STRAYER EDUCATION INC
Form 10-Q
May 06, 2016

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the

Securities Exchange Act of 1934

For the quarterly period ended March 31, 2016

Commission File No. 0-21039

Strayer Education, Inc.

(Exact name of registrant as specified in this charter)

Maryland	**52-1975978**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2303 Dulles Station Boulevard Herndon, VA	**20171**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (703) 561-1600

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 past 90 days. Yes No

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

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

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

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

As of April 15, 2016, there were outstanding 11,153,979 shares of Common Stock, par value $0.01 per share, of the Registrant.

STRAYER EDUCATION, INC.

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FORM 10-Q

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STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2015	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 106,889	$117,498
Tuition receivable, net	18,519	18,613
Other current assets	6,944	8,383
Total current assets	132,352	144,494
Property and equipment, net	77,139	74,954
Deferred income taxes	26,449	22,930
Goodwill	6,800	21,042
Other assets	5,694	14,276
Total assets	$ 248,434	$277,696
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 42,253	$38,108
Income taxes payable	2,684	7,231
Deferred revenue	12,373	16,868
Other current liabilities	281	281
Total current liabilities	57,591	62,488
Other long-term liabilities	47,987	57,091
Total liabilities	105,578	119,579
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01; 20,000,000 shares authorized; 11,027,177 and 11,153,979 shares issued and outstanding at December 31, 2015 and March 31, 2016, respectively	110	112
Additional paid-in capital	24,738	27,577
Retained earnings	118,008	130,428
Total stockholders' equity	142,856	158,117
Total liabilities and stockholders' equity	$ 248,434	$277,696

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

STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	For the three months ended March 31,	
	2015	2016
Revenues	$ 111,885	$ 111,166
Costs and expenses:		
Instruction and educational support	59,697	58,098
Marketing	16,681	18,298
Admissions advisory	3,993	4,349
General and administration	11,655	10,329
Total costs and expenses	92,026	91,074
Income from operations	19,859	20,092
Investment income	78	100
Interest expense	1,273	160
Income before income taxes	18,664	20,032
Provision for income taxes	7,279	7,612
Net income	$ 11,385	$ 12,420
Earnings per share:		
Basic	$ 1.08	$ 1.17
Diluted	$ 1.06	$ 1.15
Weighted average shares outstanding:		
Basic	10,579	10,596
Diluted	10,738	10,782

STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	For the three months ended March 31,	
	2015	2016
Net income	$ 11,385	$ 12,420
Other comprehensive income:		
Change in fair value of derivative instrument, net of income tax	(205)	—
Comprehensive income	$ 11,180	$ 12,420

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

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STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2014	10,903,341	$ 109	$ 14,550	$ 77,985	$ 88	$ 92,732
Restricted stock grants, net of forfeitures	70,693	1	(1)	—	—	—
Stock-based compensation	—	—	2,451	—	—	2,451
Change in fair value of derivative instrument, net of income tax	—	—	—	—	(205)	(205)
Net income	—	—	—	11,385	—	11,385
Balance at March 31, 2015	10,974,034	$ 110	$ 17,000	$ 89,370	$ (117)	$ 106,363

	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2015	11,027,177	$ 110	$ 24,738	$ 118,008	$ —	$ 142,856
Tax shortfall associated with stock-based compensation arrangements	—	—	(50)	—	—	(50)
Restricted stock grants, net of forfeitures	126,802	2	(2)	—	—	—
Stock-based compensation	—	—	2,891	—	—	2,891
Net income	—	—	—	12,420	—	12,420
Balance at March 31, 2016	11,153,979	$ 112	$ 27,577	$ 130,428	$ —	$ 158,117

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

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STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Three Months Ended March 31, 2015			2016		
Cash flows from operating activities:						
Net income	$	11,385		$	12,420	
Adjustments to reconcile net income to net cash provided by operating activities:						
Amortization of gain on sale of assets		(71	)		(71	)
Amortization of deferred rent		(279	)		(52	)
Amortization of deferred financing costs		195			66	
Depreciation and amortization		4,713			4,425	
Deferred income taxes		(426	)		(633	)
Stock-based compensation		2,451			2,891	
Changes in assets and liabilities:						
Tuition receivable, net		1,914			717	
Other current assets		2,573			(1,440	)
Other assets		—			(2,983	)
Accounts payable and accrued expenses		(983	)		(4,335	)
Income taxes payable and income taxes receivable		7,547			4,620	
Deferred revenue		2,504			1,435	
Other long-term liabilities		(831	)		(2,380	)
Net cash provided by operating activities		30,692			14,680	

Cash flows from investing activities:						
Purchases of property and equipment		(2,834	)		(2,031	)
Cash used in acquisition, net of cash acquired		—			(1,635	)
Net cash used in investing activities		(2,834	)		(3,666	)
Cash flows from financing activities:						
Payments on term loan		(1,562	)		—	
Payment of contingent consideration		(300	)		(405	)
Net cash used in financing activities		(1,862	)		(405	)
Net increase in cash and cash equivalents		25,996			10,609	
Cash and cash equivalents — beginning of period		162,283			106,889	
Cash and cash equivalents — end of period	$	188,279		$	117,498	
Non-cash transactions:						
Purchases of property and equipment included in accounts payable	$	724		$	91	
Changes in contingent consideration related to acquisitions	$	—		$	14,625	

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

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STRAYER EDUCATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Nature of Operations

Strayer Education, Inc. (the “Company”), a Maryland corporation, conducts its operations through its wholly owned subsidiaries, Strayer University (the “University”) and New York Code and Design Academy (“NYCDA”). The University is an accredited institution of higher education that provides undergraduate and graduate degrees in various fields of study through physical campuses, predominantly located in the eastern United States, and online. NYCDA is a New York City-based provider of non-degree web and mobile app development courses. NYCDA courses are delivered primarily on-ground to students seeking to further their career in software application development. The Company has only one reporting segment.

2. Significant Accounting Policies

Financial Statement Presentation

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

All information as of December 31, 2015 and March 31, 2015 and 2016, and for the three months ended March 31, 2015 and 2016 is unaudited but, in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the condensed consolidated financial position, results of operations, and cash flows of the Company. Certain amounts in the prior period financial statements have been reclassified to conform to the current period’s presentation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the full fiscal year.

Revenue Recognition

The Company's educational programs typically are offered on a quarterly basis and such periods coincide with the Company's quarterly financial reporting periods. Approximately 95% of the Company's revenues during the three months ended March 31, 2016 consisted of tuition revenue, which is recognized in the quarter of instruction. Tuition revenue is assessed for collectibility on a student-by-student basis throughout the quarter of instruction, and is shown net of any refunds, withdrawals, corporate discounts, scholarships and employee tuition discounts. This collectibility assessment considers available sources of funds for the student including Federal Financial Student Aid programs. The Company reassesses the collectibility of tuition revenue that it may earn based on new information and changes in the facts and circumstances relevant to a student's ability to pay, including the timing of a student's withdrawal from a program of study.

At the start of each academic term or program, a liability (deferred revenue) is recorded for academic services to be provided and a tuition receivable is recorded for the portion of the tuition not paid in advance. Any cash received prior to the start of an academic term or program is recorded as deferred revenue. Some students may be eligible for scholarship awards, the estimated value of which will be realized in the future and is deducted from revenue when earned, based on historical student attendance and completion behavior. Deferred revenue is recorded as a current or long-term liability in the consolidated balance sheets based on when the benefit is expected to be realized. Revenues also include textbook-related income, certificate revenue, certain academic fees, licensing revenue, and other income, which are recognized when earned.

The Company's refund policy typically permits students who complete less than half of a course to receive a partial refund of tuition for that course. Refunds reduce the tuition revenue that would have otherwise been recognized for that student. Since the University's academic terms coincide with the Company's financial reporting periods, nearly all refunds are processed and recorded within the same quarter as the corresponding revenue. The amount of tuition revenue refundable to students may vary based on the student's state of residence. Unused books and related academic materials may be returned for a full refund within 21 days of the start of class; however, purchases of electronic content are not refundable if downloaded. Revenues derived from fees are not eligible for a refund.

Graduation Fund

In the third quarter of 2013, the Company introduced the Graduation Fund, which allows new undergraduate students to earn tuition credits that are redeemable in the final year of a student's course of study if he or she successfully remains in the program. New students registering in credit-bearing courses in any undergraduate program for the summer 2013 term (fiscal third quarter) and subsequent terms qualify for the Graduation Fund. Students must meet all of the University's admission requirements, and must be enrolled in an undergraduate degree program. The Company's employees and their dependents are not eligible for the program. Students who have more than one consecutive term of non-attendance lose any Graduation Fund credits earned to date, but may earn and accumulate new credits if the student is reinstated or readmitted by the University in the future. In their final academic year, qualifying students will receive one free course for every three courses that were successfully completed.

Revenue from students participating in the Graduation Fund is recorded in accordance with the Revenue Recognition Topic, ASC 605-50. The Company defers the value of benefits estimated to be redeemed in the future based on the underlying revenue transactions that result in progress by the student toward earning the benefit. The Company's estimate of the benefits that will be redeemed in the future is based on its historical experience of student persistence toward completion of a course of study within this program and similar programs. Each quarter, the Company assesses its methodologies and assumptions underlying these estimates and, to date, any adjustments to the estimates have not been material. The amount estimated to be redeemed in the next twelve months is $14.4 million and is included in deferred revenue as a current liability in the unaudited condensed consolidated balance sheets.

The table below presents activity in the Graduation Fund for the three months ended March 31, 2015 and 2016 (in thousands):

	March 31, 2015	March 31, 2016
Balance at beginning of period	$ 9,706	$ 20,937
Revenue deferred	3,603	5,564
Benefit redeemed	(634)	(3,236)
Balance at end of period	$ 12,675	$ 23,265

Restricted Cash

A significant portion of the Company's revenues are funded by various federal and state government programs. The Company generally does not receive funds from these programs prior to the start of the corresponding academic term. The Company may be required to return certain funds for students who withdraw from the University during the academic term. There were no amounts payable for these obligations at March 31, 2016 or December 31, 2015.

As part of commencing operations in Pennsylvania in 2003, the Company was required to maintain a “minimum protective endowment” of at least $0.5 million in an interest-bearing account. These funds are required as long as the Company operates its campuses in the state. The Company holds these funds in an interest-bearing account which is included in other assets.

Tuition Receivable and Allowance for Doubtful Accounts

The Company records tuition receivable and deferred revenue for its students upon the start of the academic term or program. Therefore, at the end of the quarter (and academic term), tuition receivable represents amounts due from students for educational services already provided and deferred revenue generally represents advance payments from students for academic services to be provided in the future. Tuition receivables are not collateralized; however, credit risk is minimized as a result of the diverse nature of the University’s student base. An allowance for doubtful accounts is established primarily based upon historical collection rates by age of receivable, net of estimated recoveries. These collection rates incorporate historical performance based on a student’s current enrollment status and likelihood of future enrollment. The Company periodically assesses its methodologies for estimating bad debts in consideration of actual experience.

The Company’s tuition receivable and allowance for doubtful accounts were as follows as of December 31, 2015 and March 31, 2016 (in thousands):

	December 31, 2015	March 31, 2016
Tuition receivable	$ 28,543	$ 28,839
Allowance for doubtful accounts	(10,024)	(10,226)
Tuition receivable, net	$ 18,519	$ 18,613

Approximately $2.0 million of tuition receivable is included in other assets as of both December 31, 2015 and March 31, 2016, because these amounts are expected to be collected after 12 months.

The following table illustrates changes in the Company’s allowance for doubtful accounts for the three months ended March 31, 2015 and 2016 (in thousands):

	For the three months ended March 31,	
	2015	2016
Allowance for doubtful accounts, beginning of period	$ 8,835	$ 10,024
Additions charged to expense	3,470	3,068
Write-offs, net of recoveries	(3,617)	(2,866)
Allowance for doubtful accounts, end of period	$ 8,688	$ 10,226

Fair Value

The Fair Value Measurement Topic, ASC 820-10 (“ASC 820-10”), establishes a framework for measuring fair value, establishes a fair value hierarchy based upon the observability of inputs used to measure fair value, and expands disclosures about fair value measurements. Assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. Under ASC 820-10, fair value of an investment is the price that would be received to sell an asset or to transfer a liability to an entity in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to assets and liabilities with readily available quoted prices in an active market and lowest priority to unobservable inputs which require a higher degree of judgment when measuring fair value, as follows:

Level 1 assets or liabilities use quoted prices in active markets for identical assets or liabilities as of the measurement date;

Level 2 assets or liabilities use observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities; and

Level 3 assets or liabilities use unobservable inputs that are supported by little or no market activity.

The Company’s assets and liabilities that are subject to fair value measurement are categorized in one of the three levels above. Fair values are based on the inputs available at the measurement dates, and may rely on certain assumptions that may affect the valuation of fair value for certain assets or liabilities.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of the purchase price of an acquired business over the amount assigned to the assets acquired and liabilities assumed. Indefinite-lived intangible assets, which include trade names, are recorded at fair market value on their acquisition date. An indefinite life was assigned to the trade names because they have the continued ability to generate cash flows indefinitely.

Goodwill and the indefinite-lived intangible asset are assessed at least annually for impairment during the three-month period ending September 30, or more frequently if events occur or circumstances change between annual tests that would more likely than not reduce the fair value of the respective reporting unit below its carrying amount. Under Accounting Standards Update No. 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, the Company is permitted, but not required, to first assess qualitative factors to determine whether it is necessary to perform the more thorough quantitative goodwill impairment test.

Accounting for Derivative Instruments and Hedging Activities

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

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded, net of income tax, in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable-rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also formally assesses (both at the hedge’s inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively.

Authorized Stock

The Company has authorized 20,000,000 shares of common stock, par value $.01, of which 11,027,177 and 11,153,979 shares were issued and outstanding as of December 31, 2015 and March 31, 2016, respectively. The Company also has authorized 8,000,000 shares of preferred stock, none of which has been issued or outstanding since 2004. Before any preferred stock may be issued in the future, the Board of Directors would need to establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, and the terms or conditions of the redemption of the preferred stock.

Stock-Based Compensation

As required by the Stock Compensation Topic, ASC 718, the Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors, including employee stock options, restricted stock, restricted stock units, and employee stock purchases related to the Company's Employee Stock Purchase Plan, based on estimated fair values. Stock-based compensation expense recognized in the Consolidated Statements of Income for each of the three months ended March 31, 2015 and 2016 is based on awards ultimately expected to vest and, therefore, has been adjusted for estimated forfeitures. The Company is required to estimate forfeitures at the time of grant and revise the estimate, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The forfeiture rate used is based on historical experience. The Company also assesses the likelihood that performance criteria associated with performance-based awards will be met. If it is determined that it is more likely than not that performance criteria will not be achieved, the Company revises its estimate of the number of shares it believes will ultimately vest.

Net Income Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the periods. Diluted earnings per share reflects the potential dilution that could occur assuming conversion or exercise of all dilutive unexercised stock options, restricted stock and restricted stock units. The dilutive effect of stock awards was determined using the treasury stock method. Under the treasury stock method, all of the following are assumed to be used to repurchase shares of the Company's common stock: (1) the proceeds received from the exercise of stock options, (2) the amount of compensation cost associated with the stock awards for future service not yet recognized by the Company, and (3) the amount of tax benefits that would be recorded in additional paid-in capital when the stock awards become deductible for income tax purposes. Stock options are not included in the computation of diluted earnings per share when the stock option exercise price of an individual grant exceeds the average market price for the period. During the three months ended March 31, 2016, the Company had no issued and outstanding stock options that were excluded from the calculation.

Set forth below is a reconciliation of shares used to calculate basic and diluted earnings per share for the three months ended March 31, 2015 and 2016 (in thousands):

	For the three months ended March 31,	
	2015	2016
Weighted average shares outstanding used to compute basic earnings per share	10,579	10,596
Incremental shares issuable upon the assumed exercise of stock options	19	—
Unvested restricted stock	140	186
Shares used to compute diluted earnings per share	10,738	10,782

Income Taxes

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

The Income Taxes Topic, ASC 740, requires the company to determine whether uncertain tax positions should be recognized within the Company's financial statements. The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expense. Uncertain tax positions are recognized when a tax position, based solely on its technical merits, is determined to be more likely than not to be sustained upon examination. Upon determination, uncertain tax positions are measured to determine the amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. A tax position is derecognized if it no longer meets the more likely than not threshold of being sustained.

The tax years 2013-2015 remain open for Federal tax examination and the tax years 2012-2015 remain open to examination by state and local taxing jurisdictions in which the Company is subject.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The most significant management estimates included allowances for doubtful accounts, the useful lives of property and equipment, fair value of future contractual operating lease obligations, potential sublease income and vacancy periods, accrued expenses, forfeiture rates and the likelihood of achieving performance criteria for stock-based awards, value of free courses earned by students that will be redeemed in the future, valuation of goodwill, intangible assets and the interest rate swap arrangement, and the provision for income taxes. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30)" ("ASU 2015-03"). The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted ASU 2015-03 effective January 1, 2016 and there was no material effect on its condensed consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). The new guidance requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company adopted ASU 2015-17 effective January 1, 2016 and reclassified approximately $6.4 million from current to non-current assets in the condensed consolidated balance sheet as of December 31, 2015 to conform to the current period presentation.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The new guidance requires the recognition of right-of-use assets and lease liabilities on the balance sheet for most leases. Under current guidance, operating leases are off-balance sheet. ASU 2016-02 also requires more extensive quantitative and qualitative disclosures about leasing arrangements. ASU 2016-02 applies to fiscal periods beginning after December 15, 2018, using the modified retrospective method, with early adoption permitted. The Company anticipates that the impact of ASU 2016-02 on its consolidated balance sheet will be material as the Company will record significant asset and liability balances in connection with its leased properties.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 impacts several aspects of the accounting for share-based payment transactions, including classification of certain items on the consolidated statement of cash flows and accounting for income taxes. Specifically, ASU 2016-09 requires excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in earnings, which could introduce significant volatility to the Company’s provision for income taxes. In addition, ASU 2016-09 allows companies to recognize the impact of stock award forfeitures at the time of forfeiture, rather than as an estimate ratably over the life of awards. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The transition method varies for each of the areas in ASU 2016-09. The Company is currently evaluating the impact of ASU 2016-09 on its Consolidated Financial Statements and has not yet selected a transition date.

Other ASUs issued through March 2016 by the FASB but not yet effective are not expected to have a material effect on the Company’s Consolidated Financial Statements.

3. Acquisition of New York Code and Design Academy

On January 13, 2016, the Company acquired all of the outstanding stock of New York Code and Design Academy, Inc. (“NYCDA”), a provider of non-degree information technology curriculum primarily based in the New York City area (the “Acquisition”). The Acquisition supports the Company’s strategy to complement its traditional degree offerings with a broader platform of educational services. The Company incurred transaction costs of approximately $0.2 million, and these costs are included in general and administrative costs in the consolidated statements of income. The acquisition is accounted for as a business combination.

The purchase price includes $2.4 million paid up front in cash, plus contingent cash payments of (a) up to $12.5 million payable based on NYCDA's results of operations over a five-year period (the "Earnout"), (b) $5.0 million payable based on NYCDA's receipt of a state regulatory permit, and (c) $0.5 million payable based on NYCDA's receipt of another state regulatory permit. Pursuant to the Acquisition, $1.0 million of the Earnout may be accelerated upon receipt of one of the state regulatory permits. In April 2016, NYCDA received one of the state regulatory permits and the Company paid $6.0 million of contingent consideration to the sellers.

In addition, the Company paid a total of $4.6 million to two of NYCDA's founders who are required to remain employed for at least three years from the acquisition date. If either of them terminates employment voluntarily, or is terminated for cause (as defined), he is required to reimburse the Company his respective portion of the retention amount. This amount is classified as prepaid compensation and is amortized to compensation expense over three years.

Total potential cash payments for the acquisition and the retention amount are $25.0 million.

The Company determined the preliminary fair values of the assets acquired and liabilities assumed at the date of the Acquisition. The allocation of the purchase price is based on preliminary estimates and assumptions, and is subject to revision based on final analysis that support the underlying estimates, which will be completed within the measurement period of up to 12 months from the date of the Acquisition. Accordingly, the allocation is subject to change and the impact of such changes could be material.

The allocation of the purchase price is as follows:

	Purchase Price Allocation	Useful Life
Cash	$ 790	
Other assets	1,265	
Intangibles:		
Trade name	5,660	Indefinite
Goodwill	14,242	
Liabilities assumed	(5,032)	
Total assets acquired and liabilities assumed, net	16,925	
Less: contingent consideration	(14,500)	
Less: cash acquired	(790)	
Cash paid for acquisition, net of cash acquired	$ 1,635	

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The fair value of the contingent consideration was measured by applying a probability weighted discounted cash flow model based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 4.5% and expected future value of payments of $12.5 million, based on management's assessment that NYCDA will achieve its performance targets after the five-year measurement period. The fair value of assets acquired and liabilities assumed was determined based on assumptions that reasonable market participants would use while employing the concept of highest and best use of the respective items. The following assumptions were used, the majority of which include significant unobservable inputs (Level 3), and valuation methodologies to determine fair value:

Intangibles – Income approaches were used to value the substantial majority of the acquired intangibles. The trade name was valued using the relief from-royalty method, which represents the benefit of owning these intangible assets rather than paying royalties for their use.

Other assets and liabilities – The carrying value of all other assets and liabilities approximated fair value at the time of acquisition.

4. Restructuring and Related Charges

In October 2013, the Company implemented a restructuring to better align the Company's resources with student enrollments at the time. This restructuring included the closing of 20 physical locations and reductions in the number of campus-based and corporate employees. A liability for lease obligations, some of which continue through 2022, was recorded and is measured at fair value using a discounted cash flow approach encompassing significant unobservable inputs (Level 3). The estimation of future cash flows includes non-cancelable contractual lease costs over the remaining terms of the leases discounted at the Company's marginal borrowing rate of 4.5%, partially offset by estimated future sublease rental income discounted at credit-adjusted rates. The Company's estimates, which involve significant judgment, also consider the amount and timing of sublease rental income based on subleases that have been executed and subleases expected to be executed based on current commercial real estate market data and conditions, and other qualitative factors specific to the facilities. The estimates are subject to adjustment as market conditions change or as new information becomes available, including the execution of additional sublease agreements.

The following details the changes in the Company's restructuring liability for lease and related costs during the three months ended March 31, 2015 and 2016 (in thousands):

	March 31, 2015	March 31, 2016
Balance at beginning of period[1]	$ 27,283	$ 20,055
Adjustments[2]	112	(1,526)
Payments	(1,765)	(1,535)

Balance at end of period[1]	$ 25,630	$ 16,994

(1) The current portion of restructuring liabilities was $4.8 million and $5.1 million as of December 31, 2015 and March 31, 2016, respectively, which are included in accounts payable and accrued expenses. The long-term portion is included in other long-term liabilities.

(2) Adjustments include accretion of interest on lease costs, partially offset by changes in the timing and expected income from sublease agreements.

5. Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis consist of the following as of March 31, 2016 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	March 31, 2016	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market funds	$ 100	$ 100	$ —	$ —
Total assets at fair value on a recurring basis	$ 100	$ 100	$ —	$ —
Liabilities:				
Other long-term liabilities:				
Deferred payments	$ 12,473	$ —	$ —	$ 12,473
Total liabilities at fair value on a recurring basis	$ 12,473	$ —	$ —	$ 12,473

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Assets and liabilities measured at fair value on a recurring basis consist of the following as of December 31, 2015 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	December 31, 2015	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market funds	$ 100	$ 100	$ —	$ —
Total assets at fair value on a recurring basis	$ 100	$ 100	$ —	$ —
Liabilities:				
Other long-term liabilities:				
Deferred payments	$ 3,278	$ —	$ —	$ 3,278
Total liabilities at fair value on a recurring basis	$ 3,278	$ —	$ —	$ 3,278

The Company measures the above items on a recurring basis at fair value as follows:

Money market funds - Classified in Level 1 is excess cash the Company holds in both taxable and tax-exempt money market funds and are included in cash and cash equivalents in the accompanying unaudited condensed consolidated balance sheets. The Company records any net unrealized gains and losses for changes in fair value as a component of Accumulated other comprehensive income in stockholders' equity. The Company's cash and cash equivalents held at December 31, 2015 and March 31, 2016, approximate fair value and are not disclosed in the above tables because of the short-term nature of the financial instruments.

Deferred payments - The Company acquired certain assets and entered into deferred payment arrangements with the sellers, which are classified within Level 3 as there is no liquid market for similarly priced instruments. The deferred payments are valued using a discounted cash flow model that encompasses significant unobservable inputs to estimate the operating results of the acquired assets. The assumptions used to prepare the discounted cash flows include estimates for interest rates, enrollment growth, retention rates, obtaining regulatory approvals for expansion into new markets, and pricing strategies. These assumptions are subject to change as the underlying data sources evolve and the programs mature.

The Company’s lease loss liability incorporates an assessment of current sublease market conditions and uses Level 3 inputs, but is not deemed a fair value liability as the future lease payments are required to be discounted using the Company’s incremental borrowing rate at the date of lease abandonment without subsequent adjustment. See Note 4 for further discussion of the Company’s lease loss liability.

The Company did not change its valuation techniques associated with recurring fair value measurements from prior periods, and no assets or liabilities were transferred between levels of the fair value hierarchy during the three months ended March 31, 2015 or 2016.

Changes in the fair value of the Company's Level 3 liabilities during the three months ended March 31, 2016 are as follows (in thousands):

	Deferred Payments
Balance at December 31, 2015	$ 3,278
Amounts earned	(232)
Contingent consideration in connection with NYCDA acquisition	9,125
Adjustments to fair value	302
Balance at March 31, 2016	$ 12,473

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6. Long Term Debt

On July 2, 2015, the Company entered into an amended credit facility (the "Amended Credit Facility") which provides for a revolving line of credit (the "Revolver") up to $150 million and provides the Company with an option, under certain conditions, to increase the commitments under the Revolver or establish one or more incremental term loans in an amount up to $50 million in the aggregate in the future. The maturity date of the Amended Credit Facility is July 2, 2020. The Amended Credit Facility replaced the Company's prior credit agreement (the "Prior Credit Agreement"), dated November 8, 2012, which had provided for both a term loan and revolving line of credit and an original maturity date of December 31, 2016. All amounts outstanding under the Prior Credit Agreement were repaid upon execution of the Amended Credit Facility. The Company paid approximately $0.9 million in debt financing costs associated with the Amended Credit Facility.

Borrowings under the Revolver will bear interest at a per annum rate equal to, at the Company's election, LIBOR or a base rate, plus a margin ranging from 1.75% to 2.25%, depending on the Company's leverage ratio. The Company also is subject to a quarterly unused commitment fee ranging from 0.25% to 0.35% per annum, depending on the Company's leverage ratio, times the daily unused amount under the Revolver.

All other remaining terms of the Prior Credit Agreement remain in full force and effect. The Amended Credit Facility is guaranteed by the University and is secured by substantially all of the personal property and assets of the Company and its subsidiaries. The Amended Credit Facility contains customary affirmative and negative covenants, representations, warranties, events of default and remedies upon default, including acceleration and rights to foreclose on the collateral securing the Amended Credit Facility. In addition, as with the Prior Credit Agreement, the Amended Credit Facility requires that the Company satisfy certain financial maintenance covenants, including:

A leverage ratio of not greater than 2 to 1. Leverage ratio is defined as the ratio of total debt to trailing four-quarter EBITDA (earnings before interest, taxes, depreciation, amortization and non-cash charges such as stock-based compensation).

A coverage ratio of not less than 1.75 to 1. Coverage ratio is defined as the ratio of trailing four-quarter EBITDA and rent expense to trailing four-quarter interest and rent expense.

A Department of Education Financial Responsibility Composite Score of not less than 1.5.

The Company was in compliance with all the terms of the Amended Credit Facility as of March 31, 2016.

During the three months ended March 31, 2016 and 2015, the Company paid cash interest of $0.1 million and $1.1 million, respectively. The Company had no balance outstanding under the Revolver as of March 31, 2016.

7. Stock Options, Restricted Stock and Restricted Stock Units

On May 5, 2015, the Company's shareholders approved the Strayer Education, Inc. 2015 Equity Compensation Plan (the "2015 Plan"), which provides for the granting of restricted stock, restricted stock units, stock options intended to qualify as incentive stock options, options that do not qualify as incentive stock options, and other forms of equity compensation and performance-based awards to employees, officers and directors of the Company, or to a consultant or advisor to the Company, at the discretion of the Board of Directors. Vesting provisions are at the discretion of the Board of Directors. Options may be granted at option prices based at or above the fair market value of the shares at the date of grant. The maximum term of the awards granted under the 2015 Plan is ten years. The number of shares of common stock reserved for issuance under the 2015 Plan is 500,000 authorized but unissued shares, plus the number of shares available for grant under the Company's previously existing equity compensation plans at the time of stockholder approval of the 2015 Plan, and plus the number of shares which may in the future become available under any previously existing equity compensation plan due to forfeitures of outstanding awards.

In February 2016, the Company's Board of Directors approved grants of 176,802 shares of restricted stock to certain employees. These shares, which vest over a two to four year period, were granted pursuant to the 2015 Plan. The Company's stock price closed at $50.67 on the date of these restricted stock grants.

Dividends paid on unvested restricted stock are reimbursed to the Company if the recipient forfeits his or her shares as a result of termination of employment prior to vesting in the award, unless waived by the Board of Directors.

Restricted Stock and Restricted Stock Units

The table below sets forth the restricted stock and restricted stock units activity for the three months ended March 31, 2016:

	Number of shares or units	Weighted-average Grant price
Balance, December 31, 2015	634,327	$ 104.66
Grants	176,802	50.67
Vested shares	(6,588)	62.28
Forfeitures	—	—
Balance, March 31, 2016	804,541	$ 93.98

Stock Options

The table below sets forth the stock option activity and other stock option information as of and for the three months ended March 31, 2016:

	Number of shares	Weighted-average **exercise price**	Weighted-average remaining contractual life (years)	Aggregate **intrinsic value**[(1)] (in thousands)
Balance, December 31, 2015	100,000	$ 51.95	5.1	$ 817
Grants	—	—		
Exercises	—	—		
Forfeitures/Expirations	—	—		
Balance, March 31, 2016	100,000	$ 51.95	4.8	$ —
Exercisable, March 31, 2016	100,000	$ 51.95	4.8	$ —

(1) The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company’s closing stock price on the respective trading day and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holder had all options been exercised on the respective trading day. The amount of intrinsic value will change based on the fair market value of the Company’s common stock.

Valuation and Expense Information under Stock Compensation Topic ASC 718

At March 31, 2016, total stock-based compensation cost which has not yet been recognized was $31.2 million for unvested restricted stock, restricted stock units, and stock option awards. This cost is expected to be recognized over the next 33 months on a weighted-average basis. Awards of approximately 606,000 shares of restricted stock and restricted stock units are subject to performance conditions. The accrual for stock-based compensation for performance awards is based on the Company's estimates that such performance criteria are probable of being achieved over the respective vesting periods. Such a determination involves significant judgment surrounding the Company's ability to maintain regulatory compliance. If the performance targets are not reached during the respective vesting period, or it is determined it is more likely than not that the performance criteria will not be achieved, related compensation expense is adjusted.

The following table sets forth the amount of stock-based compensation expense recorded in each of the expense line items for the three months ended March 31, 2015 and 2016 (in thousands):

	For the three months ended March 31,	
	2015	2016
Instruction and educational support	$367	$651
Marketing	—	—
Admissions advisory	—	—
General and administration	2,084	2,240
Stock-based compensation expense included in operating expense	2,451	2,891
Tax benefit	956	1,099
Stock-based compensation expense, net of tax	$1,495	$1,792

During the three months ended March 31, 2016 the Company recognized a tax shortfall related to share-based payment arrangements of approximately $50,000. No stock options were exercised during the three months ended March 31, 2016 or 2015.

8. Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	December 31, 2015	March 31, 2016
Deferred payments related to acquisitions	$ 6,078	$ 20,773
Deferred revenue, net of current portion	14,429	12,221
Loss on facilities not in use	15,229	11,888
Deferred rent and other facility costs	8,993	9,112
Lease incentives	3,125	3,035
Deferred gain on sale of campus building	133	62
	$ 47,987	$ 57,091

Deferred Payments Related to Acquisitions

In the first quarter of 2016, the Company acquired NYCDA and entered into deferred payment arrangements with the sellers in connection with this transaction. The deferred payment arrangements of up to $18.0 million are valued at approximately $14.6 million as of March 31, 2016. In April 2016, NYCDA received one of its regulatory permits and the Company subsequently paid $6.0 million of deferred payments to the sellers. See Note 3 for further information on the NYCDA deferred payments.

In 2011, the Company acquired certain assets and entered into deferred payment arrangements with the sellers in connection with that acquisition. The deferred payment arrangements are valued at approximately $3.3 million as of both December 31, 2015 and March 31, 2016. In addition, one of the sellers contributed $2.8 million to the Company representing the seller's continuing interest in the assets acquired.

Deferred Revenue

The Company provides for certain scholarship and awards programs, such as the Graduation Fund (see Note 2 for additional information), that are earned by students when they successfully complete course requirements. The Company also has licensed certain of its non-credit bearing course content to a third party. Included in long-term deferred revenue is the amount of revenue under these arrangements that the Company expects will be realized after one year.

Loss on Facilities Not in Use and Deferred Rent and Other Facility Costs

The Company records a liability for lease costs of campuses and non-campus facilities that are not currently in use (see Note 3). For facilities still in use, the Company records rent expense on a straight-line basis over the initial term of a lease. The difference between the rent payment and the straight-line rent expense is recorded as a liability.

Lease Incentives

In conjunction with the opening of new campuses or renovating existing ones, the Company, in some instances, was reimbursed by the lessors for improvements made to the leased properties. In accordance with ASC 840-20, the underlying assets were capitalized as leasehold improvements and a liability was established for the reimbursements. The leasehold improvements and the liability are amortized on a straight-line basis over the corresponding lease terms, which generally range from five to 10 years.

Deferred Gain on Sale of Campus Building

In June 2007, the Company sold one of its campus buildings for $5.8 million. The Company is leasing back most of the campus building over a 10-year period. In conjunction with this sale and lease back transaction, the Company realized a gain of $2.8 million before tax, which is deferred and recognized over the 10-year lease term.

9. Income Taxes

The Company had $0.1 million of unrecognized tax benefits at March 31, 2016, all of which resulted from tax positions taken prior to the year ended December 31, 2015. The Company recognized approximately $0.3 million of benefits in the three months ended March 31, 2016. The Company also recorded approximately $0.1 million of expense in the three months ended March 31, 2016, related to interest and penalties.

It is reasonably possible that approximately $0.1 million of unrecognized tax benefits will be reduced in the next twelve months due to expiration of the applicable statutes of limitations, which would favorably affect the Company’s effective tax rate if recognized. If amounts accrued are less than amounts ultimately assessed by taxing authorities, the Company would record additional income tax expense. The Company does not anticipate significant changes to other unrecognized tax benefits.

The Company paid $3.7 million and $0.2 million in income taxes during the three months ended March 31, 2016 and 2015, respectively.

10. Litigation

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 or its property are subject.

11. Regulation

Gainful Employment

The Company, the University, and NYCDA are subject to significant state and regulatory oversight, as well as federal oversight in the case of the Company and the University. The Department of Education (the "Department") previously attempted to define "an eligible program of training to prepare students for gainful employment in a recognized occupation." After a federal court invalidated the Department's regulation, the Department established a negotiated rulemaking committee to consider the issue of gainful employment. The negotiations did not result in the required consensus. On March 25, 2014, the Department issued a Notice of Proposed Rulemaking for public comment, and on October 31, 2014, the Department published the final regulation which became effective on July 1, 2015.

The new requirements, applicable to the University but not NYCDA, include two debt-to-earnings measures, consisting of an annual earnings rate and a discretionary income rate. The annual earnings rate is calculated by comparing (1) the annual loan payment required on the median student loan debt incurred by students receiving Title IV funds who completed a particular program and (2) the higher of the mean or median of those graduates' annual earnings two to four years after graduation. The discretionary income rate is calculated by comparing (1) the annual loan payment required on the median student loan debt incurred by students receiving Title IV funds who completed a particular program and (2) the higher of the mean or median annual earnings of those graduates two to four years after graduation, less 1.5 times the government issued Poverty Guideline. Under the new gainful employment regulation, a program would pass if:

the annual loan payment required on the median student loan debt is less than or equal to 8% of the higher of the mean or median annual earnings of graduates in the relevant period; or

the annual loan payment required on the median student loan debt is less than or equal to 20% of the discretionary income of graduates in the relevant period.

In addition, a program that does not pass either of the debt-to-earnings metrics, and that has an annual earnings rate between 8% and 12%, or a discretionary income rate between 20% and 30%, would be considered to be in a warning zone. A program would fail if the program's graduates have an annual earnings rate of 12% or greater and a discretionary income rate of 30% or greater. A program would become Title IV-ineligible for three years if it fails both metrics for two out of three consecutive years, or fails to pass at least one metric for four consecutive award years.

If an institution is notified by the Secretary of Education that a program could become ineligible, based on its final rates, for the next award year:

The institution must provide a warning with respect to the program to students and prospective students indicating, among other things, that students may not be able to use Title IV funds to attend or continue in the program; and

The institution must not enroll, register or enter into a financial commitment with a prospective student until a specified time after providing the warning to the prospective student.

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The new regulation also requires institutions to report student and program level data to the Department, and comply with additional disclosure requirements beginning in January 2017.

In addition, the gainful employment regulation required institutions to certify by December 31, 2015, among other things, that each eligible gainful employment program is programmatically accredited if required by a federal governmental entity or a state governmental entity in the state in which it is located or is otherwise required to obtain state approval, and that each eligible program satisfies the applicable educational prerequisites for professional licensure or certification requirements in each state in which it is located or is otherwise required to obtain state approval, so that a student who completes the program and seeks employment in that state qualifies to take any licensure or certification exam that is needed for the student to practice or find employment in an occupation that the program prepares students to enter. The Company timely made the required certification.

The requirements associated with the gainful employment regulations may substantially increase the Company’s administrative burdens and could affect student enrollment, persistence and retention. Further, although the regulations provide opportunities for an institution to correct any potential deficiencies in a program prior to the loss of Title IV eligibility, the continuing eligibility of the University’s academic programs will be affected by factors beyond management’s control such as changes in the University’s graduates’ income levels, changes in student borrowing levels, increases in interest rates, changes in the percentage of former students who are current in the repayment of their student loans, and various other factors. Even if the Company were able to correct any deficiency in the gainful employment metrics in a timely manner, the disclosure requirements associated with a program’s failure to meet at least one metric may adversely affect student enrollments in that program and may adversely affect the reputation of the University.

The Clery Act

Strayer University must comply with the campus safety and security reporting requirements as well as other requirements in the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act, or Clery Act, including recent changes made to the Clery Act by the Violence Against Women Reauthorization Act of 2013, which was signed into law on March 7, 2013. On April 1, 2014, a negotiated rulemaking committee reached consensus on proposed regulations, and on October 20, 2014, the Department promulgated regulations implementing the recent amendments to the Clery Act. In addition, the Department has interpreted Title IX to categorize sexual violence as a form of prohibited sex discrimination and to require institutions to follow certain disciplinary procedures with respect to such offenses. Failure to comply with the Clery Act or Title IX requirements or regulations thereunder could result in action by the Department to require correction action, fine the Company or limit or suspend its participation in Title IV programs, could lead to litigation, and could harm the Company’s reputation. The Company is in compliance with these requirements.

Compliance Reviews

Strayer University is subject to announced and unannounced compliance reviews and audits by various external agencies, including the Department, its Office of Inspector General, state licensing agencies, and accrediting agencies. The Department conducted four campus-based program reviews of Strayer University campuses in three states and the District of Columbia, with one on-site review conducted August 18-20, 2014; one on-site review conducted September 8-11, 2014; and two on-site reviews conducted September 22-26, 2014. The reviews covered federal financial aid years 2012-2013 and 2013-2014, and two of the reviews also covered compliance with the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act, the Drug-Free Schools and Communities Act, and regulations related thereto. On October 21, 2014, the Department issued an Expedited Final Program Review Determination Letter for one of the program reviews conducted the week of September 22, 2014, closing the program review with no further action required by the Company. On November 17, 2014, the Company received a Program Review Report for the program review conducted in August 2014, and provided a response to the Department on December 15, 2014. On January 7, 2015, the Company received a Final Program Review Determination letter from that review, closing the review with no further action required by the Company. On March 24, 2015, the Company received a Program Review Report for another program review, and provided a response to the Department on April 21, 2015. On April 29, 2015, the Company received a Final Program Review Determination Letter closing the review and identifying a payment of less than $500 due to the Department of Education based on an underpayment on a return to Title IV calculation. The Company remitted payment, and received a letter from the Department on May 26, 2015, indicating that no further action was required and that the matter was closed. On September 15, 2015, the Company received a Program Review report for the final program review, and provided a response to the Department on October 5, 2015. On January 5, 2016 the Company received a Final Program Review Determination letter for the final program review, indicating that the program review was closed and no further action was required.

Program Participation Agreement

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

NYCDA

NYCDA is licensed by the New York Bureau of Proprietary School Supervision, but is not accredited, does not participate in state or federal student financial aid programs, and is not subject to the regulatory requirements applicable to accredited schools and schools that participate in such financial aid programs. Programs such as those offered by NYCDA are regulated by each individual state, and the Company is in the process of seeking additional state authorizations to offer NYCDA programs.

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

Cautionary Notice Regarding Forward-Looking Statements

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 made pursuant to the Private Securities Litigation Reform Act of 1995 ("Reform Act"). Such statements may be identified by the use of words such as "expect," "estimate," "assume," "believe," "anticipate," "will," "forecast," "plan," "project," or similar words, and include, without limitation, statements relating to future enrollment, revenues, revenues per student, earnings growth, operating expenses and capital expenditures. These statements are based on the Company's current expectations and are subject to a number of assumptions, risks and uncertainties. In accordance with the Safe Harbor provisions of the Reform Act, the Company has identified important factors that could cause the actual results to differ materially from those expressed in or implied by such statements. The assumptions, risks and uncertainties 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 regulatory requirements, rulemaking by the Department of Education and increased focus by the U. S. Congress on for-profit education institutions, competitive factors, 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, our ability to implement our growth strategy, risks associated with the ability of our students to finance their education in a timely manner, 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. The Company undertakes no obligation to update or revise forward-looking statements, except as may be required by law.

Additional Information

We maintain a website at http://www.strayereducation.com. The information on our website is not incorporated by reference in this Quarterly Report on Form 10-Q, and our web address is included as an inactive textual reference only. We make available, free of charge through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Background and Overview

We are an education services holding company that owns Strayer University (the “University”) and, as of January 13, 2016, the New York Code and Design Academy (“NYCDA”). The University is an institution of higher education which offers undergraduate and graduate degree programs at physical campuses, predominantly located in the Eastern United States, and online. The University derives approximately 95% of its revenue from tuition for educational programs, whether delivered in person at a physical campus or delivered online. The academic year of the University is divided into four quarters, which approximately coincide with the four quarters of the calendar year. Students make payment arrangements for the tuition for each course at the time of enrollment. Tuition revenue is recognized in the quarter of instruction. If a student withdraws from a course prior to completion, the University refunds a portion of the tuition depending on when the withdrawal occurs. Tuition revenue is shown net of any refunds, withdrawals, corporate discounts, employee tuition discounts and scholarships. The University also derives revenue from other sources such as textbook-related income, certificate revenue, certain academic fees, licensing revenue, and other income, which are all recognized when earned. NYCDA provides non-degree courses in web and application software development and revenue is recognized ratably as services are provided.

Tuition receivable and deferred revenue for our students are recorded upon the start of the academic term or program. Because the University’s academic quarters coincide with the calendar quarters, at the end of the fiscal quarter (and academic term), tuition receivable generally represents amounts due from students for educational services already provided and deferred revenue generally represents advance payments for academic services to be provided in the future. Based upon past experience and judgment, the University establishes an allowance for doubtful accounts with respect to accounts receivable. Any uncollected account more than one year past due is charged against the allowance. Accounts less than one year past due are reserved according to the length of time the balance has been outstanding. In establishing reserve amounts, we also consider the status of students as to whether or not they are currently enrolled for the next term, as well as the likelihood of recovering balances that have previously been written off, based on historical experience. Bad debt expense as a percentage of revenues for the first quarter of 2016 and 2015 was 2.8% and 3.1%, respectively.

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

Instruction and educational support expenses generally contain items of expense directly attributable to educational activities of the University. This expense category includes salaries and benefits of faculty and academic administrators, as well as administrative personnel who support and serve student interests. Instruction and educational support expenses also include costs of educational supplies and facilities, including rent for campus facilities, certain costs of establishing and maintaining computer laboratories and all other physical plant and occupancy costs, with the exception of costs attributable to the corporate offices. Bad debt expense incurred on delinquent student account balances is also included in instruction and educational support expenses.

Marketing expenses include the costs of advertising and production of marketing materials and related personnel costs.

Admissions advisory expenses include salaries, benefits and related costs of personnel engaged in admissions.

General and administration expenses include salaries and benefits of management and employees engaged in accounting, human resources, legal, regulatory compliance, and other corporate functions, along with the occupancy and other related costs attributable to such functions.

Investment income consists primarily of earnings and realized gains or losses on investments, and interest expense consists of interest incurred on our outstanding borrowings, unused revolving credit facility fees, and amortization of deferred financing costs.

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

Critical Accounting Policies and Estimates

"Management's Discussion and Analysis of Financial Condition and Results of Operations" discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates and judgments related to its allowance for doubtful accounts; income tax provisions; the useful lives of property and equipment; redemption rates for scholarship programs; fair value of future contractual operating lease obligations for facilities that have been closed; valuation of deferred tax assets, goodwill, and intangible assets; forfeiture rates and achievability of performance targets for stock-based compensation plans; and accrued expenses. Management bases its estimates and judgments on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Management regularly reviews its estimates and judgments for reasonableness and may modify them in the future. Actual results may differ from these estimates under different assumptions or conditions.

Management believes that the following critical accounting policies are its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue recognition — Like many traditional institutions, Strayer University offers its educational programs on a quarter system having four academic terms, which coincide with our quarterly financial reporting periods. Approximately 95% of our revenues during the three months ended March 31, 2016 consisted of tuition revenue. Tuition revenue is recognized ratably in the quarter of instruction as the University provides academic services in a given term, whether delivered in person at a physical campus or online. Tuition revenue is shown net of any refunds, withdrawals, corporate discounts, scholarships and employee tuition discounts. The University also derives revenue from other sources such as textbook-related income, certificate revenue, certain academic fees, licensing revenue, and other income, which are all recognized when earned. At the start of each academic term or program, a liability (deferred revenue) is recorded for academic services to be provided and a tuition receivable is recorded for the portion of the tuition not paid in advance. Any cash received prior to the start of an academic term is recorded as deferred revenue. NYCDA provides non-degree courses in web and application software development and tuition revenue is recognized ratably over the duration of each course.

Students finance their education in a variety of ways, and historically about three quarters of our students participated in one or more financial aid programs provided through Title IV of the Higher Education Act. In addition, many of our working adult students finance their own education or receive full or partial tuition reimbursement from their employers. Those students who are veterans or active duty military personnel have access to various additional government-funded educational benefit programs.

A typical University class is offered in weekly increments over a ten-week period and is followed by an exam. Students who withdraw from a course may be eligible for a refund of tuition charges based on the timing of the withdrawal. We use the student’s last date of attendance for this purpose. Student attendance is based on physical presence in class for on-ground classes. For online classes, attendance consists of logging into one’s course shell and performing an academically related activity (e.g., engaging in a discussion post or taking a quiz).

If a student withdraws from a course prior to completion, a portion of the tuition is refundable depending on when the withdrawal occurs. Our refund policy typically permits students who complete less than half of a course to receive a partial refund of tuition for that course. Refunds reduce the tuition revenue that would have otherwise been recognized for that student. Since the University’s academic terms coincide with our financial reporting periods, nearly all refunds are processed and recorded in the same quarter as the corresponding revenue. The amount of tuition revenue refundable to students may vary based on the student’s state of residence.

For undergraduate students who withdraw from all their courses during the quarter of instruction, we reassess collectibility of tuition and fees for revenue recognition purposes. In addition, we cease revenue recognition when a student fully withdraws from all of his or her courses in the academic term. Tuition charges billed in accordance with our billing schedule may be greater than the pro rata revenue amount, but the additional amounts are not recognized as revenue unless they are collected in cash.

For students who receive funding under Title IV, funds are subject to return provisions as defined by the Department of Education. If Title IV funds are returned to the Department of Education, the student is responsible for paying the amount of prorated tuition charged to him or her. Loss of financial aid eligibility during an academic term is rare and would normally coincide with the student's withdrawal from the institution. As discussed above, we cease revenue recognition upon a student's withdrawal from all of his or her classes in an academic term.

New University students registering in credit-bearing courses in any undergraduate program for the summer 2013 term (fiscal third quarter) and subsequent terms qualify for the Graduation Fund, whereby qualifying students earn tuition credits that are redeemable in the final year of a student's course of study if he or she successfully remains in the program. Students must meet all of the University's admission requirements and not be eligible for any previously offered scholarship program. Our employees and their dependents are not eligible for the program. To maintain eligibility, students must be enrolled in a bachelor's degree program. Students who have more than one consecutive term of non-attendance lose any Graduation Fund credits earned to date, but may earn and accumulate new credits if the student is reinstated or readmitted by the University in the future. In their final academic year, qualifying students will receive one free course for every three courses that were successfully completed. Revenue and the value of the benefit earned by students participating in the Graduation Fund is recognized based on a systematic and rational allocation of the cost of honoring the benefit earned to each of the underlying revenue transactions that result in progress by the student toward earning the benefit. The estimated value of awards under the Graduation Fund that will be recognized in the future is based on historical experience of students' persistence in completing their course of study and earning a degree. Estimated redemption rates of eligible students vary based on their term of enrollment. As of March 31, 2016, we had deferred $23.3 million for estimated redemptions earned under the Graduation Fund, as compared to $12.7 million at March 31, 2015. Each quarter we assess our methodologies and assumptions underlying our estimates for persistence and estimated redemptions based on actual experience. To date, any adjustments to our estimates have not been material. However, if actual persistence or redemption rates change, adjustments to the reserve may be necessary and could be material.

Tuition receivable — We record estimates for our allowance for doubtful accounts for tuition receivable from students primarily based on our historical collection rates by age of receivable, net of recoveries, and consideration of other relevant factors. Our experience is that payment of outstanding balances is significantly influenced by whether the student returns to the institution as we require students to make payment arrangements for their outstanding balances prior to enrollment. Therefore, we monitor outstanding tuition receivable balances through subsequent terms, increasing the reserve on such balances over time as the likelihood of returning to the institution diminishes and our historical experience indicates collection is less likely. We periodically assess our methodologies for estimating bad debts in consideration of actual experience. If the financial condition of our students were to deteriorate, resulting in evidence of impairment of their ability to make required payments for tuition payable to us, additional allowances or write-offs may be required. For the first quarter of 2016, our bad debt expense was 2.8% of revenue, compared to 3.1% for the same period in 2015. A change in our allowance for doubtful accounts of 1% of gross tuition receivable as of March 31, 2016 would have changed our income from operations by approximately $0.3 million.

Accrued lease and related costs — We estimate potential sublease income and vacancy periods for space that is not in use, adjusting our estimates when circumstances change. If our estimates change or if we enter into subleases at rates that are substantially different than our current estimates, we will adjust our liability for lease and related costs. During the three months ended March 31, 2016 and 2015, we reduced our liability for leases by approximately $1.6 million and $0.2 million, respectively.

Other estimates — We record estimates for certain of our accrued expenses and income tax liabilities. We estimate the useful lives of our property and equipment. We periodically assess goodwill and intangible assets for impairment. We periodically review our assumed forfeiture rates and ability to achieve performance targets for stock-based awards and adjust them as necessary. Should actual results differ from our estimates, revisions to our accrued expenses, carrying amount of goodwill and intangible assets, stock-based compensation expense, and income tax liabilities may be required.

Results of Operations

In the first quarter of 2016, we generated $111.2 million in revenue, a 1% decrease compared to 2015, principally due to a 1% decline in revenue per student. Income from operations was $20.1 million for the first quarter of 2016, and includes approximately $1.6 million in adjustments to reduce our liability for losses on facilities no longer in use. Income from operations for the first quarter of 2015 was $19.9 million, which includes $0.2 million in adjustments to reduce our liability for losses on facilities no longer in use. Net income in the first quarter of 2016 was $12.4 million, including approximately $1.0 million in after-tax benefits from adjustments to the Company’s liability for facilities no longer in use, compared to $11.4 million for the same period in 2015, which reflected approximately $0.1 million in after-tax benefits from adjustments to the Company’s liability for facilities no longer in use. Diluted earnings per share was $1.15 compared to $1.06 for the same period in 2015. Diluted earnings per share for 2016 and 2015 includes $0.09 per share and $0.01 per share in after-tax earnings, respectively, related to the reduction of the Company’s liability for losses on facilities no longer in use. The impact of NYCDA’s financial results since the acquisition date was not material relative to our consolidated results of operations for the three months ended March 31, 2016.

Key enrollment trends by quarter for the University were as follows:

Enrollment

% Change vs Prior Year

Since 2013, we have introduced a number of initiatives in response to the variability in our enrollment. Recognizing that affordability is an important factor in a prospective student's decision to seek a college degree, we reduced Strayer University undergraduate tuition for new students by 20% beginning in our 2014 winter academic term. We also introduced the Graduation Fund in mid-2013, whereby qualifying students can receive one free course for every three courses successfully completed. The free courses are redeemable in the student's final academic year. In 2015 we launched Strayer@Work, which works with Fortune 1000 companies to structure customized degree and certificate programs for their employees, often with significant discounts to our published tuition rates. In January 2016, we acquired the New York Code and Design Academy, which charges variable tuition by program based on the number of hours of instruction. These initiatives could result in increased volatility in our revenue per student. However, we believe these initiatives, and others, will continue to support our competitive position in adult education and, over the long term, will lead to growth.

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Enrollment. Total enrollments at Strayer University for the winter term 2016 increased to 40,872 students, from 40,728 for the winter term 2015. New student enrollments decreased by 5%, and continuing student enrollments increased by 2%.

Revenues. Revenues decreased 1% to $111.2 million in the first quarter of 2016 from $111.9 million in the first quarter of 2015, principally due to a decline in revenue per student of 1%. The decline in revenue per student is largely attributable to a new pricing structure which was implemented for the first quarter of 2014 which reduced tuition for new undergraduate students by approximately 20%, and made them eligible for our Graduation Fund. Revenues for undergraduate students were generally unchanged in 2016, driven by an increase in enrollment of 4% and a decline of 2% in revenue per student, resulting mostly from the new pricing structure for new undergraduate students. We expect this decline in revenue per student to continue at the undergraduate level as we enroll more new undergraduate students over time. For graduate students, revenues decreased 5% in 2016, driven by an increase in revenue per student of 2%, offset by a decline in enrollment of 7%. The increase in graduate revenue per student was due primarily to increased tuition and classes per student compared to 2015.

Instruction and educational support expenses. Instruction and educational support expenses decreased $1.6 million, or 3%, to $58.1 million in the first quarter of 2016 from $59.7 million in the first quarter of 2015. We recorded adjustments in each of the three months ended March 31, 2016 and 2015, resulting from changes in the timing and expected income from settlements and sublease agreements, and may record additional adjustments in the future. Instruction and educational support expenses as a percentage of revenues decreased to 52.3% in the first quarter of 2016 from 53.4% in the first quarter of 2015.

Marketing expenses. Marketing expenses increased $1.6 million, or 10%, to $18.3 million in the first quarter of 2016 from $16.7 million in the first quarter of 2015. Marketing expenses as a percentage of revenues increased to 16.5% in 2016 from 14.9% in 2015. We expect to continue to invest in our marketing efforts such that marketing expenses may increase in absolute terms and as a percentage of revenue in 2016 as compared to 2015.

Admissions advisory expenses. Admissions advisory expenses increased by $0.3 million, or 9%, to $4.3 million in the first quarter of 2016 from $4.0 million in the first quarter of 2015, primarily as a result of higher personnel costs. Admissions advisory expenses as a percentage of revenues increased to 3.9% in the first quarter of 2016 from 3.6% in the first quarter of 2015.

General and administration expenses. General and administration expenses decreased $1.4 million, or 11%, to $10.3 million in the first quarter of 2016 from $11.7 million in 2015. During the first quarter of 2016 we recorded a $1.6 million adjustment to reduce our lease loss liability resulting from the sublease of a portion of our corporate office space. General and administration expenses as a percentage of revenues decreased to 9.3% in the first quarter of 2016 from 10.4% in the first quarter of 2015.

Income from operations. Income from operations increased $0.2 million, or 1%, to $20.1 million in the first quarter of 2016 from $19.9 million in the first quarter of 2015.

Interest expense. Interest expense decreased to $0.2 million in the first quarter of 2016 from $1.3 million in the first quarter of 2015 following the repayment in July 2015 of all our outstanding debt in connection with our amended credit facility. We have $150.0 million available under our revolving credit facility and no balance outstanding as of March 31, 2016.

Provision for income taxes. Income tax expense increased $0.3 million, or 5%, to $7.6 million in the first quarter of 2016 from $7.3 million in the first quarter of 2015, primarily due to the increase in income before income taxes attributable to the factors discussed above. Our effective tax rate was 38.0% for the first quarter of 2016 compared to 39.0% for the same period in 2015.

Net income. Net income increased $1.0 million to $12.4 million in the first quarter of 2016 from $11.4 million in the first quarter of 2015 due to the factors discussed above.

Liquidity and Capital Resources

At March 31, 2016, we had cash and cash equivalents of $117.5 million compared to $106.9 million at December 31, 2015 and $188.3 million at March 31, 2015. At March 31, 2016, most of our cash was invested in bank overnight deposits.

In January 2016, we completed the acquisition of New York Code and Design Academy, which provides non-degree courses in web and application software development, primarily at its campus in New York City. We paid $2.4 million up front and may pay up to an additional $18.0 million to the sellers consisting of (a) up to $12.5 million payable based on NYCDA’s results of operations over a five-year period, (b) $5.0 million payable based on NYCDA’s receipt of a state regulatory permit, and (c) $0.5 million payable based on NYCDA’s receipt of another state regulatory permit. In addition, we paid $4.6 million to the founders in connection with their continued employment, which is reimbursable to us if either of the founders voluntarily terminates his employment within three years of the acquisition date. If certain state regulatory permits are obtained within a specified period after the acquisition, we are required to pay an additional $1.0 million to the sellers, with a corresponding reduction in the amount payable after five years based on NYCDA’s results of operations. In April 2016, NYCDA received one of its regulatory permits and we subsequently paid $6.0 million of contingent consideration to the sellers. The remaining balance payable can be up to $12.0 million. The acquisition and subsequent contingent consideration was funded through our existing cash.

In July 2015, we repaid all balances outstanding under a prior credit facility, and entered into an amended credit agreement which provides for a $150 million revolving credit facility and an option to establish incremental term loans under certain conditions. The amended credit agreement has a maturity date of July 2, 2020. We had no borrowings outstanding under the revolving credit facility as of March 31, 2016.

Borrowings under the revolving credit facility bear interest at LIBOR or a base rate, plus a margin ranging from 1.75% to 2.25%, depending on our leverage ratio. An unused commitment fee ranging from 0.25% to 0.35%, depending on our leverage ratio, accrues on unused amounts under the revolving credit facility. During the three months ended March 31, 2016 and 2015, we paid cash interest of $0.1 million and $1.1 million, respectively.

The amended credit agreement is guaranteed by our subsidiaries and is secured by substantially all of the personal property and assets of the Company and the guarantors. The amended credit agreement contains customary covenants, representations, warranties, events of default and remedies upon default. In addition, we must satisfy certain financial maintenance covenants, including a total leverage ratio, a coverage ratio and a U.S. Department of Education financial responsibility composite score. We were in compliance with all applicable covenants related to the amended credit agreement as of March 31, 2016.

Our net cash from operating activities for the three months ended March 31, 2016 decreased to $14.7 million, as compared to $30.7 million for the same period in 2015. The decrease in net cash from operating activities was largely due to changes in working capital and the payment of income taxes, and payment of retention agreements in connection with the NYCDA acquisition. Capital expenditures were $2.0 million for the three months ended March 31, 2016, compared to $2.8 million for the same period in 2015.

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

For the first quarter of 2016, bad debt expense as a percentage of revenue was 2.8% compared to 3.1% for 2015.

We have available $150 million under our revolving credit facility. We believe that existing cash and cash equivalents, cash generated from operating activities, and if necessary, cash borrowed under the credit facility, will be sufficient to meet our requirements for at least the next 12 months. Currently, we maintain our cash in mostly FDIC-insured bank accounts. Excess cash is invested in money market funds, which is included in cash and cash equivalents at March 31, 2016 and 2015. We earned interest income of $0.1 million in the three months ended March 31, 2016 and 2015.

The table below sets forth our contractual commitments associated with operating leases, excluding subleases as of March 31, 2016:

	Payments Due By Period (in thousands)				
	Total	**Less than 1 Year**	1-3 Years	3-5 Years	More than 5 Years
Operating leases	$159,196	$ 36,646	$59,993	$39,585	$ 22,972

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to the impact of interest rate changes and may be subject to changes in the market values of our future investments. We invest our excess cash in bank overnight deposits, money market funds and marketable securities. We have not used derivative financial instruments in our investment portfolio. Earnings from investments in bank overnight deposits, money market mutual funds, and marketable securities may be adversely affected in the future should interest rates decline, although such a decline may reduce the interest rate payable on any borrowings under our revolving credit facility. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates. As of March 31, 2016, a 1% increase or decrease in interest rates would not have a material impact on our future earnings, fair values, or cash flows related to investments in cash equivalents or interest earning marketable securities.

Changing interest rates could also have a negative impact on the amount of interest expense we incur. On July 2, 2015, we used approximately $116 million of our existing cash and cash equivalents to prepay our term loan and terminate an interest rate swap as part of an amendment to our credit and term loan agreement. The amended credit agreement provides for a $150 million revolving credit facility and an option to establish incremental term loans under certain conditions. The amended credit agreement has a maturity date of July 2, 2020. We had no borrowings outstanding under the revolving credit facility after prepayment of the term loan facility, and as of March 31, 2016. Borrowings under the revolving credit facility bear interest at LIBOR or a base rate, plus a margin ranging from 1.75% to 2.25%, depending on our leverage ratio. An unused commitment fee ranging from 0.25% to 0.35%, depending on our leverage ratio, accrues on unused amounts under the revolving credit facility. An increase in LIBOR would affect interest expense on any outstanding balance of the revolving credit facility. For every 100 basis points increase in LIBOR, we would incur an incremental $1.5 million in interest expense per year assuming the entire $150 million revolving credit facility was utilized.

ITEM 4: CONTROLS AND PROCEDURES

a) *Disclosure Controls and Procedures.* The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2016. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company had in place, as of March 31, 2016, effective controls and procedures designed to ensure that information required to be disclosed by the Company (including consolidated subsidiaries) in the reports it files or submits under the Securities Exchange Act of 1934, as amended, and the rules thereunder, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

b) *Internal Control Over Financial Reporting*. There have not been any changes in the Company's internal control over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

You should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our business, adversely affect the market price of our common stock and could cause you to suffer a partial or complete loss of your investment. There have been no material changes to the risk factors previously described in Part I, Item 1A included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Those risks are incorporated herein by this reference. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business. See "Cautionary Notice Regarding Forward-Looking Statements." We have added a risk factor affecting our business as follows:

Failure to Successfully Assimilate and Grow New York Code and Design Academy Could Negatively Affect Our Business

We completed the acquisition of New York Code and Design Academy in January of 2016. Acquisitions involve various inherent risks and uncertainties, including difficulties in efficiently integrating the service offerings, accounting and other administrative systems of an acquired business; the consequences of diverting the attention of senior management from existing operations; and the possibility that an acquired business does not meet or exceed the financial projections that supported the purchase price. A failure to effectively assimilate and manage the growth of New York Code and Design Academy, including obtaining additional state authorizations to operate, could have a material adverse effect on our operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended March 31, 2016, we did not repurchase any shares of common stock under our repurchase program. The remaining authorization for our common stock repurchases was $70.0 million at March 31, 2016, and is available for use through December 31, 2016.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers; Compensatory Arrangements of Certain Officers.

Rosemary Rose announced her intention to retire from her position as Executive Vice President and Chief Operating Officer of Strayer University, effective July 15, 2016.

Item 6. Exhibits

The exhibits required to be filed as part of this Quarterly Report on Form 10-Q are listed in the Exhibit Index attached hereto and are incorporated herein by reference.

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.

By:/s/ Daniel W. Jackson
Daniel W. Jackson
Executive Vice President
and Chief Financial
Officer
Date: May 6, 2016

Exhibit Index

Exhibit	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.	INS XBRL Instance Document
101.	SCH XBRL Schema Document
101.	CAL XBRL Calculation Linkbase Document
101.	DEF XBRL Definition Linkbase Document
101.	LAB XBRL Label Linkbase Document
101.	PRE XBRL Presentation Linkbase Document