

STRAYER EDUCATION INC

Form 10-Q

July 31, 2009

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q  
Quarterly Report Pursuant to Section 13 or 15 (d) of the  
Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2009  
Commission File No. 0-21039  
Strayer Education, Inc.  
(Exact name of registrant as specified in this charter)**

Maryland  
(State or other jurisdiction of incorporation  
or organization)

52-1975978  
(I.R.S. Employer  
Identification No.)

1100 Wilson Blvd., Suite 2500  
Arlington, VA  
(Address of principal executive offices)

22209  
(Zip Code)

Registrant's telephone number, including area code: (703) 247-2500

**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, and (2) has been subject to such filing requirements for the past 90 days.**

Yes  No

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

**Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Exchange Act). Yes  No**

**As of July 15, 2009, there were outstanding 13,992,907 shares of Common Stock, par value \$0.01 per share, of the Registrant.**

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**STRAYER EDUCATION, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

|  | December<br>31,<br>2008 | June 30,<br>2009 |
|--|-------------------------|------------------|
| <b>ASSETS</b>  |                         |                  |
| Current assets:  |                         |                  |
| Cash and cash equivalents  | \$ 56,379               | \$ 38,598        |
| Marketable securities available for sale, at fair value  | 50,952                  | 51,842           |
| Tuition receivable, net of allowances for doubtful accounts of \$4,776 and \$5,400 at December 31, 2008 and June 30, 2009, respectively                                    | 131,458                 | 130,912          |
| Income taxes receivable  | 3,534                   |                  |
| Other current assets   | 7,175                   | 6,540            |
| Total current assets   | 249,498                 | 227,892          |
| Property and equipment, net  | 66,304                  | 75,051           |
| Deferred income taxes  | 7,799                   | 9,508            |
| Restricted cash  | 500                     | 500              |
| Other assets   | 462                     | 462              |
| Total assets   | \$ 324,563              | \$313,413        |
| <b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>   |                         |                  |
| Current liabilities:   |                         |                  |
| Accounts payable   | \$ 17,099               | \$ 18,989        |
| Accrued expenses   | 4,567                   | 5,123            |
| Income taxes payable   |                         | 1,796            |
| Unearned tuition   | 114,872                 | 113,574          |
| Other current liabilities  | 281                     | 281              |
| Total current liabilities  | 136,819                 | 139,763          |
| Long-term liabilities  | 11,663                  | 11,584           |
| Total liabilities  | 148,482                 | 151,347          |
| Commitments and contingencies  |                         |                  |
| Stockholders' equity:  |                         |                  |
| Common stock, par value \$0.01; 20,000,000 shares authorized; 14,089,189 and 13,992,907 shares issued and outstanding at December 31, 2008 and June 30, 2009, respectively | 141                     | 140              |
| Additional paid-in capital   | 17,185                  | 877              |
| Retained earnings  | 158,834                 | 160,903          |
| Accumulated other comprehensive (loss) income  | (79)                    | 146              |
| Total stockholders' equity   | 176,081                 | 162,066          |

|  |            |           |
|--|------------|-----------|
| Total liabilities and stockholders' equity | \$ 324,563 | \$313,413 |
|--|------------|-----------|

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

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**STRAYER EDUCATION, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share data)

|                                      | For the three months<br>ended June 30, |            | For the six months<br>ended June 30, |            |
|--------------------------------------|--|------------|--------------------------------------|------------|
|                                      | 2008                                   | 2009       | 2008                                 | 2009       |
| Revenues                             | \$ 97,928                              | \$ 125,931 | \$ 195,002                           | \$ 250,409 |
| Costs and expenses:                  |  |            |                                      |            |
| Instruction and educational support  | 32,909                                 | 40,948     | 64,551                               | 80,017     |
| Marketing and admissions             | 16,729                                 | 20,029     | 31,824                               | 39,897     |
| General and administration           | 14,683                                 | 19,875     | 29,462                               | 37,805     |
| Income from operations               | 33,607                                 | 45,079     | 69,165                               | 92,690     |
| Investment and other income          | 785                                    | 375        | 2,821                                | 866        |
| Income before income taxes           | 34,392                                 | 45,454     | 71,986                               | 93,556     |
| Provision for income taxes           | 13,069                                 | 17,954     | 27,142                               | 37,003     |
| Net income                           | \$ 21,323                              | \$ 27,500  | \$ 44,844                            | \$ 56,553  |
| Earnings per share:                  |  |            |                                      |            |
| Basic                                | \$ 1.52                                | \$ 2.01    | \$ 3.19                              | \$ 4.11    |
| Diluted                              | \$ 1.50                                | \$ 2.00    | \$ 3.14                              | \$ 4.07    |
| Weighted average shares outstanding: |  |            |                                      |            |
| Basic                                | 14,001                                 | 13,653     | 14,052                               | 13,764     |
| Diluted                              | 14,248                                 | 13,771     | 14,294                               | 13,886     |
| Common dividends per share:          |  |            |                                      |            |
| Regular                              | \$ 0.38                                | \$ 0.50    | \$ 0.75                              | \$ 1.00    |
| Special                              |  |            | \$ 2.00                              |            |

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

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**STRAYER EDUCATION, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE INCOME**

(in thousands)

|  | For the three months<br>ended June 30, |           | For the six months<br>ended June 30, |           |
|--|--|-----------|--------------------------------------|-----------|
|  | 2008                                   | 2009      | 2008                                 | 2009      |
| Net income   | \$ 21,323                              | \$ 27,500 | \$ 44,844                            | \$ 56,553 |
| Other comprehensive income:                        |  |           |                                      |           |
| Unrealized (loss) gain on investment, net of taxes | (69)                                   | 20        | (250)                                | 225       |
| Comprehensive income                               | \$ 21,254                              | \$ 27,520 | \$ 44,594                            | \$ 56,778 |

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



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**STRAYER EDUCATION, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(in thousands, except share data)**

|   | Common Stock |        | Additional         | Retained   | Accumulated                                | Total      |
|---|--------------|--------|--------------------|------------|--|------------|
|   | Shares       | Amount | Paid-in<br>Capital | Earnings   | Other<br>Comprehensive<br>Income<br>(Loss) |            |
| Balance at December 31, 2007  | 14,426,634   | \$ 144 | \$ 87,080          | \$ 101,102 | \$ 181                                     | \$ 188,507 |
| Exercise of stock options   | 223,000      | 2      | 10,323             |            |  | 10,325     |
| Excess tax benefit from exercise of stock options and vesting of restricted shares  |              |        | 11,498             |            |  | 11,498     |
| Repurchase of common stock  | (419,682)    | (4)    | (68,972)           |            |  | (68,976)   |
| Restricted stock grants, net of forfeitures   | 42,937       |        |                    |            |  |            |
| Stock-based compensation  |              |        | 5,487              |            |  | 5,487      |
| Common stock dividends  |              |        |                    | (10,691)   |  | (10,691)   |
| Change in net unrealized gains (losses) on marketable securities, net of income tax |              |        |                    |            | (250)                                      | (250)      |
| Net income  |              |        |                    | 44,844     |  | 44,844     |
| Balance at June 30, 2008  | 14,272,889   | \$ 142 | \$ 45,416          | \$ 135,255 | \$ (69)                                    | \$ 180,744 |

|  | Common Stock |        | Additional         | Retained   | Accumulated                                | Total      |
|--|--------------|--------|--------------------|------------|--|------------|
|  | Shares       | Amount | Paid-in<br>Capital | Earnings   | Other<br>Comprehensive<br>Income<br>(Loss) |            |
| Balance at December 31, 2008   | 14,089,189   | \$ 141 | \$ 17,185          | \$ 158,834 | \$ (79)                                    | \$ 176,081 |
| Exercise of stock options  | 20,000       |        | 1,691              |            |  | 1,691      |
| Excess tax benefit from exercise of stock options and vesting of restricted shares |              |        | 1,554              |            |  | 1,554      |
| Repurchase of common stock   | (375,885)    | (4)    | (24,768)           | (40,354)   |  | (65,126)   |
| Restricted stock grants, net of forfeitures  | 259,603      | 3      | (3)<br>5,218       |            |  | 5,218      |

|   |            |        |        |            |    |     |            |
|---|------------|--------|--------|------------|----|-----|------------|
| Stock-based compensation  |            |        |        |            |    |     |            |
| Common stock dividends  |            |        |        | (14,130)   |    |     | (14,130)   |
| Change in net unrealized gains (losses) on marketable securities, net of income tax |            |        |        |            |    | 225 | 225        |
| Net income  |            |        |        | 56,553     |    |     | 56,553     |
| Balance at June 30, 2009  | 13,992,907 | \$ 140 | \$ 877 | \$ 160,903 | \$ | 146 | \$ 162,066 |

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

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**STRAYER EDUCATION, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

|   | For the six months ended June<br>30, |           |
|---|--------------------------------------|-----------|
|   | 2008                                 | 2009      |
| Cash flows from operating activities:   |                                      |           |
| Net income  | \$ 44,844                            | \$ 56,553 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                      |           |
| Loss on disposal of assets  |                                      | 155       |
| Amortization of gain on sale of assets  | (141)                                | (141)     |
| Amortization of deferred rent   | (217)                                | (91)      |
| Gain on sale of marketable securities   | (785)                                |           |
| Depreciation and amortization   | 4,991                                | 6,600     |
| Deferred income taxes   | (2,059)                              | (2,173)   |
| Stock-based compensation  | 5,487                                | 5,218     |
| Changes in assets and liabilities:  |                                      |           |
| Tuition receivable, net   | (1,755)                              | 546       |
| Other current assets  | (1,298)                              | 1,066     |
| Other assets  | (64)                                 |           |
| Accounts payable  | (1,111)                              | (589)     |
| Accrued expenses  | 1,155                                | 556       |
| Income taxes payable/receivable   | 5,098                                | 6,884     |
| Excess tax benefits from stock-based payment arrangements                         | (11,498)                             | (1,554)   |
| Unearned tuition  | 461                                  | (1,298)   |
| Deferred lease incentives   | 363                                  | 153       |
| Net cash provided by operating activities   | 43,471                               | 71,885    |
| Cash flows from investing activities:   |                                      |           |
| Purchases of property and equipment   | (10,032)                             | (13,023)  |
| Purchases of marketable securities  | (30,180)                             | (632)     |
| Proceeds from the sale of marketable securities                                   | 76,785                               |           |
| Net cash provided by (used in) investing activities                               | 36,573                               | (13,655)  |
| Cash flows from financing activities:   |                                      |           |
| Regular common dividends paid   | (10,691)                             | (14,130)  |
| Special common dividends paid   | (28,854)                             |           |
| Proceeds from exercise of stock options   | 10,325                               | 1,691     |
| Excess tax benefits from stock-based payment arrangements                         | 11,498                               | 1,554     |
| Repurchase of common stock  | (68,976)                             | (65,126)  |
| Net cash used in financing activities   | (86,698)                             | (76,011)  |
| Net (decrease) in cash and cash equivalents                                       | (6,654)                              | (17,781)  |
| Cash and cash equivalents beginning of period                                     | 95,036                               | 56,379    |

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|                                     |                              |           |           |
|-------------------------------------|------------------------------|-----------|-----------|
| Cash and cash equivalents           | end of period                | \$ 88,382 | \$ 38,598 |
| Non-cash transactions:              |                              |           |           |
| Purchases of property and equipment | included in accounts payable | \$ 843    | \$ 3,290  |

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

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**STRAYER EDUCATION, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Information as of June 30, 2008 and 2009 is unaudited.**

**1. Basis of Presentation**

The financial statements are presented on a consolidated basis. The accompanying financial statements include the accounts of Strayer Education, Inc. and Strayer University, Inc. (the University), collectively referred to herein as the Company.

The results of operations for the three months and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full fiscal year. All information as of June 30, 2008, December 31, 2008 and June 30, 2009 and for the three and six months ended June 30, 2008 and 2009 is unaudited but, in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the condensed consolidated financial position, results of operations and cash flows of the Company. The year end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The Company performed an evaluation of subsequent events through July 31, 2009, which is the date the financial statements were issued.

The Company's educational programs are offered on a quarterly basis. Approximately 97% of the Company's revenues during the six months ended June 30, 2009 consisted of tuition revenue. Tuition revenue is recognized in the quarter of instruction. Tuition revenue is shown net of any refunds, withdrawals, corporate discounts, scholarships and employee tuition discounts. At the time of registration, a liability (unearned tuition) is recorded for academic services to be provided and a tuition receivable is recorded for the portion of the tuition not paid upfront in cash. Revenues also include application fees, commencement fees, placement test fees, withdrawal fees, textbook-related income and other income which are recognized when incurred.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

**2. Nature of Operations**

Strayer Education, Inc., a Maryland corporation, conducts its operations through its subsidiaries. The University is an accredited institution of higher education that provides undergraduate and graduate degrees in various fields of study through its 67 physical campuses in Alabama, Delaware, Florida, Georgia, Kentucky, Maryland, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Utah, Virginia, West Virginia, and Washington, D.C. and worldwide via the Internet.

**Table of Contents****3. Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings per share reflects the potential dilution that could occur assuming vesting, conversion or exercise of all dilutive unexercised stock options and restricted stock. The dilutive effect of stock options was determined using the treasury stock method. Under the treasury stock method, the proceeds received from the exercise of stock options, the amount of compensation cost for future service not yet recognized by the Company, and the amount of tax benefits that would be recorded in additional paid-in capital when the stock options become deductible for income tax purposes are all assumed to be used to repurchase shares of the Company's common stock. 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. At June 30, 2009, all issued and outstanding stock options were included in the calculation.

Set forth below is a reconciliation of shares used to compute net income per share (in thousands):

|  | For the three months<br>ended June 30, |        | For the six months<br>ended June 30, |        |
|--|--|--------|--------------------------------------|--------|
|  | 2008                                   | 2009   | 2008                                 | 2009   |
| Weighted average shares outstanding used to compute basic net income per share | 14,001                                 | 13,653 | 14,052                               | 13,764 |
| Incremental shares issuable upon the assumed exercise of stock options         | 74                                     | 52     | 66                                   | 54     |
| Unvested restricted stock  | 173                                    | 66     | 176                                  | 68     |
| Shares used to compute diluted net income per share                            | 14,248                                 | 13,771 | 14,294                               | 13,886 |

**4. Credit Facilities**

The Company maintains two credit facilities from two banks with borrowing availability of \$10.0 million each. Interest on any borrowings under the facilities will accrue at an annual rate of no more than 1.25% above the London Interbank Offered Rate. There were no outstanding balances and there were no fees payable on either facility as of June 30, 2009.

**5. Stockholders Equity***Common stock*

A total of 20,000,000 shares of common stock, par value \$0.01, have been authorized. As of December 31, 2008 and June 30, 2009, the Company had 14,089,189 and 13,992,907 shares of common stock issued and outstanding, respectively. Commencing in the fourth quarter of 2008, the Company increased the annual cash dividend from \$1.50 to \$2.00 per share, or \$0.50 per share quarterly.

**Table of Contents***Stock-based compensation*

In January 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-based Payment*, ( SFAS 123(R) ) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options 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 Condensed Consolidated Statements of Income for the three and six months ended June 30, 2008 and 2009 is based on awards ultimately expected to vest and, therefore, has been adjusted for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are based on historical experience. SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The Company has elected to estimate fair value using the Black-Scholes option pricing valuation model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statements of Income. The Company's determination of fair value of share-based payment awards is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

*Stock-based compensation plans*

In July 1996, the Company's stockholders approved 1,500,000 shares of common stock for grants under the Company's 1996 equity compensation plan. This plan was amended by the stockholders at the May 2001 Annual Stockholders Meeting and at the May 2005 Annual Stockholders Meeting to increase the number of shares authorized for issuance thereunder by 1,000,000 and 500,000, respectively (as amended, the Plan ). A total of 3,000,000 shares have therefore been approved for grants under the Plan. The Plan was again amended at the May 2006 Annual Stockholders Meeting to authorize a one-time exchange of stock options for restricted stock by employees (excluding the five highest compensated executive officers) and to permit restricted stock and cash awards to qualify for favorable tax treatment under Section 162(m) of the Internal Revenue Code. The Plan provides for the granting of stock options as well as restricted stock to employees, officers and directors of the Company at the discretion of the Board of Directors. Vesting provisions are also at the discretion of the Board of Directors. Options may be granted at option prices based at or above the fair market value of the shares at the date of grant. The maximum term of the options granted under the Plan is ten years. In 2006, the Company began granting shares of restricted stock instead of stock options. The Company believes that annual grants of restricted stock are generally preferable as an equity compensation vehicle and more suited to the Company's long-term business model than larger, sporadic grants of stock options. This is so because shares of restricted stock have an intrinsic value when granted (as opposed to options) and therefore, the employee holding restricted stock shares a downside risk to such value with other owners of the Company's common stock.

In May 1998, the Company adopted the Strayer Education, Inc. Employee Stock Purchase Plan ( ESPP ). Under the ESPP, eligible employees may purchase shares of the Company's common stock, subject to certain limitations, at 90% of its market value at the date of

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purchase. Purchases are limited to 10% of an employee's eligible compensation. The aggregate number of shares of common stock that may be made available for purchase by participating employees under the ESPP is 2,500,000 shares.

In February 2009, the Company's Board of Directors approved grants of 253,142 shares of restricted stock to certain employees. Robert Silberman, Chairman and Chief Executive Officer, was granted 183,680 of these shares of restricted stock, none of which vest until February 10, 2019, subject to the satisfaction of certain academic and financial performance criteria. Karl McDonnell, President and Chief Operating Officer, was granted 45,920 of these shares of restricted stock, none of which vest until February 10, 2014, subject to the satisfaction of the same performance criteria that apply to Mr. Silberman's grant. The remaining 23,542 shares of restricted stock, which vest over a 3-5 year period, were granted to certain employees pursuant to the Company's existing annual equity compensation plan. Mr. Silberman and Mr. McDonnell do not participate in the employee annual equity compensation plan. The Company's stock price closed at \$217.77 on the date of these restricted stock grants.

In April 2009, the Company awarded a total of 6,770 shares of restricted stock. These shares were awarded to various non-employee members of the Company's Board of Directors, as part of the Company's annual director compensation program, as well as to a recently-hired corporate officer. The Company's stock price closed at \$175.82 on the date of this restricted stock grant.

The table below sets forth the stock option activity for the six months ended June 30, 2009 and other stock option information at June 30, 2009:

|                            | Number of<br>shares | Weighted-<br>average<br>exercise<br>price | Weighted-<br>average<br>remaining<br>contractual<br>life (yrs.) | Aggregate<br>intrinsic<br>value <sup>(1)</sup><br>(in thousands) |
|----------------------------|---------------------|---|---|--|
| Balance, December 31, 2008 | 167,084             | \$ 102.98                                 | 3.8   | \$ 18,618  |
| Grants                     |                     |   |   |  |
| Exercises                  | (20,000)            | \$ 84.55                                  |   |  |
| Forfeitures                |                     |   |   |  |
| Balance, June 30, 2009     | 147,084             | \$ 105.49                                 | 2.5   | \$ 16,564  |
| Vested, June 30, 2009      | 147,084             | \$ 105.49                                 | 2.5   | \$ 16,564  |
| Exercisable, June 30, 2009 | 147,084             | \$ 105.49                                 | 2.5   | \$ 16,564  |

(1) The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the respective trading day and



the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the respective trading day. The amount of aggregate intrinsic value will change based on the fair market value of our stock.

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The following table summarizes information regarding share-based payment arrangements for the six months ended June 30, 2008 and 2009 (in thousands):

|  | For the six months ended<br>June 30, |         |
|--|--------------------------------------|---------|
|  | 2008                                 | 2009    |
| Proceeds from stock options exercised  | \$10,325                             | \$1,691 |
| Excess tax benefits related to stock options exercised and vested restricted stock | \$11,498                             | \$1,554 |