STRAYER EDUCATION INC
Form 10-Q
May 03, 2018
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

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	20171

Herndon, VA
(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 13, 2018, there were outstanding 11,300,671 shares of Common Stock, par value $0.01 per share, of the Registrant.

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STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2017	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 155,933	$ 165,867
Tuition receivable, net	23,122	24,997
Other current assets	11,293	10,558
Total current assets	190,348	201,422
Property and equipment, net	73,763	73,686
Deferred income taxes	24,452	23,803
Goodwill	20,744	20,744
Other assets	11,971	12,155
Total assets	$ 321,278	$ 331,810
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 46,177	$ 45,806
Income taxes payable	1,038	2,541
Contract liabilities	21,851	23,931
Total current liabilities	69,066	72,278
Other long-term liabilities	43,015	41,240
Total liabilities	112,081	113,518
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01; 20,000,000 shares authorized; 11,167,425 and 11,300,671 shares issued and outstanding at December 31, 2017 and March 31, 2018, respectively	112	113
Additional paid-in capital	47,079	49,766
Retained earnings	162,006	168,413
Total stockholders' equity	209,197	218,292
Total liabilities and stockholders' equity	$ 321,278	$ 331,810

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

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STRAYER EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	March 31, 2017	2018
Revenues	$ 114,912	$ 116,469
Costs and expenses:		
Instruction and educational support	61,416	63,776
Marketing	18,718	20,124
Admissions advisory	4,716	4,676
General and administration	11,619	11,218
Merger costs	—	5,347
Total costs and expenses	96,469	105,141
Income from operations	18,443	11,328
Investment income	181	448
Interest expense	159	159
Income before income taxes	18,465	11,617
Provision for income taxes	7,887	2,150
Net income	$ 10,578	$ 9,467
Earnings per share:		
Basic	$ 1.00	$ 0.88
Diluted	$ 0.95	$ 0.84
Weighted average shares outstanding:		
Basic	10,630	10,745
Diluted	11,121	11,311

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	Total
Balance at December 31, 2016	11,093,489	$ 111	$ 35,453	$ 152,810	$ 188,374
Restricted stock grants, net of forfeitures	66,395	1	(1)	—	—
Stock-based compensation	—	—	2,427	—	2,427
Common stock dividends	—	—	—	(2,853)	(2,853)
Net income	—	—	—	10,578	10,578
Balance at March 31, 2017	11,159,884	$ 112	$ 37,879	$ 160,535	$ 198,526

	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Total
Balance at December 31, 2017	11,167,425	$ 112	$ 47,079	$ 162,006	$ 209,197
Impact of adoption of new accounting standard	—	—	—	(171)	(171)
Restricted stock grants, net of forfeitures	133,246	1	(1)	—	—
Stock-based compensation	—	—	2,688	—	2,688
Common stock dividends	—	—	—	(2,889)	(2,889)
Net income	—	—	—	9,467	9,467
Balance at March 31, 2018	11,300,671	$ 113	$ 49,766	$ 168,413	$ 218,292

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, 2017	2018
Cash flows from operating activities:		
Net income	$ 10,578	$ 9,467
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of gain on sale of assets	(71)	—
Amortization of deferred rent	(477)	(417)
Amortization of deferred financing costs	66	66
Depreciation and amortization	4,370	5,035
Deferred income taxes	762	(1,842)
Stock-based compensation	2,427	2,688
Changes in assets and liabilities:		
Tuition receivable, net	19	(2,249)
Other current assets	616	931
Other assets	397	115
Accounts payable and accrued expenses	(2,836)	(867)
Income taxes payable and income taxes receivable	7,089	3,995
Contract liabilities	2,441	1,192
Other long-term liabilities	(846)	(1,065)
Net cash provided by operating activities	24,535	17,049
Cash flows from investing activities:		
Purchases of property and equipment	(3,841)	(4,233)
Net cash used in investing activities	(3,841)	(4,233)
Cash flows from financing activities:		
Common dividends paid	(2,853)	(2,889)
Net cash used in financing activities	(2,853)	(2,889)
Net increase in cash, cash equivalents, and restricted cash	17,841	9,927
Cash, cash equivalents, and restricted cash — beginning of period	129,758	156,448
Cash, cash equivalents, and restricted cash — end of period	$ 147,599	$ 166,375
Noncash transactions:		
Purchases of property and equipment included in accounts payable	$ 571	$ 2,385

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 online and through physical campuses, predominantly located in the eastern United States. NYCDA is a New York City-based provider of web and application software 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 reportable segment.

2. Merger with Capella Education Company

On October 29, 2017, the Company entered into a merger agreement with Capella Education Company (“Capella”). Capella provides post-secondary education and job-skills programs primarily through its subsidiary Capella University. The merger was approved by the Company’s stockholders and by Capella’s shareholders on January 19, 2018. Upon consummation of the merger, Capella will become a wholly-owned subsidiary of the Company and will continue to offer its education programs through Capella University.

Pursuant to the merger, the Company will issue 0.875 shares of the Company’s Common Stock for each issued and outstanding share of Capella Common Stock. Outstanding equity awards held by current Capella employees and certain non-employee directors of Capella will be assumed by the Company and converted into comparable Company awards at the exchange ratio. Outstanding equity awards held by Capella non-employee directors who will not serve as directors of the Company after completion of the merger and by former Capella employees will be settled upon completion of the merger in exchange for cash payments as specified in the merger agreement. Following the merger, stockholders of the Company and Capella are expected to own approximately 52% and 48%, respectively, of the outstanding combined company shares on a fully diluted basis, based on the number of shares currently expected to be outstanding immediately prior to the effective time of the merger.

Also in connection with the completion of the merger, and as approved by the Company’s shareholders on January 19, 2018, the Company will change its name to Strategic Education, Inc. and increase the number of shares of authorized Common Stock to 32,000,000. The merger is anticipated to close in the third quarter of 2018, subject to the satisfaction of customary closing conditions, including the receipt of approvals by the Department of Education, state educational regulators, and relevant accreditation bodies.

During the three months ended March 31, 2018, the Company incurred $5.3 million of merger costs. These costs were primarily attributable to legal, accounting, and integration support services incurred by the Company in connection with the proposed merger, and are included in merger costs in the accompanying unaudited condensed consolidated statement of income for the three months ended March 31, 2018.

3. Significant Accounting Policies

Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

All information as of December 31, 2017 and March 31, 2017 and 2018, and for the three months ended March 31, 2017 and 2018 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 in the United States of America have been condensed or omitted. In addition, the Company had no items of other comprehensive income in the periods presented and accordingly comprehensive income is equal to net income. 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,

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2017. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full fiscal year.

New accounting standard for revenue recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") which supersedes the prior revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. During 2016 and 2017, the FASB issued additional ASUs amending certain aspects of ASU 2014-09. On January 1, 2018, the Company adopted the new accounting standard and all the related amendments ("ASC 606") using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company expects the impact of the adoption of the new standard to be immaterial to the Company's net income on an ongoing basis. Refer to Note 4 for further discussion.

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. The Company had approximately $15,000 and $8,000 as of December 31, 2017 and March 31, 2018, respectively, of these unpaid obligations, which are recorded as restricted cash and included in other current assets in the unaudited condensed consolidated balance sheets.

As part of commencing operations in Pennsylvania in 2003, the Company is required to maintain a "minimum protective endowment" of at least $0.5 million in an interest-bearing account 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.

The following table illustrates the reconciliation of cash, cash equivalents, and restricted cash shown in the unaudited condensed consolidated statements of cash flows as of March 31, 2017 and 2018 (in thousands):

	For the three months ended March 31,

	2017	2018
Cash and cash equivalents	$ 147,099	$ 165,867
Restricted cash included in other current assets	—	8
Restricted cash included in other long-term assets	500	500
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 147,599	$ 166,375

Tuition Receivable and Allowance for Doubtful Accounts

The Company records tuition receivable and contract liabilities for its students upon the start of the academic term or program. Therefore, at the end of the quarter (and academic term), tuition receivable generally represents amounts due from students for educational services already provided and contract liabilities 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.

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The Company’s tuition receivable and allowance for doubtful accounts were as follows as of December 31, 2017 and March 31, 2018 (in thousands):

	December 31, 2017	March 31, 2018
Tuition receivable	$ 35,809	$ 38,772
Allowance for doubtful accounts	(12,687)	(13,775)
Tuition receivable, net	$ 23,122	$ 24,997

Approximately $2.9 million and $3.3 million of tuition receivable are included in other assets as of December 31, 2017 and March 31, 2018, respectively, 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, 2017 and 2018 (in thousands):

	For the three months ended March 31, 2017	2018
Allowance for doubtful accounts, beginning of period	$ 10,201	$ 12,687
Additions charged to expense	4,382	6,391
Write-offs, net of recoveries	(3,763)	(5,303)
Allowance for doubtful accounts, end of period	$ 10,820	$ 13,775

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 assets are assessed at least annually for impairment during the fourth quarter, 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. No events or circumstances occurred in the three months ended March 31, 2018 to indicate an impairment to goodwill or the indefinite-lived intangible assets.

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Authorized Stock

The Company has authorized 20,000,000 shares of common stock, par value $.01, of which 11,167,425 and 11,300,671 shares were issued and outstanding as of December 31, 2017 and March 31, 2018, respectively. The Company also has authorized 8,000,000 shares of preferred stock, none of which is issued or outstanding. 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.

In March 2018, the Company's Board of Directors declared a regular, quarterly cash dividend of $0.25 per share of common stock. The dividend was paid on March 19, 2018.

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 unaudited condensed consolidated statements of income for each of the three months ended March 31, 2017 and 2018 is based on awards ultimately expected to vest and, therefore, has been adjusted for estimated forfeitures. The Company estimates forfeitures at the time of grant and revises 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. See note 7 for additional information.

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, and (2) the amount of compensation cost associated with the stock awards for future service not yet recognized by the Company. 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, 2017 and 2018, 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, 2017 and 2018 (in thousands):

	For the three months ended March 31,	
	2017	2018
Weighted average shares outstanding used to compute basic earnings per share	10,630	10,745
Incremental shares issuable upon the assumed exercise of stock options	35	45
Unvested restricted stock and restricted stock units	456	521
Shares used to compute diluted earnings per share	11,121	11,311

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 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

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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 since 2014 remain open for Federal tax examination and the tax years since 2013 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 include allowances for doubtful accounts, 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, fair value of contingent consideration, and the provision for income taxes. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 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 corresponding liability balances in connection with its leased properties.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses, which applies to ASC Topic 326, Measurement of Credit Losses on Financial Instruments. The new guidance revises the accounting requirements related to the measurement of credit losses and will require organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectibility. Assets must be presented in the financial statements at the net amount expected to be collected. The guidance will be effective for the Company's annual and interim reporting periods beginning January 1, 2020, with early adoption permitted. The Company is evaluating the impact this standard will have on its financial condition, results of operations, and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). ASU 2016-15 is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows by providing guidance on eight specific cash flow issues. The Company adopted the standard retrospectively on January 1, 2018 with no effect on its unaudited condensed consolidated statements of cash flows for the three months ended March 31, 2018 and 2017.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash (Topic 230) (“ASU 2016-18”). Under ASU 2016-18, an entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. On January 1, 2018, the Company adopted ASU 2016-18 with no material impact on its unaudited condensed consolidated statements of cash flows.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill only in the event that an impairment is recognized. The amendments in this update should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019, though early adoption is permitted. The Company adopted this guidance effective as of January 1, 2018 with no material impact on its unaudited condensed consolidated financial statements.

Other ASUs issued by the FASB but not yet effective are not expected to have a material effect on the Company’s consolidated financial statements.

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4. Revenue Recognition

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606. The comparative information has not been restated and continues to be reported under the accounting standards in effect in those reporting periods.

The Company recorded an adjustment to reduce opening retained earnings by $0.2 million, net of tax, due to the impact of adopting ASC 606, primarily related to the allocation of tuition revenue across various performance obligations involved in certain student contract arrangements. In accordance with ASC 606, the disclosure of the impact of adoption on the Company's unaudited condensed consolidated income statement and balance sheet as of and for the three months ended March 31, 2018 was as follows (in thousands):

	For the Period Ended March 31, 2018		
	As Reported	Balances without Adoption of ASC 606	Effect of Change Higher/(Lower)
Income Statement			
Revenues	$ 116,469	$ 116,338	$ 131
Instruction and educational support expense	63,776	63,584	192
Provision for income taxes	2,150	2,167	(17)
Net income	9,467	9,511	(44)

	As of March 31, 2018		
	As Reported	Balances without Adoption of ASC 606	Effect of Change Higher/(Lower)
Balance Sheet			
Tuition receivable – net	$ 24,997	$ 23,769	$ 1,228
Other current assets	10,558	12,084	(1,526)
Income taxes payable	2,541	2,624	(83)
Retained earnings	168,413	168,628	(215)

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.

Revenues are recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods and services. The Company applies the five-step revenue model under ASC 606 to determine when revenue is earned and recognized.

Arrangements with students may have multiple performance obligations. For such arrangements, the Company allocates net tuition revenue to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on the prices charged to customers and observable market prices. The standalone selling price of material rights to receive free classes in the future is estimated based on class tuition price and likelihood of redemption based on historical student attendance and completion behavior.

During the quarter ended March 31, 2018, the Company derived approximately $112.0 million, or 96% of its revenues from tuition revenue net of discounts, grants, and scholarships, which will continue to be recognized in the quarter of instruction. The Company also recognized approximately $3.1 million of revenues from academic fees, $0.9 million for textbook-related sales, and $0.5 million from other revenue streams.

At the start of each academic term or program, a liability (contract liability) 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 a contract liability. 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. Contract liabilities are recorded as a current or long-term liability in the unaudited condensed consolidated balance sheets based on when the benefit is expected to be realized.

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Textbook-related income is recognized upon sale of the course material. Revenues also include certain academic fees recognized within the quarter of instruction, and certificate revenue and licensing revenue which are recognized as the services are provided.

Contract Liabilities – Graduation Fund

In 2013, the University 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 receive one free course for every three courses that are successfully completed. Students must meet all of the University’s admission requirements, and must be enrolled in a bachelor’s 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.

Revenue from students participating in the Graduation Fund is recorded in accordance with ASC 606. The Company defers the value of the related performance obligation associated with the credits 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 12 months is $21.3 million and is included as a current contract liability in the unaudited condensed consolidated balance sheets. The remainder is expected to be redeemed within two to four years.

The table below presents activity in the contract liability related to the Graduation Fund for the three months ended March 31, 2017 and 2018 (in thousands):

	March 31, 2017	March 31, 2018
Balance at beginning of period	$ 29,499	$ 37,400
Revenue deferred	5,702	5,885
Benefit redeemed	(3,563)	(4,967)
Balance at end of period	$ 31,638	$ 38,318

Unbilled receivables – Student tuition

Academic materials may be shipped to certain new undergraduate students in advance of the term of enrollment. Under ASC 606, the materials represent a performance obligation to which the Company allocates revenue based on the fair value of the materials relative to the total fair value of all the performance obligations in the arrangement with the student. When control of the materials passes to the student in advance of the term of enrollment, an unbilled receivable and related revenue is recorded. Following adoption of ASC 606 on January 1, 2018, the balance of unbilled receivables related to such materials was $1.2 million as of March 31, 2018, and is included in tuition receivable.

5. 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.

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The following details the changes in the Company's restructuring liability for lease and related costs during the three months ended March 31, 2017 and 2018 (in thousands):

	2017	2018
Balance at beginning of period(1)	$ 11,985	$ 8,781
Adjustments(2)	57	41
Payments	(1,061)	(724)
Balance at end of period(1)	$ 10,981	$ 8,098

(1) The current portion of restructuring liabilities was $3.1 million and $3.0 million as of December 31, 2017 and March 31, 2018, 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.

6. Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis consist of the following as of March 31, 2018 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	March 31, 2018	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 101	$ 101	$ —	$ —
Liabilities:				
Deferred payments	$ 4,556	$ —	$ —	$ 4,556

Assets and liabilities measured at fair value on a recurring basis consist of the following as of December 31, 2017 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	December 31, 2017	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 113	$ 113	$ —	$ —
Liabilities:				
Deferred payments	$ 4,514	$ —	$ —	$ 4,514

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, 2017 and March 31, 2018, 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 in transactions that occurred in 2011 and 2016. The deferred payments are classified within Level 3 as there is no liquid market for similarly priced instruments and are valued using models that encompass 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

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the programs mature. The short-term portion of deferred payments was $0.4 million as of March 31, 2018 and is included in accounts payable and accrued expense.

The Company did not change its valuation techniques associated with recurring fair value measurements from prior periods and did not transfer assets or liabilities between levels of the fair value hierarchy during the three months ended March 31, 2017 or 2018.

Changes in the fair value of the Company's Level 3 liabilities during the three months ended March 31, 2018 are as follows (in thousands):

	March 31, 2018
Balance as of the beginning of period	$ 4,514
Amounts paid	(656)
Other adjustments to fair value	698
Balance at end of period	$ 4,556

7. Stock Options, Restricted Stock and Restricted Stock Units

The Company administers 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, 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 2018, the Company's Board of Directors approved grants of 144,577 shares of restricted stock to certain individuals. These shares, which vest over a four-year period, were granted pursuant to the 2015 Plan. The Company's stock price closed at $90.99 on the date of these 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, other than as a result of the recipient's death, disability, or certain qualifying terminations in connection with a change in control of the Company, unless waived by the Company.

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, 2018:

	Number of shares or units	Weighted-average Grant price
Balance, December 31, 2017	716,128	$ 99.65
Grants	144,577	90.99
Vested shares	(140,852)	58.99
Forfeitures	(11,331)	57.37
Balance, March 31, 2018	708,522	$ 107.51

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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, 2018:

	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value(1) (in thousands)
Balance, December 31, 2017	100,000	$ 51.95	3.1	$ 3,763
Grants	—	—		
Exercises	—	—		
Forfeitures/Expirations	—	—		
Balance, March 31, 2018	100,000	$ 51.95	2.8	$ 4,910
Exercisable, March 31, 2018	100,000	$ 51.95	2.8	$ 4,910

(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, 2018, total stock-based compensation cost which has not yet been recognized was $24.7 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 599,000 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 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, 2017 and 2018 (in thousands):

	For the three months ended March 31,	
	2017	2018
Instruction and educational support	$ 170	$ 620
Marketing	—	—
Admissions advisory	—	—
General and administration	2,257	2,068
Stock-based compensation expense included in operating expense	2,427	2,688
Tax benefit	958	752
Stock-based compensation expense, net of tax	$ 1,469	$ 1,936

During the three months ended March 31, 2017, the Company recognized a tax shortfall related to share-based payment arrangements of approximately $0.4 million as an adjustment to the provision for income taxes. During the three months ended March 31, 2018, the Company recognized a tax windfall related to share-based payment arrangements of approximately $1.2 million, which was recorded as an adjustment to the provision for income taxes. No stock options were exercised during the three months ended March 31, 2017 or 2018.

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8. Other Long-Term Liabilities

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

	December 31, 2017	March 31, 2018
Contract liabilities, net of current portion	$ 21,033	$ 20,315
Deferred rent and other facility costs	7,113	6,957
Deferred payments related to acquisitions	6,385	6,020
Loss on facilities not in use	5,652	5,091
Lease incentives	2,832	2,857
Other long-term liabilities	$ 43,015	