

# 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, 1999 Commission file number: 0-21039

### STRAYER EDUCATION, INC.

(Exact name of registrant as specified in its charter)

MARYLAND  
(State or other jurisdiction of  
Number)  
incorporation or organization)

52-1975978  
(I.R.S. Employer Identification

1025 FIFTEENTH STREET, N.W., WASHINGTON, D.C. 20005

(Address of principal executive offices)

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE: (202) 408-2424

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

NONE  
(Title of class:)  
on

NONE  
(Name of each exchange  
which registered:)

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

COMMON STOCK, \$.01 PAR VALUE

(Title of Class)

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 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.

The aggregate market value of Common Stock held by non-affiliates of Registrant is \$404,620,107 (based upon the last sale price of the Common Stock as reported on the Nasdaq National Market System on February 29, 2000). The total number of shares of Common Stock outstanding as of February 29, 2000 was 15,304,490.

#### DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrant's Definitive Proxy Statement for its 2000 Annual Meeting of Stockholders (which is expected to be filed with the Commission within 120 days after the end of the Registrant's 1999 fiscal year) are incorporated by reference into Part III of this Report.

## PART I

### ITEM 1. BUSINESS.

#### OVERVIEW

Strayer Education, Inc. (the "Company"), through its wholly-owned subsidiary, Strayer University, Inc. ("Strayer" or the "University") is a regional proprietary institution of higher education that offers undergraduate and graduate degree programs to more than 11,500 students at thirteen campuses in Washington, D.C., Maryland and Virginia. The University is accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools ("Middle States"), one of the six regional collegiate accrediting agencies recognized by the U.S. Department of Education ("Department of Education" or "Department"). The majority of Strayer students are working adults pursuing their first college degree to improve their job skills and advance their careers. Of students enrolled in Strayer programs at the beginning of the 1999 Fall quarter, approximately 61% were age 30 or over and approximately 72% were engaged in a part-time course of study. The University considers a full-time undergraduate and graduate student to be one who completes 13.5 and 9.0 course credits in an academic quarter, respectively. In the 1999 Fall quarter, Strayer students completed an average of 8.9 course credits.

The Company has two additional wholly-owned subsidiaries, Education Loan Processing, Inc. ("ELP") and Professional Education, Inc. ("ProEd"). ELP is a finance company that purchases and services student loans, principally for the University, and administers the Strayer Education Loan Program (the "SEL Program"). ProEd was formed for the purpose of acquiring an information technology training company. No such acquisitions have been made as of the date of this report.

#### CAMPUS ORGANIZATION

The University organizes its academic programs and administrative operations on a decentralized campus basis to increase its responsiveness to student needs. A Campus Dean and a Campus Coordinator oversee the academic and administrative functions, respectively, at each campus. Each campus is staffed with personnel performing admissions, academic advising, financial aid and career development functions. A learning resources center at each campus supports the University's instructional programs. Each learning resources center contains a library and computer laboratories and is operated by a full-time manager and support staff.

#### CURRICULUM

The University offers a business-oriented curriculum to equip students with specialized knowledge and skills for careers in business, industry and government. The Academic Curriculum Committee reviews and revises the University's course offerings periodically to improve the educational programs and respond to changing and competitive job markets. The University formed a Curriculum Advisory Board in 1993 to support the program evaluation process. The Curriculum Advisory Board consists of University faculty, current and former Strayer students, and representatives from more than 16 private and federal sector employers in Maryland, Virginia, and the District of Columbia. The Curriculum Advisory Board also studies the career progress of University alumni. The University uses these studies to make decisions about curriculum development, resource allocation and faculty appointments.

The University offers programs in the following areas:

BACHELOR OF SCIENCE (B.S.) DEGREE	MASTER OF SCIENCE (M.S.) DEGREE	ASSOCIATE IN ARTS (A.A.) DEGREE
Accounting	Business Administration	Accounting
Business Administration	Information Systems	Business Administration
Computer Information Systems	Professional Accounting	Computer Information Systems
Computer Networking		Economics
Economics	DIPLOMA (CAREER DIVISION)	General Studies
International Business	Computer Information Systems	Marketing

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

Although all of the University's programs and courses are offered at each campus, the University adapts its offerings to the preferences of the student population at each location. In addition, Strayer students may enroll in courses at more than one campus. The following table shows Strayer's enrollment by major, program and campus location at the beginning of the 1999 Fall quarter:

**UNIVERSITY ENROLLMENT BY MAJOR, PROGRAM  
AND LOCATION -- 1999 FALL QUARTER**

MAJOR	PROGRAM	WASHINGTON D. C.	TAKOMA PARK	PRINCE GEORGE	MONTGOMERY	ANNE ARUNDEL	WHITE MARSH	ARLINGTON	ALEXANDRIA
Accounting.....	AA	34	18	19	0	0	5	14	10
	BS	104	56	34	6	0	6	41	80
	MS	19	12	6	2	0	0	18	11
Business Administration...	AA	113	28	64	6	0	7	36	22
	BS	258	144	112	18	36	11	159	181
	MS	74	55	24	14	4	9	81	86
International Business....	BS	19	8	4	6	2	1	12	18
Computer Information Systems.....	*	99	126	177	21	0	5	56	102
	AA	146	90	65	4	0	9	28	18
	BS	303	219	125	56	23	18	259	267
Computer Networking.....	BS	139	102	155	59	58	9	121	273
Information Systems.....	MS	92	50	30	29	9	4	128	111
Economics.....	AA	1	0	1	0	0	0	0	0
	BS	10	5	1	0	0	0	5	2
General Studies.....	AA	9	11	3	0	0	2	5	6
Marketing.....	AA	9	3	1	1	0	1	3	4
Non-Degree/Non-Program**..	--	157	141	128	39	20	20	187	106
Total Enrollment.....		1,586	1,068	949	261	152	107	1,153	1,297
		=====	=====	=====	=====	=====	=====	=====	=====

\* Diploma program.

\*\* Includes undeclared majors.

**UNIVERSITY ENROLLMENT BY MAJOR, PROGRAM  
AND LOCATION -- 1999 FALL QUARTER**

MAJOR	PROGRAM	WOODBIDGE	LOUDOUN	MANASSAS	FREDERICKSBURG	HENRICO	DISTANCE LEARNING	TOTAL ENROLLMENT
Accounting.....	AA	8	4	7	3	1	2	125
	BS	73	54	70	51	19	18	612
	MS	11	3	10	3	1	6	102
Business Administration.....	AA	23	22	23	15	2	6	367
	BS	251	164	177	162	56	45	1,774
	MS	88	58	86	72	31	23	705
International Business.....	BS	7	11	12	4	0	2	106
Computer Information Systems.....	*	94	90	79	51	10	5	915
	AA	33	28	20	37	3	20	501
	BS	314	241	263	214	52	63	2,417
Computer Networking.....	BS	273	189	165	173	88	25	1,829
Information Systems.....	MS	86	69	84	55	17	24	788
Economics.....	AA	0	0	0	0	0	0	2
	BS	1	3	6	0	0	0	32
General Studies.....	AA	2	2	4	3	0	4	51
Marketing.....	AA	3	1	6	0	0	0	33
Non-Degree/Non-Program**.....	--	39	105	95	33	31	44	1,145
Total Enrollment.....		1,306	1,044	1,107	876	311	287	11,504

\* Diploma program.

\*\* Includes undeclared majors.

In 1999, the Company opened two campuses in the state of Maryland and received approval to open the Chesterfield Campus in Richmond, Virginia. The Anne Arundel Campus opened and began recruiting students in the spring 1999 quarter. The White Marsh Campus opened and began recruiting students in the summer 1999 quarter. The Company also opened a campus in Montgomery County, Maryland in November 1998 and began recruiting students in the winter quarter of 1999.

The University allows students to apply credits earned in one program toward attainment of a more advanced degree. For example, a student originally pursuing a Diploma in Computer Information Systems can extend his or her original objective by taking additional courses leading to an A.A. degree in Computer Information Systems, a B.S. degree in Computer Information Systems, and ultimately an M.S. degree in Information Systems. The 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.

## **FACULTY**

The University seeks to appoint faculty who hold appropriate academic credentials, are dedicated, active professionals in their field, and are committed to teaching working adults. In accordance with its educational mission, the University focuses the efforts of its faculty on teaching. The normal course load for a full-time faculty member is four courses per quarter for each of three quarters, or 12 courses per academic year. With the approval of the Campus Deans, faculty members may teach a fifth course per quarter and extra courses during the summer quarter for additional compensation. The University requires full-time faculty members to hold counseling hours at least two hours per week for each course they teach.

Strayer provides financial support for faculty members seeking to update their skills and knowledge. The University maintains a tuition plan that reimburses instructors enrolled in advanced degree programs for one-half of their tuition charges. Strayer conducts annual in-house faculty workshops in each discipline. The University also fully reimburses its faculty for their costs in receiving computer-related instruction and training to keep current in information technology developments.

## **REGULATORY ENVIRONMENT**

The Higher Education Act of 1965 ("HEA"), as amended, and the regulations promulgated thereunder subject the University and all other higher education institutions that participate in the various federal student financial aid programs under Title IV of the HEA ("Title IV Programs") to significant regulatory scrutiny. The HEA mandates specific regulatory responsibility for each of the following components of the higher education regulatory triad: (i) the federal government through the Department of Education; (ii) the accrediting agencies recognized by the Department of Education; and (iii) state higher education regulatory bodies. The regulations, standards, and policies of these regulatory agencies frequently change. In October 1998, Congress reauthorized the HEA and amended numerous provisions of the HEA.

## **ACCREDITATION AND APPROVALS**

The University has been accredited by Middle States, an accrediting agency recognized by the Department of Education, since 1981. Accreditation is a system for recognizing educational institutions and their programs for performance, integrity and quality that entitles them to 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, evaluate institutions and professional programs for accreditation, and publicly designate those institutions that meet their criteria. Accredited schools are subject to periodic review by accrediting bodies to ensure that the schools maintain the performance, integrity and quality required for accreditation.

Middle States reaffirmed the University's accreditation in 1995. The University submitted an interim status report to Middle States on March 26, 1997, which Middle States accepted. Middle States also conducted a site visit to the Prince George's County, Maryland campus and the Distance Learning Center in

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Lorton, Virginia, in November 1997, and included them within the College's accreditation. The next scheduled evaluation visit by Middle States is currently set for the year 2000.

Middle States is the same accrediting agency that grants institutional accreditation to other degree-granting public and private colleges and universities in its region. Accreditation by Middle States is an important attribute of the University. Colleges and universities depend on accreditation in evaluating transfers of credit and applications to graduate schools. Employers rely on the accredited status of institutions when evaluating a candidate's credentials, and parents and high school counselors look to accreditation for assurance that an institution has quality educational standards. Moreover, scholarship commissions often restrict their awards to students attending accredited institutions, and institutional accreditation is necessary to qualify for eligibility for federal student financial assistance.

The University is authorized to offer its programs by the D.C. Education Licensure Commission, the Virginia State Council of Higher Education and the Maryland Higher Education Commission.

The Company is currently reviewing the University's need to obtain approval to offer its courses through Strayer Online in other states. Because online education is a recent development, its status under current educational regulations is unsettled.

The University is authorized by the Immigration and Naturalization Service (the "INS") of the U.S. Department of Justice to admit foreign students. The University also employs foreign faculty members and administrators in accordance with U.S. immigration laws. In addition, Strayer is approved for the education of veterans and members of the selective reserve and their dependents, as well as for the rehabilitation of handicapped students. Approximately 8.5% of the University's students are veterans or reservists.

**STUDENT CHARACTERISTICS**

The University's students primarily are working adults. At the beginning of the 1999 Fall quarter, approximately 72% of the enrollment consisted of part-time students, approximately 70% attended classes at night, and approximately 55% were women. The approximate age distribution of the students was as follows:

STUDENTS	AGE	PERCENTAGE OF
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21 or under.....		8%
22 to 29.....		31%
30 to 39.....		36%
40 to 49.....		20%
50 or over.....		5%

**STUDENT RECRUITMENT**

The University focuses its recruitment efforts on attracting students with the motivation and ability to complete its business-oriented educational programs. To generate interest among potential students, Strayer's marketing staff primarily employs direct mailings and television, radio and newspaper advertising. The University monitors the effectiveness of its various marketing efforts in producing student enrollment. Referrals constitute the most important source of inquiries from potential students.

The marketing department tracks and forwards to the University's admissions representatives responses to its direct mail and advertising campaigns. Admissions representatives at each campus pursue expressions of interest in Strayer by arranging interviews for prospective students. The representatives also conduct campus tours and otherwise assist prospective students in the application process. At December 31, 1999, the University employed 87 admissions representatives.

The University has entered into articulation agreements with Montgomery Community College and Stratford College to facilitate enrollment of students seeking to transfer course credits earned at these institutions. The University sponsors recruitment events at the campuses of each of these community colleges.

## **STUDENT ADMISSIONS**

The University seeks to ensure that incoming students have the necessary academic background to succeed in their course of study at Strayer. Students attending the University's undergraduate programs must possess a high school diploma or a General Educational Development Certificate. All students also must pass placement exams or submit acceptable standardized test scores. For admission to the University's programs, students must possess a certain level of proficiency in English and mathematics. Students attending the University's graduate programs must have a bachelor's degree from an accredited institution. If a student's undergraduate major varies widely from the student's proposed graduate course of study, certain undergraduate foundation courses may be necessary for admission to some of the highly technical courses offered at the graduate level.

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 do college-level work in an English-speaking institution.

## **TUITION AND FEES**

Strayer charges tuition by the credit hour. All courses offered are 4.5 credit hours. As of January 1, 2000, undergraduate, full-time students are charged at the rate of \$200 per credit hour. Undergraduate, part-time students are charged at the rate of \$210 per credit hour. Courses in graduate programs are charged at the rate of \$270 per credit hour. Accordingly, a full-time student seeking to obtain a bachelor's degree in four years currently would pay approximately \$9,000 per year in tuition. The University implemented a tuition increase of \$10.00 per credit hour for 2000.

## **SEL PROGRAM**

In 1995, Strayer began the SEL Program of loans for eligible students as an alternative to government-sponsored student loans. The SEL Program enables the University to reduce the significant administrative costs it incurs in processing loans under Title IV Programs and lessens the University's dependence on Federal student financial aid programs. The University believes that the SEL Program also helps it to attract and retain qualified students.

The Company designed the SEL Program for working adult students. The loans generally have maturities ranging from one to four years after graduation and bear interest at a fixed rate that is competitive with rates under Title IV Programs. Monthly loan payments begin the first month after the loan date and generally vary between \$200 and \$300, including loan principal as well as interest. Borrowers make payments while still enrolled, thereby reducing the debt they otherwise would assume upon completion of their studies. At December 31, 1999, there were a total of 2,153 loans outstanding with an aggregate loan balance of approximately \$6.8 million and an average individual loan balance of approximately \$3,179.

Loans under the SEL Program are unsecured. Strayer's underwriting involves a credit evaluation of each applicant. Student defaults on loans extended under the SEL Program have not been material.

## **CAREER DEVELOPMENT SERVICES**

The University actively assists its students and alumni with job placement and other career-related matters through career development offices located at each campus. Strayer's career development personnel conduct workshops on employment-related topics (including resume preparation, interviewing techniques and job search strategies), maintain job listings, arrange campus interviews by employers and provide other placement assistance. The University sponsors career fairs in the fall and spring quarters for students and alumni to discuss career opportunities with companies and governmental agencies in Maryland, Virginia, and the District of Columbia.

The University conducts annual alumni surveys to monitor the career progression of its graduates and to comply with the Middle States and state requirements to perform outcome assessments. The reliability of the survey data largely depends on the information reported to the University. The 1998 alumni survey, which had

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an approximately 27.5% overall response rate, indicated that 92.3% of those responding were employed. In addition, approximately 89.5% of undergraduate alumni and 91.6% of the graduate alumni who responded credit Strayer for the achievement of their professional goals. According to the survey, Strayer's greatest assets, in order of importance, are schedule variety, campus locations, instructor knowledge, personal class sizes and course selection.

Strayer students and graduates are employed in a wide range of regional and local companies, many of which are in the information technology industry. Federal governmental agencies also provide a significant source of employment.

## **COMPETITION**

The post-secondary education market in Strayer's market area is highly competitive. The University competes 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 the University at a lower tuition level, due to government subsidies, government and foundation grants, tax-deductible contributions and other financial aid sources not available to proprietary institutions. Tuition at private institutions generally is higher, and in some cases significantly higher, than the tuition at the University.

The University competes with other educational institutions primarily based on the quality of its business-oriented curriculum and instruction, its flexible schedules and convenient classroom locations, and its responsiveness to changing educational requirements of the workplace. Few of the University's competitors have modified their programs to meet the special needs of working adult students, although management believes that more may do so in the future.

## **EMPLOYEES**

During 1999, the University employed 718 faculty members, of whom 94 were full-time and 624 part-time, and 382 non-faculty staff in information systems, financial aid, recruitment and admissions, payroll and human resources, corporate accounting, and other administrative functions. Of the University's non-faculty staff, 267 were employed full-time and 115 part-time.

## **LICENSING AND FINANCIAL AID REGULATION**

### **STATE LICENSURE**

The University is dependent on the authorization of each state within which the University offers educational programs to allow it to operate and to grant degrees or diplomas to students. The University is subject to extensive regulation in each of the three jurisdictions (the District of Columbia, Virginia and Maryland) in which it currently operates. State laws and regulations affect the University's operations and may limit the ability of the University to introduce educational programs or establish new campuses. State authorization also is required in order for an institution to become and remain eligible to participate in Title IV Programs.

### **FINANCING STUDENT EDUCATION**

In the 1999 Fall quarter, approximately 43% of the University's students participated in one or more of the federally supported student financial aid programs. A substantial portion (approximately 47% in 1999) of the University's revenues are derived from tuition financed under Title IV Programs.

The University's financial aid programs are designed to assist eligible students whose financial resources are inadequate to meet the cost of education. Aid is awarded on the basis of financial need, generally defined under the HEA 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 financial aid must maintain a satisfactory grade point average and progress in a timely manner toward completion of a program of study.

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Generally, tuition must be paid (or arrangements made therefore) prior to the beginning of a quarter. The HEA requires that an institution have a "fair and equitable" refund policy, limiting the amount that an institution may charge a student who withdraws from the institution. A student is obligated only for a pro rata portion of the tuition and other fees charged by the institution if the student withdraws during the first 60% of the student's first period of enrollment at that institution. A student who withdraws after the first period of enrollment is also entitled to a refund, but a pro rata refund calculation is not required. If a student who is owed a refund received Title IV Program funds, the institution must allocate the refund to the appropriate lenders or Title IV Programs, in a specified order which excludes the Federal Work-Study Program.

The 1998 HEA amendments address an institution's refund policy with regard to Title IV Programs only. Under the new provision, the institution must first determine the amount of Title IV Program funds that the student "earned." If the student withdraws during the first 60% of any period of enrollment, 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. If the student withdraws after the 60% point, then the student earned 100% of the Title IV Program funds. The institution must return to appropriate lenders or Title IV Programs, in a specified order and excluding the Federal Work-Study Program, 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. This HEA amendment takes effect October 7, 2000, but an institution may choose to implement the provision earlier. The Company believes that the University's refund policy is consistent with the current HEA and has been updated to conform to the 1998 amendments.

Students finance their Strayer education in a variety of ways. A significant number of students utilize Federal financial aid programs. In addition, many of Strayer's working adult students finance their own education or receive full or partial tuition reimbursement from their employers. Congress recently extended the Internal Revenue Code's educational assistance programs provision under which an employee may exclude from wages up to \$5,250 of tuition reimbursement per year. In addition, Congress recently created several tax credits for students pursuing higher education and added a deduction for interest on student loans. Strayer offers grants, loans (including loans under the SEL Program), scholarships and work-study programs as financing options for its students.

### **TITLE IV PROGRAMS**

The University maintains eligibility for its students to participate in the following Title IV Programs:

**Federal Family Education Loans.** Pursuant to the Federal Family Education Loan Program (the "FFEL Program"), which includes the Federal Stafford Loan ("Stafford") program and the Federal PLUS (the "Parent Loan for Undergraduate Students") program, students and their parents can obtain from lending institutions subsidized and unsubsidized student loans, which are guaranteed by the federal government. The obligation to begin repaying Stafford loans is deferred until six months after the student graduates, withdraws or ceases to be enrolled on at least a half-time basis. Students who demonstrate financial need may qualify for a subsidized Stafford loan, and the Federal government will pay the interest on the loan while the student is in school and for six months after the student's graduation or withdrawal. Unsubsidized Stafford loans are available to students who do not qualify for a subsidized Stafford loan or in some cases in addition to a subsidized Stafford loan. The unsubsidized Stafford loan program now incorporates the former Federal Supplemental Loans for Students program.

**Pell Grants.** Grants under the Federal Pell Grant ("Pell") program are available to eligible students based on financial need and other factors.

**Campus-Based Programs.** The "campus-based" Title IV Programs include the Federal Supplemental Educational Opportunity Grant program, the Federal Work-Study program, and the Federal Perkins Loan ("Perkins") program.

**Direct Student Loans.** In 1993, Congress enacted the William D. Ford Federal Direct Loan Program (the "Direct Loan Program"), under which the Department of Education makes loans directly to students,

rather than guaranteeing loans made by lending institutions. The Direct Loan Program was phased in beginning in 1994-95. The University was approved to participate in this program beginning July 1, 1996.

### **OTHER FINANCIAL AID PROGRAMS**

In addition to the University's own student loan and scholarship programs, eligible students at the University may participate in educational assistance programs administered by the U.S. Department of Veterans Affairs, the U.S. Department of Defense, the District of Columbia and private organizations.

### **FINANCIAL AID REGULATION**

To be eligible to participate in Title IV Programs, the University must comply with specific standards and procedures set forth in the HEA and the regulations issued thereunder by the Department of Education. An institution must, among other things, be authorized by each state within which it operates to offer its educational programs and be accredited by a recognized accrediting agency. The institution also must be certified by the Department of Education to participate in Title IV Programs, based on a determination that, among other things, the institution meets certain standards of administrative capability and financial responsibility. For purposes of the Title IV Programs, the University and all of its campuses are considered to be a single "institution of higher education" so that Department of Education requirements applicable to an "institution of higher education" are applied to all of the University's campuses in the aggregate rather than on an individual basis. The University currently is certified to participate in Title IV Programs.

In October 1998, Congress reauthorized and amended the HEA. While the 1998 HEA amendments made numerous changes to Title IV Program requirements, the Company believes that these changes will not have a material adverse effect on the University. Most of the provisions of the 1998 HEA amendments were effective October 1, 1998. However, the Department of Education is required to engage in negotiated rulemaking with representatives of the higher education community before issuing regulations to implement the 1998 HEA amendments to the Title IV Programs. The Company believes that the University is in compliance with the new law.

Congress reauthorizes the HEA every five to six years. In addition 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, which in turn could lead to lower enrollments at the University or require the University to increase its reliance upon alternative sources of student financial aid. Given the significant percentage of the University's revenues that are derived indirectly from the Title IV Programs, the loss of or a significant reduction in Title IV Program funds available to the University's students could have a material adverse effect on the Company. In addition, the regulatory scheme applicable to the University has been subject to frequent revisions, many of which have increased the level of scrutiny to which higher education institutions are subjected and have raised the applicable standards. Congress and the Department of Education recently have focused in particular upon the operations of proprietary institutions, such as the University. The University's compliance with such regulations may affect the operations of the University and its ability to participate in Title IV Programs. Certain elements of the regulatory scheme applicable to the University are described below.

### **INCREASED REGULATORY SCRUTINY**

The 1992 amendments to the HEA formalized, modified and strengthened the regulatory structure known as the "Program Integrity Triad," which consists of the Department of Education, recognized accrediting agencies, and state higher education regulatory bodies. Congress intended this initiative to increase the regulatory scrutiny of post-secondary educational institutions. The 1998 HEA amendments preserve the "Program Integrity Triad" with some refinements. In addition to the Program Integrity Triad, other participants in Title IV Programs, notably student loan guarantee agencies, also have enforcement authority.

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## 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 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, and must not otherwise appear to lack administrative capability.

In certain circumstances, the Department of Education may certify the institution's continuing eligibility to participate in Title IV Programs on a provisional basis for no more than three years. 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 revoke the institution's certification to participate in Title IV Programs.

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 for any violation by the servicer of any Title IV provision. The University has written contracts with two third party loan servicers, Financial Aid Management for Education, Inc. and Weber and Associates, Inc. The servicers certify FFEL Program loan applications, prepare reports from the University to the Department of Education, issue checks for the Pell and campus-based programs, and issue and collect Perkins loans.

## FINANCIAL RESPONSIBILITY

The HEA and Department of Education regulations establish extensive standards of financial responsibility that institutions such as the University must satisfy to participate in Title IV Programs. These standards generally require that an institution provide the services described in its official publications and statements; provide the administrative resources necessary to comply with Title IV requirements; 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. Under standards that were effective prior to July 1, 1998, and may be applied to demonstrate financial responsibility for an institution's fiscal year beginning on or after July 1, 1996 and on or before June 30, 1998, for-profit institutions such as the University must also: (i) demonstrate an "acid test" ratio (defined as the ratio of cash, cash equivalents and current accounts receivable to current liabilities) of at least 1-to-1 at the end of its latest fiscal year; (ii) not have had operating losses in either or both of its two latest fiscal years that in sum result in a decrease in tangible net worth in excess of 10% of the institution's tangible net worth at the beginning of that two-year period; and (iii) have had a positive tangible net worth for its latest fiscal year. For the fiscal year ended December 31, 1999, the University's "acid test" ratio was 1.68.

New Department of Education financial responsibility standards, which took effect July 1, 1998, replace the three numeric tests described above with a more complex formula. The new standards focus on three financial ratios: (i) equity ratio (which measures the institution's capital resources, ability to borrow and financial viability); (ii) primary reserve ratio (which measures the institution's financial viability and liquidity); and (iii) net income ratio (which measures the institution's ability to operate at a profit or within its means). An institution must have a composite score of at least 1.5 to be deemed financially responsible without the need for further Federal oversight. The Company has applied the new financial responsibility standards to its audited financial statements as of and for the year ended December 31, 1999 and calculated a composite score of 3.0. The Company therefore believes that the University meets the Department's new financial responsibility standards.

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## STUDENT LOAN DEFAULTS

Under the HEA, an educational institution may lose its eligibility to participate in some or all of the Title IV Programs if defaults on the repayment of federally guaranteed student loans by its students exceed certain rates. A rate of student defaults (known as a "cohort default rate") is calculated for each institution annually by determining the rate at which borrowers who become subject to their repayment obligation in one federal fiscal year default by the end of the following federal fiscal year. For certain purposes described below, the Department of Education calculates a weighted average cohort default rate for the institution's students who enter repayment and default on a FFEL Program or Direct Loan Program loan.

If the Department of Education notifies an institution that its cohort default rate for FFEL Program loans equals or exceeds 25% for each of the three most recent federal fiscal years, the institution's participation in the FFEL Program ends 30 days after the notification, unless the institution timely appeals that determination on specified grounds and according to specified procedures. An institution's participation in the Direct Loan Program ends 30 days after notification that any combination of its FFEL Program cohort default rate, its Direct Loan Program cohort default rate, or its weighted average cohort default rate equals or exceeds 25% for each of the three most recent federal fiscal years, unless the institution timely appeals. An institution whose participation terminates under these provisions may not participate in the relevant program for a period of up to three federal fiscal years. The Department of Education also may initiate a proceeding to limit, suspend or terminate an institution's participation in the FFEL Program if it has any combination of a FFEL Program, Direct Loan Program or weighted average cohort default rate that is equal to or greater than 25% for each of the three most recent federal fiscal years. The Department of Education may initiate a proceeding to limit, suspend or terminate an institution's participation in all Title IV Programs if it has a FFEL Program, Direct Loan Program or weighted average cohort default rate that exceeds 40% for any federal fiscal year.

If an institution's FFEL cohort default rate equals or exceeds 25% in any of the three most recent federal fiscal years, the institution may be placed on provisional certification status. Provisional certification does not limit an institution's access to Title IV Program funds; however, an institution with provisional status is under closer review by the Department of Education and may be subject to summary adverse action if it commits violations of Title IV Program requirements. The University's cohort default rates on FFEL Program loans for the 1994, 1995, 1996 and 1997 federal fiscal years, the most recent years for which this information is available, were 16.0%, 15.2%, 14.5%, and 14.6%, respectively. The average default rates for proprietary institutions nationally were 21.1%, 19.9%, 18.2%, and 15.4% in fiscal years 1994, 1995, 1996 and 1997, respectively.

### THE "85/15 RULE"

Under what is commonly referred to as the "85/15 Rule," the HEA until recently provided that proprietary institutions, such as the University, were eligible to participate in Title IV Programs only if they derive no more than 85% of their revenues from Title IV Programs, as determined in accordance with a formula in the regulations. The 1998 HEA amendments increased the percentage of revenues that a for-profit institution can derive from Title IV Programs from 85% to 90%. The Department of Education has not yet issued regulations implementing this change, but the amendment was effective October 1, 1998. A proprietary institution that violates the "85/15 Rule" loses its eligibility to participate in Title IV Programs for at least one year. During 1999, the University derived 47% of its revenues from tuition financed under Title IV Programs.

### INCENTIVE COMPENSATION

As a part of an institution's program participation agreement with the Department of Education, the institution must certify that it will neither provide, nor contract with any entity that provides, 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, admission or financial aid awarding activity. Although there can be no assurance that the Department of Education will not find deficiencies in the University's present or former compensation plans, the University believes that its compensation plan complies with the HEA.

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## POTENTIAL EFFECT OF REGULATORY VIOLATIONS

If the University fails to comply with the regulatory standards governing Title IV Programs, the Department of Education could impose one or more sanctions, including transferring the University to the reimbursement system of payment, requiring repayment of certain Title IV funds, certifying the University's eligibility on a provisional basis, taking emergency action, referring the matter for criminal prosecution, or initiating proceedings to impose a fine or to limit, suspend or terminate the participation of the University in Title IV Programs. In addition, the University's guarantee agencies could limit, suspend or terminate its eligibility to provide guaranteed student loans in the event of certain regulatory violations. Although there are no such sanctions currently in force, and the University does not believe any such sanctions are contemplated, if such sanctions were imposed against the University and resulted in a substantial curtailment of the University's participation in Title IV Programs, the University would be materially and adversely affected.

If the University lost its eligibility to participate in Title IV Programs, or if the amount of available Federal student financial aid were reduced, the University would seek to arrange or provide alternative sources of revenue or financial aid for students. The SEL Program would provide one such alternative, but there can be no assurance that the SEL Program could provide loans sufficient to make up for the loss of Title IV Program funds. Although the University believes that one or more private organizations would be willing to provide financial assistance to students attending the University, there is no assurance that this would be the case, and the interest rate and other terms of such student financial aid might not be as favorable as those for Title IV Program funds. The University may be required to guarantee all or part of such alternative assistance or might incur other additional costs in connection with securing alternative sources of financial aid. Accordingly, the loss of eligibility of the University to participate in Title IV Programs would be expected to have a material adverse effect on the University even if it could arrange or provide alternative sources of revenue or student financial aid.

During 1999, the Department of Education conducted a program review of Strayer University. The Department of Education has issued a final program review determination letter indicating that Strayer University satisfactorily responded to the findings in the program review report. Based on the responses and representations submitted by the University, the Department of Education now considers the findings closed with no additional action required. In addition, no payments or refunds are required to be made to the Department of Education or other lending institutions.

## RESTRICTIONS ON ADDING LOCATIONS AND EDUCATIONAL PROGRAMS

State requirements and accrediting agency standards may in certain instances limit the ability of the University to establish additional locations and programs. District of Columbia regulations require institutions to submit an application for an amended license in order to add a new program or location. The Virginia State Council of Higher Education requires institutions to obtain approval prior to offering new educational programs at existing sites or instruction for degree credit at a new site located more than 25 miles or 30 minutes' travel time from an existing location. Maryland law and regulations require institutions to obtain the approval of the Maryland Higher Education Commission in order to offer an instructional program not specified in its certificate of approval or to offer more than one-third of the credit-bearing coursework leading toward a certificate or degree at a location not specified in its certificate of approval. Middle States requires institutions that it accredits to notify it in advance of implementing new programs or locations, and upon notification may undertake a review of the institution's accreditation. Based on its current understanding of how these standards will be applied, the University does not believe that these standards will have a material adverse effect on the University or its expansion plans.

The HEA 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 permit an institution that is already qualified to participate in Title IV Programs to establish an additional location that may immediately qualify, unless the location was acquired from another institution that has ceased offering educational programs at that location and has unpaid Title IV liabilities. The new location must satisfy all other applicable requirements for institutional eligibility, including approval of the additional location by the relevant state

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authorizing agency and the institution's accrediting agency. In addition, a location that qualifies as a "branch campus" must meet extensive regulatory requirements, including the standards of administrative capability and financial responsibility discussed above. The University's expansion plans assume its continued ability to establish new campuses as additional locations of the University without incurring the two-year delay in participation in Title IV Programs. The loss of state authorization or accreditation by the University or an existing campus, or the failure of the University or a new campus to obtain state authorization or accreditation, would render the University ineligible to participate in Title IV Programs in that state or at that location.

The Department of Education requires an institution to provide notice of an additional location that offers at least 50%, but less than 100%, of an educational program. The Department of Education may, in its discretion, require the institution to apply for approval before it awards or disburses Title IV Program funds to students enrolled at such location. The Department of Education regulations provide that that determination is based on the percentage of an educational program that is offered at the new location and on the financial and administrative capability of the institution. An institution must apply to the Department of Education for approval before it awards or disburses Title IV Program funds to students enrolled at a new branch campus or a new location at which it offers 100% of an educational program.

Generally, if an institution eligible to participate in Title IV Programs adds an educational program after it has been designated as an eligible institution, the institution must apply to the Department of Education to have the additional program designated as eligible. However, an institution is not obligated to obtain Department of Education approval of an additional program that leads to an associate, baccalaureate, professional or graduate degree or which prepares students for gainful employment in the same or related recognized occupation as an educational program that has previously been designated as an eligible program at that institution and meets certain minimum length requirements. In the event that an institution erroneously determines that an educational program is eligible for Title IV funds without the Department of Education's express approval, the institution may be liable for repayment of Title IV aid provided to students in that program. The Company does not believe that the Department of Education's regulations will create significant obstacles to the University's plans to add new programs.

## **DISTANCE LEARNING**

In 1997, the University received regulatory approval from the D.C. Education Licensure Commission, Virginia State Council of Higher Education, Maryland Higher Education Commission, and Middle States to offer all of its existing degree and diploma programs through Strayer Online via Internet-based telecommunications instruction. Instruction for this program is delivered from the Company's Distance Learning Center in Lorton, Virginia. During the Fall 1999 quarter, the University had 1,222 students participating in the distance learning program, of whom 287 students took classes solely through Strayer Online.

In addition to the regulation of distance education by state education licensure agencies and Middle States, the HEA imposes a limit on the amount of correspondence study an institution participating in Title IV Programs may offer. As amended in 1998, the HEA states that a student enrolled in a course of instruction that is offered in whole or in part through telecommunications and which leads to a recognized certificate for a program of study of one year or longer, or a recognized associate, bachelor or graduate degree conferred by such institution, is not considered to be enrolled in a correspondence course, unless the total number of telecommunications and correspondence courses offered by the institution equals or exceeds fifty percent of the total number of courses offered by the institution. The HEA also excludes from Title IV Program participation institutions at which more than one half of the enrolled students are enrolled in correspondence courses, except that the Secretary of Education is authorized to waive this limitation at his/her discretion in the case of colleges offering two- or four-year programs leading to an associate or bachelor degree. Department of Education regulations grant an automatic waiver for degree-granting institutions where students enrolling in correspondence courses receive five percent or less of the total Title IV Program funds received by all students enrolled at the institution. The University does not anticipate that the number of students enrolled in Strayer Online courses will equal or exceed one half of the University's total enrollment, or that the number of courses offered through Strayer Online will equal or exceed the total number of courses offered on its campuses. The

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University will monitor enrollment in and the offering of courses through Strayer Online to ensure that the prescribed limits are not exceeded.

## **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. The D.C. Education Licensure Commission may require an institution licensed by it to apply to amend its license prior to a change in ownership. The applicable laws and regulations of Virginia and Maryland do not specifically address reporting of changes in ownership. The 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 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.

The HEA provides that an institution which 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 1998 HEA amendments provide that the Department of Education may provisionally certify an institution seeking approval of a change of ownership based on preliminary review by the Department of a materially complete application received by the Department within ten business days of the transaction. The Department may continue such provisional certification on a month-to-month basis until it has rendered a decision on the institution's recertification application. The HEA 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 the Company, the Department of Education regulations implementing the HEA define a change in ownership resulting in a change of control as occurring when a change of control of the corporation takes place that gives rise to the obligation on the part of the corporation to file a Form 8-K with the SEC notifying that agency of the change of control.

As of December 31, 1999, Ron K. Bailey owned approximately 52.7% of the Company's outstanding stock jointly with his wife. If Mr. or Mrs. Bailey were to die, the surviving spouse would become the sole owner of those shares. The HEA and Department of Education implementing regulations allow a change in ownership upon the retirement or death of an owner to be treated as not resulting in a change of control if it involves the sale or transfer of the owner's ownership interest to a family member or to a person with an ownership interest who has been involved in the management of the institution for at least two years. However, the Department of Education requires schools to report such events to the Department of Education for review. District of Columbia, Virginia and Maryland law and Middle States policies do not specifically address changes in ownership resulting from the retirement or death of an owner. However, it is possible that one or more of these regulatory bodies would consider such a change in ownership to be a substantive change that must be reported by the institution and would require review or reauthorization of the institution.

Under INS regulations, if a school that is approved to admit foreign students changes ownership, approval will be automatically withdrawn 60 days after the change of ownership unless the school files a new petition for school approval within 60 days of that change of ownership. If, after conducting a review, the INS district director finds that the school's approval should not be continued, the district director must institute proceedings to withdraw the school's approval. The University currently has INS approval to admit foreign students.

If the University underwent a change of control that required re-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 the University's ability to offer certain educational

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programs, award certain degrees or diplomas, operate one or more of its locations, admit certain students or participate in Title IV Programs, which in turn would materially and adversely affect the University's operations. A change that required approval by a state regulatory authority, Middle States or a Federal agency could also delay the 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 the University's flexibility in future financing or acquisition transactions.

**VETERANS BENEFITS**

Pursuant to Federal law providing benefits for veterans and reservists, the University is approved for education of veterans and members of the selective reserve and their dependents by the state approving agency in the District of Columbia, Maryland, and Virginia.

**TAX REFORM ACT OF 1997**

In August 1997, Congress passed the Tax Reform Act of 1997 ("Act") which extended benefits associated with employer-provided educational assistance and added several new tax credits and incentives for students. The Act continues the exclusion from wages of up to \$5,250 of tuition reimbursement per year under the educational assistance programs provision. This provision does not apply to graduate level programs beginning after June 30, 1996, and it expires with respect to programs beginning after May 31, 2000. The Hope Scholarship Credit provides a tax credit of up to \$1,500 per year per eligible student for tuition and related expenses in the first two years of post-secondary education in a degree or certificate program. The Lifetime Learning Credit provides a tax credit of up to \$1,000 per year per taxpayer for tuition and related expenses for all post-secondary education, including graduate studies. Both of these credits are phased out for taxpayers with high modified adjusted gross income. The Act also provides that individuals can deduct interest paid on their student loans in the first five years of repayment, beginning with the 1998 Federal income tax return. The deduction is phased out for taxpayers with high modified adjusted gross income.

**ITEM 2. PROPERTIES.**

The University leases ten of its thirteen campuses, four of which are owned by corporations controlled by the Company's President and CEO, Ron K. Bailey. The leases with these corporations all have ten-year terms expiring in 2010, with three five-year renewal terms. See "Certain Transactions -- Lease of Campus Facilities" and Note 7 to the Company's consolidated financial statements. The table below sets forth certain information regarding each of the University's properties at December 31, 1999:

LOCATION -----	AREA IN SQUARE FEET -----	LEASE EXPIRES YEAR -----
Washington, D.C.....	33,000	2006
Alexandria, Virginia.....	22,000	Facility is owned
Arlington, Virginia.....	26,000	2002
Woodbridge, Virginia.....	20,800	2006
Manassas, Virginia.....	20,800	2006
Loudoun Campus (Ashburn, Virginia).....	33,000	Facility is owned
Fredericksburg, Virginia.....	17,500	2006
Takoma Park (Washington, D.C.).....	21,800	Facility is owned
Prince George's County, Maryland.....	12,000	2003
Distance Learning (Lorton, Virginia).....	16,200	2004
Henrico County (Glen Allen, Virginia).....	19,000	2003
Montgomery County (Germantown, MD).....	17,000	2005
Anne Arundel County, Maryland.....	17,000	2004
White Marsh (Baltimore, MD).....	20,000	2010

### ITEM 3. LEGAL PROCEEDINGS.

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

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were voted upon during the fourth quarter of 1999.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Common Stock is traded on the Nasdaq National Market under the symbol "STRA." The following table sets forth, for the periods indicated, the high and low sale prices of the Company's Common Stock, as reported on the Nasdaq National Market. All sale price information has been restated to reflect the Company's November 18, 1997 3-for-2 stock split.

	HIGH	LOW
-----	-----	
1996:		
Third Quarter (July 25 through September 30).....	\$17.88	
\$10.25		
Fourth Quarter.....	\$23.00	
\$16.38		
1997:		
First Quarter.....	\$17.92	
\$13.08		
Second Quarter.....	\$26.33	
\$13.08		
Third Quarter.....	\$30.33	
\$23.08		
Fourth Quarter.....	\$36.00	
\$28.00		
1998:		
First Quarter.....	\$34.75	
\$30.00		
Second Quarter.....	\$38.50	
\$33.00		
Third Quarter.....	\$35.00	
\$25.88		
Fourth Quarter.....	\$39.75	
\$25.63		
1999:		
First Quarter.....	\$39.63	
\$31.13		
Second Quarter.....	\$37.50	
\$26.25		
Third Quarter.....	\$32.81	
\$19.88		
Fourth Quarter.....	\$23.00	
\$12.87		

The last sales price of the Common Stock on February 29, 2000, as reported on the Nasdaq National Market, was \$26.438 per share. As of February 29, 1999, there were approximately 49 holders of record and 3,518 non-objecting beneficial shareholders. The Company believes that there are a number of holders of Common Stock whose shares are held in nominee accounts by brokers.

The Company has established a policy of declaring quarterly cash dividends at the rate of \$0.06 per share (\$0.24 annually) on the Company's Common Stock. The amount of dividends payable in the future will be reviewed periodically by the Company's Board of Directors in light of the Company's earnings, financial condition, capital needs and regulatory considerations. There is no requirement or assurance that dividends will be paid.



**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA (IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA AMOUNTS).**

The following table sets forth, for the periods and at the dates indicated, selected consolidated financial data for the Company. The financial information has been derived from the Company's consolidated financial statements. The information set forth below is qualified by reference to and should be read in conjunction with the Company's consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report.

	YEAR ENDED DECEMBER 31,				
	1995	1996	1997	1998	1999
<b>INCOME STATEMENT DATA:</b>					
Total revenues.....	\$38,196	\$45,005	\$53,131	\$62,872	\$69,776
Costs and expenses					
Instruction and educational support.....	16,168	17,808	19,738	22,355	25,082
Selling and promotion.....	4,281	4,457	5,476	5,923	7,765
General and administration(1).....	11,571	6,749	7,232	8,387	9,405
	32,020	29,014	32,446	36,665	42,252
Income from operations.....	6,176	15,991	20,685	26,207	27,524
Investment and other income.....	875	1,061	2,764	3,180	4,302
Income before income taxes.....	7,051	17,052	23,449	29,387	31,826
Provision for income taxes(2).....	--	2,740	9,012	11,440	12,500
Net income.....	\$ 7,051	\$14,312	\$14,437	\$17,947	\$19,326
Cash dividends per common share.....		\$ 0.04	\$ 0.17	\$ 0.23	\$ 0.24
<b>PRO FORMA DATA:(3)</b>					
Income before income taxes.....		\$17,052			
Income taxes.....		6,649			
Net income.....		\$10,403			
<b>NET INCOME PER SHARE (PRO FORMA FOR 1996)</b>					
Basic.....		\$ 0.84	\$ 0.96	\$ 1.15	\$ 1.25
Diluted.....		\$ 0.83	\$ 0.93	\$ 1.12	\$ 1.23
<b>WEIGHTED AVERAGE SHARES OUTSTANDING(4)</b>					
Basic.....		12,425	15,037	15,626	15,505
Diluted.....		12,593	15,590	16,063	15,711
<b>OPERATING DATA:</b>					
Enrollment(5).....	7,400	8,200	9,400	10,400	11,500

	AT DECEMBER 31,				
	1995	1996	1997	1998	1999
<b>BALANCE SHEET DATA:</b>					
Cash and cash equivalents.....	\$8,992	\$11,777	\$15,934	\$18,614	\$12,213
Working capital.....	8,327	15,574	20,600	23,363	18,170
Total assets.....	25,878	47,822	78,248	97,146	98,096
Long-term liabilities.....	--	189	137	330	141
Total liabilities.....	10,539	12,411	13,125	15,501	17,035
Total stockholders' equity.....	15,339	35,411	65,123	81,645	81,061

(1) Includes bonus payments to the former stockholder of the University (the "S Corporation Stockholder") of \$6.2 million in 1995 for the payment of income taxes by the S Corporation Stockholder on

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undistributed S Corporation income. In connection with the Company's initial public offering, effective July 25, 1996, the Company acquired the University and ELP, as a result of which the University and ELP changed their tax status from S Corporations to C Corporations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Background and Overview."

(2) Historical data for 1995 does not reflect any provision for income taxes. The University and ELP were S Corporations during such periods and therefore were not subject to income tax.

(3) Reflects the formation of the Company and the acquisition of the University by the Company as if those events had taken place on January 1, 1996. Following the termination of their status as S Corporations prior to completion of the Company's initial public offering, the University and ELP became subject to federal and state income tax. The pro forma data reflects the application of statutory corporate income tax rates to income before income taxes as if the termination of the S Corporation status of the University and ELP had occurred on January 1, 1996. The effective pro forma income tax rate for the year ended December 31, 1996 was 39%.

(4) Pro forma weighted average shares outstanding reflect the acquisition of the University by the Company in exchange for 8,998,500 shares of common stock, as if it had occurred on January 1, 1996. Subsequent to the closing of the initial public offering, the Company made a distribution to the stockholders of the University in respect of earnings previously subject to income tax during the University's period as an S Corporation (the "S Corp. Distribution"). As a result, pro forma weighted average shares outstanding also give effect to the increase in the number of shares which, when multiplied by the net per share proceeds of the offering, would have been necessary to fund distributions to the stockholders, including the S Corp. Distribution, during the twelve months ended July 1996, to the extent that such distributions exceeded net income during the same period.

(5) Reflects student enrollment as of the beginning of the Fall academic quarter for each year indicated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Seasonality."

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion contains statements that are forward looking. They are based on the Company's current expectations and are subject to a number of uncertainties and risks. The Company's actual results may differ materially. The uncertainties and risks include the pace of growth of student enrollment, our continued compliance with Title IV of the Higher Education Act, and the economic environment. Further information about these and other relevant risks and uncertainties may be found in the Company's other filings with the Securities and Exchange Commission, all of which are available from the Commission and from the Company's worldwide web site at <http://www.strayeredu.com>, as well as from other sources.

### **BACKGROUND AND OVERVIEW**

The University is a regional proprietary institution of higher education offering undergraduate and graduate degree programs at thirteen campuses in Maryland, Virginia, and the District of Columbia. The Company was incorporated in May 1996 to acquire all of the outstanding capital stock of the University and ELP from Mr. and Mrs. Ron K. Bailey, the previous sole stockholders of the University. Upon completion of the Company's initial public offering in July 1996, the University and ELP, which administers the SEL Program, became direct subsidiaries of the Company.

Revenues, operating income, and net income have increased in each of the last three years. From 1996 through 1999, revenues increased approximately 55.0%, operating income increased approximately 72.1%, and net income (pro forma) increased 85.8%. Over the three-year period, tuition revenue accounted for approximately 98.3% of total revenue. The number of students increased approximately 40.8% from 8,172 at the beginning of the 1996 Fall quarter to 11,504 at the beginning of the 1999 Fall quarter, and tuition rates increased approximately 11.7% over the last three years.

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The University's principal source of revenue is tuition collected from its students. The academic year of the University is divided into four quarters, which approximately coincide with the four quarters of the calendar year. Students generally must pay the entire tuition for each course prior to the beginning of the quarter. If a student withdraws from a course prior to completion, the University refunds a portion of the tuition. When students register for courses, tuition is recorded as unearned tuition, which is recognized as courses are taught through the academic quarter. Revenues also consist in part of fees and other revenues derived principally from application fees, "no show" fees, and bookstore sales. When a student registers for a course but does not attend any classes, the University may have no place in the course for another student and therefore imposes a "no show" fee on the registered student. Beginning in 1998, the Company contracted out its bookstore operations to a third party. Unless otherwise indicated, student enrollment information presented herein reflects enrollment as of the beginning of the Fall academic quarter for the applicable year, which is the beginning of the academic year and the industry practice for measuring enrollments at educational institutions.

The University records tuition receivable when students register for the academic quarter, generally prior to the end of the previous academic quarter. Because the University's academic quarters coincide with the calendar quarters, tuition receivable at the end of any calendar quarter largely represents student tuition due for the following academic quarter. Based upon past experience and judgment, the University establishes an allowance for doubtful accounts with respect to accounts receivable not included in unearned tuition. Any uncollected account more than six months past due is charged against the allowance. The University's historical bad debt expense related to tuition receivable as a percentage of revenue for the years ended December 31, 1997, 1998, and 1999 was 2.6%, 2.9%, and 2.4%, respectively.

The University's expenses consist of instruction and educational support expenses, selling and promotional expenses, and general and administration expenses. Instruction and educational support expenses generally contain items of expense directly attributable to the educational activity of the University. This expense category includes salaries and benefits of faculty, academic administrators, and student support personnel. Instruction and educational support expenses also include costs of educational supplies and facilities, including rent on campus leases, certain costs of establishing and maintaining computer laboratories, and all other physical plant and occupancy costs, with the exception of costs attributable to the Jessup, Maryland and Newington, Virginia facilities.

Selling and promotional expenses include salaries and benefits of personnel engaged in recruitment, admissions, promotion and development, as well as costs of advertising and production of marketing materials.

General and administration expenses include salaries and benefits of personnel engaged in accounting, personnel, compliance and other business functions, and plant and occupancy costs attributable to such functions.

Investment and other income consist primarily of earnings on investments.

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## RESULTS OF OPERATIONS

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

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Net revenues:.....	100.0%	100.0%	100.0%
Costs and expenses:			
Instruction and educational support.....	37.1	35.6	35.9
Selling and promotional.....	10.3	9.4	11.1
General and administration.....	13.6	13.3	13.5
Income from operations.....	39.0	41.6	39.5
Investment and other income.....	5.2	5.1	6.2
Income before taxes.....	44.2	46.7	45.7
Provision for income taxes.....	17.0	18.2	18.0
Net income.....	27.2%	28.5%	27.7%

### YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Revenues. Revenues increased 11.0% from \$62.9 million in 1998 to \$69.8 million in 1999 due to a 10.1% increase in the number of students and a 5% tuition increase in 1999.

Instruction and educational support expenses. Instruction and educational support expenses increased 12.2% from \$22.4 million in 1998 to \$25.1 million in 1999 due to an increase in the number of personnel to support increased enrollment, salary increases and the addition of the three new campuses.

Selling and promotional expenses. Selling and promotional expenses increased 31.1% from \$5.9 million in 1998 to \$7.8 million in 1999 due principally to increased advertising costs, and the addition of admissions personnel.

General and administration expenses. General and administration expenses increased 12.1% from \$8.4 million in 1998 to \$9.4 million in 1999 due principally to the addition of administrative personnel in order to support increased enrollments and the addition of three new campuses.

Income from operations. Income from operations increased 5.0% from \$26.2 million in 1998 to \$27.5 million in 1999. This increase was primarily due to the increase in student enrollment and tuition in 1999.

Provision for income taxes. Income tax expense increased 9.3% from \$11.4 million in 1998 to \$12.5 million in 1999. This increase was primarily due to the increase in income before taxes attributable to the factors discussed above.

Net income. Net income increased 7.7% from \$17.9 million in 1998 to \$19.3 million in 1999 because of the factors discussed above.

### YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Revenues. Revenues increased 18.3% from \$53.1 million in 1997 to \$62.9 million in 1998 due to a 10.9% increase in the number of students in 1998 and a 6.0% tuition increase for 1998.

Instruction and educational support expenses. Instruction and educational support expenses increased 13.3% from \$19.7 million in 1997 to \$22.4 million in 1998 due to an increase in the number of personnel to support increased enrollment, salary increases and the addition of the Henrico County, Virginia and Montgomery County, Maryland campuses.

Selling and promotional expenses. Selling and promotional expenses increased 8.2% from \$5.5 million in 1997 to \$5.9 million in 1998 due principally to increased advertising costs, and the addition of admissions personnel.

General and administration expenses. General and administration expenses increased 16.0% from \$7.2 million in 1997 to \$8.4 million in 1998 due principally to the addition of administrative personnel in order to support increased enrollments and the addition of the Henrico County, Virginia and Montgomery County, Maryland campuses.

Income from operations. Income from operations increased 26.6% from \$20.7 million in 1997 to \$26.2 million in 1998. This increase was primarily due to the increase in student enrollment and tuition in 1998.

Provision for income taxes. Income tax expense increased 26.9% from \$9.0 million in 1997 to \$11.4 million in 1998. This increase was primarily due to the increase in income before taxes attributable to the factors discussed above.

Net income. Net income increased 24.3% from \$14.4 million in 1997 to \$17.9 million in 1998 because of the factors discussed above.

## SEASONALITY

The Company's quarterly results of operations tend to vary significantly within a year because of student enrollment patterns. Enrollment generally is highest in the fourth, or Fall, quarter, and lowest in the third, or Summer, quarter. In 1999, enrollments at the beginning of the Winter, Spring, Summer and Fall academic quarters were 10,179, 9,778, 7,214 and 11,504, respectively. Costs generally are not affected by the seasonal factors and do not vary significantly on a quarterly basis. To some extent, however, instructional and educational support expenses are lower in the third quarter because fewer part-time faculty are needed.

The following table sets forth the Company's revenues on a quarterly basis for the years ended December 1997, 1998, and 1999.

### QUARTERLY REVENUE (DOLLARS IN THOUSANDS)

THREE MONTHS ENDED	1997		1998		1999	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
March 31.....	\$13,773	26%	\$16,849	27%	\$18,914	27%
June 30.....	13,639	25	16,375	26	17,643	25
September 30.....	10,030	19	11,783	18	12,866	19
December 31.....	15,689	30	17,865	29	20,353	29
Total for Year.....	\$53,131	100%	\$62,872	100%	\$69,776	100%
	=====	===	=====	===	=====	===

## LIQUIDITY AND CAPITAL RESOURCES

During 1999, the Company generated cash of \$18.3 million from operating activities. Investing activities used cash of \$5.1 million, principally for the purchase of property and equipment, including the Takoma Park campus. Cash used by financing activities was \$19.6 million for dividend payments of \$3.3 million and repurchase of \$17.7 million of common stock, offset by proceeds for the exercise of stock options, including tax benefits, of \$1.4 million.

At December 31, 1999, the Company had cash and cash equivalents and marketable securities of \$57.5 million compared to \$64.0 million at December 31, 1998. In addition, the Company has available a \$10.0 million credit facility from a bank. The Company believes that existing cash and cash equivalents, marketable securities, cash generated from operating activities and, if necessary, cash borrowed under the

credit facility, will be sufficient to meet the Company's requirements for at least the next 24 months. If the University decides to purchase additional campus facilities, it may finance such acquisitions with indebtedness.

## **IMPACT OF THE YEAR 2000**

The Year 2000 issue concerns the potential exposures related to the automated generation of business and financial misinformation resulting from the application of computer programs that have been written using six digits (e.g., 12/31/99), rather than eight (e.g., 12/31/1999), to define the applicable year of business. This date definition limitation could, unless corrected, cause some computer programs, hardware and non-information technology systems to be unable to process information containing dates after December 31, 1999.

As a result of the successful implementation and employment of the Company's Year 2000 readiness plan, the Company has experienced no disruption as a result of the year 2000 changeover. The Company is committed to continuous monitoring of all systems, applications and operating systems. Updates for applications and operating systems will be obtained as required.

The Company's costs to date for its Year 2000 compliance project, excluding the salaries of its employees, have not been material. In fact, the Company's IT systems have been modified by the suppliers of those systems and such modifications were included as part of normal upgrades of those systems. The Company does not currently believe that there are any outstanding year 2000 issues related to its IT systems, the IT systems of any vendor, or the IT systems of the Department of Education. There can be no guarantee, however, that internal systems, external systems, non-IT systems, and the systems of the Company's major suppliers will operate without failure as a result of residual year 2000 issues. The Company cannot assure that undetected internal and external Year 2000 issues will not materially impact its business, financial condition, results of operations and cash flows.

## **IMPACT OF INFLATION**

Inflation has not had a significant impact on the Company's historical operations.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.**

The Company is exposed to the impact of interest rate changes and changes in the market values of its investments. The Company invests its excess cash in marketable securities and certificates of deposit. At December 31, 1999 the Company's investments include certificates of deposit, money market funds, U.S. Government obligations (primarily fixed income securities) and high-quality equity securities. The Company employs established policies and procedures to manage its exposure to changes in the market risk of its marketable securities, which are classified as available-for-sale as of December 31, 1999. The Company has not used derivative financial instruments in its investment portfolio.

Investments in fixed rate interest earning instruments carry a degree of interest rate risk. These securities may have their fair market value adversely impacted due to a rise in interest rates. Investments in certificates of deposit and money market funds may adversely impact future earnings due to a decrease in interest rates. Due in part to these factors, the Company's future investment income may fall short of expectations due to changes in interest rates or the Company may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. As of December 31, 1999, a 10% increase or decline in interest rates will not have a material impact on the Company's future earnings, fair values, or cash flows related to investments in certificates of deposit or interest earning marketable securities. In addition, as of December 31, 1999, a 10% decrease in market values would not have a material impact on the Company's future earning, fair values, financial position or cash flows related to investments in marketable equity securities.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Strayer Education, Inc.

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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.

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## REPORT OF INDEPENDENT ACCOUNTANTS

The 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") as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for the opinion expressed above.

**PricewaterhouseCoopers LLP**

Washington, D.C.  
February 3, 2000

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**STRAYER EDUCATION, INC.**

**CONSOLIDATED BALANCE SHEETS**  
(IN THOUSANDS, EXCEPT SHARE DATA)

-----	1998	1999
-----	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$18,614	
\$12,213		
Marketable securities available for sale, at fair value...	6,420	
5,901		
Short-term investments -- restricted.....	922	
959		
Tuition receivable, net of allowances for doubtful		
accounts of \$295 and \$605, respectively.....	11,812	
14,997		
Income taxes receivable.....	275	
201		
Other current assets.....	491	
793		
-----		
Total current assets.....	\$38,534	
\$35,064		
Student loans receivable, net of allowances for losses.....	5,524	
6,436		
Property and equipment, net.....	13,880	
16,837		
Marketable securities available for sale, at fair value.....	38,986	
39,440		
Other assets.....	222	
319		
-----		
Total assets.....	\$97,146	
\$98,096		
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 166	\$
183		
Accrued expenses.....	943	
423		
Dividends payable.....	789	
917		
Unearned tuition.....	13,273	
15,371		
-----		
Total current liabilities.....	15,171	
16,894		
Deferred income taxes.....	330	
141		
-----		
Total liabilities.....	15,501	
17,035		
-----		
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$.01; 5,000,000 shares		
authorized, no shares issued or outstanding.....	--	
--		
Common stock, par value \$.01; 50,000,000 shares		
authorized; 15,277,774,477 shares issued and		
outstanding in 1998 and 1999, respectively.....	158	
153		
Additional paid-in capital.....	50,470	
34,175		

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

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**STRAYER EDUCATION, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Revenues.....	\$ 53,131	\$ 62,872	\$69,776
Costs and expenses:			
Instruction and educational support.....	19,738	22,355	25,082
Selling and promotion.....	5,476	5,923	7,765
General and administration.....	7,232	8,387	9,405
	32,446	36,665	42,252
Income from operations.....	20,685	26,207	27,524
Investment and other income.....	2,764	3,180	4,302
Income before income taxes.....	23,449	29,387	31,826
Provision for income taxes.....	9,012	11,440	12,500
Net income.....	\$ 14,437	\$ 17,947	\$19,326
	=====	=====	=====
NET INCOME PER SHARE:			
Basic.....	\$ 0.96	\$ 1.15	\$ 1.25
Diluted.....	\$ 0.93	\$ 1.12	\$ 1.23

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

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**STRAYER EDUCATION, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Net income.....	\$14,437	\$17,947	\$19,326
Other comprehensive income (loss):			
Unrealized gains (losses) on investments, net of taxes....	52	460	(204)
Comprehensive income.....	\$14,489	\$18,407	\$19,122
	=====	=====	=====

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

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**STRAYER EDUCATION, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
	SHARES	AMOUNT				
Balance, December 31, 1996.....	14,175,000	\$142	\$ 31,147	\$ 3,891	\$ 231	\$ 35,411
Proceeds from sale of common stock, net of offering expenses of \$1,189.....	1,158,750	12	15,021	--	--	15,033
Exercise of stock options.....	208,355	2	1,387	--	--	1,389
Reimbursement of prior year distribution to stockholders.....	--	--	--	84	--	84
Tax benefit from exercise of stock options.....	--	--	1,207	--	--	1,207
Dividends (\$0.17 per share).....	--	--	--	(2,490)	--	(2,490)
Net unrealized gains on marketable securities.....	--	--	--	--	52	52
Net income.....	--	--	--	14,437	--	14,437
Balance, December 31, 1997.....	15,542,105	156	48,762	15,922	283	65,123
Exercise of stock options.....	303,872	3	2,096	--	--	2,099
Repurchase of common stock.....	(71,500)	(1)	(2,388)	--	--	(2,389)
Dividends (\$0.23 per share).....	--	--	--	(3,595)	--	(3,595)
Tax benefit from exercise of stock options.....	--	--	2,000	--	--	2,000
Net unrealized gains on marketable securities.....	--	--	--	--	460	460
Net income.....	--	--	--	17,947	--	17,947
Balance, December 31, 1998.....	15,774,477	158	50,470	30,274	743	81,645
Exercise of stock options.....	133,203	1	903	--	--	904
Repurchase of common stock.....	(630,429)	(6)	(17,723)	--	--	(17,729)
Dividends (\$0.24 per share).....	--	--	--	(3,406)	--	(3,406)
Tax benefit from exercise of stock options.....	--	--	525	--	--	525
Net unrealized losses on marketable securities.....	--	--	--	--	(204)	(204)
Net income.....	--	--	--	19,326	--	19,326
Balance, December 31, 1999.....	15,277,251	\$153	\$ 34,175	\$46,194	\$ 539	\$ 81,061

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

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**STRAYER EDUCATION, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Cash flows from operating activities:			
Net income.....	\$ 14,437	\$ 17,947	\$ 19,326
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	1,236	1,625	1,894
Provision for student loan losses.....	325	353	216
Deferred income taxes.....	(174)	(147)	(248)
Other non-cash charges.....	--	75	--
Changes in assets and liabilities:			
Short-term investments -- restricted.....	(72)	(43)	(37)
Tuition receivable, net.....	(1,140)	(1,749)	(3,185)
Inventories.....	(95)	1,018	--
Income taxes receivable.....	--	(275)	74
Other current assets.....	(279)	238	(114)
Other assets.....	(138)	10	(97)
Trade accounts payable.....	48	(214)	17
Accrued expenses.....	89	114	(520)
Unearned tuition.....	629	1,494	2,098
Student loans originated or acquired.....	(4,078)	(4,293)	(5,124)
Collections on student loans receivable.....	2,114	2,854	3,996
Net cash provided by operating activities.....	12,902	19,007	18,296
Cash flows from investing activities:			
Purchases of property and equipment.....	(2,286)	(7,392)	(4,851)
Purchases of marketable securities.....	(34,380)	(19,739)	(9,298)
Maturities of marketable securities.....	12,698	11,975	9,030
Net cash used in investing activities.....	(23,968)	(15,156)	(5,119)
Cash flows from financing activities:			
Dividends paid.....	(2,490)	(2,806)	(3,278)
Proceeds from sale of common stock.....	15,033	--	--
Proceeds from exercise of stock options, including tax benefits.....	2,596	4,024	1,429
Repurchase of common stock.....	--	(2,389)	(17,729)
Other.....	84	--	--
Net cash provided by (used in) financing activities.....	15,223	(1,171)	(19,578)
Net increase (decrease) in cash and cash requirements.....	4,157	2,680	(6,401)
Cash and cash equivalents -- beginning of year.....	11,777	15,934	18,614
Cash and cash equivalents -- end of year.....	\$ 15,934	\$ 18,614	\$ 12,213

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

# STRAYER EDUCATION, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. ORGANIZATION AND NATURE OF OPERATIONS

Strayer Education, Inc. (the Company), a Maryland corporation, conducts its operations through its subsidiaries, Strayer University, Inc. (the University) and Education Loan Processing, Inc. (ELP). The University is a proprietary accredited institution of higher education that provides undergraduate and graduate degrees in various fields of study through its thirteen campuses in the District of Columbia, Maryland and Virginia. ELP provides student loans for the University's students. For purposes of the consolidated balance sheets, all of ELP's assets and liabilities have been classified as current assets and liabilities with the exception of student loans receivable, which have been classified as non-current consistent with industry practice.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Strayer Education, Inc. and its subsidiaries, the University, ELP, and Professional Education, Inc. All inter-company accounts and transactions have been eliminated in the consolidated financial statements.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of operating cash and cash invested in U.S. government obligations. The Company places its cash and temporary cash investments with high quality credit 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.

### INVESTMENTS

The Company's investments in marketable securities are considered "available-for-sale," and, as such, are stated at fair value. The net unrealized gains and losses are reported as a component of accumulated comprehensive income in stockholders' equity. Realized gains or losses from the sale of marketable securities are based on the specific identification method.

### TUITION REVENUES

Tuition income is deferred at the time of registration and is recognized as income, net of any refunds or withdrawals, throughout each respective quarter session. Advance registrations for the next quarter are shown as unearned tuition.

### STUDENT LOANS RECEIVABLE

Student loans receivable are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest income from student loans is recognized using the interest method.

Provisions for estimated losses on student loans are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of principal and interest in the existing loan portfolio, based upon historical trends, economic conditions and other information. ELP's charge-off policy is based on a loan-by-loan review; however, any loan with payments more than 120 days past due is written off against the allowance.

### CONCENTRATION OF CREDIT RISK

The Company places its cash and temporary cash investments with high credit quality institutions. At times cash and cash equivalent balances may be in excess of the FDIC insurance limit. The Company has not experienced any losses on its cash and cash equivalents.

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## STRAYER EDUCATION, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1. ORGANIZATION AND NATURE OF OPERATIONS -- (CONTINUED) Tuition receivables are not collateralized; however, credit risk is minimized as a result of the diverse nature of the University's student base in Maryland, Virginia, and the District of Columbia. The University establishes an allowance for doubtful tuition accounts based upon historical trends and other information.

Student loans are receivable from the University's students. The Company performs credit evaluations and requires cosigners in some instances to minimize credit risk.

#### INVENTORIES

Beginning in 1998, the Company contracted out its bookstore operations to an Internet service provider, MBS Direct. The Company no longer maintains bookstore inventories.

#### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation 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 \$1,236,000, \$1,625,000, and \$1,894,000 for the years ended December 31, 1997, 1998 and 1999, respectively.

#### INCOME TAXES

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

#### 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. Diluted earnings per share is computed by dividing net income by the weighted average common and potentially dilutive common equivalent shares outstanding, determined as follows.

	1997	1998	1999
Weighted average shares outstanding used to compute basic earnings per share.....	15,037,002	15,626,274	15,505,343
Incremental shares issuable upon the assumed exercise of stock options.....	552,774	436,982	205,180
Shares used to compute diluted earnings per share.....	15,589,776	16,063,256	15,710,523

Incremental shares issuable upon the assumed exercise of outstanding stock options is computed using the average market price during the related periods.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period reported. Actual results could differ from those estimates.

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**STRAYER EDUCATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

1. ORGANIZATION AND NATURE OF OPERATIONS -- (CONTINUED) COMMON STOCK SPLIT

During 1997, the Company's Board of Directors approved a 3-for-2 stock split. The stock dividend was paid on November 18, 1997 to shareholders of record on November 4, 1997. All prior share and per share information in the financial statements have been changed to give effect to this stock split.

**COMPREHENSIVE INCOME**

Comprehensive income consists of net income and unrealized gains on investments in marketable securities, net of income taxes.

2. INVESTMENTS

**SHORT-TERM INVESTMENTS -- RESTRICTED**

The U.S. Department of Education requires Title IV Program loan funds collected in excess of amounts due for tuition to be kept in a cash or cash equivalent account until such amounts are required to be remitted to students. These funds are invested in short-term U.S. Treasury Notes.

**MARKETABLE SECURITIES**

The cost and market value for each class of investments as of December 31, 1998 and 1999 are as follows (in thousands):

	1998			
	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
Certificates of deposit and money market funds.....	\$10,617	\$ 14	\$ --	\$10,631
Fixed income investments.....	22,989	348	--	23,337
Equity securities.....	10,584	854	--	11,438
Total.....	\$44,190	\$1,216	\$ --	\$45,406

	1999			
	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
Certificates of deposit and money market funds.....	\$ 8,852	\$ --	\$ --	\$ 8,852
Fixed income investments.....	23,835	23	435	23,423
Equity securities.....	11,771	1,295	--	13,066
Total.....	\$44,458	\$1,318	\$435	\$45,341

**STRAYER EDUCATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

**3. PROPERTY AND EQUIPMENT**

The composition of property and equipment as of December 31, 1998 and 1999 is as follows (in thousands):

	1998	1999
	-----	-----
Land.....	\$ 2,000	\$ 4,014
Buildings.....	4,639	5,414
Furniture and equipment.....	9,326	11,155
Leasehold improvements.....	3,735	3,967
Vehicles.....	22	22
	-----	-----
	19,722	24,572
Less accumulated depreciation and amortization.....	(5,842)	
(7,735)		
	-----	-----
	\$13,880	\$16,837
	=====	=====

**4. STUDENT LOANS RECEIVABLE**

Student loans receivable under the Strayer Education Loan Program as of December 31, 1998 and 1999 are as follows (in thousands):

	1998	1999
	-----	-----
Student loans receivable outstanding, including accrued interest.....	\$5,877	\$6,847
Allowance for loan losses.....	(353)	
(411)		
	-----	-----
Student loans receivable, net.....	\$5,524	\$6,436
	=====	=====

The interest rate on these student loans is generally 7.5%. The Company believes the carrying value of the student loans approximates their fair value. The loans require a minimum monthly payment of the greater of \$50 or 3% of the outstanding loan balance, plus interest while the student is in attendance. Upon the student's graduation or withdrawal, the loans become due in equal monthly installments of principal plus interest over 33.3 months.

**5. STOCK OPTION PLAN**

In July 1996, the Company set aside 1,500,000 shares of common stock for shares to be issued under the Company's 1996 Stock Option Plan (the Plan) that provided for the grant of options intended to qualify as incentive stock options, and also provided for the grant of non-qualifying options to directors and employees of the Company. Options may be granted to eligible employees of the Company at the discretion of the Board of Directors, at option prices based on the fair market value of the shares at the date of grant. Vesting provisions are at the discretion of the Board of Directors. Stock option activity for the years ended December 31, 1997, 1998, and 1999 is as follows:

SHARES

NUMBER OF

-----	
Balance, December 31, 1996.....	985,875
Grants.....	--
Exercises.....	(208,355)
Forfeitures.....	(50,462)
-----	

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**STRAYER EDUCATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

**5. STOCK OPTION PLAN -- (CONTINUED)**

SHARES	NUMBER OF
-----	
Balance, December 31, 1997.....	727,058
Grants.....	11,324
Exercises.....	(303,872)
Forfeitures.....	--
-----	
Balance, December 31, 1998.....	434,510
-----	
Grants.....	2,759
Exercises.....	(133,203)
Forfeitures.....	--
-----	
Balance, December 31, 1999.....	304,066
	=====

At December 31, 1999, the 304,066 stock options outstanding are exercisable. All of the options have an exercise price of \$6.67 per share and expire on July 25, 2001.

The Company accounts for the fair value of its stock options granted to employees and directors in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the Plan, since the exercise price of the options was equal to the fair value of the underlying common stock on the date of grant. Had compensation expense been determined based on the fair value of the options at the grant dates consistent with that method of accounting under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," the Company's pro forma net income and net income per share for the years ended December 31, 1997, 1998, and 1999 would have been decreased as indicated below (in thousands):

	1997	1998	1999
	-----	-----	-----
Net income:			
As reported.....	\$14,437	\$17,947	\$19,326
Pro forma.....	\$14,005	\$17,054	\$19,283
Net income per common share:			
Basic:			
As reported.....	\$ 0.96	\$ 1.15	\$ 1.25
Pro forma.....	\$ 0.93	\$ 1.09	\$ 1.24
Diluted:			
As reported.....	\$ 0.93	\$ 1.12	\$ 1.23
Pro forma.....	\$ 0.90	\$ 1.06	\$ 1.23

The fair value of each option granted in 1999 was estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions: dividend yield of 1.0%; expected volatility of 47%; risk-free interest rate of 5.25%; expected term of 2.1 years. The fair value at date of grant was \$25.55 per share. The fair value of each option granted in 1998 was estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions: dividend yield of 1.0%; expected volatility of 35%; risk-free interest rate of 4.17%; expected term of 2 years. The fair value at date of grant was \$20.08 per share. The remaining contractual life of the options as of December 31, 1999 was 1.58 years.

**6. OTHER EMPLOYEE BENEFIT PLANS**

The Company has a 401(k) profit sharing trust covering all eligible employees of the Company. Participants may defer a percentage of their salaries or make contributions up to 10% of their total compensation. Employee contributions are voluntary. Discretionary contributions are made by the Company

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**STRAYER EDUCATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

6. OTHER EMPLOYEE BENEFIT PLANS -- (CONTINUED) in the fourth quarter of each year, and were \$144,000, \$185,000 and \$186,000 for the years ended December 31, 1997, 1998 and 1999, respectively.

In May 1998, the Company adopted the Strayer Education 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 percent of its market value at the date of purchase. Purchases are limited to 10 percent 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. During 1998 and 1999, 4,116 and 11,962 shares, respectively, were purchased in the open market for employees, at average prices of \$31.81 and \$26.13 per share, respectively.

7. COMMITMENTS AND CONTINGENCIES

The University participates in various federal student financial assistance programs which are subject to audit. Management believes that the potential effects of audit adjustments, if any, for the periods currently under audit will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company has long-term operating leases for ten of its thirteen campuses and other administrative locations. Rent expense was \$3,294,000, \$3,658,000 and \$4,227,000 for the years ended December 31, 1997, 1998 and 1999, respectively. The University has the option to buy certain of these campus properties at their fair market value as determined by independent appraisal. The Washington D.C. campus and three of the Virginia campuses are leased from companies owned by the President and Chief Executive Officer and a majority stockholder of the Company. Rent paid to these companies was \$2,126,000, \$2,199,363 and \$2,040,167 for the years ended December 31, 1997, 1998 and 1999, respectively. During 1999, the Company acquired its Takoma Park Campus from its majority stockholder for \$1,024,000.

The rents on these leases are subject to an annual increase based on a stipulated price index. The minimum rental commitments for the Company as of December 31, 1999 are as follows (in thousands):

	TOTAL	TOTAL AMOUNT PAYABLE TO RELATED PARTIES
2000 .....	\$ 4,501	\$ 1,849
2001 .....	4,382	1,849
2002 .....	3,930	1,849
2003 .....	3,486	1,849
2004 .....	3,010	1,849
Thereafter .....	4,824	2,619
	\$24,133	\$11,864
	=====	=====

In addition, the Company has a credit facility from a bank in the amount of \$10.0 million. Interest on any borrowings under the facility will accrue at an annual rate not to exceed 0.75% above the London Interbank Offered Rate. The Company does not pay a fee for this facility, but in the event of any borrowings, an origination fee of 1% will be due on the amounts borrowed from time to time thereunder. There have been no borrowings by the Company under the credit facility.

On October 2, 1998, the Board of Directors authorized the Company to repurchase up to five percent of shares of its outstanding common stock at market prices, not to exceed a total cost of \$24 million. The timing of stock purchases are made at the discretion of management. The Company repurchased 71,500 shares and 630,429 shares during the years ended December 31, 1998 and 1999, respectively.

**STRAYER EDUCATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

7. COMMITMENTS AND CONTINGENCIES -- (CONTINUED) During the year 2000, the Board has authorized a stock repurchase program in an amount of up to 25% of net income.

8. INCOME TAXES

The income tax provision for the years ended December 31, 1997, 1998 and 1999 is summarized below (in thousands).

	1997	1998	1999
	-----	-----	-----
Current:			
Federal.....	\$7,422	\$ 9,620	\$10,453
State.....	1,764	1,967	2,295
	-----	-----	-----
	9,186	11,587	12,748
	-----	-----	-----
Deferred:			
Federal.....	(145)	(129)	(203)
State.....	(29)	(18)	(45)
	-----	-----	-----
	(174)	(147)	(248)
	-----	-----	-----
	\$9,012	\$11,440	\$12,500
	=====	=====	=====

The tax effects of the principal temporary differences that give rise to the Companies' deferred tax asset (liability) are as follows for the years ended December 31, (in thousands):

	1998	1999
	-----	-----
Tuition receivable and student loans.....	\$253	\$396
Property and equipment.....	143	203
Accrued vacation pay.....	--	45
Unrealized gains on marketable securities..... (344)	(473)	
	-----	-----
Net deferred tax asset (liability).....	\$(77)	\$300
	=====	=====

A reconciliation between the Company's statutory tax rate and the effective tax rate for the years ended December 31, 1997, 1998, and 1999 is as follows:

	1997	1998	1999
	-----	-----	-----
Statutory federal rate.....	35%	35%	35%
State income taxes, net of federal benefits.....	5%	5%	5%
Effect of prior year accruals.....	(2%)	(1%)	
(1%)			
	-----	-----	-----
Effective tax rate.....	38%	39%	39%
	=====	=====	=====

Cash payments for income taxes were \$8,147,000 in 1997, \$9,552,000 in 1998 and \$12,674,000 in 1999.

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**STRAYER EDUCATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

9. SUMMARIZED QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial information for 1998 and 1999 is as follows (in thousands except per share data):

1998	QUARTER			
	FIRST	SECOND	THIRD	FOURTH
Total revenues.....	\$16,849	\$16,375	\$11,783	\$17,865
Income from operations.....	8,109	7,310	2,278	8,510
Net income.....	5,376	4,924	1,890	5,757
Net income per share:				
Basic.....	\$ 0.35	\$ 0.32	\$ 0.12	\$ 0.36
Diluted.....	\$ 0.34	\$ 0.31	\$ 0.12	\$ 0.35

1999	QUARTER			
	FIRST	SECOND	THIRD	FOURTH
Total revenues.....	\$18,914	\$17,643	\$12,866	\$20,353
Income from operations.....	9,275	7,692	1,379	9,178
Net income.....	6,158	5,511	1,509	6,147
Net income per share:				
Basic.....	\$ 0.39	\$ 0.35	\$ 0.10	\$ 0.41
Diluted.....	\$ 0.39	\$ 0.35	\$ 0.10	\$ 0.40

**STRAYER EDUCATION, INC.**  
**SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS**  
 (IN THOUSANDS)

DESCRIPTION	BALANCE BEGINNING OF PERIOD	ADDITIONS CHARGED TO EXPENSE	DEDUCTIONS	BALANCE END OF PERIOD
Deduction from asset account:				
Allowance for doubtful accounts:				
Year ended December 31, 1999.....	\$295	\$1,695	\$(1,385)	\$605
Year ended December 31, 1998.....	230	1,302	(1,237)	295
Year ended December 31, 1997.....	164	1,379	(1,313)	230
Allowance for loan losses:				
Year ended December 31, 1999.....	353	216	(158)	411
Year ended December 31, 1998.....	283	213	(143)	353
Year ended December 31, 1997.....	147	325	(189)	283

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

**DIRECTORS AND EXECUTIVE OFFICERS**

The following table sets forth certain information regarding the executive officers and directors of the Company:

NAME ----	AGE ---	POSITION -----
Ron K. Bailey.....	59	Chief Executive Officer, President, Director
Harry T. Wilkins.....	43	Chief Financial Officer
Stanley G. Elmore.....	58	Chairman of the Board of Directors
Todd A. Milano.....	47	Director, Treasurer
Jennie D. Seaton.....	70	Director
Roland Carey.....	60	Director
Donald T. Benson.....	56	Director
G. Thomas Waite, III.....	48	Director
Charlotte Beason.....	52	Director

Ron K. Bailey is the Chief Executive Officer and President and has been a director of the Company since its formation. Mr. Bailey is currently the Chairman of the University and was the President and a trustee of the University from 1989 to 1997. He has been the President and a director of ELP since its formation in 1994. From 1980 to 1989, Mr. Bailey held a variety of administrative positions with the University, including the position of Vice President of the University. Before assuming his first full-time position with the University in 1980, Mr. Bailey was a part-time faculty member of the University and served as Director of Data Processing of the National Association of Home Builders.

Harry T. Wilkins is the Chief Financial Officer of the Company and has been the Director of Financial Affairs of the University since 1992. Prior to joining the University, Mr. Wilkins was a Director with the accounting firm of Wooden & Benson, Chartered from 1984 to 1992 and a member of the consulting practice of the accounting firm of Deloitte Touche (then Deloitte, Haskins and Sells) from 1979 to 1984. Mr. Wilkins is a Certified Public Accountant.

Stanley G. Elmore has been a director of the Company since July 1996. Mr. Elmore has served as the Chairman of the Board of Trustees of the University from 1989 to 1987. Mr. Elmore retired in 1998 from his position as Vice President, Citibank Mid-Atlantic, a position he had held since 1989.

Todd A. Milano is the Treasurer of the Company and has been a director of the Company since July 1996. Mr. Milano also served as the Vice Chairman of the Board of Trustees of the University from 1992 to 1999. Mr. Milano has been the President and Chief Executive Officer of Central Pennsylvania College since 1989.

Dr. Jennie D. Seaton has been a director of the Company since July 1996. Dr. Seaton has been a member of the Board of Trustees of the University since 1990 and was elected to Vice Chairman of the Board of Trustees of the University in 1999. Dr. Seaton is retired and was an Assistant Dean of Virginia Commonwealth University from 1975 to 1994.

Roland Carey has been a director of the Company since July 1996. Mr. Carey has been a member of the Board of Trustees of the University since 1990. Since August 1999, Mr. Carey has been an Instructor with the Louisa County Public School System of Virginia and Chairman of the Middle School Building Leadership

Team. Prior to his current position, Mr. Carey was the Program Coordinator, Carl Sandburg School for more than twelve years.

Donald T. Benson has been a director of the Company since July 1996. Mr. Benson has been a member of the Board of Trustees of the University since 1992. Mr. Benson serves as Senior Vice President, Human Resources and Real Estate Investment of Methodist Health Care System in Houston, Texas. From 1997 to 1998, Mr. Benson was Vice President, Human Resources and Administration of Coventry Corporation. Mr. Benson was Vice President, Human Resources of Aetna Inc. from 1992 to 1997.

G. Thomas Waite, III has been a director of the Company since July 1996. Mr. Waite has been a member of the Board of Trustees of the University since 1994. Mr. Waite has served as Treasurer and Chief Financial Officer, Humane Society of the United States since 1993.

Dr. Charlotte Beason has been a director of the Company since July 1996. Dr. Beason has been a member of the Board of Trustees of the University since 1995. Dr. Beason is a Nurse at the U.S. Department of Veterans Affairs, a position she has held for more than five years.

Directors of the Company are elected at the annual meeting of stockholders and serve until their successors are duly elected and qualified or until their earlier resignation or removal. Executive officers serve at the discretion of the Board of Directors.

#### **CERTAIN SIGNIFICANT EMPLOYEES OF THE UNIVERSITY**

The following information is supplied with respect to certain other significant employees of the University:

Dr. Donald Stoddard, 63, is the President of Strayer University. He was a director of the Company from July 1996 to July 1997. Dr. Stoddard has been a member of the Board of Trustees of the University since 1995. Dr. Stoddard was a Professor, Department of English, Anne Arundel Community College from 1990 to 1997. From 1979 to 1990, Dr. Stoddard was the Coordinator, Collegiate Institutional Approval, of the Maryland Higher Education Commission.

Younes P. Benab, Ph.D., 62, is the Academic Dean of the University, a position he has held since 1986.

J. Chris Toe, Ph.D., 45, has been the Administrative Dean of the University since 1997. From 1994 to 1997, Dr. Toe was the Director, Graduate Programs of the University. Dr. Toe joined the University in 1993 as an adjunct professor, becoming a full-time professor in 1994. Prior to joining the University, Dr. Toe was an independent consultant.

Marla Boulter, 44, is the University's Director of Public Relations, a position she has held since 1995. Ms. Boulter joined the University in 1990 as an accountant and was the University's Director of Marketing from 1991 to 1995.

Robert E. Farmer, 61, is the Director of Human Resources of the University, a position he has held since 1995. Mr. Farmer was the Campus Coordinator of the Arlington campus from 1992 until 1995, and was the Director of Admissions at that campus from 1990 to 1992. Mr. Farmer is a certified Professional in Human Resources (PHR).

Doug Lemon, 46, is the University's Director of Information Technology, a position he has held since August 1999. From 1996 to 1999, Mr. Lemon was the Director of Information Technology for the University of Maryland, University College.

Christopher Symanoskie, 28, is the Manager of Investor Relations, a position he has held since May 1998. Prior to his employment at Strayer, Mr. Symanoskie was the Manager of Financial Information at Callahan & Associates, a Washington D.C. based consulting firm, from 1996 to 1998.

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## COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has established an Audit Committee, an Executive Committee and a Compensation Committee.

**Audit Committee.** The Audit Committee consists of G. Thomas Waite, Roland Carey and Charlotte Beason. This committee makes recommendations concerning the engagement of independent public accountants, reviews with the independent public accountants the plans and results of the audit engagement, approves professional services provided by the independent public accountants and reviews the adequacy of the Company's internal accounting controls.

**Executive Committee.** The Executive Committee consists of Stanley Elmore, Ron Bailey and Jennie Seaton. This committee exercises such authority as is delegated to it.

**Compensation Committee.** The Compensation Committee consists of Donald Benson and Todd Milano. The Compensation Committee determines the compensation of the Company's executive officers, subject to the provisions of any employment agreements, and administers the Company's Stock Option Plan.

## COMPENSATION OF THE BOARD OF DIRECTORS

Directors are reimbursed for expenses incurred in connection with their attendance at Board and Committee meetings and currently receive compensation of \$1,700 per meeting.

## ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is hereby incorporated by reference from the information to be contained under the caption "Compensation" in the Company's 1999 Proxy Statement which will be filed no later than 120 days following December 31, 1999.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information regarding the ownership of Common Stock as of December 31, 1999, by each person known by the Corporation to be the beneficial owner of more than five percent (5%) of the outstanding shares of Common Stock, each director of the Corporation, and all executive officers and directors as a group. The information presented in the table is based upon the most recent filings with the Securities and Exchange Commission by such persons or upon information otherwise provided by such persons to the Corporation. Except as noted below, the address for all 5% beneficial owners is:  
1025 Fifteenth Street, N.W., Washington, D.C. 20005.

NAMES OF BENEFICIAL OWNERS(1) -----	SHARES BENEFICIALLY OWNED	
	NUMBER	PERCENT OF CLASS
Ron K. Bailey and Beverly W. Bailey(2).....	8,175,000	52.7%
Kayne Anderson Investment Management, LLC.(3) 1800 Avenue of the Stars Los Angeles, CA 90067.....	1,602,137	10.4%
T. Rowe Price Associates, Inc.(4) 100 East Pratt Street Baltimore, MD 21202.....	1,485,700	9.5%
Harry T. Wilkins.....	182,000	*
Stanley G. Elmore.....	11,850	*
Todd A. Milano.....	12,320	*
Jennie D. Seaton.....	7,950	*
Roland Carey.....	10,500	*
Donald T. Benson.....	9,075	*
G. Thomas Waite, III.....	3,128	*

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NAMES OF BENEFICIAL OWNERS(1)	SHARES BENEFICIALLY OWNED	
	NUMBER	PERCENT OF CLASS
Charlotte Beason.....	3,000	*
All directors and executive officers as a group (9 persons) (5).....	8,414,823	54.3%

\* Less than one percent

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or exercisable within 60 days are deemed outstanding for purposes of computing the percentage ownership of the person holding such option or warrant but are not deemed outstanding for purposes of computing the percentage ownership of any other person. Except where indicated otherwise, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(2) Includes 292,500 shares held by the Bailey Family Foundation.

(3) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 1, 2000. These securities are owned by various individual and institutional investors, which Kayne Anderson Investment Management, LLC. serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities and Exchange Act of 1934, Kayne Anderson Investment Management is deemed to be a beneficial owner of such securities; however, Kayne Anderson Investment Management expressly disclaims that it is, in fact, the beneficial owner of such securities.

(4) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2000. These securities are owned by various individual and institutional investors, which T. Rowe Price Associates, Inc. ("Price Associates") serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities and Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

(5) Includes currently exercisable options to purchase the following shares for each listed individual: Wilkins (150,000); Elmore (10,500); Milano (2,500); Seaton (1,600); Carey (10,500); Benson (7,500); Waite (0) and Beason (3,000).

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

**LEASE OF CAMPUS FACILITIES**

The Company has long-term non-cancelable operating leases for ten of its various campus locations. The rents on these leases are subject to an annual increase based on a stipulated price index. Of the ten leased campus locations, four of the campuses, including the Washington, D.C. campus and three of the Virginia campuses, were leased from corporations which are owned by Mr. Bailey, the Company's President, CEO and majority stockholder. Rent paid to Mr. Bailey under these operating leases and the Takoma Park lease prior to its purchase for the years ended December 31, 1997, 1998 and 1999 was \$2,126,000, \$2,199,363, and \$2,040,167, respectively. During 1999, the Company acquired its Takoma Park Campus from its majority

stockholder for \$1,024,000. Future minimum rental commitments for all of the Company's ten leases and the four campuses leased from Mr. Bailey as of December 31, 1999 was as follows (in thousands):

	TOTAL	TOTAL AMOUNT PAYABLE TO RELATED PARTIES
	-----	-----
2000.....	4,501	1,849
2001.....	4,382	1,849
2002.....	3,930	1,849
2003.....	3,486	1,849
2004.....	3,010	1,849
Thereafter.....	4,824	2,619
	-----	-----
	\$24,133	\$11,864
	=====	=====

Each of the four leases with Mr. Bailey has a 10-year term expiring in May 2006. The Company has the option under each such lease to purchase at any time during the term of the lease the related campus facility at its discretion at the fair market value of such facility as determined by independent appraisers.

The Company may lease additional campus facilities from entities owned or controlled by Mr. Bailey. Any such leases will have market terms as determined by an independent appraiser and be subject to the approval by a majority of independent directors.

#### **REORGANIZATION TRANSACTIONS**

On July 30, 1996, the Company completed an initial public offering of its common stock. The Company sold 5,175,000 shares in the offering at a price of \$6.67 per share. Net proceeds to the Company were \$31,313,000. Prior to the closing of the offering, the Company exchanged 8,998,500 shares of its common stock for 100% of the outstanding common stock of the University, which was held jointly by Mr. and Mrs. Ron K. Bailey, in their capacity as the S Corporation Stockholder. Approximately \$19,838,000 of the net proceeds of the offering were paid to the Baileys as a distribution of earnings on which they had previously paid income taxes during the period the University was an S Corporation.

Contemporaneously with the closing of the initial public offering, the Company acquired ELP at a purchase price of \$1,060,000, ELP's net book value. ELP was wholly owned by Mr. Ron K. Bailey, the Company's President and a director of the Company.

### **PART IV**

#### **ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.**

##### (a)(1) Financial Statements

All required financial statements of the registrant are set forth under Item 8 of this report on Form 10-K.

##### (a)(2) Financial Statement Schedules

All required financial statement schedules of the registrant are set forth under Item 8 of this report on Form 10-K.

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(a)(3) Exhibits

EXHIBIT NUMBER	DESCRIPTION
3.01*	-- Articles of Incorporation of the Company.
3.02*	-- Amended and Restated Bylaws of the Company.
4.01*	-- Specimen Stock Certificate.
10.01*	-- Lease Agreement, dated as of June 1, 1996, between Strayer University, Inc. and Fredericksburg Investments, Inc.
10.02*	-- Lease Agreement, dated as of June 1, 1996, between Strayer University, Inc. and Beacon Investments, Inc.
10.03*	-- Lease Agreement, dated as of June 1, 1996, between Strayer University, Inc. and Battleview Investments, Inc.
10.04*	-- Lease Agreement, dated as of June 1, 1996, between Strayer University, Inc. and Central Investments, Inc.
10.05*	-- Lease Agreement, dated as of June 1, 1996, between Strayer University, Inc. and Potomac Investments, Inc.
10.06*	-- Lease Agreement, dated as of October 1, 1991, between Strayer University, Inc. and GLM-Highland Building Limited Partnership.
10.07*	-- Lease Agreement, dated as of June 15, 1993, between Strayer University, Inc. and Alexandria Tech Center I.
10.08*	-- Employment Agreement, dated as of June 1, 1996, between Strayer Education, Inc. and Ron K. Bailey.
10.09*	-- Employment Agreement, dated as of June 1, 1996, between Strayer University, Inc. and Harry T. Wilkins.
10.10*	-- 1996 Stock Option Plan
10.11*	-- Form of Tax Indemnification Agreement
10.12*	-- First Amendment to Agreement of Lease for Office Condominium Space, dated July 25, 1994, between Strayer University, Inc. and Cross Creek Associates Limited Partnership.
10.13**	-- Lease Agreement, dated as of February 29, 1996, between Confederation Life Insurance Company (U.S.) in Rehabilitation and Strayer University, Inc.
10.14**	-- Office Building Lease, dated as of July 26, 1996, between Nikowski Limited Partnership and Strayer University, Inc.
10.15**	-- Office Lease Agreement, dated as of June 17, 1996, between 1133 Fifteenth Street Limited Partnership and Strayer University, Inc.
23.01	-- Consent of PricewaterhouseCoopers LLP
24.01	-- Power of Attorney (contained in signature page).
27+	-- Financial Data Schedule.

\* Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (No. 333-3967).

\*\* Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (No. 333-23601).

+ Included in electronic filing via EDGAR.

(b) Report on Form 8-K

None

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

### STRAYER EDUCATION, INC.

By: \_\_\_\_\_ RON K. BAILEY

(RON K. BAILEY, CHIEF EXECUTIVE  
OFFICER AND DIRECTOR)

Date: March 10, 2000

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## CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Strayer Education, Inc. and subsidiaries on Form S-8 (Nos. 333-3043 and 333-13597) of our report dated February 3, 2000, on our audits of the consolidated financial statements of Strayer Education, Inc. and subsidiaries as of December 31, 1999 and 1998, and for each of the three years in the period ended December 31, 1999, which report is included in this Form 10-K.

### PricewaterhouseCoopers LLP

Washington, D.C.  
March 24, 2000

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## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Ron K. Bailey and Harry T. Wilkins, and each of them individually, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and his name, place and stead in any and all capacities, to sign the report and any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed by the following persons in the capacities and on the date indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ RON K. BAILEY ----- (RON K. BAILEY)	Chief Executive Officer and Director (Principal Executive Officer)	March 10, 2000
/s/ HARRY T. WILKINS ----- (HARRY T. WILKINS)	Chief Financial Officer (Principal Financial and Accounting Officer)	March 10, 2000
/s/ STANLEY G. ELMORE ----- (STANLEY G. ELMORE)	Director	March 10, 2000
/s/ TODD A. MILANO ----- (TODD A. MILANO)	Director	March 10, 2000
/s/ JENNIE D. SEATON ----- (JENNIE D. SEATON)	Director	March 10, 2000
/s/ ROLAND CAREY ----- (ROLAND CAREY)	Director	March 10, 2000
/s/ DONALD T. BENSON ----- (DONALD T. BENSON)	Director	March 10, 2000
/s/ G. THOMAS WAITE ----- (G. THOMAS WAITE)	Director	March 10, 2000
/s/ CHARLOTTE BEASON ----- (CHARLOTTE BEASON)	Director	March 10, 2000

**ARTICLE 5**

CIK: 0001013934

NAME: STRAYER EDUCATION, INC.

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	12,213
SECURITIES	45,341
RECEIVABLES	22,449
ALLOWANCES	1,016
INVENTORY	0
CURRENT ASSETS	35,604
PP&E	24,572
DEPRECIATION	7,735
TOTAL ASSETS	98,096
CURRENT LIABILITIES	16,894
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	153
OTHER SE	80,908
TOTAL LIABILITY ANDEQUITY	98,096
SALES	0
TOTAL REVENUES	69,776
CGS	0
TOTAL COSTS	42,252
OTHER EXPENSES	0
LOSS PROVISION	1,911
INTEREST EXPENSE	0
INCOME PRETAX	31,826
INCOME TAX	12,500
INCOME CONTINUING	19,326
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	19,326
EPS BASIC	1.25
EPS DILUTED	1.23

# End of Filing