

STRAYER EDUCATION INC

FORM 10-Q (Quarterly Report)

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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 SEPTEMBER 30, 2002**
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.)
1100 Wilson Blvd., Suite 2500 Arlington, VA	22209
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(703) 247-2500

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS, AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES ☒ NO ☐

AS OF SEPTEMBER 30, 2002, THERE WERE OUTSTANDING 8,352,412 SHARES OF COMMON STOCK, PAR VALUE \$.01 PER SHARE, OF THE REGISTRANT.

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FORM 10-Q

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

ASSETS

	December 31, 2001	September 30, 2002
	-----	-----
Current Assets:		(Unaudited)
Cash and cash equivalents	\$ 57,659	\$ 44,695
Short-term investments - restricted	1,046	1,053
Marketable securities available for sale, at fair value	-	12,075
Income taxes receivable	-	2,494
Tuition receivable, net of allowances for doubtful accounts	19,012	27,635
Other current assets	879	1,759
	-----	-----
Total current assets	78,596	89,711
Student loans receivable, net of allowances for losses	8,392	9,251
Property and equipment, net	23,100	36,530
Other assets	400	414
	-----	-----
Total assets	\$110,488	\$135,906
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current Liabilities:		
Accounts payable	\$ 1,882	\$ 3,744
Accrued expenses	562	919
Income taxes payable	1,247	-
Dividends payable	1,855	1,855
Unearned tuition	23,204	34,528
	-----	-----
Total current liabilities	28,750	41,046
	-----	-----
Deferred lease incentives	763	1,911
	-----	-----
Total liabilities	29,513	42,957
	-----	-----
Preferred Stock, par value \$.01; 8,000,000 shares authorized; 5,845,676 and 6,003,869 shares of Series A mandatorily redeemable convertible preferred stock issued and outstanding or recorded at December 31, 2001 and September 30, 2002, respectively	148,347	150,485
Stockholders' equity (deficit):		
Common Stock - par value \$.01; 20,000,000 shares authorized; 8,352,412 shares issued and outstanding at December 31, 2001 and September 30, 2002	83	83
Additional paid-in capital	1,759	1,759
Retained earnings (accumulated deficit)	(69,214)	(59,423)
Accumulated other comprehensive income	-	45
	-----	-----
Total stockholders' equity (deficit)	(67,372)	(57,536)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$110,488	\$135,906
	=====	=====

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2001	2002	2001	2002
Revenues	\$18,222	\$23,026	\$65,692	\$82,547
Costs and Expenses:				
Instruction and educational support	8,057	9,770	24,119	29,768
Selling and promotion	3,890	5,044	8,727	12,537
General and administration	3,531	4,254	9,381	12,757
	15,478	19,068	42,227	55,062
Income from operations	2,744	3,958	23,465	27,485
Investment and other income	548	484	3,407	1,242
Income before income taxes	3,292	4,442	26,872	28,727
Provision for income taxes	1,284	1,732	10,479	11,203
Net income	2,008	2,710	16,393	17,524
Preferred stock dividends and accretion	1,997	2,035	2,952	6,076
Net income available to common stockholders	\$ 11	\$ 675	\$13,441	\$11,448
Basic net income per share	\$ 0.00	\$ 0.08	\$ 1.13	\$ 1.37
Diluted net income per share	\$ 0.14	\$ 0.19	\$ 1.10	\$ 1.21

STRAYER EDUCATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(AMOUNTS IN THOUSANDS)

	For the three months ended September 30,		For the nine months ended September 30,	
	2001	2002	2001	2002
Net income	\$ 2,008	\$ 2,710	\$ 16,393	\$ 17,524
Other comprehensive income:				
Unrealized gains on investments, net of taxes	-	73	-	45
Reclassification adjustment for realized gains included in net income	-	-	(403)	-
Comprehensive income	\$ 2,008	\$ 2,783	\$ 15,990	\$ 17,569

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

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

	For the nine months ended September 30,	
	2001	2002
Cash flows from operating activities:		
Net income	\$ 16,393	\$ 17,524
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred lease incentives	-	(165)
Depreciation and amortization	1,944	2,652
Gain on sale of marketable securities	(887)	-
Changes in assets and liabilities:		
Short-term investments - restricted	(32)	(7)
Tuition receivable, net	(6,063)	(8,623)
Other current assets	(548)	(880)
Other assets	(91)	(74)
Accounts payable	99	1,891
Accrued expenses	143	357
Income taxes payable / receivable	1,212	(3,741)
Unearned tuition	9,598	11,324
Student loans originated	(5,551)	(6,270)
Collections on student loans receivable	4,627	5,411
Net cash provided by operating activities	20,844	19,399
Cash flows from investing activities:		
Purchases of property and equipment	(5,074)	(16,082)
Purchases of marketable securities	-	(12,000)
Maturities of and proceeds from marketable securities	50,384	-
Net cash provided by (used in) investing activities	45,310	(28,082)
Cash flows from financing activities:		
Deferred lease incentives	-	1,313
Exercise of stock options	1,434	-
Repurchase of common stock	(179,375)	-
Common dividends paid	(2,539)	(1,628)
Preferred dividends paid	(663)	(3,937)
Issuance of convertible Series A preferred stock	150,000	-
Payments of costs of tender offer and issuance of preferred stock	(5,788)	(29)
Net cash used in financing activities	(36,931)	(4,281)
Net increase (decrease) in cash and cash equivalents	29,223	(12,964)
Cash and cash equivalents - beginning of period	25,190	57,659
Cash and cash equivalents - end of period	\$ 54,413	\$ 44,695

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

STRAYER EDUCATION, INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
INFORMATION AS OF AND FOR PERIODS ENDED SEPTEMBER 30, 2001 AND 2002 IS
UNAUDITED.**

1. BASIS OF PRESENTATION

The financial statements are presented on a consolidated basis. The accompanying financial statements include the accounts of Strayer Education, Inc. (the Company), Strayer University, Inc. (the University) and Education Loan Processing, Inc. (ELP), collectively referred to herein as the "Company" or "Companies."

The results of operations for the three and nine months ended September 30, 2002 are not necessarily indicative of the results to be expected for the full fiscal year. All information as of September 30, 2002, and for the three and nine months ended September 30, 2001 and 2002 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 Companies.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These 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, 2001.

Certain prior period amounts have been reclassified between accounts payable and accrued expenses on the consolidated balance sheet to conform with September 30, 2002 presentation.

2. NATURE OF OPERATIONS

The Company, a Maryland corporation, conducts its operations through its subsidiaries. The University is an accredited institution of higher education that provides undergraduate and graduate degrees in various fields of study through its twenty campuses in Maryland, Washington, D.C., Virginia and North Carolina. ELP provides student loans for the University's students. For purposes of the consolidated balance sheets, all of ELP's assets and liabilities have been classified as current assets and liabilities with the exception of student loans receivable, which have been classified as non-current consistent with industry practice.

3. INCOME PER SHARE

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted average common and potentially dilutive common equivalent shares outstanding, determined as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	(in thousands)		(in thousands)	
	2001	2002	2001	2002
Weighted average shares outstanding used to compute basic earnings per share	8,342	8,352	11,851	8,352
Incremental shares issuable upon the assumed conversion of preferred stock	5,795	6,004	2,925	5,951
Incremental shares issuable upon the assumed exercise of stock options	139	200	71	182
Shares used to compute diluted earnings per share	14,276	14,556	14,847	14,485

For additional information regarding total potential share issuance, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Set forth below is a reconciliation of net income used to compute earnings per share:

	For the three months ended September 30,		For the nine months ended September 30,	
	(in thousands)		(in thousands)	
	2001	2002	2001	2002
Net income available to common stockholders used to compute basic earnings per share	\$ 11	\$ 675	\$13,441	\$11,448
Plus: Impact of assumed preferred stock conversion:				
Preferred stock dividends and accretion	1,997	2,035	2,952	6,076
Net income used to compute diluted earnings per share	\$ 2,008	\$ 2,710	\$16,393	\$17,524

4. CREDIT FACILITY

The Company maintains two credit facilities from two banks in the amount of \$10.0 million each. Interest on any borrowings under these facilities will accrue at an annual rate of 0.75% above the London Interbank Offered Rate. There is no outstanding balance and no fees payable on either facility as of September 30, 2002.

5. STOCKHOLDERS' EQUITY

Common Stock

On October 8, 2002, the Company filed a registration statement with the SEC for a proposed offering of up to 2.3 million shares of common stock. The Company will not receive any of the proceeds of the offering. The common shares proposed to be offered for sale will be issued upon the conversion of Series A convertible preferred stock currently held by New Mountain Partners, L.P., a private equity firm, and DB Capital Partners, Inc., an affiliate of Deutsche Bank. This proposed offering is being made pursuant to the exercise of existing registration rights held by New Mountain Partners and DB Capital.

A registration statement relating to the proposed common stock offering has been filed with the Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation or an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sales would be unlawful prior to registration or qualification under the securities laws of any such state.

A total of 20,000,000 shares of common stock, par value \$0.01, have been authorized. As of December 31, 2001 and September 30, 2002, the Company had 8,352,412 shares of common stock issued and outstanding. For the three months ended September 30, 2002, the Company declared a quarterly cash dividend of \$0.065 per common share. The dividend was paid on October 22, 2002 to common stockholders of record on October 8, 2002.

Preferred Stock/Series A Mandatorily Redeemable Convertible Preferred Stock

A total of 8 million shares of Preferred Stock, par value \$0.01, have been authorized. Of these preferred shares, 6,000,000 have been designated as Series A Mandatorily Redeemable Convertible Preferred Stock, including shares to be reserved for the payment of pay-in-kind dividends on outstanding shares of Series A Preferred Stock. The following table reflects all Preferred Stock activity from December 31, 2001 to September 30, 2002:

	Series A Mandatorily Redeemable Convertible Preferred Stock

	\$ Amount (in thousands)

Balance, December 31, 2001	\$148,347
Dividends - paid-in-kind shares	1,371
Accretion of carrying value	(668)

Balance, March 31, 2002	\$149,050
Dividends - paid-in-kind shares	1,394
Accretion of carrying value	(682)

Balance June 30, 2002	\$149,762
Dividends - paid-in-kind shares	1,419
Accretion of carrying value	(696)

Balance, September 30, 2002	\$150,485
	=====

On January 1, 2002 the Company recorded 51,819 shares of Series A Preferred Stock that had been accrued as pay-in-kind dividends as of December 31, 2001. On April 1, 2002 the Company recorded 52,726 shares of Series A Preferred Stock that had been accrued as pay-in-kind dividends as of March 31, 2002. On July 1, 2002 the Company recorded 53,648 shares of Series A Preferred Stock that had been accrued as pay-in-kind dividends as of June 30, 2002. The number of shares of Series A Preferred Stock outstanding and/or recorded as of September 30, 2002 was 6,003,869. On October 1, 2002, the Company recorded 54,587 shares of Series A Preferred Stock that had been accrued as pay-in-kind dividends as of September 30, 2002.

From the original issuance date until May 15, 2006, dividends accrue on the Series A Preferred Stock at an annual rate of 7%, with 3.5% payable in cash and the remaining 3.5% payable in additional shares of Series A Preferred Stock. After May 15, 2006, dividends accrue at an annual rate of 3.0%, all of which is payable in cash. The Series A Preferred Stock dividends and accretion are recorded based on an effective yield of 5.43% applied to the carrying value of the Series A Preferred Stock. This stock is currently convertible into common shares at a price of \$26.00 per share on a one-for-one basis. To the extent the Company's common stock trades above \$52.00 per share for 20 consecutive trading days at any time after May 15, 2004, the Company may cause conversion of the Series A Preferred Stock. For a more detailed description of the terms of the Series A Preferred Stock, see Note 6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Stock Options

In July 1996, the Company's stockholders approved 1,500,000 shares of common stock for grants under the Company's 1996 Stock Option Plan. This Plan was amended by the stockholders at the May 2001 Annual Stockholders' Meeting to increase the shares authorized for issuance thereunder by 1,000,000 (as amended, the "Plan") to 2,500,000. The Plan provides for the grant of options intended to qualify as incentive stock options, and also provides for the grant of non-qualifying options to employees and directors of the Company. Options may be granted to eligible employees or directors of the Company at the discretion of the Board of Directors, at option prices based at or above the fair market value of the shares at the date of grant. Vesting provisions are at the discretion of the Board of Directors. The maximum term of the options was 5 years before the amendment and 7 years after the amendment.

The table below sets forth the stock option activity for the nine months ended September 30, 2002:

	Number of shares	Weighted-Average Exercise Price
	-----	-----
Balance, December 31, 2001	930,000	\$36.43
Grants	--	--
Exercises	--	--
Forfeitures	--	--
	-----	-----
Balance, March 31, 2002	930,000	\$36.43
Grants	50,000	51.83
Exercises	--	-
Forfeitures	--	-
	-----	-----
Balance, June 30, 2002	980,000	\$37.22
Grants	--	--
Exercises	--	--
Forfeitures	(10,000)	(49.33)
	-----	-----
Balance, September 30, 2002	970,000	\$37.09
	=====	=====

In the third quarter of 2002, no stock options were granted and 10,000 stock options were forfeited. Of the 970,000 total stock options that have been issued and are outstanding, 293,333 are exercisable as of September 30, 2002. A total of 579,405 shares remain authorized but unissued under the Plan.

As of September 30, 2002, the weighted average contractual life of outstanding stock options is 5.6 years.

The Company accounts for the fair value of its stock options granted to employees and directors in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the Plan since the exercise price of the options was equal to the fair value of the underlying common stock on the date of grant. Had compensation expense been determined based on the fair value of the options at the grant dates consistent with that method of accounting under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," the Company's net income and net income per share for the three and nine months ended September 30, 2002 would have been decreased as indicated in the pro forma section below (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2001	2002	2001	2002
As Reported:	----	----	----	----
Net income available to all shareholders	\$ 2,008	\$ 2,710	\$16,393	\$ 17,524
Net income available to common shareholders	\$ 11	\$ 675	\$13,441	\$ 11,448
Net income per common share -Basic	\$ --	\$ 0.08	\$ 1.13	\$ 1.37
Net income per common share-Diluted	\$ 0.14	\$ 0.19	\$ 1.10	\$ 1.21
Proforma:				
Net income available to all shareholders	\$ 1,500	\$ 2,087	\$15,377	\$ 15,682
Net income available to common shareholders	\$ (497)	\$ 52	\$12,425	\$ 9,606
Net income per common share-Basic	\$ (0.06)	\$ 0.01	\$ 0.91	\$ 1.15
Net income per common share-Diluted	\$ 0.11	\$ 0.14	\$ 1.03	\$ 1.08

For the purposes of the above presentation, the fair value of each option granted in 2001 was estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions: dividend yield of .7%; expected volatility of 47%; risk-free interest rate of 4.75% and an expected term of 5.3 years. The weighted average fair value for the 2001 grants was \$16.68. The fair value of each option granted in 2002 was estimated using the Black-Scholes option-pricing model using the following assumptions: dividend yield of .7%; expected volatility of 43%; risk-free interest rate of 4.81%; and an expected term of 5.9 years. The weighted average fair value for the 2002 grants was \$23.65.

6. INVESTMENTS IN MARKETABLE SECURITIES

In the second quarter of 2002, as part of its cash management activities, the Company began investing in a diversified, no load, short-term, investment grade corporate bond fund. These marketable securities are considered "available for sale," and as such, are stated at fair value. The net unrealized gains and losses (net of taxes) are reported as a component of accumulated comprehensive income (loss) in stockholders' equity (deficit).

7. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). FAS 144 supersedes FASB Statement No. 121 "Accounting for Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of". FAS 144 addresses the financial accounting and reporting for long-lived assets and their impairment and disposal. The statement is effective for fiscal years beginning after December 15, 2001. The Company has long-lived assets in the form of buildings that it owns and uses to conduct classes for its students. FAS 144 was adopted on January 1, 2002 with no material effect on the consolidated financial statements.

8. LEASE AGREEMENTS

During the first quarter of 2002, the Company executed lease agreements for three North Carolina campuses. The table below sets forth additional information regarding these leases:

Campus	Square Feet	Lease Commencement Date	Term	Average Annual Payment
-----	-----	-----	-----	-----
South Charlotte, NC	12,500	5/15/02	60 mos.	\$ 143,000
Raleigh-Durham, NC	12,900	5/20/02	60 mos.	\$ 166,000
North Charlotte, NC	13,600	6/15/02	100 mos.	\$ 194,000

9. DEFERRED LEASE INCENTIVES

In conjunction with the opening of the Company's new corporate headquarters in Arlington, VA in 2002, the Company was reimbursed by the lessor for improvements made to the leased property in the amount of \$250,000 in the three months ended June 30, 2002. The Company was reimbursed by the lessors for improvements made to the leased property in the amount of \$1,063,000 in the three months ended September 30, 2002 primarily in conjunction with the opening of the Company's three North Carolina campuses. In accordance with Financial Accounting Standards Board Technical Bulletin No. 88-1, these costs were capitalized as leasehold improvements and the reimbursements were recorded as deferred lease incentives. The leasehold improvements and the deferred lease incentives are being amortized on a straight-line basis over the corresponding lease terms, which range from 5 to 10 years.

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

Certain of the statements included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as elsewhere in this report on Form 10-Q are forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995 ("Reform Act"). These statements are based on the Company's current expectations and are subject to a number of 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 uncertainties and risks include the pace of growth of student enrollment, our continued compliance with Title IV of the Higher Education Act, and the regulations thereunder, as well as state and regional regulatory requirements, 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, and general economic and market conditions. Further information about these and other relevant risks and uncertainties may be found in the Company's annual report on Form 10-K and its other filings with the Securities and Exchange Commission, all of which are incorporated herein by reference and are available from the Commission and from the Company's world wide web site at <http://www.strayereducation.com>. The Company undertakes no obligation to update or revise forward looking statements.

THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2001

Revenues. Revenue increased 26% from \$18.2 million in the third quarter of 2001 to \$23.0 million in the third quarter of 2002, principally due to an increase in student enrollments and a 5% tuition increase effective for 2002.

Instruction and educational support expenses. Instruction and educational support expenses increased 21% from \$8.1 million in the third quarter of 2001 to \$9.8 million in the third quarter of 2002. The addition of new faculty due to enrollment growth, salary increases, and new campus openings - three in 2002 - contributed to the increase.

Selling and promotion expenses. Selling and promotion expenses increased 30% from \$3.9 million in the third quarter of 2001 to \$5.0 million in the third quarter of 2002, principally due to an increase in advertising costs, specifically television advertising, increased advertising for the North Carolina campus openings and the Company's Strayer University Online activities, increases in the number of admission representatives at existing campuses and Online, and the addition of admissions personnel at new campuses opened in 2002.

General and administration expenses. General and administration expenses increased 20% from \$3.5 million in the third quarter of 2001 to \$4.3 million in the third quarter of 2002 due to the addition of three new campuses in 2002, an increase in administrative personnel to support the enrollment growth, and salary increases.

Income from operations. Operating income increased 44% from \$2.7 million in the third quarter of 2001 to \$4.0 million in the third quarter of 2002. The increase was due to the aforementioned factors.

Investment and other income. Investment and other income decreased 12% from \$.55 million in the third quarter of 2001 to \$.48 million in the third quarter of 2002. The decline was due to the overall reduction in the amount of cash and marketable securities outstanding and lower interest rates in 2002.

Net income. Net income increased 35% from \$2.0 million for the three months ended September 30, 2001 to \$2.7 million for the corresponding period in 2002 because of factors discussed above.

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

Revenues. Revenue increased 26% from \$65.7 million for the nine months ended September 30, 2001 to \$82.5 million for the corresponding period in 2002, principally due to an increase in student enrollments and 5% tuition increase effective for 2002.

Instruction and educational support expenses. Instruction and educational support expenses increased 23% from \$24.1 million for the nine months ended September 30, 2001 to \$29.8 million for the corresponding period in 2002. The addition of new faculty due to enrollment growth, salary increases, and new campus openings contributed to the increase.

Selling and promotion expenses. Selling and promotion expenses increased 44% from \$8.7 million for the nine months ended September 30, 2001 to \$12.5 million for the corresponding period in 2002 due to an increase in advertising costs, specifically television advertising, increased advertising for the new campus openings and the Company's Strayer University Online activities, and increases in the number of admissions representatives.

General and administration expenses. General and administration expenses increased 36% from \$9.4 million for the nine months ended September 30, 2001 to \$12.8 million for the corresponding period in 2002, principally due to the addition of three new campuses, an increase in administrative personnel, and salary increases.

Income from operations. Operating income increased 17% from \$23.5 million for the nine months ended September 30, 2001 to \$27.5 million for the corresponding period in 2002. The increase was due to the aforementioned factors.

Investment and other income. Investment and other income decreased 64% from \$3.4 million for the nine months ended September 30, 2001 to \$1.2 million for the corresponding period in 2002. The decrease was due to the overall reduction in the amount of cash and marketable securities outstanding and lower interest rates in 2002. In the 2001 period, the marketable securities were liquidated at a gain of \$0.9 million to help fund the Company's share repurchase.

Net income. Net income increased 7% from \$16.4 million for the nine months ended September 30, 2001 to \$17.5 million for the corresponding period in 2002.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2002, the Company had cash, cash equivalents and marketable securities of \$56.8 million compared to \$57.7 million at December 31, 2001 and no debt. Beginning in the second quarter of 2002, the Company began investing in a diversified, no load, short-term, investment grade corporate bond fund

in an effort to generate a somewhat higher yield on its liquid assets than its holdings in overnight and money market funds, but take only limited credit and interest rate risks . At September 30, 2002 the Company had invested \$12 million in this fund. As of September 30, 2002, the 425 issues in this fund had an average credit rating of Aa3, an average maturity of 2.7 years and an average duration of 2.2 years as well as an average yield of 4.3%.

The Company generated \$19.4 million from operating activities in the first nine months of 2002. Capital expenditures for the nine months were \$16.1 million, of which \$12 million was in the first quarter for the purchase of three campus facilities.

In the third quarter, bad debt expense increased from 0.9% of revenue in 2001 to 1.3% for the same period in 2002. Days sales outstanding, adjusted to exclude tuition receivable related to future quarters, was 7 days in the third quarter of 2002, unchanged compared to the same period in 2001.

Currently, the Company invests its cash in bank overnight deposits, money market funds and a short-term corporate bond fund. In addition, the Company has available two \$10 million credit facilities from two banks under which there is no outstanding balance drawn. The Company believes that existing cash and cash equivalents, short-term corporate bond fund, cash generated from operating activities, and if necessary, cash borrowed under its credit facilities, will be sufficient to meet the Company's requirements for at least the next 12 months.

The Company has the following contractual commitments associated with operating leases and preferred stock cash dividends as of September 30, 2002:

	Payments Due By Period (In Thousands)			
	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Operating Leases	\$ 5,264	\$ 8,036	\$ 5,421	\$16,343
Preferred Stock Cash Dividends*	5,250	10,500	10,590	21,065
Total	\$10,514	\$18,536	\$16,011	\$37,408
-----	=====	=====	=====	=====

*Common stock dividend payments, while not a contractual commitment, have historically been paid by the Company.

STUDENT ENROLLMENT

Enrollment at Strayer University for the 2002 fall term increased 18% to 16,532 students compared to 14,009 for the same term in 2001. Across the Strayer University campus network, new student enrollments increased 15% and continuing student enrollments increased 20%. Strayer University Online enrollments increased 90% to 5,401 students from 2,836. The total number of students taking courses online (including students at brick and mortar campuses taking at least one online course) in the fall 2002 quarter was 6,822.

STUDENT ENROLLMENT

	Fall 2001	Fall 2002	% Change
New Campuses (7 in operation 3 or less years)			
Campus Students	515	1,141	122%
Online Students	296	988	234%
Total New Campus Students	811	2,129	163%
Mature Campuses (13 in operation 4 or more years)			
Campus Students	10,658	9,990	-6%
Online Students	1,819	3,335	83%
Total Mature Campus Students	12,477	13,325	7%
Out of Area Online Students	721	1,078	50%
Total University Enrollment	14,009	16,532	18%
Total Students Taking 100% Courses Online	2,836	5,401	90%
Total Students Taking At Least 1 Course Online	3,672	6,822	86%

NEW CAMPUS/STATE OPENINGS

Due to strong demand at its Raleigh-Durham, N.C. campus, the Company announced its intention to open a second campus in the Raleigh-Durham area by fall 2003. The Company also announced that in the third quarter Strayer University received approval from the South Carolina Commission on Higher Education to offer its academic programs at up to three campuses in the State of South Carolina. The Company also announced that in October the Committee on Post-Secondary Educational Institutions of the Tennessee Higher Education Commission voted unanimously to recommend authorization of Strayer University to operate two new campuses in the State of Tennessee. This recommendation is subject to review and final approval by the full Commission. The Company also announced that Strayer University had made applications to operate in the states of Pennsylvania and Delaware and will pursue approval in these states as part of a multiyear expansion plan. The Company reiterated its intention to open two to three new campuses by the fall term 2003.

EXPANDED ONLINE COURSE OFFERINGS

Strayer University began an asynchronous course pilot program in 2001, which featured five classes in the initial summer 2001 quarter rollout. Strayer University Online is currently offering 295 asynchronous classes in the fall 2002 quarter, and all academic programs are now available asynchronously.

CORPORATE/GOVERNMENT SPONSORSHIPS

Also during the third quarter, Strayer University continued to expand the scope of its existing corporate and governmental sponsorship arrangements and added new sponsorship agreements with Meridian KSI, Inc. and the U.S. Department of Defense Acquisition University. The Company's total number of corporate/government sponsorship arrangements is now 87.

SECONDARY OFFERING

On October 8, 2002, the Company filed a registration statement with the SEC for a proposed offering of up to 2.3 million shares of common stock. The Company will not receive any of the proceeds of the offering. The common shares proposed to be offered for sale will be issued upon the conversion of Series A convertible preferred stock currently held by New Mountain Partners, L.P., a private equity firm, and DB Capital Partners, Inc., an affiliate of Deutsche Bank.

This proposed offering is being made pursuant to the exercise of existing registration rights held by New Mountain and DB Capital. After giving effect to the offering, New Mountain will beneficially own in excess of 25% of Strayer's equity securities.

A registration statement relating to the proposed common stock offering has been filed with the Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sales would be unlawful prior to registration or qualification under the securities laws of any such state.

TOTAL POTENTIAL SHARE ISSUANCE

Shares used to compute diluted earnings per share include common shares issued and outstanding, the assumed conversion of Series A Convertible Preferred Shares outstanding, and the assumed exercise of issued stock options using the Treasury Stock Method. Our total current and potential common shares outstanding are as follows:

Current	

Common shares issued and outstanding at 9/30/02	8,352,412
Convertible Series A Preferred Stock, convertible on a	
1:1 basis (outstanding or recorded) at 9/30/02	6,003,869
Authorized, issued and outstanding options using Treasury	
Stock Method	200,250

Subtotal	14,556,531
Potential	

Accrual of required PIK dividends on Convertible Series A	
Preferred Stock through May 2006	962,924(a)
Total issued stock options, less options accounted for using	
the Treasury Stock Method above	769,750
Authorized but unissued options	579,405

Subtotal	2,312,079

Total current and potential common shares	16,868,610
	=====

(a) This number may be smaller as it does not reflect the possible reduction of Series A PIK dividends that would be associated with the consummation of the proposed 2.3 million common share Secondary Offering which the Company currently expects to close in the fourth quarter of 2002. In addition, these potential numbers do not reflect that the Company has the right to force conversion of all remaining Series A preferred shares into common shares after May 15, 2004 if the Company's common stock price trades above \$52.00 per share for twenty consecutive trading days.

BUSINESS OUTLOOK

Based on the strong enrollment growth announced for the fall term, the Company estimates fourth quarter diluted EPS will be in the range of \$0.57 - \$0.59, before the effect of expenses associated with the Company's announced Secondary Offering, currently estimated to be approximately \$.02 per diluted share. Based on its fourth quarter estimates, the Company expects to be at the high end of its previously announced full year 2002 diluted EPS estimates of \$1.76 - \$1.80, before the effect of expenses associated with the Company's announced Secondary Offering, currently estimated to be approximately \$.02 per diluted share. Based on the strong enrollment results for the fall 2002 term, the Company is providing the following full year 2003 estimates:

Enrollment:	14% - 16% increase
Revenue:	\$138 - \$142 million
Operating Margin:	34.5% - 35.5%
Diluted EPS:	\$2.12 - \$2.16
Diluted Shares Outstanding:	14,775,000

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of interest rate changes and may be exposed to changes in the market values of its future investments. The Company invests its excess cash in cash equivalents and marketable securities. At September 30, 2002, the majority of the Company's investments were in cash and cash equivalents, including money market mutual funds and bank overnight deposits. Approximately \$12 million was invested in a diversified, no load, short-term, investment grade corporate bond fund. The Company has not used derivative financial instruments in its investment portfolio.

Investments in fixed rate interest earning instruments carry a degree of interest rate risk. These securities may have their fair market value adversely impacted by a rise in interest rates. Investments in money market funds may adversely impact future earnings due to a decrease in interest rates. Due in part to these factors, the Company's future investment income may fall short of expectations due to changes in interest rates or the Company may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. As of September 30, 2002, a 10% increase or decline in interest rates would not have a material impact on the Company's future earnings, fair values, or cash flows related to investments in money market funds or interest earning marketable securities. In addition, as of September 30, 2002, a 10% decrease in market values would not have a material impact on the Company's future earnings, fair values, financial position or cash flows related to investments in marketable securities.

ITEM 4: CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. The Registrant's Chief Executive Officer and Chief Financial Officer have evaluated the Registrant's disclosure controls and procedures within the 90 days prior to the date of filing of this Quarterly Report on Form 10-Q. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Registrant has in place appropriate controls and procedures designed to ensure that information required to be disclosed by the Registrant 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 Registrant'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 controls. Since the date of the evaluation described above, there have not been any significant changes in our internal accounting controls or in other factors that could significantly affect those controls.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION.

None

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

a) Exhibits:

None

b) Reports on Form 8-K:

On August 2, 2002, the Company filed a Current Report on Form 8-K to report its financial results for the six months ended June 30, 2002.

On August 22, 2002, the Company filed a Current Report on Form 8-K to report its regular quarterly common stock cash dividend would be paid in October.

On October 8, 2002, the Company filed a Current Report on Form 8-K to report a proposed secondary offering of up to 2.3 million shares of common stock.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this statement is being signed by a duly authorized officer of the Registrant and in the capacity as the principal financial officer.

STRAYER EDUCATION, INC.

By: /s/ Mark C. Brown

Mark C. Brown

Senior Vice President and Chief Financial Officer

Date: November 1, 2002

CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES - OXLEY ACT OF 2002

CERTIFICATIONS

I, Robert S. Silberman, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Strayer Education, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

- b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 1, 2002

/s/ Robert S. Silberman

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Robert S. Silberman*

President and Chief Executive Officer

I, Mark C. Brown, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Strayer Education, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect

internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 1, 2002

/s/ Mark C. Brown

Mark C. Brown
Senior Vice President and
Chief Financial Officer

CERTIFICATIONS PURSUANT TO SECTION 906 OF THE SARBANES - OXLEY ACT OF 2002

CERTIFICATIONS

The undersigned Chief Executive Officer of Strayer Education, Inc. (the "Registrant") hereby certify that this periodic report on Form 10-Q fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such periodic report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Robert S. Silberman

Robert S. Silberman
President and Chief Executive
Officer
Date: November 1, 2002

The undersigned Chief Financial Officer of Strayer Education, Inc. (the "Registrant") hereby certify that this periodic report on Form 10-Q fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such periodic report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Mark C. Brown

Mark C. Brown
Senior Vice President and
Chief Financial Officer
Date: November 1, 2002