

# STRAYER EDUCATION INC

**FORM 8-K**  
(Current report filing)

Filed 10/26/2006 For Period Ending 10/26/2006

Address	1100 WILSON BLVD., SUITE 2500 ARLINGTON, Virginia 22209
Telephone	703-247-2500
CIK	0001013934
Industry	Schools
Sector	Services
Fiscal Year	12/31

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 8-K  
CURRENT REPORT

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

Date of report (Date of earliest event reported)                      OCTOBER 26, 2006  
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STRAYER EDUCATION, INC.  
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(Exact name of registrant as specified in its charter)

MARYLAND  
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(State or other jurisdiction of incorporation)

0-21039

52-1975978  
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(Commission File Number)

(IRS Employer Identification No.)

1100 WILSON BOULEVARD, #2500, ARLINGTON, VA

22209  
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(Address of principal executive offices)

(Zip Code)

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

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(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operation and Financial Condition.

On October 26, 2006, Strayer Education, Inc. announced third quarter 2006 revenues and earnings and enrollment for the 2006 fall term. The October 26, 2006 press release is attached hereto as an exhibit and incorporated herein by reference. The information contained in the October 26, 2006 press release is deemed furnished under this Item; and should not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act, as amended (the "Exchange Act"), or otherwise subject to that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

Item 9.01. Financial Statements and Exhibits.

Exhibit 99.01 Press Release dated October 26, 2006. (The information contained in the October 26, 2006 press release is deemed furnished under Item 2.02.)

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SIGNATURES

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

Date: Strayer Education, Inc.  
October 26, 2006

By: /s/ Mark C. Brown  
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Mark C. Brown  
Senior Vice President and  
Chief Financial Officer

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EXHIBIT INDEX

EXHIBIT	DESCRIPTION
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99.01

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Press Release dated October 26, 2006

FOR IMMEDIATE RELEASE

FOR MORE INFORMATION CONTACT:

Mark C. Brown, Senior Vice President and  
Chief Financial Officer  
(703) 247-2514

Sonya Udler, Vice President,  
Corporate Communications  
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sonya.udler@strayer.edu

STRAYER EDUCATION, INC. REPORTS  
THIRD QUARTER 2006 ENROLLMENT, REVENUES AND EARNINGS

- STRAYER THIRD QUARTER REVENUES UP 20% --
- STRAYER THIRD QUARTER DILUTED EPS \$0.44 / \$0.53 EXCLUDING  
STOCK-BASED COMPENSATION --
- STRAYER FALL 2006 TOTAL ENROLLMENTS UP 15%/ONLINE UP 21% --
- STRAYER TO OPEN EIGHT NEW CAMPUSES IN 2007 --
- STRAYER INCREASING ANNUAL DIVIDEND FROM \$1.00 TO \$1.25 --

ARLINGTON, Va., October 26, 2006 - Strayer Education, Inc. (Nasdaq: STRA) today announced financial results for the three months ended September 30, 2006. Financial highlights are as follows:

THREE MONTHS ENDED SEPTEMBER 30

- o Revenues for the three months ended September 30, 2006 increased 20% to \$56.7 million, compared to \$47.1 million for the same period in 2005, due to increased enrollment and a 5% tuition increase which commenced in January 2006.
- o Income from operations was \$9.0 million compared to \$9.6 million for the same period in 2005, a decrease of 6%. In 2006, the Company began recording stock-based compensation expense which amounted to \$2.2 million before tax for the three months ended September 30, 2006. Excluding stock-based compensation expense, income from operations was \$11.2 million, an increase of 17% compared to 2005.
- o Net income was \$6.3 million compared to \$6.4 million for the same period in 2005, a decrease of 2%. Net income for the three months ended September 30, 2006 includes the effect of a \$1.4 million after tax expense related to stock-based compensation. Excluding stock-based compensation expense, net income was \$7.7 million, an increase of 20%

compared to 2005. Diluted earnings per share was \$0.44, the same as for the comparable period of 2005. Diluted earnings per share for the three months ended September 30, 2006 includes the effect of a \$0.09 per share after tax expense related to stock-based compensation. Excluding stock-based compensation expense, diluted earnings per share was \$0.53, an increase of 20% compared to 2005. Diluted weighted average shares outstanding decreased to 14,462,000 from 14,637,000 for the same period in 2005.

NINE MONTHS ENDED SEPTEMBER 30

- o Revenues for the nine months ended September 30, 2006 increased 19% to \$189.3 million, compared to \$158.5 million for the same period in 2005, due to increased enrollment and a 5% tuition increase which commenced in January 2006.
- o Income from operations was \$55.5 million compared to \$51.6 million for the same period in 2005, an increase of 8%. In 2006, the Company began recording stock-based compensation expense which amounted to \$5.5 million before tax for the nine months ended September 30, 2006. Excluding stock-based compensation expense, income from operations was \$61.0 million, an increase of 18% compared to 2005.
- o Net income was \$36.3 million compared to \$33.1 million for the same period in 2005, an increase of 10%. Net income for the nine months ended September 30, 2006 includes the effect of a \$3.4 million after tax expense related to stock-based compensation. Excluding stock-based compensation expense, net income was \$39.7 million, an increase of 20% compared to 2005. Diluted earnings per share was \$2.50 compared to \$2.23 for the same period in 2005, an increase of 12%. Diluted earnings per share for the nine months ended September 30, 2006 includes the effect of a \$0.24 per share after tax expense related to stock-based compensation. Excluding stock-based compensation expense, diluted earnings per share was \$2.74, an increase of 23% compared to 2005. Diluted weighted average shares outstanding decreased to 14,506,000 from 14,792,000 for the same period in 2005.

Income from operations, net income and diluted earnings per share for the three and nine months ended September 30, 2006 excluding stock-based compensation (as presented above) are considered non-GAAP financial measures. The Company believes these non-GAAP financial measures provide investors, potential investors, securities analysts and others with useful information to evaluate the performance of the business, because they exclude stock-based compensation expense which had not been included in the prior years. Additional information is contained in the attached financial statements including a reconciliation of GAAP to the non-GAAP measures.

"We are pleased both with our solid financial performance in the third quarter and our strong enrollment for the fall term," said Robert Silberman, the Company's Chairman and Chief Executive Officer. "Our successful opening of eight new campuses in 2006 is a testament to the hard work of our faculty and staff and the value we provide to our working adult students. We look forward to the addition of another eight new campuses in 2007, as we continue to expand the Strayer University footprint."

#### BALANCE SHEET AND CASH FLOW

At September 30, 2006, the Company had cash, cash equivalents and marketable securities (a diversified, no load, short-term, tax exempt bond fund) of \$123 million and no debt. The

Company generated \$39 million from operating activities in the first nine months of 2006. Capital expenditures were \$9 million for the same period.

During the three months ended September 30, 2006, the Company repurchased 52,514 shares of common stock at an average price of \$103.05 per share and a cost of \$5.4 million, as part of a previously announced common stock repurchase authorization.

For the third quarter 2006, bad debt expense as a percentage of revenue was 3.2% compared to 2.5% for the same period in 2005. Days sales outstanding, adjusted to exclude tuition receivable related to future quarters, was 10 days at the end of the third quarter of 2006, compared to eight days at the end of the same period in 2005.

## STUDENT ENROLLMENT

Enrollment at Strayer University for the 2006 fall term increased 15% to 31,372 students from 27,305 for the same term in 2005. For the 2006 fall term, Strayer University's rate of growth of continuing students was 17%, and its rate of growth of new students was 10%. Out-of-area online students increased 21%, while students taking 100% of their classes at Strayer University Online (including campus based students) increased 20%. The total number of students taking any courses online (including students at brick and mortar campuses taking at least one online course) in the 2006 fall term increased 20% to 21,705.

### STUDENT ENROLLMENT

	Fall 2005	Fall 2006	% Change
Campus Based Students:			
New Campuses (18 in operation 3 years or less)			
Classroom	1,012	2,175	115%
Online	1,316	2,589	97%
Total New Campus Students	2,328	4,764	105%
Mature Campuses (25 in operation more than 3 years)			
Classroom	11,263	11,130	-1%
Online	10,838	12,006	11%
Total Mature Campus Students	22,101	23,136	5%
Total Campus Based Students	24,429	27,900	14%
Out-of-area Online Students	2,876	3,472	21%
Total Students	27,305	31,372	15%
Total Students Taking 100% of Courses Online	15,030	18,067	20%
Total Students Taking at Least 1 Course Online	18,087	21,705	20%

## NEW CAMPUS OPENINGS

The Company announced today that it intends to open eight new campuses in 2007. Subject to the completion of regulatory approvals, the first two campuses, Louisville and Lexington, Kentucky, are currently slated for a winter term 2007 start of classes. Kentucky will be a new state for the University.

## 2006 BUSINESS OUTLOOK

Based on the strong enrollment growth announced for the 2006 fall term and the planned investments in opening new campuses, the Company estimates fourth quarter 2006 diluted earnings per share will be in the range of \$1.06-1.08, or \$1.17-\$1.19 excluding the impact of FAS 123(R). The Company estimates that it will incur stock-based compensation expense of approximately \$0.11 per share after tax in the fourth quarter of 2006 and approximately \$0.35 per share after tax for the full year 2006. Based on its fourth quarter 2006 estimates, the Company expects its full year 2006 diluted earnings per share will be in the range of \$3.56 to \$3.58, or \$3.90 to \$3.92 excluding the impact of FAS 123(R).

## 2007 BUSINESS MODEL

The Company announced today that it intends to open eight new campuses in 2007 and implement a 5% tuition increase effective January 2007. Assuming a 15% increase in annual enrollment in 2007, the Company would expect an 18-19% increase in revenue in 2007, and roughly stable operating margins, leading to diluted earnings per share in 2007 in the range of \$4.10 to \$4.25. Included in this range is the Company's estimate of \$0.44-\$0.48 per share after tax of stock-based compensation expense.

## COMMON STOCK CASH DIVIDEND

The Company announced today that its Board of Directors is increasing the Company's annual common stock dividend to \$1.25 per share from \$1.00 per share. This annual dividend will be paid quarterly in the amount of \$0.3125 per share. Accordingly, the Company's Board of Directors has declared that the Company will pay a dividend of \$0.3125 per share on December 11, 2006 to shareholders of record as of November 24, 2006.

## SHARE REPURCHASE PLAN

The Company announced today that the Company's Board of Directors amended the share repurchase program to authorize the repurchase of an additional \$35 million in value of the Company's common stock over the next 14 months. As a result, the total remaining amount authorized for share repurchases under this program is now \$40 million. These share repurchases, if made, will be in the form of open market purchases from time to time at the discretion of the Company's management, depending on market conditions and other corporate considerations. The Company intends to effect such purchases, if any, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. This share repurchase program may be modified, suspended or terminated at any time by the Company without notice.

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## S&P MIDCAP 400 INDEX

Standard & Poor's, a division of the McGraw-Hill Companies, announced on October 24, 2006 that Strayer Education, Inc. will be added to its S&P MidCap 400 Index after the market closes on Tuesday, October 31, 2006.

## CONFERENCE CALL WITH MANAGEMENT

Strayer Education, Inc. will host a conference call to discuss its third quarter 2006 earnings at 10:00 a.m. (ET) today. To participate on the live call, investors should dial (800) 289-0468, 10 minutes prior to the start time. In addition, the call will be available via live Webcast over the Internet. To access the live Webcast of the conference call, please go to [www.strayereducation.com](http://www.strayereducation.com) 15 minutes prior to the start time of the call to register. An archived replay of the conference call will be available at (888) 203-1112 (pass code 8642933) starting at 1:00 p.m. (ET) today and will be available through Tuesday, October 31, and archived at [www.strayereducation.com](http://www.strayereducation.com) for 90 days.

Strayer Education, Inc. (Nasdaq: STRA) is an education services holding company that owns Strayer University and certain other assets. Strayer's mission is to make higher education achievable and convenient for working adults in today's economy. Strayer University is a proprietary institution of higher learning that offers undergraduate and graduate degree programs in business administration, accounting, information technology, education, and public administration to more than 31,000 working adult students at 43 campuses in 10 states and Washington, D.C., in the eastern United States and worldwide via the Internet through Strayer University Online. Strayer University is committed to providing an education that prepares working adult students for advancement in their careers

and professional lives. Founded in 1892, Strayer University is accredited by the Middle States Commission on Higher Education.

For more information on Strayer Education, Inc. visit [www.strayereducation.com](http://www.strayereducation.com) and for Strayer University visit [www.strayer.edu](http://www.strayer.edu).

This press release contains statements that are forward looking and are made pursuant to the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). The statements are based on the Company's current expectations and are subject to a number of uncertainties and risks. In connection with the Safe Harbor provisions of the Reform Act, the Company has identified important factors that could cause the Company's actual results to differ materially from those expressed in or implied by such statements. 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 regulations thereunder, as well as regional accreditation standards and state and regional regulatory requirements, competitive factors, our ability to implement our growth strategy, risks associated with the opening of new campuses, risks associated with the offering of new educational programs and adapting to other changes, risks associated with the acquisition of existing educational institutions, risks relating to the timing of regulatory approvals, and general economic and market conditions. Further information about these and other relevant risks and uncertainties may be found in the Company's annual report on Form 10-K and its other filings with the Securities and Exchange Commission, all of which are incorporated herein by reference and which are available from the Commission. We undertake no obligation to update or revise forward looking statements.

STRAYER EDUCATION, INC.  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2006	2005	2006
	-----	-----	-----	-----
Revenues.....	\$47,087	\$56,693	\$ 158,489	\$189,341
	-----	-----	-----	-----
Costs and expenses:				
Instruction and educational support	18,084	21,613	56,575	66,370
Selling and promotion.....	13,009	16,164	30,325	38,011
General and administration.....	6,422	9,918	20,037	29,503
	-----	-----	-----	-----
Total costs and expenses.....	37,515	47,695	106,937	133,884
	-----	-----	-----	-----
Income from operations.....	9,572	8,998	51,552	55,457
Investment and other income.....	686	1,160	2,091	3,277
	-----	-----	-----	-----
Income before income taxes.....	10,258	10,158	53,643	58,734
Provision for income taxes.....	3,820	3,822	20,589	22,423
	-----	-----	-----	-----
Net income.....	\$6,438	\$6,336	\$ 33,054	\$36,311
	=====	=====	=====	=====
Net income per share:				
Basic .....	\$0.45	\$0.45	\$2.28	\$2.56
Diluted .....	\$0.44	\$0.44	\$2.23	\$2.50
Weighted average shares outstanding:				
Basic.....	14,374	14,157	14,521	14,204

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 In 2006, the Company adopted FAS 123(R) and began recording stock-based compensation expense for stock options. Prior to the adoption of FAS 123(R), the Company recorded expense for other forms of stock-based compensation. For the three months ended September 30, 2006, stock-based compensation expense was \$2.2 million, or \$1.4 million net of tax, and reduced EPS by \$0.09. For the nine months ended September 30, 2006, stock-based compensation expense was \$5.5 million, or \$3.4 million net of tax, and reduced EPS by \$0.24. The table below sets forth the amount of various forms of stock-based compensation expense recorded in each of the expense line items.

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2006	2005	2006
	----	----	----	----
Instruction and educational support..	\$ --	\$149	\$ --	\$488
Selling and promotion.....	--	136	--	409
General and administration.....	19	1,899	19	4,634

The pro forma impact of recording stock-based compensation expense for the three and nine months ended September 30, 2005 was disclosed in Note 5 to the Company's Condensed Consolidated Financial Statements included in its Form 10-Q for the three months ended September 30, 2005. As disclosed in such note, including \$0.9 million in stock-based compensation expense net of tax, the Company would have reported net income of approximately \$5.5 million and diluted EPS of \$0.37 for the three months ended September 30, 2005. For the nine months ended September 30, 2005, including \$2.1 million in stock-based compensation expense net of tax, the Company would have reported net income of approximately \$31.0 million and diluted EPS of \$2.08.

STRAYER EDUCATION, INC.  
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
 (AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	December 31, 2005	September 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$74,212	\$46,854
Marketable securities available for sale, at fair value .....	45,594	75,763
Income taxes receivable.....	--	4,557
Tuition receivable, net of allowances for doubtful accounts of \$1,927 and \$2,201 at December 31, 2005 and September 30, 2006, respectively .....	55,935	75,884
Other current assets .....	2,581	5,243
	-----	-----
Total current assets .....	178,322	208,301
Property and equipment, net .....	46,684	50,407
Deferred income taxes .....	--	2,331
Restricted cash .....	500	500
Other assets .....	339	813
	-----	-----
Total assets .....	\$225,845	\$262,352
	=====	=====

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable .....	\$6,402	\$10,438
Accrued expenses .....	1,483	1,954
Income taxes payable .....	3,773	--
Unearned tuition .....	55,778	77,287
	-----	-----
Total current liabilities .....	67,436	89,679
Deferred income taxes .....	205	--
Long-term liabilities .....	6,364	7,138
	-----	-----
Total liabilities .....	74,005	96,817
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$.01; 20,000,000 shares authorized; 14,292,249 and 14,363,884 shares issued and outstanding as of December 31, 2005 and September 30, 2006, respectively.....	143	142
Additional paid-in capital .....	104,923	93,001
Retained earnings .....	47,020	72,536
Accumulated other comprehensive income (loss) .....	(246)	(144)
	-----	-----
Total stockholders' equity .....	151,840	165,535
	-----	-----
Total liabilities and stockholders' equity .....	\$225,845	\$262,352
	=====	=====

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STRAYER EDUCATION, INC.  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(AMOUNTS IN THOUSANDS)

	For the nine months ended September 30,	
	2005	2006
	-----	-----
Cash flows from operating activities:		
Net income.....	\$33,054	\$36,311
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred rent.....	127	136
Depreciation and amortization.....	4,944	5,165
Provision for student loan losses.....	(98)	(95)
Deferred income taxes.....	(45)	(2,641)
Stock-based compensation.....	19	5,072
Changes in assets and liabilities:		
Tuition receivable, net.....	(16,554)	(19,949)
Other current assets.....	133	(1,911)
Other assets.....	6	(474)
Accounts payable.....	1,935	4,081
Accrued expenses.....	(1,168)	471
Income taxes payable.....	(9,773)	(4,790)
Excess tax benefits from stock-based payment arrangements.....	--	(3,540)
Unearned tuition.....	20,723	21,509
Deferred lease incentives.....	1,531	--
Student loans originated.....	(673)	(3)
Collections on student loans receivable and held for sale.....	709	23
	-----	-----
Net cash provided by operating activities.....	34,870	39,365
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment.....	(9,739)	(8,933)
Purchases of marketable securities.....	--	(30,000)
	-----	-----
Net cash used in investing activities.....	(9,739)	(38,933)
	-----	-----
Cash flows from financing activities:		
Common dividends paid.....	(5,444)	(10,795)
Proceeds from exercise of stock options.....	--	6,504
Excess tax benefits from stock-based payment arrangements.....	--	3,540
Repurchase of common stock.....	(29,993)	(27,039)
	-----	-----
Net cash used in financing activities.....	(35,437)	(27,790)
	-----	-----

Net decrease in cash and cash equivalents.....	(10,306)	(27,358)
Cash and cash equivalents - beginning of period.....	97,004	74,212
	-----	-----
Cash and cash equivalents - end of period.....	86,698	\$46,854
	=====	=====
Non-cash transactions:		
Purchases of property and equipment included in accounts payable.....	\$ 234	\$ 516

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STRAYER EDUCATION, INC.  
RECONCILIATION OF UNAUDITED NON-GAAP FINANCIAL MEASURES TO  
GAAP FINANCIAL MEASURES (a)  
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	For the three months ended September 30, 2006			For the nine months ended September 30, 2006		
	GAAP Results	Stock-based Compensation Expense	Non-GAAP Results	GAAP Results	Stock-based Compensation Expense	Non-GAAP Results
Revenues.....	\$56,693	\$ --	\$56,693	\$189,341	\$ --	\$189,341
Costs and expenses:						
Instruction & educational support..	21,613	(149)	21,464	66,370	(488)	65,882
Selling & promotion .....	16,164	(136)	16,028	38,011	(409)	37,602
General & administration .....	9,918	(1,899)	8,019	29,503	(4,634)	24,869
	-----	-----	-----	-----	-----	-----
Total costs and expenses .....	47,695	(2,184)	45,511	133,884	(5,531)	128,353
	-----	-----	-----	-----	-----	-----
Income from operations .....	8,998	2,184	11,182	55,457	5,531	60,988
Investment and other income .....	1,160	--	1,160	3,277	--	3,277
	-----	-----	-----	-----	-----	-----
Income before income taxes .....	10,158	2,184	12,342	58,734	5,531	64,265
Provision for income taxes .....	3,822	822	4,644	22,423	2,111	24,534
	-----	-----	-----	-----	-----	-----
Net income .....	\$ 6,336	\$ 1,362	\$ 7,698	\$36,311	\$3,420	\$39,731
	=====	=====	=====	=====	=====	=====
Net income per share:						
Basic .....	\$0.45	\$0.10	\$0.54	\$2.56	\$0.24	\$2.80
Diluted .....	\$0.44	\$0.09	\$0.53	\$2.50	\$0.24	\$2.74
Weighted average shares outstanding:						
Basic .....	14,157	14,157	14,157	14,204	14,204	14,204
Diluted .....	14,462	14,462	14,462	14,506	14,506	14,506

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(a) These unaudited non-GAAP financial measures are for informational purposes only and are not presented in accordance with GAAP. The Company believes these non-GAAP financial measures provide investors, potential investors, securities analysts and others with useful information to evaluate the performance of the business, because they exclude stock-based compensation expense which had not been included in the prior years. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the Company's condensed consolidated statements of income.