a percentage of revenues for the periods indicated:

	Year Ended December 31,		
	2013	2014	2015
Revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Instruction and educational support	61.7	53.0	53.9
Marketing	15.0	14.9	16.1
Admissions advisory	4.0	3.7	3.8
General and administration	12.8	10.1	10.2
Total costs and expenses	93.5	81.7	84.0
Income from operations	6.5	18.3	16.0
Investment income	—	—	0.1
Interest expense	1.1	1.1	0.9
Income before income taxes	5.4	17.2	15.2
Provision for income taxes	2.1	6.8	6.0
Net income	3.3 %	10.4 %	9.2 %
Effective tax rate	39.8 %	39.5 %	39.5 %

Year Ended December 31, 2015 Compared To Year Ended December 31, 2014

Enrollment. Average enrollment increased to 40,450 students for the year ended December 31, 2015 from 40,254 students for the same period in 2014.

Revenues. Revenues decreased 3% to \$434.4 million in 2015 from \$446.0 million in 2014, principally due to a decline in revenue per student of 3%. 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 made them eligible for our Graduation Fund. Revenues for undergraduate students were generally unchanged in 2015, driven by an increase in enrollment of 6% and a decline of 6% in revenue per student, resulting mostly from the new pricing structure for new undergraduate students. We expect this decline in revenue per student to continue at the undergraduate level as we enroll more new undergraduate students over time. For graduate students, revenues decreased 7% in 2015, driven by an increase in revenue per student of 3%, offset by a decline in enrollment of 10%. The increase in graduate revenue per student was due primarily to increased tuition and classes per student compared to 2014.

Instruction and educational support expenses. Instruction and educational support expenses decreased \$2.2 million, or 1%, to \$234.1 million in 2015 from \$236.3 million in 2014. We recorded \$0.4 million and \$4.1 million in adjustments in 2015 and 2014, respectively, resulting from changes in the timing and expected income from settlements and

executed sublease agreements signed during the period, and may record additional adjustments in the future. Instruction and educational support expenses as a percentage of revenues increased to 53.9% for 2015 from 53.0% in 2014.

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**Marketing expenses.** Marketing expenses increased \$3.6 million, or 5%, to \$70.1 million in 2015 from \$66.5 million in 2014. Marketing expenses as a percentage of revenues increased to 16.1% in 2015 from 14.9% in 2014. We expect to continue to invest in our marketing efforts such that marketing expenses may increase in absolute terms and as a percentage of revenue in 2016 as compared to 2015.

**Admissions advisory expenses.** Admissions advisory expenses decreased by \$0.4 million, or 2%, to \$16.3 million in 2015 from \$16.7 million in 2014, primarily as a result of lower personnel costs. Admissions advisory expenses as a percentage of revenues increased to 3.8% for 2015 from 3.7% in 2014.

**General and administration expenses.** General and administration expenses decreased \$0.5 million, or 1%, to \$44.3 million in 2015 from \$44.8 million in 2014. General and administration expenses as a percentage of revenues increased to 10.2% for 2015 from 10.1% in 2014.

**Income from operations.** Income from operations decreased \$12.0 million, or 15%, to \$69.7 million in 2015 from \$81.7 million in 2014.

**Interest expense.** Interest expense decreased to \$3.9 million in 2015 from \$5.2 million in 2014 following the repayment in July 2015 of all our outstanding debt in connection with our amended credit facility. We have \$150.0 million available under our revolving credit facility and no balance outstanding as of December 31, 2015. We expect interest expense to be in the range of \$0.7-0.8 million in 2016 following the repayment of all our outstanding debt in 2015.

**Provision for income taxes.** Income tax expense decreased \$4.2 million, or 14%, to \$26.1 million in 2015 from \$30.3 million in 2014, primarily due to the decrease in income before income taxes attributable to the factors discussed above. Our effective tax rate was 39.5% for 2015 and 2014. We expect our tax rate for 2016 to be in the range of 39.0-39.5%.

**Net income.** Net income decreased \$6.4 million to \$40.0 million in 2015 from \$46.4 million in 2014 due to the factors discussed above.

### Year Ended December 31, 2014 Compared To Year Ended December 31, 2013

**Enrollment.** Average enrollment decreased 8% to 40,254 students for the year ended December 31, 2014 from 43,969 students for the same period in 2013.

**Revenues.** Revenues decreased 11% to \$446.0 million in 2014 from \$503.6 million in 2013, principally due to an average enrollment decline of 8% and a decline in revenue per student of 3%. The decline in revenue per student is largely attributable to a new pricing structure which reduced tuition for new undergraduate students by approximately 20%, and made them eligible for our Graduation Fund. Revenues for undergraduate students declined 17% in 2014, driven by a decrease in enrollment of 10% and a decline of 8% in revenue per student, resulting mostly from the new pricing structure for new undergraduate students. For graduate students, revenues increased 1% in 2014, driven by an increase in revenue per student of 7%, offset by a decline in enrollment of 6%. The increase in graduate revenue per student was due primarily to lower scholarships compared to the same period in 2013.

**Instruction and educational support expenses.** Instruction and educational support expenses decreased \$74.1 million, or 24%, to \$236.3 million in 2014 from \$310.4 million in 2013, primarily due to lower personnel and facility costs following the restructuring in the fourth quarter of 2013, when we incurred a charge of \$36.2 million for lease abandonments, asset write-offs, and severance charges. The decrease in Instruction and educational support expenses is also partly attributable to lower average enrollment in 2014. We also recorded \$4.1 million in adjustments in 2014 resulting from changes in the timing and expected income from settlements and executed sublease agreements signed during the period, and may record additional adjustments in the future. Instruction and educational support expenses

as a percentage of revenues decreased to 53.0% for 2014 from 61.7% in 2013.

Marketing expenses. Marketing expenses decreased \$8.9 million, or 12%, to \$66.5 million in 2014 from \$75.4 million in 2013. Marketing expenses as a percentage of revenues decreased slightly to 14.9% in 2014 from 15.0% in 2013.

Admissions advisory expenses. Admissions advisory expenses decreased by \$3.7 million, or 18%, to \$16.7 million in 2014 from \$20.4 million in 2013, primarily as a result of lower personnel costs following the restructuring in the fourth quarter of 2013. Admissions advisory expenses as a percentage of revenues decreased to 3.7% for 2014 from 4.0% in 2013.



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General and administration expenses. General and administration expenses decreased \$19.8 million, or 31%, to \$44.8 million in 2014 from \$64.6 million in 2013 primarily due to lower personnel and facility costs following the restructuring in the fourth quarter of 2013, when we incurred a charge of \$18.2 million for lease abandonments, asset write-offs, and severance charges. General and administration expenses as a percentage of revenues decreased to 10.1% for 2014 from 12.8% in 2013.

Income from operations. Income from operations increased \$49.0 million, or 150%, to \$81.7 million in 2014 from \$32.7 million in 2013. Although we had \$57.6 million less revenue in 2014 compared to 2013, our operating expenses were significantly lower following the restructuring in the fourth quarter of 2013, when we incurred a charge of \$54.7 million, as discussed above.

Interest expense. Interest expense decreased slightly to \$5.2 million in 2014 from \$5.4 million in 2013, primarily due to lower average debt outstanding in 2014.

Provision for income taxes. Income tax expense increased \$19.4 million, or 179%, to \$30.3 million in 2014 from \$10.9 million in 2013, primarily due to the increase in income before income taxes attributable to the factors discussed above. Our effective tax rate was 39.5% for 2014 compared to 39.8% for 2013, reflecting the recognition of certain state tax benefits in 2014.

Net income. Net income increased \$30.0 million to \$46.4 million in 2014 from \$16.4 million in 2013 due to the factors discussed above.

### Seasonality

Our quarterly results of operations tend to vary significantly within a year because of student enrollment patterns. Enrollment is generally lowest in the third quarter, or summer term. The following table sets forth our enrollment by term for 2013, 2014 and 2015:

### Enrollment by Term

Term	2013	2014	2015
Winter	47,926	41,098	40,728
Spring	46,130	41,327	40,875
Summer	38,627	36,403	37,221
Fall	43,192	42,189	42,975
Average	43,969	40,254	40,450

The following table sets forth our revenues on a quarterly basis for the years ended December 31, 2013, 2014 and 2015:

### Quarterly Revenues (dollars in thousands)

Three Months Ended	2013		2014		2015	
	Amount	Percent	Amount	Percent	Amount	Percent
March 31	\$ 137,506	27 %	\$ 116,468	26 %	\$ 111,885	26 %
June 30	131,980	26	112,747	25	109,750	25
September 30	110,031	22	100,756	23	99,142	23
December 31	124,083	25	116,070	26	113,660	26
Total for year	\$ 503,600	100 %	\$ 446,041	100 %	\$ 434,437	100 %

Costs generally are not affected by the seasonal factors as much as enrollment and revenue, and excluding one-time items, do not vary significantly on a quarterly basis.

## Liquidity and Capital Resources

At December 31, 2015, we had cash and cash equivalents of \$106.9 million compared to \$162.3 million at December 31, 2014. At December 31, 2015, most of our cash was invested in bank overnight deposits.

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. We also paid approximately \$0.9 million in transaction fees in connection with the amendment. The amended credit agreement provides for a \$150 million revolving credit facility and an option to establish incremental term loans under certain conditions. The amended 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 December 31, 2015.

Borrowings under the revolving credit facility bear interest at LIBOR or a base rate, plus a margin ranging from 1.75% to 2.25% (compared to 2.00% to 2.50% under the prior credit facility), depending on our leverage ratio. An unused commitment fee ranging from 0.25% to 0.35% (compared to 0.30% to 0.40% under the prior credit facility), depending on our leverage ratio, accrues on unused amounts under the revolving credit facility. During the years ended December 31, 2014 and 2015, we paid cash interest of \$4.4 million and \$2.4 million, respectively.

The amended credit agreement is guaranteed by Strayer University and is secured by substantially all of the personal property and assets of the Company and the guarantor. The amended credit agreement contains customary covenants, representations, warranties, events of default and remedies upon default. In addition, we must satisfy certain financial maintenance covenants, including a total leverage ratio, a coverage ratio and a U.S. Department of Education financial responsibility composite score. We were in compliance with all applicable covenants related to the amended credit agreement as of December 31, 2015.

Our net cash from operating activities decreased in 2015 to \$76.9 million, as compared to \$77.6 million for the same period in 2014. The decrease in net cash from operating activities was largely the result of the change in income from operations from \$81.7 million in 2014 to \$69.7 million in 2015, offset by changes in working capital. Capital expenditures were \$12.7 million for the year ended December 31, 2015, compared to \$6.9 million for the same period in 2014. Capital expenditures for the year ending December 31, 2016 are expected to be in the range of 3-4% of revenue.

For the year ended December 31, 2015, we did not repurchase any shares of common stock and, at December 31, 2015, had \$70 million in repurchase authorization to use through December 31, 2016. We did not pay a regular quarterly dividend in either 2014 or 2015.

In 2015, bad debt expense as a percentage of revenue was 3.0% compared to 3.8% for 2014. Days sales outstanding was 17 days at the end of the fourth quarter of 2015 compared to 15 days at the end of the fourth quarter of 2014.

In January 2016, we completed the acquisition of New York Code and Design Academy, which provides non-degree courses in web and application software development, primarily at its campus in New York City. We paid \$7.0 million up front and may pay up to an additional \$18.0 million to the sellers based on the achievement of certain performance objectives, including NYCDA's future revenue and operating results at the end of five years. The acquisition was funded through our existing cash and cash equivalents.

We have available \$150 million under our revolving credit facility. We believe that existing cash and cash equivalents, cash generated from operating activities, and if necessary, cash borrowed under the credit facility, will be sufficient to meet our requirements for at least the next 12 months. Currently, we maintain our cash in mostly FDIC-insured bank accounts. Excess cash is invested in money market funds, which is included in cash and cash equivalents at December 31, 2013, 2014 and 2015. We earned interest income of \$2,000, \$0.1 million and \$0.3 million in each of the years ended December 31, 2013, 2014 and 2015, respectively.



## Contractual Obligations

The table below sets forth our contractual commitments associated with operating leases, excluding subleases as of December 31, 2015:

	Payments Due By Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	\$ 167,064	\$ 37,240	\$ 62,083	\$ 41,601	\$ 26,140
Impact of Inflation					

Inflation has not had a significant impact on our historical operations.

## Off-Balance Sheet Arrangements

As of December 31, 2015, we do not have any off-balance sheet arrangements as defined by Item 303(a)(4) of the Securities Exchange Commission Regulation S-K.

## Item 7A. 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 December 31, 2015, 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 amended credit agreement provides for a \$150 million revolving credit facility and an option to establish incremental term loans under certain conditions. The amended 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 December 31, 2015. 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 were utilized.

Item 8. Financial Statements and Supplementary Data

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All other schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.	

Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders

Strayer Education, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Strayer Education, Inc. and its subsidiaries (the “Company”) at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia

February 19, 2016





## STRAYER EDUCATION, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2014	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 162,283	\$ 106,889
Tuition receivable, net	16,942	18,519
Other current assets	17,426	13,390
Total current assets	196,651	138,798
Property and equipment, net	82,266	77,139
Deferred income taxes	16,241	20,003
Goodwill	6,800	6,800
Other assets	5,857	5,694
Total assets	\$ 307,815	\$ 248,434
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 43,836	\$ 42,253
Income taxes payable	1,286	2,684
Deferred revenue	4,682	12,373
Other current liabilities	281	281
Current portion of debt	6,250	—
Total current liabilities	56,335	57,591
Long term debt	112,500	—
Other long-term liabilities	46,248	47,987
Total liabilities	215,083	105,578
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.01; 20,000,000 shares authorized; 10,903,341 and 11,027,177 shares issued and outstanding at December 31, 2014 and 2015, respectively	109	110
Additional paid-in capital	14,550	24,738
Retained earnings	77,985	118,008
Accumulated other comprehensive income	88	—
Total stockholders' equity	92,732	142,856
Total liabilities and stockholders' equity	\$ 307,815	\$ 248,434

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

## STRAYER EDUCATION, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	For the Year Ended		
	December 31,		
	2013	2014	2015
Revenues	\$ 503,600	\$ 446,041	\$ 434,437
Costs and expenses:			
Instruction and educational support	310,446	236,303	234,097
Marketing	75,426	66,495	70,084
Admissions advisory	20,390	16,661	16,304
General and administration	64,637	44,835	44,254
Total costs and expenses	470,899	364,294	364,739
Income from operations	32,701	81,747	69,698
Investment income	2	117	283
Interest expense	5,419	5,248	3,850
Income before income taxes	27,284	76,616	66,131
Provision for income taxes	10,859	30,260	26,108
Net income	\$ 16,425	\$ 46,356	\$ 40,023
Earnings per share:			
Basic	\$ 1.55	\$ 4.39	\$ 3.78
Diluted	\$ 1.55	\$ 4.35	\$ 3.73
Weighted average shares outstanding:			
Basic	10,584	10,561	10,588
Diluted	10,624	10,650	10,740

STRAYER EDUCATION, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	For the Year Ended		
	December 31,		
	2013	2014	2015
Net income	\$ 16,425	\$ 46,356	\$ 40,023
Other comprehensive income:			
Change in fair value of derivative instrument, net of income tax	764	60	(88 )
Comprehensive income	\$ 17,189	\$ 46,416	\$ 39,935

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

## STRAYER EDUCATION, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Common Stock	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	11,387,299	\$ 114	\$ 299	\$ 41,311	\$ (736 )	\$ 40,988
Tax shortfall associated with stock-based compensation arrangements	—	—	(702 )	(2,865 )	—	(3,567 )
Repurchase of common stock	(495,085 )	(5 )	(1,752 )	(23,242 )	—	(24,999 )
Restricted stock forfeitures and cancellations, net of grants	(94,750 )	(1 )	1	—	—	—
Stock-based compensation	—	—	9,291	—	—	9,291
Change in fair value of derivative instrument, net of income tax	—	—	—	—	764	764
Net income	—	—	—	16,425	—	16,425
Balance, December 31, 2013	10,797,464	108	7,137	31,629	28	38,902
Tax shortfall associated with stock-based compensation arrangements	—	—	(2,039 )	—	—	(2,039 )
Restricted stock grants, net of forfeitures	105,877	1	(1 )	—	—	—
Stock-based compensation	—	—	9,453	—	—	9,453
Change in fair value of derivative instrument, net of income tax	—	—	—	—	60	60

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Net income	—	—	—	46,356	—	46,356
Balance, December 31, 2014	10,903,341	109	14,550	77,985	88	92,732
Tax shortfall associated with stock-based compensation arrangements	—	—	(24 )	—	—	(24 )
Restricted stock grants, net of forfeitures	123,836	1	(1 )	—	—	—
Stock-based compensation	—	—	10,213	—	—	10,213
Change in fair value of derivative instrument, net of income tax	—	—	—	—	(88 )	(88 )
Net income	—	—	—	40,023	—	40,023
Balance, December 31, 2015	11,027,177	\$ 110	\$ 24,738	\$ 118,008	\$ —	\$ 142,856

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

## STRAYER EDUCATION, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Year Ended December 31,		
	2013	2014	2015
Cash flows from operating activities:			
Net income	\$ 16,425	\$ 46,356	\$ 40,023
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of gain on sale of assets	(281 )	(280 )	(280 )
Amortization of deferred rent	(462 )	(1,092 )	(345 )
Amortization of deferred financing costs	780	780	1,229
Depreciation and amortization	35,563	20,630	18,104
Deferred income taxes	(23,435 )	(1,036 )	(4,006 )
Stock-based compensation	9,291	9,453	10,213
Changes in assets and liabilities:			
Tuition receivable, net	4,024	685	(1,991 )
Other current assets	2,434	(2,862 )	4,005
Other assets	494	219	22
Accounts payable and accrued expenses	(116 )	6,550	(752 )
Income taxes payable and income taxes receivable	7,799	737	1,835
Deferred revenue	2,059	11,783	12,465
Other long-term liabilities	29,518	(14,373 )	(3,624 )
Net cash provided by operating activities	84,093	77,550	76,898
Cash flows from investing activities:			
Purchases of property and equipment	(8,726 )	(6,902 )	(12,692 )
Net cash used in investing activities	(8,726 )	(6,902 )	(12,692 )
Cash flows from financing activities:			
Payments on term loan	(3,125 )	(3,125 )	(118,750 )
Payment of deferred financing costs	—	—	(850 )
Repurchase of common stock	(24,999 )	—	—
Net cash used in financing activities	(28,124 )	(3,125 )	(119,600 )
Net increase (decrease) in cash and cash equivalents	47,243	67,523	(55,394 )
Cash and cash equivalents — beginning of year	47,517	94,760	162,283
Cash and cash equivalents — end of year	\$ 94,760	\$ 162,283	\$ 106,889
Non-cash transactions:			
Purchases of property and equipment included in accounts payable	\$ 47	\$ 412	\$ 365

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

STRAYER EDUCATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. With the Company’s focus on the student, regardless of whether he or she chooses to take classes at a physical campus or online, it has only one reporting segment.

2. Significant Accounting Policies

Financial Statement Presentation

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

Revenue Recognition

The Company’s educational programs are offered on a quarterly basis and such periods coincide with the Company’s quarterly financial reporting periods. Approximately 96% of the Company’s revenues during the year ended December 31, 2015 consisted of 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 Federal Financial Student Aid programs. 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, 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 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 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 Company’s academic terms coincide with its financial reporting periods, nearly all refunds are processed and 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 Company 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 for the summer 2013 term (fiscal third quarter) and subsequent terms qualify for the Graduation Fund. Students must meet all of the University's admission requirements, and must be enrolled in an undergraduate 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

## STRAYER EDUCATION, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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 twelve months is \$10.0 million and is included in deferred revenue as a current liability in the consolidated balance sheets.

The table below presents activity in the Graduation Fund for the years ended December 31, 2014 and 2015 (in thousands):

	2014	2015
Balance at beginning of year	\$ 1,898	\$ 9,706
Revenue deferred	8,507	17,882
Benefit redeemed	(699 )	(6,651 )
Balance at end of year	\$ 9,706	\$ 20,937
Cash and Cash Equivalents		

Cash and cash equivalents consist of cash maintained in mostly FDIC-insured bank accounts and cash invested in bank overnight deposits and money market mutual funds. The Company places its cash and temporary cash investments with various financial institutions. The Company considers all highly liquid instruments purchased with a maturity of three months or less at the date of purchase to be cash equivalents.

#### Concentration of Credit Risk

The Company places its cash and temporary cash investments in bank overnight deposits and money market mutual funds with various financial institutions. Cash and cash equivalent balances are in excess of the FDIC insurance limit. The Company has not experienced any losses on its cash and cash equivalents.

#### 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. There were no amounts payable for these obligations at December 31, 2015. At December 31, 2014, the Company had approximately \$0.2 million of these unpaid obligations, which are recorded as restricted cash and included in other current assets in the consolidated balance sheet.

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. Therefore, at the end of the quarter (and academic term), tuition receivable represents amounts due from students for educational services already provided and deferred revenue 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

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## STRAYER EDUCATION, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

The Company's tuition receivable and allowance for doubtful accounts were as follows as of December 31, 2014 and 2015 (in thousands):

	2014	2015
Tuition receivable	\$ 25,777	\$ 28,543
Allowance for doubtful accounts	(8,835 )	(10,024 )
Tuition receivable, net	\$ 16,942	\$ 18,519

Approximately \$1.6 million and \$2.0 million of tuition receivable is included in other assets as of December 31, 2014 and 2015, 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 each of the three years ended December 31, 2015 (in thousands):

	2013	2014	2015
Beginning allowance for doubtful accounts	\$ 6,596	\$ 10,303	\$ 8,835
Additions charged to expense	22,225	16,947	13,067
Write-offs, net of recoveries	(18,518 )	(18,415 )	(11,878 )
Ending allowance for doubtful accounts	\$ 10,303	\$ 8,835	\$ 10,024

## Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. In accordance with the Property, Plant and Equipment Topic, ASC 360, the carrying values of the Company's assets are re-evaluated when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an impairment loss has occurred based on expected undiscounted future cash flows, then a loss is recognized using a fair value-based model. Through 2015, no such impairment loss had occurred. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives ranging from 3 to 40 years. Depreciation and amortization amounted to \$35.6 million, \$20.6 million and \$18.1 million for the years ended December 31, 2013, 2014, and 2015, respectively.

Construction in progress includes costs of computer software developed for internal use, which is accounted for in accordance with the Internal-Use Software Topic, ASC 350-40. Computer software development costs that are incurred in the preliminary project stage are expensed as incurred. During the development stage, direct consulting costs, payroll, and payroll-related costs for employees that are directly associated with the project are capitalized and will be amortized over the estimated useful life of the software once placed into operation. Purchases of property and equipment and changes in accounts payable for each of the three years in the period ended December 31, 2015 in the Consolidated Statements of Cash Flows have been adjusted to exclude non-cash purchases of property and equipment transactions during that period.

## 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;

STRAYER EDUCATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- 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 a trade name, are recorded at fair market value on their acquisition date. An indefinite life was assigned to the trade name because it has the continued ability to generate cash flows indefinitely.

Goodwill and the indefinite-lived intangible asset are assessed at least annually for impairment during the three-month period ending September 30, 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. Under Accounting Standards Update No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment, the Company is permitted, but not required, to first assess qualitative factors to determine whether it is necessary to perform the more thorough quantitative goodwill impairment test. Following its qualitative assessment, the Company determined it was not more likely than not that the fair value of its goodwill was less than the carrying amount and, accordingly, no impairment existed in 2015.

#### Long-Term Liabilities

Included in the Company's long-term liabilities are amounts related to the Company's operating leases, deferred payments related to an acquisition completed in 2011, the fair value of the Company's interest rate swap, and the non-current portion of deferred revenue. In conjunction with the opening of some campuses and other facilities, the Company was reimbursed by the lessors for improvements made to those leased properties. In accordance with the Operating Leases Subtopic, ASC 840-20 ("ASC 840-20"), these 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. In accordance with ASC 840-20, the Company records rent expense on a straight-line basis over the initial term of a lease. The cumulative difference between the rent payment and the straight-line rent expense is recorded as a liability. The Company also records the non-current portion of the gain related to the sale and lease back of a campus facility as a long-term liability.

#### Accounting for Derivative Instruments and Hedging Activities

On the date that the Company enters into a derivative contract, it designates the derivative as a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a cash flow hedge). All derivatives are recognized in the balance sheet at their fair value.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded, net of income tax, in other comprehensive income, until

earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable-rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and

STRAYER EDUCATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively.

Authorized Stock

The Company has authorized 20,000,000 shares of common stock, par value \$.01, of which 10,903,341 and 11,027,177 shares were issued and outstanding as of December 31, 2014 and 2015, 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.

Advertising Costs

The Company expenses advertising costs in the quarter incurred, except for costs associated with the production of media commercials which are expensed when the commercial is first aired.

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 Consolidated Statements of Income for each of the three years in the period ended December 31, 2015 is based on awards ultimately expected to vest and, therefore, has been adjusted for estimated forfeitures. The Company is required to estimate forfeitures at the time of grant and revise 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.

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, (2) the amount of compensation cost associated with the stock awards for future service not yet recognized by the Company, and (3) the amount of tax benefits that would be recorded in additional paid-in capital when the stock awards become deductible for income tax purposes. 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. During the year ended December 31, 2015, the Company had no issued and outstanding stock options that were excluded from the calculation. Set forth below is a reconciliation of shares used to calculate basic and diluted earnings per share for each of the three years ended December 31, 2015 (in thousands):