

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934  
For the quarter ended June 30, 1996

OR

// Transition Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number: 0-21039*

### **Strayer Education, Inc.**

(Exact name of registrant as specified in its charter)

Maryland

52-1975978

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

1025 15th Street, NW  
Washington, DC 20005

20005

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(202) 408-2400

Securities registered pursuant to Section 12(b) of the Act:

Not Applicable

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, and (2) has been subject to such filing requirements for the past 90 days. Yes // No  The Registrant became subject to such filing requirements on July 25, 1996.

As of August 23, 1996, there were outstanding 9,450,000 shares of Common Stock, par value \$.01 per share, of the Registrant.

STRAYER EDUCATION, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

STRAYER EDUCATION, INC.  
BALANCE SHEETS

ASSETS

	May 15, 1996	June 30, 1996
	-----	-----
Cash	\$ 1,000	\$ 1,000
Total current assets	\$ 1,000	\$ 1,000
	=====	=====

STOCKHOLDERS' EQUITY

Stockholders' Equity:		
Preferred stock, 5,000,000 shares authorized; no shares issued or outstanding	---	---
Common stock, par value \$.01, 20,000,000 shares authorized; 1,000 shares issued and outstanding	\$ 10	\$ 10
Additional paid-in capital	990	990
Total stockholders' equity	\$ 1,000	\$ 1,000
	=====	=====

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

**STRAYER EDUCATION, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**1. ORGANIZATION**

Strayer Education, Inc. (Company) was formed on May 10, 1996, as a Maryland corporation, and was capitalized on May 15, 1996 with cash of \$1,000. The Company commenced operations on July 25, 1996.

**2. SUBSEQUENT EVENTS**

On July 30, 1996, the Company completed an initial public offering of its common stock. The Company sold 3,450,000 shares in the Offering at a price of \$10 per share. Net proceeds to the Company were approximately \$31,332,000. Prior to the closing of the Offering, the Company exchanged 5,999,000 shares of its common stock for 100% of the outstanding common stock of Strayer College, Inc. (the College). The College is a proprietary accredited institution of higher education that provides undergraduate and graduate degrees in various fields of study through its eight campuses in the District of Columbia and Virginia.

Approximately \$19,838,000 of the net proceeds of the Offering were paid to the stockholders of the College as a distribution of earnings on which the stockholders had previously paid income taxes during the period the College was an S Corporation.

Contemporaneously with the closing of the initial public offering, the Company acquired Education Loan Processing, Inc. (ELP) at a purchase price of \$1,059,000, ELP's net book value. ELP was wholly owned by a stockholder of the Company and was established to purchase and service student loans from the College. Under generally accepted accounting principles, ELP's basis in its assets and liabilities will be carried over to the Company and the operations of ELP and the Company will be retroactively combined in a manner similar to a pooling of interest, because this acquisition is a combination of entities under common control.

The Company set aside 1,000,000 shares of common stock for shares to be issued under an incentive stock option plan established in July 1996. Options may be granted to eligible employees of the Company at the option 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.

The Financial Accounting Standards Board recently issued Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123), which encourages companies to adopt a fair value method of accounting for employee stock options and similar equity instruments. The fair value method requires compensation cost to be measured at the grant date based on the value of the award and is recognized over the service period. Alternatively, SFAS No. 123 requires pro forma disclosures of net income and earnings per share as if the fair value method had been adopted when the fair value method is not reflected in the financial statements. The Company has not yet determined which method it will follow. The requirements of SFAS No. 123 are effective for financial statements for fiscal years beginning after December 15, 1995.

**STRAYER COLLEGE, INC. AND AFFILIATE  
CONDENSED COMBINED BALANCE SHEETS**

(AMOUNTS IN THOUSANDS)

**ASSETS**

	December 31, 1995	June 30, 1996
	-----	-----
Current Assets:		(unaudited)
Cash and cash equivalents	\$ 8,992	\$ 12,943
Investments in marketable securities available for sale, at market	1,742	541
Short term investments - restricted	720	779
Tuition receivable, net	7,873	5,529
Inventories	725	616
Other current assets	58	73
	-----	-----
Total current assets	20,110	20,481
Student loans receivable, net	932	1,544
Property and equipment, net	2,874	3,113
Investments in marketable securities available for sale, at market	1,890	3,740
Other assets	72	246
	-----	-----
Total assets	\$ 25,878	\$ 29,124
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Trade accounts payable	\$ 360	\$ 348
Accrued expenses	542	492
Unearned tuition	9,504	6,900
Other current liabilities	133	219
	-----	-----
Total current liabilities	10,539	7,959
	=====	=====
Stockholders' Equity:		
Common Stock	4	4
Additional paid-in capital	2,100	1,142
Retained earnings	13,077	19,766
Net unrealized gain on investments	158	253
	-----	-----
Total stockholders' equity	15,339	21,165
	-----	-----
Total liabilities and stockholders' equity	\$ 25,878	\$ 29,124
	=====	=====

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

**STRAYER COLLEGE, INC. AND AFFILIATE**  
**CONDENSED COMBINED STATEMENTS OF INCOME**  
(UNAUDITED)  
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	For the three months ended June 30,		For the six months ended June 30,	
	1995	1996	1995	1996
Revenues:				
Tuition	\$ 9,366	\$ 11,034	\$ 19,355	\$ 22,604
Fees and other	336	580	982	1,425
	-----	-----	-----	-----
	9,702	11,614	20,337	24,029
	-----	-----	-----	-----
Costs and Expenses:				
Instruction and education support	3,683	4,521	7,725	9,098
Selling and promotion	851	755	1,687	1,729
General and administration	3,219	1,904	6,032	4,140
	-----	-----	-----	-----
	7,753	7,180	15,444	14,967
	-----	-----	-----	-----
Income from operations	1,949	4,434	4,893	9,062
Investment and other income	184	269	332	377
	-----	-----	-----	-----
Net Income	\$ 2,133	\$ 4,703	\$ 5,225	\$ 9,439
	=====	=====	=====	=====
Pro forma information (Note 3):				
-----				
Income taxes		\$ 1,839		\$ 3,691
		-----		-----
Net income		\$ 2,864		\$ 5,748
		=====		=====
Net income per share		\$ 0.39		\$ 0.78
Weighted average shares outstanding		7,401		7,401

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

**STRAYER COLLEGE, INC. AND AFFILIATE**  
**CONDENSED COMBINED STATEMENTS OF CASH FLOW**  
(UNAUDITED)  
(AMOUNTS IN THOUSANDS)

	For the six months ended June 30,	
	1995	1996
Cash flows from operating activities:		
Net income	\$ 5,225	\$ 9,439
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	324	374
Changes in assets and liabilities	3,660	(375)
Student loans originated or acquired	(538)	(1,505)
Collections on student loans receivable	304	681
Proceeds from sale of loans	---	212
Net cash provided by operating activities	8,975	8,826
Cash flows from investing activities:		
Purchases of property and equipment	(646)	(613)
Purchases of marketable securities	(5,277)	(1,805)
Sales of marketable securities	1,873	1,251
Net cash used in investing activities	(4,050)	(1,167)
Cash flows from financing activities:		
Distributions to stockholders	(1,950)	(3,708)
Capital contributions	1,100	---
Net cash used in financing activities	(850)	(3,708)
Net increase in cash	4,075	3,951
Cash and cash equivalents - beginning of period	5,564	8,992
Cash and cash equivalents - end of period	\$ 9,639	\$ 12,943

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

**STRAYER COLLEGE, INC. AND AFFILIATE**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS**  
**INFORMATION AS OF JUNE 30, 1996 IS UNAUDITED**  
(AMOUNTS IN THOUSANDS)

**1. BASIS OF PRESENTATION**

The combined financial statements include the accounts of Strayer College, Inc. and Education Loan Processing, Inc. (collectively "the Companies"), both of which are under the common control of Mr. and Mrs. Ron K. Bailey. All significant intercompany accounts and transactions have been eliminated.

The results of operations for the three and six months ended June 30, 1995 and 1996 are not necessarily indicative of the result to be expected for the full fiscal year. All information as of June 30, 1996 and for the three and six month periods ended June 30, 1995 and 1996 is unaudited but, in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the combined financial position, results of operations and cash flows of the Companies.

**2. NATURE OF OPERATIONS**

Strayer College, Inc. ("the College") is a proprietary accredited institution of higher education that provides undergraduate and graduate degrees in various fields of study. The College has eight campuses located in the District of Columbia and Virginia.

Education Loan Processing, Inc. (ELP) is a finance company that purchases and services student loans, principally for the College. ELP was incorporated in December 1994 and began operations in January 1995.

**3. INCOME TAXES AND PRO FORMA INFORMATION (UNAUDITED)**

The financial statements of the Companies do not include a provision for income taxes because the taxable income of the Companies was included in the income tax returns of the stockholders under the S Corporation elections.

In connection with the formation of Strayer Education, Inc. ("the Company"), the initial public offering of the Company's common stock ("the Offering"), and the acquisition of the Companies by the Company (see Note 8), the Companies filed elections with the IRS to terminate their status as S Corporation for tax purposes in July 1996. The Company will be subject to federal and state income taxes and will recognize deferred taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). SFAS No. 109 requires companies subject to income taxes to adjust their deferred tax assets and liabilities 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. Based upon temporary differences existing as of December 31, 1995 and June 30, 1996, the net deferred income tax assets are insignificant individually and in total.

The effective pro forma income tax rate differs from the 34% statutory federal rate principally as a result of state income taxes.

For informational purposes, the condensed combined statements of income for the three and six months ended June 30, 1996 include pro forma information reflecting the following adjustments.

- Pro forma income taxes reflect the application of statutory corporate income tax rates to the net income of the Companies as if the termination of the Corporation status of the Companies had occurred on January 1, 1996. The effective derived income tax rate for the three and six month periods ended June 30, 1996 was 39.1%.

- Pro forma net income per share and weighted average shares outstanding reflect the acquisition of the College by the Company in exchange for 5,999,000 shares of common stock, as if it had occurred on January 1, 1996. Subsequent to the closing of the Offering, the Company made a distribution to the stockholders of the College in respect of earnings previously subject to income tax during the College's period as an S Corporation (the "S Corp Distribution" - see Note 8). Therefore, pro forma earnings per share and 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 previous months, to the extent that such distributions exceeded net income during the same 12 months. Historical net income per share of the Companies have not been presented because such amounts are not meaningful in light of the transactions described above.

#### 4. CONTINGENCIES

##### **Federal Financial Assistance Programs**

The College participates in various federal student financial assistance programs which are subject to audit. Management believes that the potential effects of any future audit adjustments will not have a material adverse effect on the Companies' financial position, results of operations or cash flows.

#### 5. SUBSEQUENT EVENTS

Immediately prior to the closing of the Company's initial public offering on July 30, 1996, the Company acquired the common stock of the College from the former stockholders in exchange for 5,999,000 shares of the Company's common stock. The Company made the S Corp Distribution of \$19,838,000 from the proceeds of the Offering to the former stockholders of the College representing the amount of accumulated earnings of the College during its period as an S Corporation. An additional \$1,059,000 from the proceeds of the Offering was paid to the former stockholders in connection with the acquisition of ELP.

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

Certain of the statements included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as elsewhere in this report on Form 10-Q are forward-looking statements. These statements involve risks and uncertainties that could cause the actual results to differ materially from those expressed in or implied by such statements. These statements should be read in the context of those factors discussed under the heading "Risk Factors" in the Company's Registration Statement on Form S-1 (File No. 333-3967) declared effective by the Securities and Exchange Commission on July 25, 1996.

### **THREE MONTHS ENDED JUNE 30, 1995 COMPARED TO THREE MONTHS ENDED JUNE 30, 1996**

**Revenues.** Tuition revenue increased 17.8% from \$9.4 million in the second quarter of 1995 to \$11.0 million for the second quarter of 1996, due to a 10% increase in the number of students and a 7% tuition increase effective for 1996. Fees and other revenue increased 72.6% from \$.3 million in the 1995 quarter to \$.5 million in the 1996 quarter, principally as a result of the increase in the number of students in the 1996 quarter.

**Instruction and educational support expense.** Instruction and educational support expense increased 22.7% from \$3.7 million in the second quarter of 1995 to \$4.5 million in the second quarter of 1996. The increase was primarily attributable to an increase in library costs associated with a new computer system providing students with access to substantially more resource materials, increased financial aid costs due to the engagement of an outside contractor to manage the student loan default rate and improve financial aid administration and increased physical plant and occupancy costs resulting from the relocation of the Woodbridge campus to a new and larger facility with a higher lease rate.

**Selling and promotion expense.** Selling and promotion expense decreased 11.4% from \$.9 million in the second quarter of 1995 to \$.8 million in the second quarter of 1996, due to lower advertising costs, particularly for television advertising.

**General and administration expense.** General and administration expense decreased 40.8% from \$3.2 million in the second quarter of 1995 to \$1.9 million in the second quarter of 1996, due principally to the elimination of bonuses payable to Ron K. Bailey, president of the Company. Prior to 1996, general and administrative expense included bonuses paid to Mr. Bailey in amounts sufficient to pay the income taxes of Mr. and Mrs. Bailey as sole shareholders of the Company while it was a Subchapter S corporation for income tax purposes. Beginning in 1996, these amounts were paid to Mr. and Mrs. Bailey as distributions to shareholders (not reflected in general and administrative expense) and not to Mr. Bailey as bonuses. Excluding the bonus of \$1.8 million paid to Mr. Bailey in the second quarter of 1995, general and administration expense would have increased 30.3% from \$1.5 million in the 1995 quarter to \$1.9 million in the 1996 quarter. The principal reasons for the change were the addition of personnel in the areas of human resources, facilities management and administration and the effects of a 7% pay increase implemented in the fourth quarter of 1995.

**Income from operations.** Income from operations increased 127.6% from \$1.9 million in the second quarter of 1995 to \$4.4 million in the second quarter of 1996. Excluding the bonus of \$1.8 million paid to Mr. Bailey in the 1995 quarter, income from operations would have increased 19.9% from the 1995 quarter to the 1996 quarter.

Net income. Net income increased 120.5% from \$2.1 million in the second quarter of 1995 to \$4.7 million in the second quarter of 1996. Excluding the bonus of \$1.8 million paid to Mr. Bailey in the 1995 quarter, net income would have increased 21.1% from the 1995 quarter to the 1996 quarter.

### **SIX MONTHS ENDED JUNE 30, 1995 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996**

Revenues. Tuition revenue increased 16.8% from \$19.4 million in the six months ended June 30, 1995 to \$22.6 million in the six months ended June 30, 1996, due to a 9% increase in the number of students and a 7% tuition increase effective for 1996. Fees and other revenue increased 45.1% from \$1.0 million in the 1995 period to \$1.4 million in the 1996 period, principally as a result of the increase in the number of students in the 1996 period.

Instruction and educational support expense. Instruction and educational support expense increased 17.8% from \$7.7 million in the 1995 period to \$9.1 million in the 1996 period. The increase was primarily attributable to an increase in library costs associated with a new computer system providing students with access to substantially more resource materials, increased financial aid costs due to the engagement of an outside contractor to manage the student loan default rate and improve financial aid administration and increased physical plant and occupancy costs resulting from the relocation of the Woodbridge campus to a new and larger facility with a higher lease rate.

Selling and promotion expense. Selling and promotion expense was relatively unchanged from the 1995 period to the 1996 period.

General and administration expense. General and administration expense decreased 31.4% from \$6.0 million in the 1995 period to \$4.1 million in the 1996 period, due principally to the elimination of bonuses payable to Ron K. Bailey, as discussed above. Excluding the bonus of \$3.4 million paid to Mr. Bailey in the 1995 period, general and administration expenses would have increased 57.3% from \$2.6 million in the 1995 period to \$4.1 million in the 1996 period. The principal reasons for the change were the addition of personnel in the areas of human resources, facilities management and administration and the effects of a 7% pay increase implemented in the fourth quarter of 1995.

Income from operations. Income from operations increased 85.2% from \$4.9 million in the 1995 period to \$9.1 million in the 1996 period. Excluding the bonus of \$3.4 million paid to Mr. Bailey in the 1995 period, income from operations would have increased 9.2% from the 1995 period to the 1996 period.

Net income. Net income increased 80.7% from \$5.2 million in the 1995 period to \$9.4 million in the 1996 period. Excluding the bonus of \$3.4 million paid to Mr. Bailey in the 1995 period, net income would have increased 9.4% from the 1995 period to the 1996 period.

### **LIQUIDITY AND CAPITAL RESOURCES**

Since its acquisition by Ron K. Bailey in 1989, the Company has financed its activities through cash generated from operations. At June 30, 1996, the College had available cash, cash equivalents and marketable securities of \$17.2 million. On July 30, 1996, the Company completed an initial public offering of its common stock, resulting in net proceeds to the Company of approximately \$31.3 million. After application of the proceeds, the Company had available cash, cash equivalents and marketable securities of \$27.5 million. The Company believes that this amount, together with cash generated from operations, will be sufficient to meet its anticipated operating cash requirements, including the funding of student loans and any acquisition of campuses, for at least the next 24 months. If the College determines to acquire a campus facility, it may finance the acquisition with indebtedness.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

None

**ITEM 2. CHANGES IN SECURITIES.**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None

**ITEM 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS.**

None

**ITEM 5. OTHER INFORMATION.**

None

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits: The following are annexed as Exhibits:

Exhibit Number	Description
-----	-----
27.2	Financial Data
Schedule	

(b) Reports on Form 8-K:

None

**SIGNATURES**

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

**STRAYER EDUCATION, INC.**

*Date: September 4, 1996*

*By: /s/ Harry T, Wilkins*

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*Harry T. Wilkins  
Chief Financial Officer*

## INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION	PAGE
----- 27.2	----- Financial Data Schedule	-----

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**ARTICLE 5**

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	JUN 30 1996
CASH	12,943
SECURITIES	4,281
RECEIVABLES	5,529
ALLOWANCES	0
INVENTORY	616
CURRENT ASSETS	20,481
PP&E	3,113
DEPRECIATION	0
TOTAL ASSETS	29,124
CURRENT LIABILITIES	7,959
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	4
OTHER SE	21,161
TOTAL LIABILITY ANDEQUITY	29,124
SALES	0
TOTAL REVENUES	24,029
CGS	0
TOTAL COSTS	0
OTHER EXPENSES	14,967
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	9,439
INCOME TAX	0
INCOME CONTINUING	0
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	9,439
EPS PRIMARY	0
EPS DILUTED	0

# End of Filing