

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)

<u>Maryland</u>	<u>52-1975978</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<u>2303 Dulles Station Boulevard</u>	<u>20171</u>
<u>Herndon, VA</u>	
(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	☐	Smaller reporting company	☐
Emerging growth company	☐		

(Do not check if a smaller reporting 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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CERTIFICATIONS

STRAYER EDUCATION, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET S
(in thousands, except share and per share data)

	<u>December 31, 2017</u>	<u>March 31, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 155,933	\$ 165,867
Tuition receivable, net	23,122	24,997
Other current assets	<u>11,293</u>	<u>10,558</u>
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	<u>11,971</u>	<u>12,155</u>
Total assets	<u>\$ 321,278</u>	<u>\$ 331,810</u>
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 46,177	\$ 45,806
Income taxes payable	1,038	2,541
Contract liabilities	<u>21,851</u>	<u>23,931</u>
Total current liabilities	69,066	72,278
Other long-term liabilities	<u>43,015</u>	<u>41,240</u>
Total liabilities	<u>112,081</u>	<u>113,518</u>
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	<u>162,006</u>	<u>168,413</u>
Total stockholders' equity	209,197	218,292
Total liabilities and stockholders' equity	<u>\$ 321,278</u>	<u>\$ 331,810</u>

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

STRAYER EDUCATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	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.

STRAYER EDUCATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Additional	Retained	
	Shares	Par Value	Paid-in	Earnings	Total
			Capital		
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		Additional	Retained	
	Shares	Par Value	Paid-in	Earnings	Total
			Capital		
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.

STRAYER EDUCATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW S
(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	<u>24,535</u>	<u>17,049</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,841)	(4,233)
Net cash used in investing activities	<u>(3,841)</u>	<u>(4,233)</u>
Cash flows from financing activities:		
Common dividends paid	(2,853)	(2,889)
Net cash used in financing activities	<u>(2,853)</u>	<u>(2,889)</u>
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	<u>\$ 147,599</u>	<u>\$ 166,375</u>
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.

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,

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.

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	<u>\$ 23,122</u>	<u>\$ 24,997</u>

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	<u>\$ 10,820</u>	<u>\$ 13,775</u>

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.

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.

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.

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)
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.

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.

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):

	March 31, 2018	Fair Value Measurements at Reporting Date Using		
		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):

	December 31, 2017	Fair Value Measurements at Reporting Date Using		
		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

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	<u>\$ 4,556</u>

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	<u>708,522</u>	<u>\$ 107.51</u>

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.

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	<u>\$ 43,015</u>	<u>\$ 41,240</u>

Contract Liabilities

As discussed in Note 4, in connection with its student tuition contracts, the Company has an obligation to provide free classes in the future should certain eligibility conditions be maintained (the Graduation Fund). In addition, the Company also has licensed certain of its non-credit bearing course content to a third party for which the Company received an upfront cash payment. Long-term contract liabilities represent the amount of revenue under these arrangements that the Company expects will be realized after one year.

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

The Company records a liability for lease costs of campuses and non-campus facilities that are not currently in use (see Note 5). For facilities still in use, the Company records rent expense on a straight-line basis over the initial term of a lease. The difference between the rent payment and the straight-line rent expense is recorded as a liability.

Deferred Payments Related to Acquisitions

In connection with previous acquisitions, the Company acquired certain assets and entered into deferred payment arrangements with the sellers. The deferred payment arrangements are valued at approximately \$3.6 million and \$3.2 million as of December 31, 2017 and March 31, 2018, respectively. In addition, one of the sellers contributed \$2.8 million to the Company representing the seller's continuing interest in the assets acquired.

Lease Incentives

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

9. Income Taxes

The Tax Cuts and Jobs Act (the "2017 Act") was signed into law on December 22, 2017. The 2017 Act includes a broad range of tax reform legislation affecting businesses, including lowering corporate tax rates, among other provisions. Under accounting principles generally accepted in the United States of America, changes in tax rates and tax law are accounted for in the period of enactment. The Company recognized the income tax effects of the 2017 Act in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, Income Taxes.

The 2017 Act reduced the federal corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. ASC 740 requires deferred tax assets and liabilities to be valued using enacted tax rates in effect in the year in which the differences are expected to reverse. Thus, the Company revalued its federal deferred taxes based upon the new 21% tax rate as of December 31, 2017.

The 2017 Act also allows for immediate full expensing for property placed in service after September 27, 2017 and before January 1, 2023. The Company has made the election to accelerate these deductions for the year ended December 31, 2017 tax returns. At this time, it is uncertain which states will follow federal rules regarding accelerated depreciation and, as such, the Company

has not been able to make a reasonable estimate on the impact of deferred taxes related to state depreciation and continues to account for this based on the provisions of the tax laws that were in effect prior to enactment. In addition, the 2017 Act places limitations on the deductibility of certain executive compensation awards in the future, although the Company's existing awards remain eligible for deductibility pursuant to the 2017 Act. The Company is still analyzing the 2017 Act and refining its calculations, which could potentially impact the measurement of the Company's tax balances.

The Company had no unrecognized tax benefits as of March 31, 2017 or 2018. Interest and penalties, including those related to uncertain tax positions, are included in the provision for income taxes in the unaudited condensed consolidated statements of income. The Company incurred no expense related to interest and penalties during the three months ended March 31, 2017 and 2018, respectively.

The Company paid \$0.2 million and \$0.1 million in income taxes during the three months ended March 31, 2017 and 2018, respectively.

10. Litigation

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

11. Regulation

The Company, the University, and NYCDA are subject to significant state regulatory oversight, as well as federal regulatory oversight, in the case of the Company and the University.

Gainful Employment

Under the Higher Education Act, a proprietary institution offering programs of study other than a baccalaureate degree in liberal arts (for which there is a limited statutory exception) must prepare students for gainful employment in a recognized occupation. On October 31, 2014, the U.S. Department of Education (the "Department") published final regulations related to gainful employment. The regulations went into effect on July 1, 2015, with the exception of new disclosure requirements that were originally scheduled to go into effect January 1, 2017, but which have now been delayed, to some extent, until July 1, 2018. Additionally, the Department announced, on June 16, 2017, its intention to conduct negotiated rulemaking proceedings to revise the gainful employment regulations. Those proceedings began in December 2017 and concluded in March 2018. The negotiating committee did not reach a consensus, and as a result the Department may propose its own regulatory language with no obligation to use the language negotiated or agreed-upon during the committee meetings. If final regulations are published by November 1, 2018, they could become effective as early as July 1, 2019.

The current gainful employment regulations include two debt-to-earnings measures, consisting of an annual income rate and a discretionary income rate. The annual income rate measures student debt in relation to earnings, and the discretionary income rate measures student debt in relation to discretionary income. A program passes if the program's graduates:

- have an annual income rate that does not exceed 8%; or
- have a discretionary income rate that does not exceed 20%.

In addition, a program that does not pass either of the debt-to-earnings metrics, and that has an annual income rate between 8% and 12%, or a discretionary income rate between 20% and 30%, is considered to be in a warning zone. A program fails if the program's graduates have an annual income rate of 12% or greater and a discretionary income rate of 30% or greater. A program would become Title IV-ineligible for three years if it fails both metrics for two out of three consecutive years, or fails to pass at least one metric for four consecutive award years. The regulations provide a means by which an institution may challenge the Department's calculation of any of the debt metrics prior to loss of Title IV eligibility. On January 8, 2017, the University received its final 2015 debt-to-earnings measures and none of its programs failed the debt-to-earnings metrics. Two active programs, the Associate in Arts in Accounting and Associate in Arts in Business Administration, are "in the zone," which means each program remains fully eligible unless (1) either program has a combination of zone and failing designations for four consecutive years, in

which case it would become Title IV-ineligible in the fifth year; or (2) either program fails the metrics for two out of three consecutive years, in which case the program could become ineligible for the following award year.

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

- The institution must provide a warning with respect to the program to students and prospective students indicating, among other things, that students may not be able to use Title IV funds to attend or continue in the program; and
- The institution must not enroll, register or enter into a financial commitment with a prospective student until a specified time after providing the warning to the prospective student.

The current regulations also require institutions annually to report student- and program-level data to the Department, and comply with additional disclosure requirements. Final regulations adopted by the Department, which generally became effective on July 1, 2011, require an institution to use a template designed by the Department to disclose to prospective students, with respect to each gainful employment program, occupations that the program prepares students to enter, total cost of the program, on-time graduation rate, job placement rate, if applicable, and the median loan debt of program completers for the most recently completed award year. On January 19, 2018, the Department announced the release of the 2018 template and gave institutions until April 6, 2018 to update their disclosures for each gainful employment program. The University is in compliance with that requirement. On June 30, 2017, the Department delayed, until July 1, 2018, the requirements that an institution include the disclosure template, or a link thereto, in its gainful employment program promotional materials and directly distribute the disclosure templates to prospective students.

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

Under the gainful employment regulations, an institution may establish a new program's Title IV eligibility by updating the list of the institution's programs maintained by the Department. However, an institution may not update its list of eligible programs to include a failing or zone program that the institution voluntarily discontinued or that became ineligible, or a gainful employment program that is substantially similar to such a program, until three years after the loss of eligibility or discontinuance.

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

Borrower Defenses to Repayment

Pursuant to the Higher Education Act and following negotiated rulemaking, on November 1, 2016, the Department published final regulations that, *inter alia*, would have specified the acts or omissions of an institution that a borrower may assert as a defense to repayment of a loan made under the Direct Loan Program. Although the regulations were scheduled to become effective on July 1, 2017, on June 16, 2017, the Department delayed indefinitely the effective date of selected provisions of the regulations and announced its intention to conduct negotiated rulemaking proceedings to revise the regulations. On October 24, 2017, the Department published an interim final rule to delay until July 1, 2018 the effective date of the selected provisions. Then, on February 14, 2018, the Department published a final rule to delay until July 1, 2019 the effective date of the selected provisions. With respect to the negotiated rulemaking proceedings to revise the regulations, those proceedings began in November 2017 and

concluded in February 2018. The negotiating committee did not reach a consensus, and as a result the Department may propose its own regulatory language with no obligation to use language negotiated or agreed-upon during the committee meetings. If final regulations are published by November 1, 2018, they could become effective as early as July 1, 2019.

State Education Licensure – Licensure of Online Programs

The increasing popularity and use of the internet and other technology for the delivery of education has led, and may continue to lead, to the adoption of new laws and regulatory practices in the United States or foreign countries or to the interpretation of existing laws and regulations to apply to such services. These new laws and interpretations may relate to issues such as the requirement that online education institutions be licensed as a school in one or more jurisdictions even where they have no physical location. New laws, regulations, or interpretations related to doing business over the internet could increase Strayer University's cost of doing business, affect its ability to increase enrollments and revenues, or otherwise have a material adverse effect on our business.

In April 2013, the Department of Education (the "Department") announced that it would address state authorization of distance education through negotiated rulemaking. While four negotiated rulemaking sessions were conducted from February through May 2014, no consensus was reached.

In June 2016, despite the lack of consensus at the negotiated rulemaking sessions, but as permitted by federal law, the Department of Education issued a Notice of Proposed Rulemaking for public comment on the issue of state authorization for online programs. On December 19, 2016, the Department issued final regulations, which are scheduled to become effective on July 1, 2018. On January 30, 2017, the new Administration indicated in a notice published in the Federal Register that it intended to take action in relation to this regulation, and, in April 2018, the Department sent to the Office of Management and Budget a draft proposed rule that would delay the effective date of the regulations.

The final regulations, among other things, require an institution offering Title IV-eligible distance education or correspondence courses to be authorized by each state in which the institution enrolls students, if such authorization is required by the state. Institutions can obtain such authorization directly from the state or through a state authorization reciprocity agreement. A state authorization reciprocity agreement is defined as an agreement between two or more states that authorizes an institution located and legally authorized in a state covered by the agreement to provide post-secondary education through distance education or correspondence courses to students in other states covered by the agreement and does not prohibit a participating state from enforcing its own laws with respect to higher education. On December 2, 2016, the University became a participant in the State Authorization Reciprocity Agreement ("SARA"). As a participant in SARA, the University may offer online courses and other forms of distance education to students in any participating SARA state in which it does not have a physical location or a physical presence as defined by the state without having to seek any new state institutional approval beyond its home state (Washington, D.C.). The regulations also require institutions to document the state process for resolving complaints from students enrolled in programs offered through distance education or correspondence courses for each state in which such students reside.

In addition, the regulations require an institution to provide public and individualized disclosures to enrolled and prospective students regarding its programs offered solely through distance education or correspondence courses. The public disclosures would include state authorization for the program or course, the process for submitting complaints to relevant states, any adverse actions by a state or accrediting agency related to the distance education program or correspondence course within the past five years, refund policies specific to the state, and applicable licensure or certification requirements for a career that the program prepares a student to enter. An institution must disclose directly to all prospective students if a distance education or correspondence course does not meet the licensure or certification requirements for a state. An institution must disclose to each current and prospective student when an adverse action is taken against a distance education or correspondence program and any determination that a program ceases to meet licensure or certification requirements.

If an institution does not obtain or maintain state authorization for distance education or correspondence courses in any particular state that has authorization requirements, the institution may lose its ability to award Title IV funds for students in those programs who are residing in that state.

The Clery Act

The University must comply with the campus safety and security reporting requirements as well as other requirements in the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the "Clery Act") including changes made to the Clery Act by the Violence Against Women Reauthorization Act of 2013. On October 20, 2014, the Department promulgated

regulations, effective July 1, 2015, implementing amendments to the Clery Act. In addition, the Department has interpreted Title IX to categorize sexual violence as a form of prohibited sex discrimination and to require institutions to follow certain disciplinary procedures with respect to such offenses. On September 22, 2017, the Department withdrew the statements of policy and guidance reflected in two guidance documents issued under the Obama administration and issued interim guidance about campus sexual misconduct. In the interim guidance, the Department announced that it intends to conduct negotiated rulemaking proceedings to revise its regulations related to institutions' Title IX responsibilities. Failure by the University to comply with the Clery Act or Title IX requirements or regulations thereunder could result in action by the Department fining the University or limiting or suspending its participation in Title IV programs, could lead to litigation, and could harm the University's reputation. The Company believes that the University is in compliance with these requirements.

Compliance Reviews

The University is subject to announced and unannounced compliance reviews and audits by various external agencies, including the Department, its Office of Inspector General, state licensing agencies, guaranty agencies, and accrediting agencies. In 2014, the Department conducted four campus-based program reviews of University locations in three states and the District of Columbia. The reviews covered federal financial aid years 2012-2013 and 2013-2014, and two of the reviews also covered compliance with the Clery Act, the Drug-Free Schools and Communities Act, and regulations related thereto. For three of the program reviews, the University received correspondence from the Department in 2015 closing the program reviews with no further action required by the University. For the other program review, in 2016, the University received a Final Program Review Determination Letter identifying a payment of less than \$500 due to the Department based on an underpayment on a return to Title IV calculation, and otherwise closing the review. The University remitted payment, and received a letter from the Department indicating that no further action was required and that the matter was closed.

Program Participation Agreement

Each institution participating in Title IV programs must enter into a Program Participation Agreement with the Department. Under the agreement, the institution agrees to follow the Department's rules and regulations governing Title IV programs. On October 13, 2017, the Department informed the University that it was approved to participate in Title IV programs with full certification through June 30, 2021.

NYCDA

NYCDA currently provides on-ground courses in New York, Pennsylvania, Utah, and the District of Columbia, but is not accredited, does not participate in state or federal student financial aid programs, and is not subject to the regulatory requirements applicable to accredited schools and schools that participate in financial aid programs such as those described above. Programs such as those offered by NYCDA are regulated by each individual state.

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

Cautionary Notice Regarding Forward-Looking Statements

Certain of the statements included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as elsewhere in this Quarterly Report on Form 10-Q are forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995 ("Reform Act"). Such statements may be identified by the use of words such as "expect," "estimate," "assume," "believe," "anticipate," "will," "forecast," "outlook," "plan," "project," or similar words, and include, without limitation, statements relating to future enrollment, revenues, revenues per student, earnings growth, operating expenses and capital expenditures. These statements are based on the Company's current expectations and are subject to a number of assumptions, risks and uncertainties. In accordance with the Safe Harbor provisions of the Reform Act, the Company has identified important factors that could cause the actual results to differ materially from those expressed in or implied by such statements. The assumptions, risks and uncertainties include the pace of growth of student enrollment, our continued compliance with Title IV of the Higher Education Act, and the regulations thereunder, as well as regional accreditation standards and state regulatory requirements, rulemaking by the Department of Education and increased focus by the U. S. Congress on for-profit education institutions, competitive factors, risks associated with the opening of new campuses, risks associated with the offering of new educational programs and adapting to other changes, risks associated with the acquisition of existing educational institutions, risks relating to the timing of regulatory approvals, our ability to implement our growth strategy, risks associated with the ability of our students to finance their education in a timely manner, and general economic and market conditions. Further information about these and other relevant risks and uncertainties may be found in Part I, "Item 1A. Risk Factors" of the Company's Annual Report on Form 10-K and in the Company's other filings with the Securities and Exchange Commission. The Company undertakes no obligation to update or revise forward-looking statements.

Additional Information

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

Background and Overview

We are an education services holding company that owns Strayer University (the "University") and, as of January 13, 2016, the New York Code and Design Academy ("NYCDA"). The University is an institution of higher education which offers undergraduate and graduate degree programs at physical campuses, predominantly located in the eastern United States, and online. NYCDA provides non-degree courses in web and application software development, primarily at campuses in New York City and Philadelphia, PA. NYCDA's results of operations are included in our results from the acquisition date.

In October 2017, we 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. Capella had approximately 37,500 students at December 31, 2017, its revenue for 2017 was \$440.4 million, and its net income from continuing operations in 2017 was \$23.4 million. The merger was approved by our stockholders and by Capella's shareholders on January 19, 2018. Upon consummation of the merger, Capella will become our wholly-owned subsidiary and will continue to offer its education programs through Capella University.

Most of our revenue comes from the University, which derives approximately 96% of its revenue from tuition for educational programs, whether delivered online or delivered in person at a physical campus. The academic year of the University is divided into four quarters, each of which is within the four quarters of the calendar year. Students at the University and at NYCDA make payment arrangements for the tuition for each course at the time of enrollment. Tuition revenue is recognized ratably over the course of instruction. If a student withdraws from a course prior to completion, the University refunds a portion of the tuition depending on when the withdrawal occurs. Tuition revenue is shown net of any refunds, withdrawals, corporate discounts, employee tuition discounts, and scholarships. The University also derives revenue from other sources such as textbook-related income which is recognized upon sale, and certificate revenue, certain academic fees, licensing revenue, and other income, which are recognized when as the services are provided.

Tuition receivable and contract liabilities for our students are recorded upon the start of the course, which for the University, is the start of the academic term. Because the University's academic quarters coincide with the calendar quarters, at the end of the fiscal quarter (and academic term), tuition receivable generally represents amounts due from students for educational services already provided and contract liabilities generally represent advance payments for academic services to be provided in the future. Based upon past experience and judgment, the University establishes an allowance for doubtful accounts with respect to accounts receivable. Any uncollected account more than one year past due is charged against the allowance. Accounts less than one year past due are reserved according to the length of time the balance has been outstanding. In establishing reserve amounts, we also consider the status of students as to whether or not they are currently enrolled for the next term, as well as the likelihood of recovering balances that have previously been written off, based on historical experience. Bad debt expense as a percentage of revenues for the three months ended March 31, 2017 and 2018 was 3.8% and 5.5%, respectively.

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

- *Instruction and educational support expenses* generally contain items of expense directly attributable to educational activities. This expense category includes salaries and benefits of faculty and academic administrators, as well as administrative personnel who support faculty and students. Instruction and educational support expenses also include costs of educational supplies and facilities, including rent for campus facilities, certain costs of establishing and maintaining computer laboratories, and all other physical plant and occupancy costs, with the exception of costs attributable to the corporate offices. Bad debt expense incurred on delinquent student account balances is also included in instruction and educational support expenses.
- *Marketing expenses* include the costs of advertising and production of marketing materials and related personnel costs.
- *Admissions advisory expenses* include salaries, benefits, and related costs of personnel engaged in admissions.
- *General and administration expenses* include salaries and benefits of management and employees engaged in accounting, human resources, legal, regulatory compliance, and other corporate functions, along with the occupancy and other related costs attributable to such functions.

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

Critical Accounting Policies and Estimates

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

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

Revenue recognition — Like many traditional institutions, the University offers its educational programs on a quarter system having four academic terms, which coincide with our quarterly financial reporting periods. NYCDA's revenues are recognized as services are provided, generally ratably over the length of a course. Beginning January 1, 2018, in accordance with our adoption of new revenue recognition standards under ASC 606, materials provided to students in connection with their enrollment in a

course are recognized as revenue when control of those materials transfers to the student. Approximately 96% of our revenues during the three months ended March 31, 2018 consisted of tuition revenue. Tuition revenue is recognized ratably over the course of instruction as the University provides academic services in a given term, whether delivered in person at a physical campus or online. Tuition revenue is shown net of any refunds, withdrawals, corporate discounts, scholarships, and employee tuition discounts. The University also derives revenue from other sources such as textbook-related income, certificate revenue, certain academic fees, licensing revenue, and other income, which are all recognized when earned. At the start of each academic term or program, a liability (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.

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

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

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

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

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

New students registering in credit-bearing courses in any undergraduate program for the summer 2013 term (fiscal third quarter) and subsequent terms qualify for the Graduation Fund, whereby qualifying students earn tuition credits that are redeemable in the final year of a student's course of study if he or she successfully remains in the program. Students must meet all of the University's admission requirements and not be eligible for any previously offered scholarship program. Our employees and their dependents are not eligible for the program. To maintain eligibility, students must be enrolled in a bachelor's degree program. Students who have more than one consecutive term of non-attendance lose any Graduation Fund credits earned to date, but may earn and accumulate new credits if the student is reinstated or readmitted by the University in the future. In their final academic year, qualifying students will receive one free course for every three courses that were successfully completed. The performance obligation associated with free courses that may be redeemed in the future is valued based on a systematic and rational allocation of the cost of honoring the benefit earned to each of the underlying revenue transactions that result in progress by the student toward earning the benefit. The estimated value of awards under the Graduation Fund that will be recognized in the future is based on historical experience of students' persistence in completing their course of study and earning a degree and the tuition rate in effect at the time it was associated with the transaction. Estimated redemption rates of eligible students vary based on their term of enrollment. As of March 31, 2018, we had deferred \$38.3 million for estimated redemptions earned under the Graduation Fund, as compared to \$37.4 million at December 31, 2017. Each quarter, we assess our methodologies and assumptions underlying our estimates for persistence and estimated redemptions based on actual experience. To date, any adjustments to our

estimates have not been material. However, if actual persistence or redemption rates change, adjustments to the reserve may be necessary and could be material.

Tuition receivable — We record estimates for our allowance for doubtful accounts for tuition receivable from students primarily based on our historical collection rates by age of receivable, net of recoveries, and consideration of other relevant factors. Our experience is that payment of outstanding balances is influenced by whether the student returns to the institution as we require students to make payment arrangements for their outstanding balances prior to enrollment. Therefore, we monitor outstanding tuition receivable balances through subsequent terms, increasing the reserve on such balances over time as the likelihood of returning to the institution diminishes and our historical experience indicates collection is less likely. We periodically assess our methodologies for estimating bad debts in consideration of actual experience. If the financial condition of our students were to deteriorate, resulting in evidence of impairment of their ability to make required payments for tuition payable to us, additional allowances or write-offs may be required. For the first quarter of 2018, our bad debt expense was 5.5% of revenue, compared to 3.8% for the same period in 2017. Our bad debt has been negatively impacted by changes made by the U.S. Department of Education in the way it processes student financial aid, which increased the number of students subject to verification for loan eligibility under Title IV. This increase was not unique to Strayer, and affected many other institutions which receive funding through Title IV programs. The increased volume resulted in delays in processing financial aid for these students, largely causing the deterioration in our bad debt rate as compared to historical results. The Department of Education announced certain corrections to its processes which are scheduled to take effect in 2018 and are expected to reduce the volume of accounts selected for verification and improve the timeliness of the reviews. A change in our allowance for doubtful accounts of 1% of gross tuition receivable as of March 31, 2018 would have changed our income from operations by approximately \$0.4 million.

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. Goodwill and the indefinite-lived intangible assets are assessed at least annually for impairment. In connection with the goodwill in our JWMI reporting unit and the indefinite-lived intangible asset associated with the JWMI trade name, we utilized a qualitative assessment, consistent with ASC 350, to evaluate the recoverability of the related amounts. A qualitative assessment was performed based on the excess fair value noted in prior years. The qualitative factors considered included macroeconomic conditions, industry/market factors, cost considerations, and overall financial performance, among others. Based on our qualitative assessment, we concluded that it was not more likely than not that the fair value was less than the carrying value; as such, no impairments had been incurred.

In connection with the goodwill in our NYCDA reporting unit and the indefinite-lived intangible asset associated with the NYCDA tradename, we utilized a quantitative assessment consistent with ASC 350 during the period ended December 31, 2017. The valuation of the reporting unit considered both an income approach and a market approach, whereas the tradename valuation utilized a relief from royalty method. Key assumptions utilized in the discounted cash flow and relief from royalty models include revenue growth rates ranging from 5% to 129% through 2024 and 3% thereafter, operating margins ranging from -15% to 20% during the same period, and a discount rate of 17.5%. Management determined that no impairment had been incurred. During the three months ended March 31, 2018, management performed a qualitative assessment, consistent with ASC 350, to evaluate the recoverability of the related amounts and determined that no impairment had been incurred. The NYCDA business is still in its early stages and, as such, future operating performance is uncertain. Although we remain committed to this business and are optimistic about its future prospects, the rate of growth in the business has been slower than originally anticipated. Management will continue to monitor the business and update the operating plan, as necessary. Further downward adjustments to the plan could result in impairments in future periods, which could be material.

Contingent Consideration — In connection with the acquisition of NYCDA, the Company agreed that the purchase price would include contingent cash payments (contingent consideration) of up to \$12.5 million payable based on NYCDA's results of operations over a five-year period (the "Earnout"). Generally accepted accounting principles require that contingent consideration be recorded at its estimated fair value at the date of acquisition and then adjusted to fair value each period thereafter until it is settled.

The fair value of the Earnout was originally measured by applying a probability weighted discounted cash flow model based on significant inputs not observable in the market. Based on its original projections, the Company expected the full amount of the Earnout would be paid and initially measured the liability at \$9.0 million. Following its initial recognition, the Company reassessed and adjusted the carrying value of the Earnout to fair value with fair value reflecting revisions to the business plan, expectations relative to achieving the performance targets over the earnout period, and the impact of the discount rate. As of March 31, 2018, the Company estimates that no amounts under the Earnout will be paid and the related liability has been recorded at zero. The Company will continue to update its forecasts each period and record any fair value adjustments, as necessary.

Accrued lease and related costs — We estimate potential sublease income and vacancy periods for space that is not in use, adjusting our estimates when circumstances change. If our estimates change or if we enter into subleases at rates that are substantially different than our current estimates, we will adjust our liability for lease and related costs. During the three months ended March 31, 2018 and 2017, we had no reduction to our liability for leases.

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

Results of Operations

In the first quarter of 2018, we generated \$116.5 million in revenue, a 1% increase compared to 2017, principally due to a 6% increase in total enrollment, partially offset by a 5% decline in revenue per student. Income from operations was \$11.3 million for the first quarter of 2018 compared to \$18.4 million for the first quarter of 2017. Net income in the first quarter of 2018 was \$9.5 million compared to \$10.6 million for the same period in 2017. Diluted earnings per share was \$0.84 compared to \$0.95 for the same period in 2017.

In the accompanying analysis of financial information for 2018, we use financial measures, Adjusted Income from Operations, Adjusted Net Income, and Adjusted Diluted Earnings per Share, that are not required by or prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These measures, which are considered “non-GAAP financial measures” under SEC rules, are defined by us to exclude charges associated with our previously announced merger with Capella Education Company. When considered together with GAAP financial results, we believe these measures provide management and investors with an additional understanding of our business and operating results, including underlying trends. For the three months ended March 31, 2017 there were no such charges and, accordingly, non-GAAP financial measures are not presented.

Non-GAAP financial measures are not defined in the same manner by all companies and may not be comparable with other similarly titled measures of other companies. Non-GAAP financial measures may be considered in addition to, but not as a substitute for or superior to, GAAP results. A reconciliation of these measures to the most directly comparable GAAP measures is provided below.

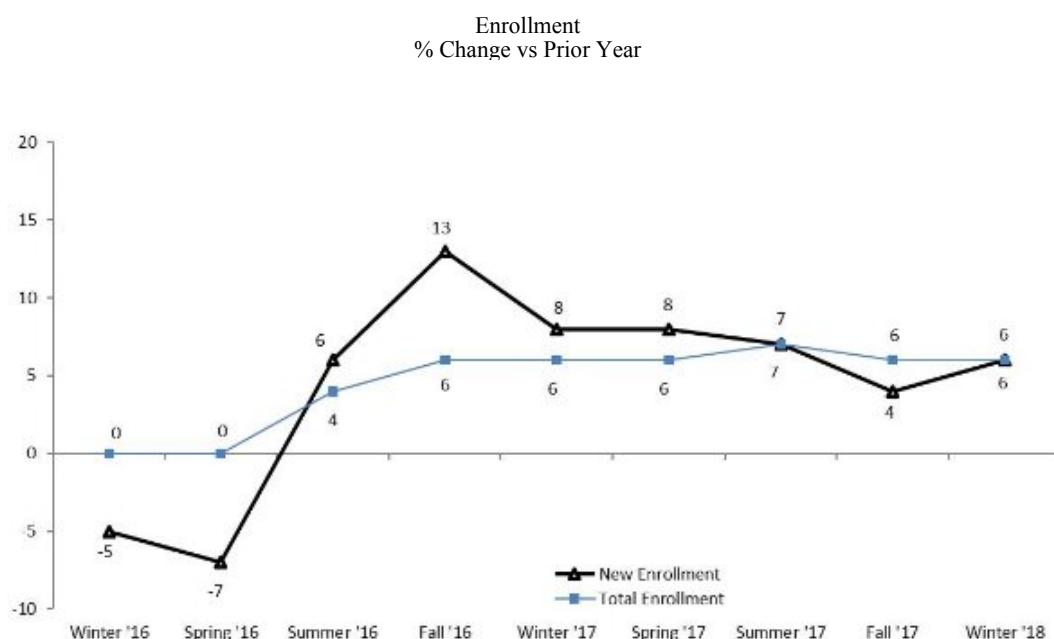
Adjusted income from operations was \$16.7 million in the first quarter of 2018 compared to \$18.4 million in 2017. Adjusted net income was \$13.9 million in the first quarter of 2018 compared to \$10.6 million in 2017, and adjusted diluted earnings per share was \$1.23 in the first quarter of 2018 compared to \$0.95 in 2017. There were no differences between Net Income and Adjusted Net Income for the three months ended March 31, 2017. The table below reconciles our reported results of operations to adjusted results for the three months ended March 31, 2018.

Reconciliation of Reported to Adjusted Results of Operations for the three months ended March 31, 2018

	As Reported (GAAP)	Non-GAAP Adjustment Merger Costs ⁽¹⁾	As Adjusted (Non- GAAP)
Income from operations	\$ 11,328	\$ 5,347	\$ 16,675
Investment income	448	—	448
Interest expense	159	—	159
Income before income taxes	11,617	5,347	16,964
Provision for income taxes	2,150	914	3,064
Net income	\$ 9,467	\$ 4,433	\$ 13,900
Earnings per share:			
Basic	\$ 0.88	\$ 0.41	\$ 1.29
Diluted	\$ 0.84	\$ 0.39	\$ 1.23
Weighted average shares outstanding:			
Basic	10,745	—	10,745
Diluted	11,311	—	11,311

(1) Reflects charges associated with the Company's previously announced merger with Capella Education Company.

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



Since 2013, we have introduced a number of initiatives in response to the variability in demand for our programs. Recognizing that affordability is an important factor in a prospective student's decision to seek a college degree, we reduced Strayer University undergraduate tuition for new students by 20% beginning in our 2014 winter academic term. We also introduced the Graduation Fund in mid-2013, whereby qualifying students can receive one free course for every three courses successfully completed. The free courses are redeemable in the student's final academic year. In 2015, we increased our investment in resources focused on helping Fortune 1000 companies to structure customized education and training programs for their employees, often with significant discounts to our published tuition rates. In 2017, we introduced several new scholarship programs aimed at specific demographics, geographies, and student profiles. We also began testing significantly reduced tuition for select graduate degree programs. These initiatives have had a negative impact on Strayer University revenue per student, which declined 3% in 2017, and is expected to decrease in 2018 by 3% to 4%, not including any impact from our pending merger with Capella.

As a result of these and other initiatives, average total enrollment grew approximately 6% in 2017. Should the 2017 full-year enrollment growth continue in 2018, we would expect revenue for the full year 2018 to increase at the rate of enrollment growth, less the decline in revenue per student, and would expect operating expenses in 2018 to increase slightly, not including any impact from our pending merger with Capella.

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Enrollment . Total enrollments at the University for the winter term 2018 increased to 46,184 students, from 43,387 for the winter term 2017. New student enrollments and continuing student enrollments increased by 6% each.

Revenues . Revenues increased 1% to \$116.5 million in the first quarter of 2018 from \$114.9 million in the first quarter of 2017, principally due to total enrollment growth of 6%, partially offset by a decline in revenue per student of 5%. The decline in revenue per student is largely attributable to students continuing on scholarship programs offered in fall 2017 and growth in lower priced graduate degree programs. Revenues for undergraduate students increased 6% in the three months ended March 31, 2018, driven by an increase in total undergraduate enrollment of 10%, partially offset by a decline in revenue per student of 4%. We expect this decline in revenue per student to continue at the undergraduate level as we enroll more new undergraduate students. For graduate students, revenues decreased 9% in 2018, driven by a decline in total graduate enrollment of 2% and a decline in revenue per student of 7%.

Instruction and educational support expenses . Instruction and educational support expenses increased \$2.4 million, or 4%, to \$63.8 million in the first quarter of 2018 from \$61.4 million in the first quarter of 2017, principally due to increases in student materials costs, depreciation expense following recent infrastructure investments, and bad debt expense. Instruction and educational support expenses as a percentage of revenues increased to 54.8% in the first quarter of 2018 from 53.4% in the first quarter of 2017.

Marketing expenses . Marketing expenses increased \$1.4 million, or 8%, to \$20.1 million in the first quarter of 2018 from \$18.7 million in the first quarter of 2017, principally due to increased investments in branding initiatives. Marketing expenses as a percentage of revenues increased to 17.3% in the first quarter of 2018 from 16.3% in the first quarter of 2017.

Admissions advisory expenses . Admissions advisory expenses remained unchanged at \$4.7 million in the first quarter of 2018 and 2017. Admissions advisory expenses as a percentage of revenues decreased to 4.0% in the first quarter of 2018 from 4.1% in the first quarter of 2017.

General and administration expenses . General and administration expenses decreased \$0.4 million to \$11.2 million in the first quarter of 2018 from \$11.6 million in the first quarter of 2017. General and administration expenses as a percentage of revenues decreased to 9.6% in the first quarter of 2018 from 10.1% in the first quarter of 2017.

Merger costs . Merger costs were \$5.3 million in the first quarter of 2018 and reflect expenses for legal, accounting, and integration support services incurred by the Company in connection with the proposed merger with Capella. Merger costs as a percentage of revenues was 4.6% in the first quarter of 2018.

Income from operations . Income from operations was \$11.3 million in the first quarter of 2018 compared to \$18.4 million in the first quarter of 2017, primarily due to the merger costs incurred in the period.

Investment income and interest expense . Investment income increased to \$0.4 million in the first quarter of 2018 compared to \$0.2 million in the first quarter of 2017 as a result of higher yields and an increase in our cash balances. Interest expense was \$0.2 million in the first quarter of both 2018 and 2017. We have \$150.0 million available under our revolving credit facility and no borrowings outstanding as of March 31, 2018.

Provision for income taxes . Income tax expense was \$2.2 million in the first quarter of 2018, compared to \$7.9 million in the first quarter of 2017. Our effective tax rate for the quarter was 18.5% and was favorably impacted by the lower federal income tax rate in effect in 2018, and by tax benefits associated with the vesting of restricted stock. We expect our effective tax rate, excluding the effect of tax benefits associated with the vesting of restricted stock, the effect of certain nondeductible merger costs, and other discrete tax adjustments, to be between 27%-28% for 2018.

Net income . Net income decreased \$1.1 million to \$9.5 million in the first quarter of 2018 from \$10.6 million in the first quarter of 2017 due to the factors discussed above.

Liquidity and Capital Resources

At March 31, 2018, we had cash and cash equivalents of \$165.9 million compared to \$155.9 million at December 31, 2017 and \$147.1 million at March 31, 2017. At March 31, 2018, most of our cash was held in demand deposit accounts at high credit quality financial institutions.

We are party to a credit agreement which provides for a \$150 million revolving credit facility and an option to establish incremental term loans under certain conditions. The credit agreement has a maturity date of July 2, 2020. We had no borrowings outstanding under the revolving credit facility during each of the three months ended March 31, 2017 and 2018.

Borrowings under the revolving credit facility bear interest at LIBOR or a base rate, plus a margin ranging from 1.75% to 2.25%, depending on our leverage ratio. An unused commitment fee ranging from 0.25% to 0.35%, depending on our leverage ratio, accrues on unused amounts under the revolving credit facility. During the three months ended March 31, 2018 and 2017, we paid unused commitment fees of \$0.1 million and \$0.2 million, respectively. We were in compliance with all applicable covenants related to the credit agreement as of March 31, 2018.

Our net cash from operating activities for the three months ended March 31, 2018 decreased to \$17.0 million, as compared to \$24.5 million for the same period in 2017. The decrease in net cash from operating activities was largely due to merger costs incurred in the period.

Capital expenditures were \$4.2 million for the three months ended March 31, 2018, compared to \$3.8 million for the same period in 2017.

The Board of Directors declared a quarterly dividend of \$0.25 per common share. During the three months ended March 31, 2018, we paid a total of \$2.9 million in cash dividends on our common stock. For the three months ended March 31, 2018, we did not repurchase any shares of common stock and, at March 31, 2018, had \$70 million in repurchase authorization to use through December 31, 2018.

For the first quarter of 2018, bad debt expense as a percentage of revenue was 5.5% compared to 3.8% for the first quarter of 2017.

We believe that existing cash and cash equivalents, cash generated from operating activities, and if necessary, cash borrowed under our revolving credit facility, will be sufficient to meet our requirements for at least the next 12 months. Currently, we maintain our cash in mostly demand deposit bank accounts and money market funds, which is included in cash and cash equivalents at March 31, 2018 and 2017. During the three months ended March 31, 2018 and 2017, we earned interest income of \$0.4 million and \$0.2 million, respectively.

The table below sets forth our contractual commitments associated with operating leases, excluding subleases as of March 31, 2018 (in thousands):

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	\$ 106,854	\$ 30,327	\$46,010	\$20,420	\$ 10,097

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to the impact of interest rate changes and may be subject to changes in the market values of our future investments. We invest our excess cash in bank overnight deposits, money market funds and marketable securities. We have not used derivative financial instruments in our investment portfolio. Earnings from investments in bank overnight deposits, money market mutual funds, and marketable securities may be adversely affected in the future should interest rates decline, although such a decline may reduce the interest rate payable on any borrowings under our revolving credit facility. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates. As of March 31, 2018, a 1% increase or decrease in interest rates would not have a material impact on our future earnings, fair values, or cash flows related to investments in cash equivalents or interest earning marketable securities.

Changing interest rates could also have a negative impact on the amount of interest expense we incur. On July 2, 2015, we used approximately \$116 million of our existing cash and cash equivalents to prepay our term loan and terminate an interest rate swap as part of an amendment to our credit and term loan agreement. The credit agreement provides for a \$150 million revolving credit facility and an option to establish incremental term loans under certain conditions. The credit agreement has a maturity date of July 2, 2020. We had no borrowings outstanding under the revolving credit facility after prepayment of the term loan facility, and as of March 31, 2018. Borrowings under the revolving credit facility bear interest at LIBOR or a base rate, plus a margin ranging from 1.75% to 2.25%, depending on our leverage ratio. An unused commitment fee ranging from 0.25% to 0.35%, depending on our leverage ratio, accrues on unused amounts under the revolving credit facility. An increase in LIBOR would affect interest expense on any outstanding balance of the revolving credit facility. For every 100 basis points increase in LIBOR, we would incur an incremental \$1.5 million in interest expense per year assuming the entire \$150 million revolving credit facility was utilized.

ITEM 4: CONTROLS AND PROCEDURES

- a) *Disclosure Controls and Procedures.* The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2018. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company had in place, as of March 31, 2018, effective disclosure controls and procedures designed to ensure that information required to be disclosed by the Company (including consolidated subsidiaries) in the reports it files or submits under the Securities Exchange Act of 1934, as amended, and the rules thereunder, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.
- b) *Internal Control Over Financial Reporting.* There have not been any changes in the Company's internal control over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

You should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, adversely affect the market price of our common stock and could cause you to suffer a partial or complete loss of your investment. There have been no material changes to the risk factors previously described in Part I, “Item 1A. Risk Factors” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The risks described in our Annual Report on Form 10-K, are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also could materially adversely affect our business. See “Cautionary Notice Regarding Forward-Looking Statements.”

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

During the three months ended March 31, 2018, we did not repurchase any shares of common stock under our repurchase program. The remaining authorization for our common stock repurchases was \$70.0 million as of March 31, 2018, and is available for use through December 31, 2018.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibit s

3.1	Amended Articles of Incorporation and Articles Supplementary of the Company (incorporated by reference to Exhibit 3.01 of the Company's Annual Report on Form 10-K (File No. 000-21039) filed with the Commission on March 28, 2002).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Commission on November 4, 2010).
3.3	First Amendment to the Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Commission on April 17, 2017).
10.1*	Employment Agreement, dated as of February 28, 2018, between Strayer University, LLC and Brian W. Jones.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.	INS XBRL Instance Document
101.	SCH XBRL Schema Document
101.	CAL XBRL Calculation Linkbase Document
101.	DEF XBRL Definition Linkbase Document
101.	LAB XBRL Label Linkbase Document
101.	PRE XBRL Presentation Linkbase Document

* Filed herewith.

SIGNATURE S

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

STRAYER EDUCATION, INC.

By: /s/ Daniel W. Jackson

Daniel W. Jackson

Executive Vice President and Chief Financial Officer

Date: May 3, 2018

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “Agreement”) is made and entered into as of February 28, 2018 (the “Effective Date”), by and between STRAYER UNIVERSITY, LLC, a Maryland corporation (the “University”), and BRIAN W. JONES (the “Executive”).

WHEREAS, the Executive has been employed by the University and currently serves as its President; and

WHEREAS, the University desires to continue to employ the Executive from and after the Effective Date in the capacity of its President and the Executive desires to continue to be employed by the University in such capacity pursuant to the terms set forth herein; and

WHEREAS, the University and the Executive desire to enter into this Agreement in order to set forth the terms and conditions of the Executive’s continued employment with the University as President;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. Employment. The University hereby agrees to employ the Executive and the Executive hereby agrees to be employed by the University as its President upon the terms and conditions set forth herein.

2. Term. The Executive’s employment shall be for a term (the “Employment Term”) commencing on the Effective Date and, subject to earlier termination under Section 8, expiring on the third anniversary thereof; provided, however, that commencing on the third anniversary of the Effective Date, and each anniversary thereafter, the Employment Term will automatically be extended for an additional year unless, not later than 4 months prior to the anniversary, the University or the Executive shall have given written notice to the other that it or the Executive, as the case may be, does not wish to have the Employment Term extended.

3. Duties of the Executive. The Executive shall serve as the University’s President, and as such shall have primary responsibility for the oversight, management and general operation of all of the operations of the University. The Executive shall report to the University’s Board of Trustees (the “Board of Trustees”), and as an executive of the parent company Strayer Education, Inc. (the “Company”), to the Chief Executive Officer thereof, and shall be assigned those executive and academic policy and management duties that are consistent with the Executive’s position as President of the University. The Executive shall devote substantially all of his working time and his best efforts, full attention and energies to the business of the University; provided, however, that it shall not be a violation of this Agreement for Executive to (a) devote reasonable periods of time to charitable and community activities and engaging in industry or professional activities (including membership on the board of directors or governing body of other corporations or entities and participation on governmental panels and commissions), and/or (b) manage personal business interests and investments, in each case so long as such activities do not interfere with the performance of Executive’s responsibilities under this Agreement.

4. Compensation.

(a) Base Salary. During the Employment Term, the University shall pay to the Executive a base salary of not less than \$430,000.00 per annum (the “Base Salary”). The Board of Trustees shall review Executive’s Base Salary annually (after approval of the forthcoming year’s budget and receipt of the prior year’s financial statements), and recommend to the Compensation Committee of the Board of Directors (the “Board”) of the Company increases as it may deem advisable.

(b) Annual Non-Equity Incentive Compensation Target. In addition to the Base Salary, the Executive shall be eligible to receive an annual non-equity incentive compensation award (the “Non-equity Incentive Compensation Award”) for each fiscal year of the University that ends during the Employment Term, under the non-equity incentive compensation plan in effect for senior executives of the Company (the “Plan”), based upon the achievement of objective performance goals. The Executive’s target Non-equity Incentive Compensation Award under the Plan for 2018 shall be \$215,000, and thereafter for each fiscal year during the Employment Term shall be

such amount as shall be determined by the Board in accordance with the Plan, but shall be at least 50% of the Executive's Base Salary for the year involved, provided that the University and the Company achieve the targeted level of performance under the Plan for the relevant fiscal year. The targeted level of performance required to earn the targeted Non-equity Incentive Compensation Award amount shall be as agreed by the Board of Trustees (or the Executive Committee thereof) and the Compensation Committee of the Board of the Company, on the one hand, and the Executive, on the other hand.

(c) Annual Restricted Share Grant Target. Executive shall be entitled to a target share grant equivalent to \$550,000 ("Restricted Shares"), awarded at the typical time that the Company makes such awards, with a four-year cliff vesting schedule and applicable performance criteria as may be established by the Compensation Committee of the Board of Directors. All Restricted Shares shall vest in full on the earlier to occur of the vesting date contained in each award agreement, or the Term hereof (or such later date of extension of the Employment Term pursuant to Section 2 hereof), upon a Change in Control Resulting in Termination (as defined in any award agreement) or upon any other termination of the Executive's employment without Cause under Section 8(a)(i) or 8(a)(ii), or upon Executive's death or Disability under Section 8(c) of this Agreement.

5. Executive Benefits. In addition to the compensation described in Section 4, during the Employment Term, the University shall make available to the Executive, on the most favorable terms and conditions available to executive and management employees of the University or Company, (i) all Company sponsored employee benefit plans or arrangements and such other usual and customary benefits now or hereafter generally available to employees of the Company, and (ii) such benefits and perquisites as may be made available to senior executives of the Company as a group, including, without limitation, equity and non-equity incentive programs, director and officer insurance which includes coverage for service on other boards of directors at the request of the Company, governmental panels, etc., vacations, and retirement, deferred compensation and welfare plans.

6. Expenses. The University shall also pay or reimburse the Executive for reasonable and necessary expenses incurred by the Executive in connection with his duties on behalf of the University in accordance with the expense policy of the University applicable to members of senior management of the University.

7. Place of Performance. In connection with his employment by the University, unless otherwise agreed by the Executive, the Executive shall be based at the home campus of the University in Washington, D.C., except for travel reasonably required for University business and the University shall provide the Executive with appropriate office facilities, support staff and resources to perform his duties at such location.

8. Termination.

(a) Termination By the University without Cause. The Executive's employment hereunder and the Employment Term may be terminated by the University for any reason by written notice as provided in Section 16. For purposes of this Agreement, the Executive will be treated as having been terminated by the University without Cause if the Executive terminates his employment with the University under the following circumstances: (i) the University breaches any material provision of this Agreement and fails to cure such breach within thirty (30) calendar days after receiving notice thereof from the Executive; (ii) there occurs a material reduction in the Executive's authority, functions, duties or responsibilities as provided in Section 3 and the University fails to restore to the Executive such authority, functions, duties or responsibilities within thirty (30) calendar days after receiving notice thereof from the Executive; or (iii) the Executive's employment is (A) terminated without cause within six (6) months of the effective date of a Change in Control (as defined in Section 10) or (B) there occurs a material reduction in the Executive's authority, function, duties or responsibilities which causes the Executive's resignation from the University within six (6) months of the effective date of a Change in Control of the University or Company (as defined in Section 10) (a "CIC Termination"). In the event of such a termination without Cause pursuant to any of subsections 8(a)(i)-(iii) above or any other termination of the Executive's employment by the University for any reason other than Cause (as defined in Section 9(d) herein), the Executive shall be entitled to the payments and benefits set forth in Section 9(a).

(b) Termination By the University for Cause or Voluntary Termination By the Executive. The Executive may voluntarily terminate his employment and this Agreement at any time by notice to the University as provided in Section 16. In the event of a termination of the Executive's employment by the

Executive during the Employment Term other than pursuant to Section 8(a) hereof or a termination by the University for Cause (as defined in Section 9(d) herein) during the Employment Term, the Executive shall be entitled to the payments and benefits set forth in Section 9(b).

(c) Termination Due to Death or Disability. In the event of a termination of the Executive's employment during the Employment Term due to death or Disability (as defined herein), the Executive shall be entitled to the payments and benefits set forth in Section 9(c).

9. Compensation and Benefits Upon Termination of Employment.

(a) Termination by University Without Cause. If the Executive's employment hereunder is terminated by the University (including within the meaning of any of subsections 8(a)(i)-(iii) herein) for any reason other than for Cause (as defined in Section 9(d) herein) during the Employment Term, the University shall be obligated to pay to the Executive the following termination payments and make available the following benefits:

(i) Accrued Rights. The University shall, within ten (10) days of the date of termination, pay the Executive a lump-sum amount equal to the sum of (A) his earned but unpaid Base Salary through the date of termination, (B) any earned but unpaid Non-equity Incentive Compensation Award under Section 4(b) above, and (C) any business expenses due to the Executive from the University as of the date of termination. In addition, the University shall provide to the Executive all payments, rights and benefits due as of the date of termination under the terms of the Company's employee and fringe benefit plans and programs (other than severance plans or programs) in which the Executive participated during the Employment Term (together with such lump-sum payment, the "Accrued Rights").

(ii) Severance Payment. The Company shall within thirty (30) days of the date of termination pay the Executive a lump sum payment in an amount equal to the amount of Base Salary, and annual target Non-equity Incentive Compensation Award prorated for the amount of time remaining in the Employment Term.

(iii) Medical Benefits. For the time remaining on the Employment Term subsequent to termination, or in the case of a declaration of a Disability until such time as the Disability has concluded, the University will arrange to provide the Executive with medical benefits substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the date of termination, provided that if and to the extent that any benefit described in this paragraph is not or cannot be paid or provided under any policy, plan, program or arrangement of the University or any subsidiary, as the case may be, then the University will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such benefits.

(iv) Restricted Shares. As of the date of the Executive's termination hereunder for any reason, including under Section 8(a)(i) and 8(a)(ii) hereof, (other than a voluntary resignation or termination for Cause covered by Section 9(b) below), any unvested Restricted Shares then held by the Executive shall immediately and fully vest, unless explicitly provided otherwise in the agreement applicable to such restricted shares. Notwithstanding any other provision in this Agreement, the Change in Control Resulting in Termination provisions of any restricted stock award agreement and not the Change in Control provision in Section 8(a)(iii) hereof shall control the vesting of shares.

(b) Termination for Cause or Voluntary Termination By the Executive. If the Executive's employment hereunder is terminated during the Employment Term by the University for Cause (as defined in Section 9(d) hereof), or voluntarily terminated by the Executive other than pursuant to Section 8(a), (1) the University shall have no further obligations to the Executive hereunder, except to pay or provide to the Executive any and all Accrued Rights, and (2) all unvested Restricted Shares shall terminate immediately and be of no further force or effect.

(c) Disability; Death. If the Executive's employment hereunder is terminated during the Employment Term by reason of the Executive's Disability (as defined herein) or death, the University shall pay and provide the Executive (or his legal representative or estate) with the following:

(i) Accrued Rights. The University shall pay and provide to the Executive (or his legal representative or estate) any and all Accrued Rights, including all disability or life insurance benefits as applicable;

(ii) Salary Continuation. The University shall provide the Executive (or his legal representative or estate) with continued payment of the Executive's then-current Base Salary for the period remaining in the Employment Term.

(iii) Restricted Shares. As of the date of the Executive's termination under this paragraph, any unvested Restricted Shares shall immediately and fully vest.

(iv) Medical Benefits. In the event of the Executive's Disability (as defined herein), until such time as the Disability has concluded the University will arrange to provide the Executive with medical benefits substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the date of termination due to Disability, provided that if and to the extent that any benefit described in this paragraph is not or cannot be paid or provided under any policy, plan, program or arrangement of the University or any subsidiary, as the case may be, then the University will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such benefits.

(d) Termination for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure by the Executive substantially to perform his duties hereunder (other than any such failure resulting from the Executive's Disability or the University's breach of this Agreement), which failure is not or cannot be cured within thirty (30) business days after the University has given written notice thereof to the Executive specifying in detail the particulars of the acts or omissions deemed to constitute such failure,

(ii) the engaging by the Executive in willful misconduct which is materially injurious to the University, monetarily or otherwise,

(iii) the Executive's conviction of, or entry of a plea of nolo contendere with respect to, any felony, or

(iv) the Executive's breach of any material provision of this Agreement, if the Executive fails to cure such breach within thirty (30) business days after the University has given written notice thereof to the Executive.

For purposes of this definition, no act, or failure to act, on the Executive's part shall be considered "willful" unless done, or omitted to be done, by the Executive in bad faith and without reasonable belief that the Executive's action or omission was in the best interests of the University. The Executive shall not be deemed to have been terminated for Cause unless and until the Board of Trustees of the University, and the Board of Directors of the Company, finds that the Executive's termination for Cause is justified and has given the Executive written notice of termination, specifying in detail the particulars of the Executive's conduct found by the Board to justify such termination for Cause.

(e) Continued Service as President Emeritus. At any point in the Employment Term the University and Company may determine, in their sole discretion, to appoint the Executive as President Emeritus which shall not be deemed a termination under Section 8 for any purposes, and the Executive shall be entitled to continue to receive his Base Salary and Annual Restricted Share Grant Target during his service as President Emeritus, as well as Medical Benefits. All provisions of this Section 9 shall then be applicable to the Executive's term of service as President Emeritus.

(f) Disability Defined. “Disability” shall mean the Executive’s inability to perform the duties of his position with the University by reason of a medically determined physical or mental impairment which has existed for a continuous period of at least 26 weeks and which, in the written judgment of a physician, is likely to be of indefinite duration or to result in death.

(g) No Obligation to Mitigate. The Executive is under no obligation to mitigate damages or the amount of any payment provided for hereunder by seeking other employment or otherwise; provided, however, that the Executive’s coverage under the University’s medical benefit plans will terminate when the Executive becomes covered under any employee medical plan made available by another employer. The Executive shall notify the University within thirty (30) days after the commencement of any such benefits.

10. Change in Control. As used herein, a “Change in Control” of the University or the Company shall mean the occurrence of any of the following:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of either: (i) the then- outstanding shares of the Company’s Common Stock or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (“Voting Stock”); provided, however, that for purposes of this subsection (a), the following shall not constitute a Change in Control: any acquisition by any Person pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 10; or

(b) Individuals who constitute the Board of Directors of the Company as of the date hereof (the “Incumbent Board”) cease for any reason (other than death or disability) to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board, but excluding for this purpose any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest (within the meaning of Rule 14a-11 of the Exchange Act) with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board or any of the Investors; or

(c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the University or the Company with or to any Person (a “Business Combination”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Common Stock and Voting Stock of the Company immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions relative to each other as their ownership, immediately prior to such Business Combination, of the Common Stock and Voting Stock of the Company, as the case may be, (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) sponsored or maintained by the Company or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board providing for such Business Combination;

- (d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company; or
- (e) If the Company ceases to be the sole shareholder of the University.

11. Confidentiality Agreement.

(a) The Executive acknowledges that, in the course of his employment by the University, he will or may have access to and become informed of confidential or proprietary information which is a competitive asset of the University or Company (“Confidential Information”), including, without limitation, (i) the terms of any agreement between the University or Company and any employee, customer or supplier, (ii) pricing strategy, (iii) merchandising and marketing methods, (iv) product or course development ideas and strategies, (v) University and Company personnel training and development programs, (vi) financial results, (vii) strategic plans and demographic analyses, (viii) proprietary computer and systems software, and (ix) any non-public information concerning the University or Company, their employees, suppliers or customers. The Executive agrees that he will keep all Confidential Information in strict confidence during his employment by the University and thereafter, and will never directly or indirectly make known, divulge, reveal, furnish, make available, or use any Confidential Information (except in the course of his regular authorized duties or as otherwise authorized on behalf of the University or Company). The Executive agrees that the obligations of confidentiality hereunder shall be in effect at all times during the Employment Term and shall survive termination of his employment at the University for a period of six (6) years thereafter regardless of any actual or alleged breach by the University of this Agreement, unless and until any such Confidential Information shall have become, through no fault of the Executive, generally known to the public or the Executive is required by law to make disclosure (after giving the University and Company notice and an opportunity to contest such requirement). The Executive’s obligations under this Section 11 are in addition to, and not in limitation of or preemption of, all other obligations of confidentiality which the Executive may have to the University and Company under general legal or equitable principles.

(b) Except in the ordinary course of the University’s business, or as otherwise authorized on behalf of the University or Company, the Executive may not make or cause to be made, any copies, pictures, duplicates, facsimiles or other reproductions or recordings or any abstracts or summaries including or reflecting Confidential Information. All such documents and other property furnished to the Executive by the University or Company, or otherwise acquired or developed by the University or Company, shall at all times be the property of the University and Company. Upon termination of the Executive’s employment with the University, the Executive will return to the University or destroy any such documents or other property of the University which are in the possession, custody or control of the Executive; provided that the Executive may maintain a copy in his possession (to be treated confidentially under this Section 11) of any information necessary for the Executive to enforce his legal rights under this Agreement or to file applicable tax returns.

(c) Without the prior written consent of the University or Company, except in the ordinary course of the University’s or Company’s business, or to enforce his legal rights under this Agreement or support any tax filings referenced under subsection (b) above, or to comply with any legal disclosure requirement referenced in subsection (a) above, the Executive shall not at any time following the date of this Agreement use for the benefit or purposes of the Executive or for the benefit or purposes of any other person, firm, partnership, association, trust, venture, corporation or business organization, entity or enterprise or disclose in any manner to any person, firm, partnership, association, trust, venture, corporation or business organization, entity or enterprise any Confidential Information.

12. Covenant Not to Compete.

(a) For three (3) years after the date of termination of employment hereunder, the Executive shall not, directly or indirectly, individually or on behalf of any other person or entity, (A) engage or have an economic interest in (whether as owner, stockholder, partner, lender, consultant, employee, agent or otherwise) any business, activity or enterprise which is then directly and materially competitive with the business of any division or operation of the Company or the Company’s subsidiaries (collectively, the “Company Group”) in any region of the United States in which such business is then being conducted, it being understood that the Company Group currently is engaged primarily in the business of for-profit post-secondary education, or (B) hire or employ any person who has been an

employee of any member of the Company Group at any time within 12 months prior to the Executive's termination of employment or solicit, aid or induce such person to leave his or her employment with any member of the Company Group to accept employment with any other person or entity. It is agreed that (i) not for profit educational entities that do not offer programs comparable to those of the Company will not be deemed to be a direct competitor of the Company Group hereunder, (ii) foundations or other non-profit organizations furthering the interests of higher education will not be deemed a direct competitor of the Company Group hereunder; (iii) the Executive's ownership of less than 1% of any class of stock in a publicly-traded corporation or his membership on any board of directors that is permissible under Section 3 hereof shall not be deemed a breach of this Section 12, and (iv) nothing herein shall be construed to prohibit general solicitation of employment by means of advertising.

(b) The Executive acknowledges and agrees that a violation of Section 11 and the foregoing provisions of this Section 12 (referred to collectively as the Confidentiality and Noncompetition Agreement) would cause irreparable harm to the University and the Company, and that the University's remedy at law for any such violation would be inadequate. In recognition of the foregoing, the Executive agrees that, in addition to any other relief afforded by law or this Agreement, including damages sustained by a breach of this Agreement, and without the necessity or proof of actual damages, the University and the Company shall have the right to seek specific enforcement of this Agreement, which may include, among other things, temporary and permanent injunctions, it being the understanding of the undersigned parties hereto that seeking damages and injunctions shall all be proper modes of relief and are not to be considered as alternative remedies.

13. Agreement. This Agreement supersedes any and all prior and/or contemporaneous agreements, either oral or in writing, between the parties hereto, with respect to the subject matter hereof. Each party to this Agreement acknowledges that no representations, inducements, promises, or other agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, pertaining to the subject matter hereof, which are not embodied herein, and that no prior and/or contemporaneous agreement, statement or promise pertaining to the subject matter hereof that is not contained in this Agreement shall be valid or binding on either party.

14. Withholding of Taxes. The University may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the University is required to withhold pursuant to any law or government regulation or ruling.

15. Successors and Binding Agreement.

(a) The University will require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the University, by agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the University would be required to perform if no such succession had taken place. This Agreement will be binding upon and inure to the benefit of the University and any successor to the University, including without limitation any persons acquiring directly or indirectly all or substantially all of the business or assets of the University whether by purchase, merger, consolidation, reorganization or otherwise (and such successor shall thereafter be deemed the "University" for the purposes of this Agreement), but will not otherwise be assignable, transferable or delegable by the University.

(b) This Agreement will inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees and legatees.

(c) This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign, transfer or delegate this Agreement or any rights or obligations hereunder except as expressly provided in Sections 15(a) and 15(b). Without limiting the generality or effect of the foregoing, the Executive's right to receive payments and benefits hereunder will not be assignable, transferable or delegable by him, whether by pledge, creation of a security interest, or otherwise, other than by a transfer by the Executive's will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Section 15(c), the Company shall have no liability to pay any amount so attempted to be assigned, transferred or delegated.

16. Notices. For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be

deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof confirmed), or five (5) business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as Federal Express, UPS, or similar courier service, addressed to the University (to the attention of the Secretary of the University) at its principal executive offices and to the Executive at his principal residence, or to such other address as either party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

17. Governing Law. The validity, interpretation, construction and performance of this Agreement will be governed by and construed in accordance with the substantive laws of the State of Maryland, without giving effect to the principles of conflict of laws of such State.

18. Validity. If any provision of this Agreement or the application of any provision hereof to any person or circumstances is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision to any other person or circumstances will not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal will be reformed to the extent (and only to the extent) necessary to make it enforceable, valid or legal.

19. Survival of Provisions. Notwithstanding any other provision of this Agreement, the parties' respective rights and obligations hereunder, will survive any termination or expiration of this Agreement or the termination of the Executive's employment for any reason whatsoever.

20. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is in writing and signed by the party against whom such modification, waiver or discharge is sought to be enforced. No waiver by either party hereto at any time of any breach by the other party hereto or compliance with any condition or provision of this Agreement to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Unless otherwise noted, references to "Sections" are to sections of this Agreement. The captions used in this Agreement are designed for convenient reference only and are not to be used for the purpose of interpreting any provision of this Agreement.

21. Indemnification under Company By-Laws. To the maximum extent provided in the bylaws of the University and/or Company and by law, during the term of this Agreement and thereafter, the University and Company shall indemnify and hold the Executive and his heirs, personal representatives, executors and administrators harmless, against any and all claims, damages liabilities, costs of investigation and reasonable legal expenses as a result of any threatened or actual third-party claim or proceeding (excluding claims and proceedings by the University and any of its affiliates) against the Executive that arises by reason of the Executive having executed and performed under this Agreement (as it may be amended) or otherwise having provided service as an officer or employee of the University, any affiliate of the Company or any other entity at the request of the Company.

22. Section 409A.

(a) It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the Code and all regulations, guidance and other interpretive authority issued thereunder, including without limitation any such regulations or other guidance that may be issued in the future ("Section 409A") so as not to subject the Executive to payment of any additional tax, penalty or interest imposed under Section 409A. The provisions of this Agreement shall be construed and interpreted to avoid imputation of any such additional tax, penalty or interest under Section 409A yet preserve the intended benefit payable to the Executive.

(b) Notwithstanding anything herein to the contrary, if the Executive is a Specified Employee at the time of the Executive's termination of employment with the University or Company and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary to prevent any accelerated or additional tax under Section 409A, then the Company will defer the commencement of any such payments or benefits hereunder to the extent that such payments or benefits (after taking into account all exclusions applicable to such payment under Section 409A) constitute "deferred compensation" subject to Section 409A (without any reduction in such payments or benefits ultimately paid or

provided to the Executive) until the earlier of (i) the first business day after the expiration of six (6) months following the Executive's termination of employment (ii) or the Executive's death or Disability (the "Delayed Payment Date").

(c) For purposes of this Agreement, any references herein to the Executive's "termination of employment" or words of similar meaning shall refer to the Executive's "separation from service" with the Company within the meaning of Section 409A and Treasury Regulation Section 1.409A-1(h) (after giving effect to the presumptions contained therein) and the term "Specified Employee" shall have the meaning given such term in Section 409A and Treasury Regulation Section 1.409A-1(i) as determined in accordance with the Company's policy for determining Specified Employees.

(d) (i) To the extent any reimbursements or in-kind benefits due to the Executive under this Agreement constitute "nonqualified deferred compensation" subject to Section 409A, any such reimbursements or in-kind benefits shall be paid to the Executive in a manner consistent with Treasury Regulation Section 1.409A-3(i)(1)(iv), and (ii) to the extent that the Executive's receipt of any in-kind benefits from the Company or its affiliates must be delayed pursuant to this Section 22 due to the Executive's status as a Specified Employee, the Executive may elect to instead purchase and receive such benefits during the period in which the provision of benefits would otherwise be delayed by paying the Company (or its affiliates) for the fair market value of such benefits (as determined by the Company in good faith) during such period. Any amounts paid by the Executive pursuant to the preceding sentence shall be reimbursed to the Executive as described above on the Delayed Payment Date.

(e) Each payment made under this Agreement shall be treated as a separate payment and any right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

(f) The University and the Company shall consult with the Executive in good faith regarding and shall use all reasonable efforts to agree with Executive on the appropriate implementation of the provisions of this Section 22.

IN WITNESS WHEREOF, with the Company signatory listed below having been duly authorized by the Company to enter into this Agreement by the Company, the parties hereto have executed this Agreement as of the day and year first written.

STRAYER UNIVERSITY, LLC

By: /s/ Lizette Herraiz

Name: Lizette Herraiz

Title: General Counsel & Secretary

/s/ Brian W. Jones

Brian W. Jones

CERTIFICATIONS

I, Karl McDonnell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Strayer Education, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Karl McDonnell

Karl McDonnell

Chief Executive Officer

CERTIFICATIONS

I, Daniel W. Jackson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Strayer Education, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ Daniel W. Jackson

Daniel W. Jackson

Executive Vice President and
Chief Financial Officer

**CERTIFICATION PURSUANT TO RULE 13a – 14(b) OF THE SECURITIES EXCHANGE
ACT AND 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES – OXLEY ACT OF 2002**

In connection with the Quarterly Report of Strayer Education, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Karl McDonnell, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Karl McDonnell

Karl McDonnell
Chief Executive Officer

May 3, 2018

**CERTIFICATION PURSUANT TO RULE 13a – 14(b) OF THE SECURITIES EXCHANGE
ACT AND 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES – OXLEY ACT OF 2002**

In connection with the Quarterly Report of Strayer Education, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daniel W. Jackson, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel W. Jackson

Daniel W. Jackson
Executive Vice President and
Chief Financial Officer

May 3, 2018
