

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2021

or

☐ Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File No. 0-21039

Strategic Education, Inc.

(Exact name of registrant as specified in this charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

52-1975978

(I.R.S. Employer
Identification No.)

2303 Dulles Station Boulevard
Herndon, VA

(Address of principal executive offices)

20171

(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Exchange Act:

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock, \$0.01 par value

STRA

Nasdaq Global Select Market

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 ☐

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 July 16, 2021, there were outstanding 24,612,624 shares of Common Stock, par value \$0.01 per share, of the Registrant.

STRATEGIC EDUCATION, INC.
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FORM 10-Q

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements

STRATEGIC EDUCATION, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2020	June 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 187,509	\$ 261,585
Marketable securities	7,557	4,040
Tuition receivable, net	50,169	78,609
Income taxes receivable	1,429	—
Assets held for sale	—	5,801
Other current assets	39,458	43,600
Total current assets	286,122	393,635
Property and equipment, net	158,854	153,812
Right-of-use lease assets	120,687	134,069
Marketable securities, non-current	30,270	28,062
Intangible assets, net	326,420	289,985
Goodwill	1,318,526	1,303,863
Other assets	54,928	59,887
Total assets	<u>\$ 2,295,807</u>	<u>\$ 2,363,313</u>
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 104,742	\$ 100,119
Income taxes payable	—	4,015
Contract liabilities	60,501	118,771
Lease liabilities	34,809	29,284
Total current liabilities	200,052	252,189
Long-term debt	141,823	141,748
Deferred income tax liabilities	53,407	42,810
Lease liabilities, non-current	106,151	148,382
Other long-term liabilities	46,055	45,004
Total liabilities	547,488	630,133
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.01; 32,000,000 shares authorized; 24,418,939 and 24,621,111 shares issued and outstanding at December 31, 2020 and June 30, 2021, respectively	244	246
Additional paid-in capital	1,519,549	1,523,022
Accumulated other comprehensive income	48,880	30,823
Retained earnings	179,646	179,089
Total stockholders' equity	1,748,319	1,733,180
Total liabilities and stockholders' equity	<u>\$ 2,295,807</u>	<u>\$ 2,363,313</u>

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2021	2020	2021
Revenues	\$ 255,831	\$ 299,173	\$ 521,133	\$ 589,509
Costs and expenses:				
Instructional and support costs	125,544	152,938	258,480	305,743
General and administration	67,301	93,395	136,527	180,240
Amortization of intangible assets	15,417	19,392	30,834	38,799
Merger and integration costs	1,174	1,937	4,938	2,949
Restructuring costs	—	4,811	—	23,078
Total costs and expenses	209,436	272,473	430,779	550,809
Income from operations	46,395	26,700	90,354	38,700
Other income	1,639	757	3,762	2,924
Income before income taxes	48,034	27,457	94,116	41,624
Provision for income taxes	13,882	7,481	24,725	12,071
Net income	\$ 34,152	\$ 19,976	\$ 69,391	\$ 29,553
Earnings per share:				
Basic	\$ 1.57	\$ 0.83	\$ 3.18	\$ 1.23
Diluted	\$ 1.55	\$ 0.83	\$ 3.15	\$ 1.22
Weighted average shares outstanding:				
Basic	21,764	23,975	21,787	23,974
Diluted	22,012	24,126	22,041	24,139

STRATEGIC EDUCATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2021	2020	2021
Net income	\$ 34,152	\$ 19,976	\$ 69,391	\$ 29,553
Other comprehensive income:				
Foreign currency translation adjustment	—	(9,276)	—	(17,988)
Unrealized gains (losses) on marketable securities, net of tax	406	35	426	(69)
Comprehensive income	\$ 34,558	\$ 10,735	\$ 69,817	\$ 11,496

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

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

	For the three months ended June 30, 2020					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Par Value				
Balance at March 31, 2020	22,213,587	\$ 222	\$ 1,287,406	\$ 171,266	\$ 253	\$ 1,459,147
Stock-based compensation	—	—	3,858	1	—	3,859
Exercise of stock options, net	5,252	—	339	—	—	339
Issuance of restricted stock, net	4,097	—	(6)	—	—	(6)
Common stock dividends (\$0.60 per share)	—	—	—	(13,347)	—	(13,347)
Unrealized gains on marketable securities, net of tax	—	—	—	—	406	406
Net income	—	—	—	34,152	—	34,152
Balance at June 30, 2020	<u>22,222,936</u>	<u>\$ 222</u>	<u>\$ 1,291,597</u>	<u>\$ 192,072</u>	<u>\$ 659</u>	<u>\$ 1,484,550</u>
	For the three months ended June 30, 2021					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Par Value				
Balance at March 31, 2021	24,651,205	\$ 247	\$ 1,521,145	\$ 174,469	\$ 40,064	\$ 1,735,925
Stock-based compensation	—	—	4,167	1	—	4,168
Exercise of stock options, net	833	—	43	—	—	43
Issuance of restricted stock, net	6,567	(1)	—	—	—	(1)
Repurchase of common stock	(37,494)	—	(2,333)	(571)	—	(2,904)
Common stock dividends (\$0.60 per share)	—	—	—	(14,786)	—	(14,786)
Foreign currency translation adjustment	—	—	—	—	(9,276)	(9,276)
Unrealized gains on marketable securities, net of tax	—	—	—	—	35	35
Net income	—	—	—	19,976	—	19,976
Balance at June 30, 2021	<u>24,621,111</u>	<u>\$ 246</u>	<u>\$ 1,523,022</u>	<u>\$ 179,089</u>	<u>\$ 30,823</u>	<u>\$ 1,733,180</u>

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

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

	For the six months ended June 30, 2020					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Par Value				
Balance at December 31, 2019	21,964,809	\$ 220	\$ 1,309,438	\$ 152,819	\$ 233	\$ 1,462,710
Impact of adoption of new accounting standard	—	—	—	(3,311)	—	(3,311)
Stock-based compensation	—	—	6,883	1	—	6,884
Exercise of stock options, net	19,567	—	1,185	—	—	1,185
Issuance of restricted stock, net	240,329	2	(25,804)	—	—	(25,802)
Repurchase of common stock	(1,769)	—	(105)	(142)	—	(247)
Common stock dividends (\$1.20 per share)	—	—	—	(26,686)	—	(26,686)
Unrealized gains on marketable securities, net of tax	—	—	—	—	426	426
Net income	—	—	—	69,391	—	69,391
Balance at June 30, 2020	<u>22,222,936</u>	<u>\$ 222</u>	<u>\$ 1,291,597</u>	<u>\$ 192,072</u>	<u>\$ 659</u>	<u>\$ 1,484,550</u>
	For the six months ended June 30, 2021					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Par Value				
Balance at December 31, 2020	24,418,939	\$ 244	\$ 1,519,549	\$ 179,646	\$ 48,880	\$ 1,748,319
Stock-based compensation	—	—	8,035	33	—	8,068
Exercise of stock options, net	1,632	—	113	—	—	113
Issuance of restricted stock, net	238,034	2	(2,342)	—	—	(2,340)
Repurchase of common stock	(37,494)	—	(2,333)	(571)	—	(2,904)
Common stock dividends (\$1.20 per share)	—	—	—	(29,572)	—	(29,572)
Foreign currency translation adjustment	—	—	—	—	(17,988)	(17,988)
Unrealized losses on marketable securities, net of tax	—	—	—	—	(69)	(69)
Net income	—	—	—	29,553	—	29,553
Balance at June 30, 2021	<u>24,621,111</u>	<u>\$ 246</u>	<u>\$ 1,523,022</u>	<u>\$ 179,089</u>	<u>\$ 30,823</u>	<u>\$ 1,733,180</u>

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

STRATEGIC EDUCATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the six months ended June 30,	
	2020	2021
Cash flows from operating activities:		
Net income	\$ 69,391	\$ 29,553
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs	167	276
Amortization of investment discount/premium	68	40
Depreciation and amortization	51,981	66,624
Deferred income taxes	(6,736)	(10,499)
Stock-based compensation	6,884	8,068
Impairment of right-of-use lease assets	453	17,015
Changes in assets and liabilities:		
Tuition receivable, net	3,820	(28,947)
Other assets	(6,338)	(9,308)
Accounts payable and accrued expenses	(22,180)	(7,835)
Income taxes payable and income taxes receivable	15,303	5,444
Contract liabilities	2,053	58,937
Other liabilities	(2,925)	(3,537)
Net cash provided by operating activities	111,941	125,831
Cash flows from investing activities:		
Purchases of property and equipment	(25,465)	(23,138)
Purchases of marketable securities	(1,863)	—
Proceeds from marketable securities	18,869	5,595
Other investments	(693)	(262)
Net cash used in investing activities	(9,152)	(17,805)
Cash flows from financing activities:		
Common dividends paid	(26,662)	(29,549)
Net payments for stock awards	(24,758)	(2,283)
Repurchase of common stock	(247)	(2,904)
Net cash used in financing activities	(51,667)	(34,736)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	—	(1,396)
Net increase in cash, cash equivalents, and restricted cash	51,122	71,894
Cash, cash equivalents, and restricted cash — beginning of period	420,497	202,020
Cash, cash equivalents, and restricted cash — end of period	\$ 471,619	\$ 273,914
Noncash transactions:		
Non-cash additions to property and equipment	\$ 2,229	\$ 6,600
Right-of-use lease assets obtained in exchange for operating lease liabilities	\$ 7,870	\$ 48,143

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

STRATEGIC EDUCATION, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Nature of Operations

Strategic Education, Inc. ("Strategic Education" or the "Company"), a Maryland corporation, is an education services company that provides access to high-quality education through campus-based and online post-secondary education offerings, as well as through programs to develop job-ready skills for high-demand markets. Strategic Education's portfolio of companies is dedicated to closing the skills gap by placing adults on the most direct path between learning and employment. As discussed in Note 2 and Note 3, the Company completed its acquisition of Torrens University and associated assets in Australia and New Zealand ("ANZ") on November 3, 2020.

As discussed in Note 15, beginning in the first quarter of 2021 the Company changed the way management reports financial information relied on by the Chief Operating Decision Maker ("CODM") to evaluate performance and allocate the resources of the Company. The Company's revised organizational structure includes the following three operating and reportable segments: (1) U.S. Higher Education, which is primarily comprised of the Company's previous Strayer University and Capella University segments and is focused on providing flexible and affordable certificate and degree programs to working adults; (2) Alternative Learning, a new segment that is primarily focused on developing and maintaining relationships with large employers to build employee education benefits programs; and (3) Australia/New Zealand, which provides certificate and degree programs in Australia and New Zealand. The Australia/New Zealand segment was not changed as a result of the Company's reorganization. Financial reporting under the new structure began in the first quarter of 2021. Prior period segment disclosures have been restated to conform to the current period presentation.

2. 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.

On November 3, 2020, the Company completed its acquisition of ANZ, whereby the Company was deemed the acquirer in the business combination for accounting purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, the financial results of the Company as of and for any periods ended prior to November 3, 2020 do not include the financial results of ANZ and therefore are not directly comparable.

All information as of June 30, 2020 and 2021, and for the three and six months ended June 30, 2020 and 2021 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. The condensed consolidated balance sheet as of December 31, 2020 has been derived from the audited consolidated financial statements at that date. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020. The results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of the results to be expected for the full fiscal year.

Below is a description of the nature of the costs included in the Company's operating expense categories.

Instructional and support costs ("I&SC") generally contain items of expense directly attributable to activities that support students. This expense category includes salaries and benefits of faculty and academic administrators, as well as admissions and administrative personnel who support and serve student interests. Instructional and support costs also include course development costs and costs associated with delivering course content, including educational supplies, facilities, 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 instructional and support costs.

General and administration ("G&A") expenses include salaries and benefits of management and employees engaged in finance, human resources, legal, regulatory compliance, marketing and other corporate functions. Also included are the costs of advertising and production of marketing materials. General and administration expense also includes the facilities occupancy and other related costs attributable to such functions.

Amortization of intangible assets consists of amortization and depreciation expense related to intangible assets and software assets acquired through the Company's merger with Capella Education Company ("CEC") and the Company's acquisition of ANZ.

Merger and integration costs include integration expenses associated with the Company's merger with CEC, and transaction and integration expenses associated with the Company's acquisition of ANZ.

Restructuring costs include severance and other personnel-related expenses from voluntary and involuntary employee terminations, as well as early lease termination costs and impairments of right-of-use lease assets and fixed assets associated with vacating leased space in connection with the Company's restructuring plans. See Note 5 for additional information.

Foreign Currency Translation and Transaction Gains and Losses

The United States Dollar ("USD") is the functional currency of the Company and its subsidiaries operating in the United States. The financial statements of its foreign subsidiaries are maintained in their functional currencies. The functional currency of each of the foreign subsidiaries is the currency of the economic environment in which the subsidiary primarily does business. Financial statements of foreign subsidiaries are translated into USD using the exchange rates applicable to the dates of the financial statements. Assets and liabilities are translated into USD using the period-end spot foreign exchange rates. Income and expenses are translated at the weighted-average exchange rates in effect during the period. Equity accounts are translated at historical exchange rates. The effects of these translation adjustments are reported as a component of accumulated other comprehensive income within shareholders' equity.

For any transaction that is in a currency different from the entity's functional currency, the Company records a net gain or loss based on the difference between the exchange rate at the transaction date and the exchange rate at the transaction settlement date (or rate at period end, if unsettled), in the unaudited condensed consolidated statements of income.

Restricted Cash

In the United States, 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 Strayer University or Capella University during the academic term. The Company had approximately \$0.1 million and \$0.3 million of these unpaid obligations as of December 31, 2020 and June 30, 2021, respectively. In Australia and New Zealand, advance tuition payments from international students are required to be restricted until that student commences his or her course. In addition, a portion of tuition prepayments from students enrolled in a vocational education and training program are held in trust by a third party law firm to adhere to tuition protection requirements. As of December 31, 2020 and June 30, 2021, the Company had approximately \$13.9 million and \$11.5 million, respectively, of restricted cash related to these requirements in Australia and New Zealand. These balances 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 June 30, 2020 and 2021 (in thousands):

	As of June 30,	
	2020	2021
Cash and cash equivalents	\$ 470,319	\$ 261,585
Restricted cash included in other current assets	800	11,829
Restricted cash included in other assets	500	500
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 471,619</u>	<u>\$ 273,914</u>

Tuition Receivable and Allowance for Credit Losses

The Company adopted Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASC 326") on January 1, 2020, which revised the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability.

The Company records tuition receivable and contract liabilities for its students upon the start of the academic term or program. Tuition receivables are not collateralized; however, credit risk is minimized as a result of the diverse nature of the Company's student bases and through the participation of the majority of the students in federally funded financial aid programs. An allowance for credit losses is established based upon historical collection rates by age of receivable and adjusted for reasonable expectations of future collection performance, net of estimated recoveries. These collection rates incorporate historical performance based on a student's current enrollment status, likelihood of future enrollment, degree mix trends and changes in the overall economic environment. In the event that current collection trends differ from historical trends, an adjustment is made to the allowance for credit losses and bad debt expense.

The Company's tuition receivable and allowance for credit losses were as follows as of December 31, 2020 and June 30, 2021 (in thousands):

	December 31, 2020	June 30, 2021
Tuition receivable	\$ 99,942	\$ 128,200
Allowance for credit losses	(49,773)	(49,591)
Tuition receivable, net	<u>\$ 50,169</u>	<u>\$ 78,609</u>

Approximately \$3.6 million and \$3.2 million of tuition receivable are included in other assets as of December 31, 2020 and June 30, 2021, respectively, because these amounts are expected to be collected after 12 months.

The following table illustrates changes in the Company's allowance for credit losses for the three and six months ended June 30, 2020 and 2021 (in thousands).

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2021	2020	2021
Allowance for credit losses, beginning of period	\$ 38,094	\$ 49,179	\$ 30,931	\$ 49,773
Impact of adopting ASC 326	—	—	4,571	—
Additions charged to expense	11,976	9,737	23,147	20,559
Write-offs, net of recoveries	(7,114)	(9,325)	(15,693)	(20,741)
Allowance for credit losses, end of period	<u>\$ 42,956</u>	<u>\$ 49,591</u>	<u>\$ 42,956</u>	<u>\$ 49,591</u>

Assets Held for Sale

The Company classifies assets and liabilities as held for sale ("disposal group") when management, having the authority to approve the action, commits to a plan to sell the disposal group, the sale is probable to be completed within one year, and the disposal group is available for immediate sale in its present condition. The Company also considers whether an active program to locate a buyer has been initiated, whether the disposal group is marketed actively for sale at a price that is reasonable in relation to its current fair value, and whether actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company initially measures a disposal group that is classified as held for sale at the lower of its carrying amount or fair value less costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Gains are not recognized until the date of sale. Assets are not depreciated or amortized while they are classified as held for sale. Upon determining that a disposal group meets the criteria to be classified as held for sale, the Company reports the assets and liabilities of the disposal group as assets held for sale and liabilities held for sale in its unaudited condensed consolidated balance sheets.

During the first six months of 2021, the Company evaluated its leased and owned campus portfolio, which resulted in the decision to downsize or exit several of its underutilized campus locations and to begin marketing the long-lived assets related to two of its owned U.S. Higher Education campus locations for sale. The long-lived assets being marketed for sale consist of land, buildings, and building improvements. As a result, the Company determined that it met all of the criteria to classify these assets as held for sale as of June 30, 2021. No impairment charge was recorded as the carrying amount of the net assets was less than the fair value less costs to sell. Fair value was determined based upon the anticipated sales price of these assets. Upon close, the Company will record any gains related to the sale of these assets in its unaudited condensed consolidated statements of income.

Goodwill and 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 in a business combination. Indefinite-lived intangible assets, which include trade names, are recorded at fair 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 or indefinite-lived intangible asset below its carrying amount. The Company identifies its reporting units by assessing whether the components of its operating segments constitute businesses for which discrete financial information is available and management regularly reviews the operating results of those components.

Finite-lived intangible assets that are acquired in business combinations are recorded at fair value on their acquisition dates and are amortized on a straight-line basis over the estimated useful life of the asset. Finite-lived intangible assets consist of student relationships.

The Company reviews its finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are not recoverable, a potential impairment loss is recognized to the extent the carrying amount of the assets exceeds the fair value of the assets.

Authorized Stock

The Company has authorized 32,000,000 shares of common stock, par value \$0.01, of which 24,418,939 and 24,621,111 shares were issued and outstanding as of December 31, 2020 and June 30, 2021, 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 April 2021, the Company's Board of Directors declared a regular, quarterly cash dividend of \$0.60 per share of common stock. The dividend was paid on June 7, 2021.

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.

Set forth below is a reconciliation of shares used to calculate basic and diluted earnings per share for the three and six months ended June 30, 2020 and 2021 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2021	2020	2021
Weighted average shares outstanding used to compute basic earnings per share	21,764	23,975	21,787	23,974
Incremental shares issuable upon the assumed exercise of stock options	16	5	19	6
Unvested restricted stock and restricted stock units	232	146	235	159
Shares used to compute diluted earnings per share	22,012	24,126	22,041	24,139
Anti-dilutive shares excluded from the diluted earnings per share calculation	—	385	2	252

Comprehensive Income

Comprehensive income includes net income and all changes in the Company's equity during a period from non-owner sources, which for the Company consists of unrealized gains and losses on available-for-sale marketable securities, net of tax, and foreign currency translation adjustments. As of December 31, 2020 and June 30, 2021, the balance of accumulated other comprehensive income was \$48.9 million, net of tax of \$0.3 million and \$30.8 million, net of tax of \$0.3 million, respectively. During the three and six months ended June 30, 2020, approximately \$25,000, net of tax of \$10,000, of unrealized gains on available-for-sale marketable securities was reclassified out of accumulated other comprehensive income to Other income on the unaudited condensed consolidated statements of income. There were no reclassifications out of accumulated other comprehensive income to net income for the three and six months ended June 30, 2021.

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 credit losses, useful lives of property and equipment and intangible assets, incremental borrowing rates, 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 and intangible assets, and the provision for income taxes. During the six months ended June 30, 2020 and 2021, management estimates also include potential impacts the COVID-19 pandemic will have on student enrollment, tuition pricing, and collections in future periods. The duration and severity of the COVID-19 pandemic and its impact on the Company's condensed consolidated financial statements is subject to uncertainty. Actual results could differ from those estimates.

Recently Issued Accounting Standards Not Yet Adopted

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

3. Acquisition of Torrens University and Associated Assets in Australia and New Zealand

On November 3, 2020, the Company completed its acquisition of Torrens University and associated assets in Australia and New Zealand pursuant to the sale and purchase agreement dated July 29, 2020 (the "Purchase Agreement"). The acquired operations include Torrens University Australia, Think Education, and Media Design School, which together provide diversified student curricula to approximately 19,000 students across five industry verticals, including business, hospitality, health, education, creative technology and design.

Pursuant to the Purchase Agreement, the aggregate consideration paid was approximately \$658.4 million in cash, which reflected the original agreed upon purchase price of \$642.7 million, plus a \$15.7 million adjustment reflecting an estimated \$11.0 million of net cash at close, and an estimated \$4.7 million related to higher net working capital. These estimated adjustments are subject to a final true-up of net cash and net working capital, based on the closing accounts to be finalized by both parties.

The Company applied the acquisition method of accounting to ANZ, whereby the excess of the acquisition date fair value of consideration transferred over the fair value of identifiable net assets was allocated to goodwill. Goodwill reflects workforce and synergies expected from cost savings, operations, and revenue enhancements of the combined company that are expected to result from the acquisition. The goodwill recorded as part of the acquisition was allocated to the Australia/New Zealand reportable segment in the amount of \$546.3 million, and is not deductible for tax purposes.

Through June 30, 2021, the Company has incurred \$8.1 million of acquisition-related costs which have been recognized in Merger and integration costs in the unaudited condensed consolidated statements of income. These costs were primarily attributable to legal, financial, and accounting support services incurred by the Company in connection with the acquisition.

The preliminary opening balance sheet is subject to adjustment based on final assessment of the fair values of certain acquired assets and liabilities, primarily intangible assets and income taxes. As the Company finalizes its assessment of the fair value of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period. The Company reflects measurement period adjustments in the period in which the adjustments occur. During the first quarter of 2021, the Company recorded a measurement period adjustment that reduced Property and equipment, net by \$0.3 million and increased goodwill by \$0.3 million.

The preliminary fair value of assets acquired and liabilities assumed as well as a reconciliation to consideration transferred is presented in the table below (in thousands):

Cash and cash equivalents	\$ 16,082
Tuition receivable	24,447
Other current assets	17,713
Property and equipment, net	41,508
Right-of-use lease assets	44,229
Intangible assets	103,161
Goodwill	546,315
Other assets	2,799
Total assets acquired	796,254
Accounts payable and accrued expenses	(33,876)
Income taxes payable	(229)
Contract liabilities	(33,309)
Lease liabilities	(9,685)
Deferred income taxes	(18,712)
Lease liabilities, non-current	(34,544)
Other long-term liabilities	(7,520)
Total liabilities assumed	(137,875)
Total consideration	\$ 658,379

The table below presents a summary of intangible assets acquired (in thousands) and the weighted average useful lives of these assets:

	Fair Value	Weighted Average Useful Life in Years
Trade names	\$ 68,774	Indefinite
Student relationships	34,387	3
	\$ 103,161	

The Company determined the fair value of assets acquired and liabilities assumed based on assumptions that reasonable market participants would use while employing the concept of highest and best use of the assets and liabilities. The Company utilized the following assumptions, some of which include significant unobservable inputs which would qualify the valuations as Level 3 measurements, and valuation methodologies to determine fair value:

- Intangible assets
 - Trade names - to determine the fair value of the trade names, the Company used the relief from royalty approach, which involved the use of estimates and assumptions with respect to the timing and amounts of future cash flows, revenue growth rates, royalty rate, and discount rate. Key assumptions used in the valuation included revenue growth rates ranging from 2.5% to 6.3% per year, a royalty rate of 2.5% and a discount rate of 11%.
 - Student relationships - to determine the fair value of the student relationships, the Company used the excess earnings method, which involved the use of estimates and assumptions with respect to the timing and amounts of future cash flows, earnings before interest and taxes margins, annual attrition rate, and discount rate. Key assumptions used in the valuation included an annual attrition rate of 60% and a discount rate of 11%.
- Property and equipment - Included in property and equipment is course content of \$10.0 million. To determine the fair value of course content, the Company used the relief from royalty approach, which involved the use of estimates and assumptions with respect to the timing and amounts of future cash flows, revenue growth rates, royalty rate, and discount rate. Key assumptions used in the valuation included revenue growth rates ranging from 5.6% to 6.2%, a royalty rate of 3% and a discount rate of 11%. The course content will be amortized over 3 years. All other property and equipment was valued at estimated cost.

- Contract liabilities - The Company estimated the fair value of contract liabilities using the cost build-up method, which represents the cost to deliver the services plus a normal profit margin. Based on this method, fair value of contract liabilities were estimated to be 70% of carrying value as of the acquisition date.
- Other current and noncurrent assets and liabilities - The carrying value of all other assets and liabilities approximated fair value at the time of acquisition.

4. Revenue Recognition

The Company's revenues primarily consist of tuition revenue arising from educational services provided in the form of classroom instruction and online courses. Tuition revenue is deferred and recognized ratably over the period of instruction, which varies depending on the course format and chosen program of study. Strayer University's educational programs and Capella University's GuidedPath classes typically are offered on a quarterly basis, and such periods coincide with the Company's quarterly financial reporting periods, while Capella University's FlexPath courses are delivered over a twelve-week subscription period. Torrens University offers the majority of its education programs on a trimester system having three primary academic terms, which all occur within the calendar year.

The following table presents the Company's revenues from contracts with customers disaggregated by material revenue category for the three and six months ended June 30, 2020 and 2021 (in thousands):

	For the three months June 30,		For the six months ended June 30,	
	2020	2021	2020	2021
U.S. Higher Education Segment				
Tuition, net of discounts, grants and scholarships	\$ 237,696	\$ 203,433	\$ 483,016	\$ 420,910
Other ⁽¹⁾	9,654	8,774	19,847	17,844
Total U.S. Higher Education Segment	247,350	212,207	502,863	438,754
Australia/New Zealand Segment				
Tuition, net of discounts, grants and scholarships	—	72,340	—	122,562
Other ⁽¹⁾	—	1,720	—	2,763
Total Australia/New Zealand Segment	—	74,060	—	125,325
Alternative Learning Segment⁽²⁾	8,481	12,906	18,270	25,430
Consolidated revenue	\$ 255,831	\$ 299,173	\$ 521,133	\$ 589,509

⁽¹⁾ Other revenue is primarily comprised of academic fees, sales of course materials, placement fees and other non-tuition revenue streams.

⁽²⁾ Alternative Learning revenue is primarily derived from tuition revenue.

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 prices and likelihood of redemption based on historical student attendance and completion behavior.

At the start of each academic term or program, a 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.

Course materials are available to enable students to access electronically all required materials for courses in which they enroll during the quarter. Revenue derived from course materials is recognized ratably over the duration of the course as the Company provides the student with continuous access to these materials during the term. For sales of certain other course materials, the Company is considered the agent in the transaction, and as such, the Company recognizes revenue net of amounts owed to the

vendor at the time of sale. 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

Strayer University offers the Graduation Fund, which allows undergraduate and graduate 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. Students registering in credit-bearing courses in any undergraduate or graduate degree program receive one free course for every three courses that the student successfully completes. To be eligible, students must meet all of Strayer University's admission requirements and must be enrolled in a bachelor's or master'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 Strayer University in the future. In response to the COVID-19 pandemic, Strayer University is temporarily allowing students to miss two consecutive terms without losing their Graduation Fund credits.

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 \$20.8 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 (in thousands):

	For the six months ended June 30,	
	2020	2021
Balance at beginning of period	\$ 49,641	\$ 53,314
Revenue deferred	13,942	11,435
Benefit redeemed	(11,235)	(11,185)
Balance at end of period	<u>\$ 52,348</u>	<u>\$ 53,564</u>

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 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 are recorded. The balance of unbilled receivables related to such materials was \$0.5 million as of June 30, 2021, and is included in tuition receivable.

Costs to Obtain a Contract

Certain commissions earned by third party international agents are considered incremental and recoverable costs of obtaining a contract with customers of ANZ. These costs are deferred and then amortized over the period of benefit which ranges from one year to two years.

5. Restructuring and Related Charges

In 2018 and 2019, the Company incurred personnel-related restructuring charges due to cost reduction efforts and management changes. These changes related to the integration of CEC in order to establish an efficient ongoing cost structure for the Company. The severance and other employee separation costs incurred in connection with the integration of CEC are included in Merger and integration costs on the unaudited condensed consolidated statements of income.

In the third quarter of 2020, the Company began implementing a restructuring plan in an effort to reduce the ongoing operating costs of the Company to align with changes in enrollment following the COVID-19 pandemic. Under this plan, the Company incurred severance and other employee separation costs related to voluntary and involuntary employee terminations.

The following details the changes in the Company's severance and other employee separation costs restructuring liabilities during the six months ended June 30, 2020 and 2021 (in thousands):

	CEC Integration Plan	2020 Restructuring Plan	Total
Balance at December 31, 2019	\$ 8,283	\$ —	\$ 8,283
Restructuring and other charges	—	—	—
Payments	(3,986)	—	(3,986)
Adjustments	—	—	—
Balance at June 30, 2020	<u>\$ 4,297</u>	<u>\$ —</u>	<u>\$ 4,297</u>
Balance at December 31, 2020 ⁽¹⁾	\$ 1,835	\$ 1,287	\$ 3,122
Restructuring and other charges	—	3,358	3,358
Payments	(1,344)	(3,237)	(4,581)
Adjustments	—	—	—
Balance at June 30, 2021 ⁽¹⁾	<u>\$ 491</u>	<u>\$ 1,408</u>	<u>\$ 1,899</u>

⁽¹⁾ Restructuring liabilities are included in accounts payable and accrued expenses.

In addition, the 2020 restructuring plan included an evaluation of the Company's owned and leased real estate portfolio, which resulted in the closure of underutilized campus and corporate offices. During the three and six months ended June 30, 2021, the Company recorded right-of-use lease asset charges of approximately \$2.6 million and \$17.0 million, respectively, related to the campus and corporate locations closed as a result of the restructuring plan. The Company also recorded fixed asset impairment charges of approximately \$2.0 million during the six months ended June 30, 2021. All severance and other employee separation charges and right-of-use lease asset and fixed asset impairment charges related to the 2020 restructuring plan are included in Restructuring costs on the unaudited condensed consolidated statements of income.

6. Marketable Securities

The following is a summary of available-for-sale securities as of June 30, 2021 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Losses)	Estimated Fair Value
Tax-exempt municipal securities	\$ 18,493	\$ 418	\$ —	\$ 18,911
Corporate debt securities	12,882	309	—	13,191
Total	<u>\$ 31,375</u>	<u>\$ 727</u>	<u>\$ —</u>	<u>\$ 32,102</u>

The following is a summary of available-for-sale securities as of December 31, 2020 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Losses)	Estimated Fair Value
Tax-exempt municipal securities	\$ 19,924	\$ 365	\$ —	\$ 20,289
Corporate debt securities	17,086	452	—	17,538
Total	<u>\$ 37,010</u>	<u>\$ 817</u>	<u>\$ —</u>	<u>\$ 37,827</u>

The unrealized gains on the Company's investments in corporate debt and municipal securities as of December 31, 2020 and June 30, 2021 were caused by changes in market values primarily due to interest rate changes. As of June 30, 2021, there were no securities in an unrealized loss position for a period longer than twelve months. The Company has no allowance for credit losses related to its available-for-sale securities as all investments are in investment grade securities. The Company does not intend to sell these securities, and it is not more likely than not that the Company will be required to sell these securities prior to the recovery of their amortized cost basis, which may be at maturity. No impairment charges were recorded during the three and six months ended June 30, 2020 and 2021.

The following table summarizes the maturities of the Company's marketable securities as of December 31, 2020 and June 30, 2021 (in thousands):

	December 31, 2020	June 30, 2021
Due within one year	\$ 7,557	\$ 4,040
Due after one year through five years	30,270	28,062
Total	<u>\$ 37,827</u>	<u>\$ 32,102</u>

The following table summarizes the proceeds from the maturities and sales of available-for-sale securities for the three and six months ended June 30, 2020 and 2021 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2021	2020	2021
Maturities of marketable securities	\$ 7,500	\$ 3,665	\$ 17,405	\$ 5,595
Sales of marketable securities	1,464	—	1,464	—
Total	<u>\$ 8,964</u>	<u>\$ 3,665</u>	<u>\$ 18,869</u>	<u>\$ 5,595</u>

The Company recorded approximately \$35,000 in gross realized gains in net income during the three and six months ended June 30, 2020 related to the sale of marketable securities. The Company did not record any gross realized gains or losses in net income during the three and six months ended June 30, 2021.

7. Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis consist of the following as of June 30, 2021 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	June 30, 2021	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	\$ 1,883	\$ 1,883	\$ —	\$ —
Marketable securities:				
Tax-exempt municipal securities	18,911	—	18,911	—
Corporate debt securities	13,191	—	13,191	—
Total assets at fair value on a recurring basis	<u>\$ 33,985</u>	<u>\$ 1,883</u>	<u>\$ 32,102</u>	<u>\$ —</u>
Liabilities:				
Deferred payments	\$ 1,368	\$ —	\$ —	\$ 1,368

Assets and liabilities measured at fair value on a recurring basis consist of the following as of December 31, 2020 (in thousands):

		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)				
		December 31, 2020						
Assets:								
Money market funds	\$	2,841	\$	2,841	\$	—	\$	—
Marketable securities:								
Tax-exempt municipal securities		20,289		—		20,289		—
Corporate debt securities		17,538		—		17,538		—
Total assets at fair value on a recurring basis	\$	40,668	\$	2,841	\$	37,827	\$	—
Liabilities:								
Deferred payments	\$	1,658	\$	—	\$	—	\$	1,658

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, which 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, 2020 and June 30, 2021 approximate fair value and are not disclosed in the above tables because of the short-term nature of the financial instruments.
- Marketable securities – Classified in Level 2 and valued using readily available pricing sources for comparable instruments utilizing observable inputs from active markets. The Company does not hold securities in inactive markets.
- Deferred payments – The Company acquired certain assets and entered into deferred payment arrangements with the sellers in transactions that occurred in 2011. The deferred payments are classified within Level 3 as there is no liquid market for similarly priced instruments and are valued using discounted cash flow models that encompass significant unobservable inputs. The assumptions used to prepare the discounted cash flows include estimates for interest rates, enrollment growth, retention rates, 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 \$1.4 million as of June 30, 2021 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 six months ended June 30, 2020 and 2021.

Changes in the fair value of the Company's Level 3 liabilities during the six months ended June 30, 2020 and 2021 are as follows (in thousands):

	As of June 30,	
	2020	2021
Balance as of the beginning of period	\$ 3,257	\$ 1,658
Amounts paid	(808)	(730)
Other adjustments to fair value	(21)	440
Balance at end of period	<u>\$ 2,428</u>	<u>\$ 1,368</u>

8. Goodwill and Intangible Assets

Goodwill

During the first quarter of 2021, the Company reallocated a portion of its goodwill to the Alternative Learning segment based on a relative fair value analysis performed using several probability weighted scenarios. The following table presents changes in the carrying value of goodwill by segment for the six months ended June 30, 2021 (in thousands):

	U.S. Higher Education	Australia / New Zealand	Alternative Learning	Total
Balance as of December 31, 2020	\$ 732,075	\$ 586,451	\$ —	\$ 1,318,526
Reporting unit reallocation ⁽¹⁾	(100,000)	—	100,000	—
Additions	—	—	—	—
Impairments	—	—	—	—
Currency translation adjustments	—	(14,925)	—	(14,925)
Adjustments to prior acquisitions ⁽²⁾	—	262	—	262
Balance as of June 30, 2021	<u>\$ 632,075</u>	<u>\$ 571,788</u>	<u>\$ 100,000</u>	<u>\$ 1,303,863</u>

⁽¹⁾ Represents the reallocation of goodwill as a result of the Company reorganizing its segments in the first quarter of 2021.

⁽²⁾ Represents a measurement period adjustment recorded in the first quarter of 2021, as discussed in Note 3.

The Company assesses goodwill 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 and six months ended June 30, 2021 to indicate an impairment to goodwill at any of its segments. There were no impairment charges related to goodwill recorded during the three and six month periods ended June 30, 2020 and 2021.

Intangible Assets

The following table represents the balance of the Company's intangible assets as of December 31, 2020 and June 30, 2021 (in thousands):

	December 31, 2020			June 30, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
<i>Subject to amortization</i>						
Student relationships	\$ 202,861	\$ (135,703)	\$ 67,158	\$ 202,145	\$ (169,540)	\$ 32,605
<i>Not subject to amortization</i>						
Trade names	259,262	—	259,262	257,380	—	257,380
Total	<u>\$ 462,123</u>	<u>\$ (135,703)</u>	<u>\$ 326,420</u>	<u>\$ 459,525</u>	<u>\$ (169,540)</u>	<u>\$ 289,985</u>

The Company's finite-lived intangible assets are comprised of student relationships, which are being amortized on a straight-line basis over a three year useful life. Straight-line amortization expense for finite-lived intangible assets reflects the pattern in which the economic benefits of the assets are consumed over their estimated useful lives. Amortization expense related to finite-lived intangible assets was \$27.7 million and \$33.8 million for the six months ended June 30, 2020 and 2021, respectively.

Indefinite-lived intangible assets not subject to amortization consist of trade names. The Company assigned an indefinite useful life to its trade name intangible assets, as it is believed these assets have the ability to generate cash flows indefinitely. In addition, there are no legal, regulatory, contractual, economic, or other factors to limit the useful life of the trade name intangibles.

The Company assesses indefinite-lived intangible assets 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 indefinite-lived intangible asset below its carrying amount. No events or circumstances occurred in the three and six months ended June 30, 2021 to indicate an impairment to indefinite-lived intangible assets. There was no impairment charge related to indefinite-lived intangible assets recorded during the three and six months ended June 30, 2020 and 2021.

9. Other Assets

Other assets consist of the following as of December 31, 2020 and June 30, 2021 (in thousands):

	December 31, 2020	June 30, 2021
Prepaid expenses, net of current portion	\$ 22,418	\$ 21,271
Equity method investments	15,795	17,401
Cloud computing arrangements	6,385	8,112
Other investments	2,527	2,999
Other	7,803	10,104
Other assets	<u>\$ 54,928</u>	<u>\$ 59,887</u>

Prepaid Expenses

Long-term prepaid expenses primarily relate to payments that have been made for future services to be provided after one year. In the fourth quarter of 2020, pursuant to the terms of the perpetual license agreement associated with the Jack Welch Management Institute ("JWMI"), the Company made a final one-time cash payment of approximately \$25.3 million for the right to continue to use the Jack Welch name and likeness. As of June 30, 2021, \$19.9 million of this payment is included in the prepaid expenses, net of current portion balance, as the payment is being amortized over an estimated useful life of 15 years.

Equity Method Investments

The Company holds investments in certain limited partnerships that invest in various innovative companies in the health care and education-related technology fields. The Company has commitments to invest up to an additional \$1.5 million across these partnerships through 2027. The Company's investments range from 3%-5% of any partnership's interest and are accounted for under the equity method.

The following table illustrates changes in the Company's limited partnership investments for the three and six months ended June 30, 2020 and 2021 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2021	2020	2021
Limited partnership investments, beginning of period	\$ 15,805	\$ 17,879	\$ 15,795	\$ 15,795
Capital contributions	175	190	293	262
Pro-rata share in the net income of limited partnerships	1,010	889	1,242	3,603
Distributions	—	(1,557)	(340)	(2,259)
Limited partnership investments, end of period	<u>\$ 16,990</u>	<u>\$ 17,401</u>	<u>\$ 16,990</u>	<u>\$ 17,401</u>

Cloud Computing Arrangements

The Company defers implementation costs incurred in cloud computing arrangements and amortizes these costs over the term of the arrangement.

Other Investments

The Company's venture fund, SEI Ventures, makes investments in education tech start-ups focused on transformational technologies that improve student success. These investments are accounted for at cost less impairment as they do not have readily determinable fair value.

10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of December 31, 2020 and June 30, 2021 (in thousands):

	December 31, 2020	June 30, 2021
Trade payables	\$ 64,049	\$ 59,820
Accrued compensation and benefits	33,160	30,955
Accrued student obligations	4,017	4,084
Real estate liabilities	668	640
Other	2,848	4,620
Accounts payable and accrued expenses	<u>\$ 104,742</u>	<u>\$ 100,119</u>

11. Long-Term Debt

On November 3, 2020, the Company entered into an amended credit facility ("Amended Credit Facility"), which provides for a senior secured revolving credit facility (the "Revolving Credit Facility") in an aggregate principal amount of up to \$350 million. The Amended Credit Facility provides the Company with an option, subject to obtaining additional loan commitments and satisfaction of certain conditions, to increase the commitments under the Revolving Credit Facility or establish one or more incremental term loans (each, an "Incremental Facility") in the future in an aggregate amount of up to the sum of (x) the greater of (A) \$300 million and (B) 100% of the Company's consolidated EBITDA (earnings before interest, taxes, depreciation, amortization, and noncash charges, such as stock-based compensation) calculated on a trailing four-quarter basis and on a pro forma basis, and (y) if such Incremental Facility is incurred in connection with a permitted acquisition or other permitted investment, any amounts so long as the Company's leverage ratio (calculated on a trailing four-quarter basis) on a pro forma basis will be no greater than 1.75:1.00. In addition, the Amended Credit Facility provides for a subfacility for borrowings in certain foreign currencies in an amount equal to the U.S. dollar equivalent of \$150 million. The maturity date of the Amended Credit Facility is November 3, 2025. The Company paid approximately \$1.9 million in debt financing costs associated with the Amended Credit Facility, and these costs are being amortized on a straight-line basis over the five-year term of the Amended Credit Facility.

Borrowings under the Revolving Credit Facility bear interest at a per annum rate equal to LIBOR or a base rate, plus a margin ranging from 1.50% to 2.00% depending on the Company's leverage ratio. The Company also is subject to a quarterly unused commitment fee ranging from 0.20% to 0.30% per annum depending on the Company's leverage ratio, times the daily unused amount under the Revolving Credit Facility.

The Amended Credit Facility is guaranteed by all domestic subsidiaries, subject to certain exceptions, and secured by substantially all of the assets of the Company and its subsidiary guarantors. The Amended Credit Facility contains customary affirmative and negative covenants, representations, warranties, events of default, and remedies upon default, including acceleration and rights to foreclose on the collateral securing the Amended Credit Facility. In addition, the Amended Credit Facility requires that the Company satisfy certain financial maintenance covenants, including:

- A leverage ratio of not greater than 2.00 to 1.00. Leverage ratio is defined as the ratio of total debt (net of unrestricted cash in an amount not to exceed \$150 million) to trailing four-quarter EBITDA.
- A coverage ratio of not less than 1.75 to 1.00. Coverage ratio is defined as the ratio of trailing four-quarter EBITDA and rent expense to trailing four-quarter interest and rent expense.
- A U.S. Department of Education (the "Department" or "Department of Education") Financial Responsibility Composite Score of not less than 1.0 for any fiscal year and not less than 1.5 for any two consecutive fiscal years.

The Company was in compliance with all the terms of the Amended Credit Facility as of June 30, 2021.

As of December 31, 2020 and June 30, 2021, the Company had approximately \$141.8 million and \$141.7 million, respectively, outstanding under the Revolving Credit Facility. Approximately \$3.8 million and \$3.7 million was denominated in Australian dollars as of December 31, 2020 and June 30, 2021, respectively.

During the six months ended June 30, 2020 and 2021, the Company paid \$0.3 million and \$1.4 million, respectively, of interest and unused commitment fees related to its Revolving Credit Facility.

12. Other Long-Term Liabilities

Other long-term liabilities consist of the following as of December 31, 2020 and June 30, 2021 (in thousands):

	December 31, 2020	June 30, 2021
Contract liabilities, net of current portion	\$ 34,866	\$ 33,676
Asset retirement obligations	7,647	8,651
Deferred payments related to acquisitions	715	—
Other	2,827	2,677
Other long-term liabilities	<u>\$ 46,055</u>	<u>\$ 45,004</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). Long-term contract liabilities represent the amount of revenue under these arrangements that the Company expects will be realized after one year.

Asset Retirement Obligations

Certain of the Company's lease agreements require the leased premises to be returned in a predetermined condition.

Deferred Payments Related to Acquisitions

In connection with previous acquisitions, the Company acquired certain assets and entered into deferred payment arrangements with the sellers.

13. Equity Awards

The following table sets forth the amount of stock-based compensation expense recorded in each of the expense line items for the three and six months ended June 30, 2020 and 2021 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2021	2020	2021
Instructional and support costs	\$ 1,356	\$ 1,281	\$ 2,386	\$ 2,506
General and administration	2,503	3,368	4,498	6,043
Restructuring costs	—	(481)	—	(481)
Stock-based compensation expense included in operating expense	3,859	4,168	6,884	8,068
Tax benefit	993	1,131	1,770	2,131
Stock-based compensation expense, net of tax	<u>\$ 2,866</u>	<u>\$ 3,037</u>	<u>\$ 5,114</u>	<u>\$ 5,937</u>

During the six months ended June 30, 2020 and 2021, the Company recognized a \$2.8 million windfall tax benefit and an \$18,000 tax shortfall, respectively, related to share-based payment arrangements, which was recorded as an adjustment to the provision for income taxes.

14. Income Taxes

During the six months ended June 30, 2020 and 2021, the Company recorded income tax expense of \$24.7 million and \$12.1 million, reflecting an effective tax rate of 26.3% and 29.0%, respectively.

The Company had \$0.3 million of unrecognized tax benefits as of December 31, 2020 and June 30, 2021. 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 paid \$16.2 million and \$17.0 million in income taxes during the six months ended June 30, 2020 and 2021, respectively.

The tax years since 2017 remain open for Federal tax examination and the tax years since 2016 remain open to examination by state and local taxing jurisdictions in which the Company is subject to taxation.

15. Segment Reporting

Strategic Education is an educational services company that provides access to high-quality education through campus-based and online post-secondary education offerings, as well as through programs to develop job-ready skills for high-demand markets. Strategic Education's portfolio of companies is dedicated to closing the skills gap by placing adults on the most direct path between learning and employment. In the first quarter of 2021, the Company changed the way management reports financial information relied on by the Chief Operating Decision Maker ("CODM") to evaluate performance and allocate the resources of the Company. The Company's revised organizational structure includes three operating and reportable segments: U.S. Higher Education ("USHE"), which is primarily comprised of the Company's previous Strayer University and Capella University segments, Alternative Learning, and Australia/New Zealand. Financial reporting under the new organizational structure began in the first quarter of 2021. Prior period segment disclosures have been recast to conform to the current period presentation.

The USHE segment provides flexible and affordable certificate and degree programs to working adults primarily through Strayer University and Capella University, including the Jack Welch Management Institute MBA, which is a unit of Strayer University. USHE also operates non-degree web and mobile application development courses through Hackbright Academy and DevMountain, the latter being a unit of Strayer University.

The Alternative Learning segment is primarily focused on developing and maintaining relationships with large employers to build employee education benefits programs that provide employees with access to affordable and industry relevant training, certificate, and degree programs. The employer relationships developed by the Alternative Learning division are an important source of student enrollment for Capella University and Strayer University, and the majority of the revenue attributed to the Alternative Learning division is driven by the volume of enrollment derived from these employer relationships. Alternative Learning also generates revenue through Workforce Edge, a platform which provides employers a full-service education benefits administration solution. Lastly, Alternative Learning generates revenue through Sophia Learning, a provider of low-cost online general education courses recommended by the American Council on Education for transfer credit to other colleges and universities, and Digital Enablement Partnerships, which provide online course delivery and support capabilities related to online course delivery to other higher education institutions.

The Australia/New Zealand segment is comprised of Torrens University, Think Education and Media Design School in Australia and New Zealand, which collectively offer certificate and degree programs in business, design, education, hospitality, healthcare, and technology through campuses in Australia, New Zealand, and online.

Revenue and operating expenses are generally directly attributable to the segments. Inter-segment revenues are not presented separately, as these amounts are immaterial. The Company's CODM does not evaluate operating segments using asset information.

A summary of financial information by reportable segment for the three and six months ended June 30, 2020 and 2021 is presented in the following table (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2021	2020	2021
Revenues				
U.S. Higher Education	\$ 247,350	\$ 212,207	\$ 502,863	\$ 438,754
Australia/New Zealand	—	74,060	—	125,325
Alternative Learning	8,481	12,906	18,270	25,430
Consolidated revenues	\$ 255,831	\$ 299,173	\$ 521,133	\$ 589,509
Income (loss) from operations				
U.S. Higher Education	\$ 58,765	\$ 32,059	\$ 115,508	\$ 79,813
Australia/New Zealand	—	15,601	—	12,652
Alternative Learning	4,221	5,180	10,618	11,061
Amortization of intangible assets	(15,417)	(19,392)	(30,834)	(38,799)
Merger and integration costs	(1,174)	(1,937)	(4,938)	(2,949)
Restructuring costs	—	(4,811)	—	(23,078)
Consolidated income from operations	\$ 46,395	\$ 26,700	\$ 90,354	\$ 38,700

16. Litigation

The Company is involved in litigation and other legal proceedings arising out of the ordinary course of its business. From time to time, certain matters may arise that are other than ordinary and routine. The outcome of such matters is uncertain, and the Company may incur costs in the future to defend, settle, or otherwise resolve them. The Company currently believes that the ultimate outcome of such matters will not, individually or in the aggregate, have a material adverse effect on its consolidated financial position, results of operations or cash flows. However, depending on the amount and timing, an unfavorable resolution of some or all of these matters could materially affect future results of operations in a particular period.

17. Regulation

United States Regulation

American Rescue Plan Act of 2021

On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021. Similar to previous stimulus packages, this legislation provided additional funding for the Higher Education Emergency Relief Fund. A small portion of the \$39.6 billion allocated for institutions of higher education has been made available for student emergency aid for students at for-profit institutions. Capella University was eligible for and disbursed \$184,323 to students of the highest need in June 2021, and Strayer University is eligible and plans to disburse \$2,554,773 to students of the highest need in July 2021.

The legislation also amends the “90/10 Rule” to include “all federal education assistance” in the “90” side of the ratio calculation. See “Item 1. Business – Regulation – U.S. Regulatory Environment – The 90/10 Rule” of the Company’s Annual Report on Form 10-K for a description of the 90/10 Rule. The legislation requires the Department to conduct a negotiated rulemaking process to modify related Department regulations. This rulemaking process may result in a definition of “federal education assistance” that will include tuition assistance programs offered by the U.S. Department of Defense and U.S. Department of Veterans Affairs, in addition to the Title IV programs already covered by the 90/10 Rule. Under the legislation, these revisions to the 90/10 Rule would apply to institutional fiscal years beginning on or after January 1, 2023.

Further legislation has been introduced in both chambers of Congress that seek to modify the 90/10 Rule further, including proposals to change the ratio requirement to 85/15 (federal to nonfederal revenue). We cannot predict whether Congress will pass any of these legislative proposals.

Consolidated Appropriations Act, 2021

On December 27, 2020, President Trump signed into law the Consolidated Appropriations Act of 2021. Among other things, this package funded the government through September 2021, provides additional COVID-related relief, and made a number of U.S. higher education changes.

The legislation includes a number of tax provisions, including replacing the tuition deduction with an expanded Lifetime Learning Credit, which now shares the higher income limitations of the American Opportunity Tax Credit; and extends until January 1, 2026 expanded employer-provided educational assistance permitting employers to pay up to \$5,250 toward an employee’s federal student loans as a tax-free benefit.

The legislation also includes a number of higher education-related provisions, including: eliminating the “expected family contribution” from the Free Application for Federal Student Aid (“FAFSA”) and replacing it with a “Student Aid Index;” expanding eligibility for Pell Grants; restoring Pell Grant eligibility for incarcerated students attending non-profit institutions; restoring quarters/semesters of Pell eligibility to students who have successfully asserted a borrower defense to repayment; repealing the limitation on lifetime subsidized loan eligibility (known as “Subsidized Usage Limit Applies,” or SULA); and significantly simplifying the FAFSA form. The Department is expected to provide, but has not yet provided, institutions with guidance on the higher education provisions included in the Consolidated Appropriations Act of 2021, which take effect on July 1, 2023.

Additionally, the bill provides \$22.7 billion for higher education institutions and students impacted by COVID-19, including \$680.9 million (3 percent of the total) for student emergency aid for students at for-profit institutions. In January 2021, the Department released a table of institutional allocation of funds which indicated that Capella University was eligible for \$328,602 and Strayer University was eligible for \$5,831,606, all of which was disbursed to students with the highest need, in the form of direct grants in spring 2021.

Veterans Health Care and Benefits Improvement Act of 2020

On January 5, 2021, President Trump signed into law the Veterans Health Care and Benefits Improvement Act of 2020, which expands student veterans' protections. Among other things, the legislation requires a risk-based review of schools if an institution is operating under Heightened Cash Monitoring 2 or provisional approval status by the Department of Education, is subject to any punitive action by a federal or state entity, faces the loss or risk of loss of accreditation, or has converted from for-profit to non-profit status. The legislation also restores veterans benefits to students whose school closed, as long as the student transferred fewer than 12 credits from the closed school or program; protects students from debt collection by the Department of Veterans Affairs ("VA") for overpaid tuition benefits; and establishes a number of institutional requirements, including: providing clear disclosures about cost, loan debt, graduation and job placement rates, and acceptance of transfer credit; ensuring institutions are accommodating short absences due to service; prohibiting same-day recruitment and registration; and prohibiting more than three unsolicited recruiting contacts. The legislation will require guidance from the Department of Veterans Affairs, and most provisions are effective August 1, 2021. Institutions may seek waivers for certain sections of the new law if they were not able to satisfy compliance requirements by August 1, 2021, but neither Strayer University nor Capella University will seek a waiver.

THRIVE Act

On June 8, 2021, President Biden signed into law the Training in High-Demand Roles to Improve Veteran Employment Act (the "THRIVE Act"), which amended provisions of the Veterans Health Care and Benefits Improvement Act and the American Rescue Plan Act. The law requires the Department of Labor and VA to collaborate on a list of high-demand occupations for a rapid retraining assistance program. Additionally, the law requires the Government Accountability Office to report on the outcomes and effectiveness of retraining programs. The THRIVE Act amends the Veterans Health Care and Benefits Improvement Act by clarifying that programs pursued solely through distance education on a half-time basis or less are not eligible for the housing stipend that is generally available for retraining programs. As noted above, the Veterans Health Care and Benefits Improvement Act prohibits certain high-pressure recruiting tactics. The THRIVE Act requires the VA to take disciplinary action if a person with whom an institution has a recruiting or educational services agreement violates the VA's incentive compensation bans.

CARES Act

On March 27, 2020, Congress passed and President Trump signed into law the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. Among other things, the \$2.2 trillion bill established some flexibilities related to the processing of federal student financial aid, established a higher education emergency fund, and created relief for some federal student loan borrowers. Through the CARES Act, Congress provided institutions of higher education relief from conducting a return to Title IV (R2T4) calculation in cases where the student withdrew because of COVID-19, including removing the requirement that the institution return unearned funds to the Department of Education and providing loan cancellation for the portion of the Direct Loan associated with a payment period that the student did not complete due to COVID-19. The CARES Act also allows institutions to exclude from satisfactory academic progress calculations any attempted credits that the student did not complete due to COVID-19, without requiring an appeal from the student. Additionally, under the legislation, institutions are permitted to transfer up to 100% of Federal Work Study funds into their Federal Supplemental Educational Opportunity Grant allocation and are granted a waiver of the 2019/2020 and 2020/2021 non-federal share institutional match. Institutions may continue to make Federal Work Study payments to student employees who are unable to meet their employment obligations due to COVID-19. The CARES Act also suspended payments and interest accrual on federal student loans until September 30, 2020, in addition to suspending involuntary collections such as wage garnishment, tax refund reductions, and reductions of federal benefits like Social Security benefits during the same timeframe. On August 8, 2020, President Trump issued a memorandum directing the Secretary of Education to take action to extend CARES Act student loan relief through December 31, 2020. On December 4, 2020, the Secretary of Education extended CARES Act student loan relief through January 31, 2021. On January 20, 2021, the Secretary of Education extended CARES Act student loan relief through September 30, 2021. On March 30, 2021, the Secretary of Education also extended student loan relief to Federal Family Education Loans that are in default. The Department issued and will continue to issue sub-regulatory guidance to institutions regarding implementation of the provisions included in the CARES Act.

Finally, the CARES Act allocated \$14 billion to higher education through the creation of the Education Stabilization Fund. Fifty percent of the emergency funds received by institutions must go directly to students in the form of emergency financial aid grants to cover expenses related to the disruption of campus operations due to COVID-19. Students who were previously enrolled in exclusively online courses prior to March 13, 2020 are not eligible for these grants. Institutions may use remaining emergency funds not given to students on costs associated with significant changes to the delivery of instruction due to COVID-19, as long as such costs do not include payment to contractors for the provision of pre-enrollment recruitment activities, including marketing and advertising; endowments; or capital outlays associated with facilities related to athletics, sectarian instruction, or religious worship.

Institutions receive funds under the Education Stabilization Fund based on a formula that factors in their relative percentage of full-time, Federal Pell Grant-eligible students who were not exclusively enrolled in online education prior to the emergency period. On April 9, 2020, the Department published guidance and funding levels for the Education Stabilization Fund, indicating that Strayer University was eligible to receive \$5,792,122. Given that Strayer University is predominantly online, and very few students take only on-ground classes, Strayer declined to accept the funds allocated to it because most students would not have expenses related to the disruption of campus operations. Instead, Strayer University provided a \$500 tuition grant for all students who had enrolled in on-ground classes for the Spring term, prior to the classes being converted to online. Because Capella University's students are exclusively online, Capella was ineligible for Education Stabilization funding.

Gainful Employment

Under the Higher Education Act ("HEA"), 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. The Department of Education published final regulations related to gainful employment that went into effect on July 1, 2015, with the additional disclosure requirements that became effective January 1, 2017 and July 1, 2019 (the "2015 Regulations").

On July 1, 2019, the Department of Education released final gainful employment regulations, which contained a full repeal of the 2015 Regulations and became effective on July 1, 2020. Both Capella University and Strayer University implemented the July 2019 regulations early, by means permitted by the Secretary, and accordingly were not required to report gainful employment data for the 2018-2019 award year. For the period between July 2019 and July 1, 2020, Capella University and Strayer University were not required to comply with gainful employment disclosure and template publication requirements and were not required to comply with the regulation's certification requirements with respect to programmatic accreditation and program satisfaction of prerequisites for professional licensure/state certification. On May 26, 2021, the Department announced its intention to establish negotiated rulemaking committees to prepare proposed regulations for gainful employment and other topics related to programs authorized under Title IV of the Higher Education Act of 1965, as amended. See "Current Negotiated Rulemaking" below. We cannot predict the outcome of the negotiated rulemaking process.

Borrower Defenses to Repayment

On September 23, 2019, the Department published final Borrower Defense to Repayment regulations (the "2019 BDTR Rule"), which governs borrower defense to repayment claims in connection with loans first disbursed on or after July 1, 2020, the date the 2019 BDTR Rule became effective. The 2019 BDTR Rule supplants the 2016 Borrower Defense to Repayment rule.

Under the 2019 BDTR Rule, an individual borrower can assert a defense to repayment and be eligible for relief if she or he establishes, by a preponderance of the evidence, that (1) the institution at which the borrower enrolled made a misrepresentation of material fact upon which the borrower reasonably relied in deciding to obtain a Direct Loan or a loan repaid by a Direct Consolidation Loan; (2) the misrepresentation directly and clearly related to the borrower's enrollment or continuing enrollment at the institution or the institution's provision of education services for which the loan was made; and (3) the borrower was financially harmed by the misrepresentation. The Department will grant forbearance on all loans related to a claim at the time the claim is made.

The 2019 BDTR Rule defines "financial harm" as the amount of monetary loss that a borrower incurs as a consequence of a misrepresentation. The Department will determine financial harm based upon individual earnings and circumstances, which must include consideration of the individual borrower's career experience subsequent to enrollment and may include, among other factors, evidence of program-level median or mean earnings. "Financial harm" does not include damages for non-monetary loss, and the act of taking out a Direct Loan, alone, does not constitute evidence of financial harm. Financial harm also cannot be predominantly due to intervening local, regional, national economic or labor market conditions, nor can it arise from the borrower's voluntary change in occupation or decision to pursue less than full-time work or decision not to work. The 2019 BDTR Rule contains certain limitations and procedural protections. Among the most prominent of these restrictions, the regulation contains a three-year limitation period of claims, measured from the student's separation from the institution, does not permit claims to be filed on behalf of groups, and requires that institutions receive access to any evidence in the Department's possession to inform its response. The 2019 BDTR Rule permits the usage of pre-dispute arbitration agreements and class action waivers as conditions of enrollment, so long as the institution provides plain-language disclosures to students and the disclosures are placed on the institution's website. The regulations also allow for a borrower to choose whether to apply for a closed school loan discharge or accept a teach-out opportunity. In addition, the closed school discharge window is expanded from 120 days to 180 days prior to the school's closure, though the final rule does not allow for an automatic closed school loan discharge. Institutions are required to accept responsibility for the repayment of amounts discharged by the Secretary pursuant to the

borrower defense to repayment, closed school discharge, false certification discharge, and unpaid refund discharge regulations. If the Secretary discharges a loan in whole or in part, the Department of Education may require the school to repay the amount of the discharged loan. On December 10, 2019, the Secretary of Education released a formula to calculate the amount of relief a borrower may receive for a successful BDTR application. This formula analyzed a borrower's earnings as compared to median earnings of comparable programs to determine the amount of loans that would be discharged. Under this formula, even successful BDTR applicants may receive only a partial loan discharge.

On March 11, 2020, the 116th Congress passed a joint resolution providing for Congressional disapproval of the 2019 BDTR Rule. President Trump vetoed the joint resolution on May 29, 2020, and the House subsequently failed to override the veto during a vote on June 26, 2020.

On March 18, 2021, the Department revised its BDTR review process and repealed the previous administration's partial relief formula. Under the new BDTR procedures, the Department will grant full loan relief to borrowers with approved BDTR applications. Additionally, the Department has eliminated certain evidentiary requirements for borrowers who have received a loan cancellation due to total or permanent disability. These borrowers will no longer be required to provide proof of insufficient income for the relief program for the three years after discharge of their loans.

On May 26, 2021, the Department announced its intention to establish negotiated rulemaking committees to prepare proposed regulations for borrower defenses to repayment and other topics related to programs authorized under Title IV of the Higher Education Act of 1965, as amended. See "Current Negotiated Rulemaking" below. We cannot predict the outcome of the negotiated rulemaking process.

Accrediting Agencies and State Authorization

On November 1, 2019, the Department of Education published final rules amending regulations governing the recognition of accrediting agencies, certain student assistance provisions including state authorization rules, and institutional eligibility. Among other changes, the final rules revise the definition of "state authorization reciprocity agreement" such that member states may enforce their own general-purpose state laws and regulations, but may not impose additional requirements related to state authorization of distance education directed at all or a subgroup of educational institutions. The regulations also clarify that state authorization requirements related to distance education courses are based on the state where a student is "located," as determined by the institution, and not the state of the student's "residence." In addition, the final rules remove certain disclosure requirements related to programs offered solely through distance education, and they replace those requirements with certain disclosure requirements applicable to all programs that lead to professional licensure or certification, regardless of the delivery modality of those programs. The Department's new rules also refine the process for recognition and review of accrediting agencies, the criteria used by the Department to recognize accrediting agencies, and the Department's requirements for accrediting agencies in terms of their oversight of accredited institutions and programs. The final regulations became effective on July 1, 2020, excepting certain provisions which were eligible to be implemented early by institutions, and certain provisions relating to recognition of accrediting agencies effective January 1 and July 1, 2021. Neither Capella University nor Strayer University opted for early implementation.

On July 29, 2020, the National Advisory Committee on Institutional Quality and Integrity ("NACIQI") held a meeting to review compliance by the Higher Learning Commission ("HLC") with Department of Education requirements for recognized accrediting agencies. HLC is the institutional accreditor for Capella University. On June 30, 2020, the Department released a staff report that outlined HLC's alleged noncompliance with its own policies and the Department's regulations with regard to a change of ownership approval process for the acquisition of the Art Institute of Colorado and the Illinois Institute of Art, by Dream Center Educational Holdings. The staff report noted noncompliance in the areas of due process, consistency in decision making, and proper appeals procedures. The staff report proposed a one-year prohibition on HLC accrediting new institutions and a required compliance report on HLC's remedial actions. NACIQI voted 9-2 to reject the staff report's proposed sanctions, but NACIQI's recommendation was non-binding. On October 26, 2020, a Senior Department Official ("SDO") found HLC non-compliant, in part. While the SDO required that HLC submit periodic reporting for twelve months, the SDO did not restrict HLC's scope of accreditation or ability to accredit new institutions. HLC did not appeal the Secretary's decision.

Distance Education and Innovation

On August 24, 2020, the Department of Education published final rules related to distance education and innovation to amend the sections of the institutional eligibility regulations issued under the HEA regarding establishing eligibility, maintaining eligibility, and losing eligibility. Among other changes, the final rules establish an updated definition of distance education; amend the existing definition of the credit hour; create a definition of academic engagement; and update eligibility and program design, for programs offered through the direct assessment of learning. The final rules also make operational changes to several financial aid awarding, disbursing and refunding rules, including how aid can be delivered to students enrolled in subscription period programs, such as Capella's FlexPath offerings. The final rule became effective July 1, 2021.

Title IX

On May 6, 2020, the Department of Education published final rules related to implementation of Title IX of the Education Amendments of 1972 ("Title IX"), which prohibits discrimination on the basis of sex in education programs that receive funding from the federal government. The final rules define what constitutes sexual harassment for purposes of Title IX in the administrative enforcement context, describe what actions trigger an institution's obligation to respond to incidents of alleged sexual harassment, and specify how an institution must respond to allegations of sexual harassment. Among other things, the new rules include a requirement for live hearings on Title IX sexual harassment claims, which includes direct and cross-examination of parties, university-provided advisors (in the event a student or party does not provide an advisor), rulings on questions of relevance by decision-makers, and the creation and maintenance of a record of the live hearing proceedings. The final rule became effective August 14, 2020.

On March 8, 2021, President Biden signed an executive order that requires the Secretary of Education and the Attorney General to review the previous administration's rulemakings and guidance documents related to Title IX. In June 2021, the Department of Education held virtual public hearings to gather information for providing enforcement of Title IX, as part of the Office for Civil Rights' comprehensive review of the regulation. After the public hearings, the Department of Education indicated that it plans to introduce proposed rule changes for Title IX in May 2022. On June 16, 2021, the Office for Civil Rights issued a notice of interpretation clarifying that the Department interprets Title IX and its enforcement authority under the regulation to include the prohibition of sex discrimination based on sexual orientation and gender identity. On July 20, 2021, the Department of Education released a Questions and Answers document outlining the Office for Civil Rights' interpretation of the Title IX regulations related to sexual harassment.

Current Negotiated Rulemaking

On May 26, 2021, the Department announced its intention to establish negotiated rulemaking committees to prepare proposed regulations for programs authorized under Title IV of the Higher Education Act of 1965, as amended. As part of the notice, the Department suggested the following topics for regulation: change of ownership and change in control of institutions of higher education under 34 CFR 600.31; certification procedures for participation in Title IV, HEA programs under 34 CFR 668.13; standards of administrative capability under 34 CFR 668.16; ability to benefit under 34 CFR 668.156; borrower defense to repayment under 34 CFR 682.410, 668.411, 685.206, and 685.222; discharges for borrowers with a total and permanent disability under 34 CFR 674.61, 682.402, and 685.213; closed school discharges under 34 CFR 685.214 and 682.402; discharges for false certification of student eligibility under 34 CFR 685.215(a)(1) and 682.402; loan repayment plans under 34 CFR 682.209, 682.215, 685.208, and 685.209; the Public Service Loan Forgiveness program under 34 CFR 685.219; mandatory pre-dispute arbitration and prohibition of class action lawsuits provisions in institutions' enrollment agreements (formerly under 34 CFR 685.300) and associated counseling about such arrangements under 34 CFR 685.304; financial responsibility for participating institutions of higher education under 34 CFR subpart L, such as events that indicate heightened financial risk; gainful employment (formerly located in 34 CFR subpart Q); and Pell Grant eligibility for prison education programs under 34 CFR part 690. Additionally, the Department invited public input on how it could address, through regulations, gaps in postsecondary outcomes such as retention, completion, loan repayment, and student loan default by race, ethnicity, gender, and other key student characteristics. To support this work, the Department held a series of virtual public hearings in June 2021, as well as accepted written comments. At the virtual public hearings and via written comments, members of the public discussed proposed changes for all of the issues noted above, as well as comments addressing data transparency, including disclosures of outcomes for veteran students. The Department has indicated its intention to convene multiple committees, with a call for negotiator nominations planned for late summer 2021. We cannot predict the outcome of the negotiated rulemaking process.

Compliance Reviews

Strayer University and Capella University are 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 June 2019, the Department conducted an announced, on-site program review at Capella University, focused on Capella University's FlexPath program. The review covered the 2017-2018 and 2018-2019 federal student financial aid years. The Department issued its preliminary report on November 13, 2020, and Capella University responded to the report. On February 9, 2021, Capella University received the Department's Final Program Review Determination, which closed the Program Review without further action required on the part of Capella University.

On March 17, 2021, the Department informed Strayer University that it planned to conduct an announced, remote program review. The review commenced on April 19, 2021 and covers the 2019-2020 and 2020-2021 federal student financial aid years. In general, after the Department conducts its site visit and reviews data supplied by a university, it sends the university a program review report. The university has the opportunity to respond to any findings in the report. The Department of Education then issues a final program review determination letter, which identifies any liabilities. The institution may appeal any monetary liabilities specified in the final program review determination letter. Strayer University has not yet received the Department's report on the April 2021 program review.

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 11, 2017, the Department and Strayer University executed a new Program Participation Agreement, approving Strayer University's continued participation in Title IV programs with full certification through June 30, 2021. Strayer University applied for recertification by March 31, 2021, as required by the Department, and is awaiting a new Program Participation Agreement. Per the Department's guidance, if a school submits a materially complete application no later than 90 calendar days prior to the expiration of the Program Participation Agreement, the agreement remains valid and the institution continues to be eligible to participate in Federal Student Aid programs, even if the Department has not completed its evaluation of the application before the expiration date.

As a result of the August 1, 2018 merger, Capella University experienced a change of ownership, with the Company as its new owner. On January 18, 2019, consistent with standard procedure upon a Title IV institution's change of ownership, the Department and Capella University executed a new Provisional Program Participation Agreement, approving Capella's continued participation in Title IV programs with provisional certification through December 31, 2022. As is typical, the Provisional Program Participation Agreement subjects Capella University to certain requirements during the period of provisional certification, including that Capella must apply for and receive approval from the Department in connection with new locations or the addition of new Title IV-eligible educational programs. Capella will be required to apply for recertification by September 30, 2022.

Australian Regulation

The Company operates two post-secondary educational institutions in Australia, Torrens University Australia Limited ("Torrens") and Think: Colleges Pty Ltd ("Think"). In Australia, a distinction is made between higher education and vocational education organizations.

Higher education providers consist of public and private universities, Australian branches of overseas universities and other higher education providers. Higher education qualifications consist of undergraduate awards (bachelor's degrees, associate degrees and diplomas) and postgraduate awards (graduate certificates and diplomas, master's degrees and doctoral degrees). The regulation of higher education providers is undertaken at a national level by the Tertiary Education Quality and Standards Agency ("TEQSA"). All organizations that offer higher education qualifications in or from Australia must be registered by TEQSA. Higher education providers that have not been granted self-accrediting status must also have their courses of study accredited by TEQSA. Registration as a higher education provider is for a fixed period of up to seven years. TEQSA regularly reviews the conduct and operation of accredited higher education providers.

The vocational education and training ("VET") sector consists of technical and further education institutes, agricultural colleges, adult and community education providers, community organizations, industry skill centers and private providers. VET qualifications include certificates, diplomas and advanced diplomas. The regulation of VET providers is undertaken at a national level by the Australian Skills Quality Authority ("ASQA"). Organizations providing VET courses in Australia must be registered by ASQA as a Registered Training Organisation ("RTO"). Courses offered by RTOs need to be accredited by ASQA. Registration as an RTO is for a fixed period of up to seven years. ASQA regularly reviews the conduct and operations of RTOs.

Torrens is one of 43 universities in Australia. It is a for-profit entity and registered as a university by TEQSA. As a self-accrediting university, it is not required to have its courses of study accredited by TEQSA. Torrens is also registered by ASQA as an RTO and is thus entitled to offer vocational and training courses.

Think is one of approximately 5,000 RTOs in Australia and in that capacity is regulated by ASQA. It is also registered as a higher education provider by TEQSA. Its higher education courses require, and have received, accreditation by TEQSA.

Australia also maintains a Commonwealth Register of Institutions and Courses for Overseas Students (“CRICOS”) for Australian education providers that recruit, enroll and teach overseas students. Registration in CRICOS allows providers to offer courses to overseas students studying on Australian student visas. Both Torrens and Think are so registered.

The Commonwealth government has established income-contingent loan schemes that assist eligible fee-paying students to pay all or part of their tuition fees (separate schemes exist for higher education and vocational courses). Under the schemes, the relevant fees are paid directly to the institutions. A corresponding obligation then exists from the participating student to the Commonwealth government. Neither Torrens nor Think have any responsibility in connection with the repayment of these loans by students and, generally, this assistance is not available to international students. Both Torrens and Think are registered for the purposes of these plans (a precondition to their students being eligible to receive such loans).

New Zealand Regulation

The Company operates a post-secondary educational institution in New Zealand, Media Design School Limited (“MDS”). MDS is a Private Training Establishment (“PTE”); a private organization offering education or training. It is a globally renowned and specialist provider of design and creative technology education with qualifications ranging from diplomas to postgraduate degrees. MDS also has access to New Zealand Government student finance where study loans are offered to students who are New Zealand citizens or ordinarily resident in New Zealand, subject to certain conditions.

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," "may," "will," "forecast," "outlook," "plan," "project," "potential" or similar words, and include, without limitation, statements relating to future enrollment, revenues, revenues per student, earnings growth, operating expenses, capital expenditures and the ultimate effect of the COVID-19 pandemic on the Company's business and results. 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 student enrollment, our continued compliance with Title IV of the Higher Education Act, and the regulations thereunder, as well as other federal laws and regulations, institutional accreditation standards and state regulatory requirements, rulemaking by the Department and increased focus by the U.S. Congress on for-profit education institutions, competitive factors, risks associated with the further spread of COVID-19, including the ultimate impact of COVID-19 on people and economies, the impact of regulatory measures or voluntary actions that may be put in place to limit the spread of COVID-19, including restrictions on business operations or social distancing requirements, 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 including the Company's acquisition of Torrens University and associated assets in Australia and New Zealand, the risk that the benefits of the acquisition may not be fully realized or may take longer to realize than expected, and the risk that the acquisition may not advance the Company's business strategy and growth strategy, risks relating to the timing of regulatory approvals, our ability to implement our growth strategy, the risk that the combined company may experience difficulty integrating employees or operations, 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 II, "Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q, 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, except as required by law.

Additional Information

We maintain a website at <http://www.strategiceducation.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

Strategic Education, Inc. ("SEI," "we," "us" or "our") is an education services company that provides access to high-quality education through campus-based and online post-secondary education offerings, as well as through programs to develop job-ready skills for high-demand markets. We operate primarily through our wholly-owned subsidiaries Strayer University and Capella University, both accredited post-secondary institutions of higher education located in the United States, as well as Torrens University, an accredited post-secondary institution of higher education located in Australia. Our operations emphasize relationships through our Alternative Learning segment with large employers to build employee education benefits programs that provide employees with access to affordable and industry relevant training, certificate, and degree programs, and also include certain non-degree programs, mainly focused on software and application development, and other vocational and training programs in a variety of fields.

Company Response to COVID-19

The ongoing COVID-19 pandemic has caused significant volatility and disruption to the United States and international economies. SEI took early action to protect the health and well-being of our students and employees in accordance with government mandates and informed by guidance from the Centers for Disease Control and Prevention. Specifically, we instituted a work-from-home policy for the vast majority of our workforce, closed physical campus locations, moved our on-ground courses

at Strayer University online, postponed large events such as graduation ceremonies, and prohibited non-essential employee travel. As guidance has evolved, we have begun to reopen some campus and office locations and permit business travel.

We have taken measures to provide financial relief to our students and employer partners negatively affected by the COVID-19 crisis, including payment flexibility, scholarship opportunities, and other pricing relief. We expect that these measures will enable more students to continue pursuing their education during and after the COVID-19 crisis. In the third quarter of 2020, we began implementing a restructuring plan that included both voluntary and involuntary employee terminations in an effort to reduce ongoing operating costs to align with changes in enrollment. These headcount reductions resulted in a 5% decrease to SEI's total workforce. During the first quarter of 2021, our restructuring efforts included the closure of underutilized campus and corporate office space in response to changes in enrollment trends and as a result of our work-from-home policies. Of the campus closures, the majority have an alternative location within relative proximity to support students as campus interactions are needed.

As the pandemic has continued, we have seen sustained weakness in demand, especially in the United States, where total enrollment in our U.S. Higher Education segment decreased 7% and 10% in the first and second quarters of 2021, respectively, compared to the same periods in 2020. Enrollment in ANZ also has been impacted by the pandemic and the related closure of international borders in Australia and New Zealand. Based on leading indicators for third quarter enrollments in our U.S. Higher Education segment, and the announcement of continued border closures in Australia and New Zealand, our full-year 2021 financial results could be at or below the low end of the previously provided full-year outlook.

We believe our current financial position and expected operating results, and ability to further control costs, are sufficient to support the ongoing operation of SEI in a manner that protects the health and well-being of our employees, students, and partners.

Acquisition of Torrens University and associated assets in Australia and New Zealand

On November 3, 2020, we completed the acquisition of Torrens University and associated assets in Australia and New Zealand ("ANZ"), pursuant to the sale and purchase agreement dated July 29, 2020 (the "Purchase Agreement"). ANZ includes Torrens University Australia, Think Education, and Media Design School, which together provide diversified student curricula to approximately 19,000 students across five industry verticals, including business, hospitality, health, education, creative technology and design. We believe ANZ represents an attractive portfolio of institutions with a similar focus on innovation, academic outcomes, improved affordability and career advancement as us. We also believe that ANZ provides an attractive platform for future growth, driven by Australia's status as an attractive destination for international students, as well as the potential to use ANZ as a platform for expansion across the ASEAN region.

Pursuant to the Purchase Agreement, the aggregate consideration paid was approximately \$658.4 million in cash, which reflected the original agreed upon purchase price of \$642.7 million, plus a \$15.7 million adjustment reflecting an estimated \$11.0 million of net cash at close, and an estimated \$4.7 million related to higher net working capital. These estimated adjustments are subject to a final true-up of net cash and net working capital, based on the closing accounts to be finalized by both parties. The aggregate consideration paid in the transaction was funded using cash on hand and borrowings under our revolving credit facility.

Our financial results for any periods ended prior to November 3, 2020 do not include the financial results of ANZ and are therefore not directly comparable.

Company Overview

In the first quarter of 2021, we changed the way management reports financial information relied on by the Chief Operating Decision Maker ("CODM") to evaluate performance and allocate the resources of the Company. Our revised organizational structure includes the following three operating and reportable segments: (1) U.S. Higher Education ("USHE"), which is primarily comprised of SEI's previous Strayer University and Capella University segments and is focused on providing flexible and affordable certificate and degree programs to working adults; (2) Alternative Learning, a new segment that is primarily focused on developing and maintaining relationships with large employers to build employee education benefits programs; and (3) Australia/New Zealand, which provides certificate and degree programs in Australia and New Zealand. The Australia/New Zealand segment was not changed as a result of the reorganization. We began reporting under the new segment structure in the first quarter of 2021, and we have restated the results for the prior period to conform to the current period presentation.

U.S. Higher Education Segment

- The USHE segment provides flexible and affordable certificate and degree programs to working adults primarily through Strayer University and Capella University, including the Jack Welch Management Institute MBA, which is a unit of Strayer University. USHE also operates non-degree web and mobile application development courses through Hackbright Academy and DevMountain, the latter being a unit of Strayer University.

- Strayer University is accredited by the Middle States Commission on Higher Education and Capella University is accredited by the Higher Learning Commission, both institutional accrediting agencies recognized by the Department of Education. The USHE segment provides academic offerings both online and in physical classrooms, helping working adult students develop specific competencies they can apply in their workplace.
- The Jack Welch Management Institute (“JWMI”) offers an executive MBA online and is a Top 25 Princeton Review ranked online MBA program.
- DevMountain is a software development program offering affordable, high-quality, leading-edge software coding education at multiple campus locations and online.
- Hackbright Academy is a software engineering school for women. Its primary offering is an intensive 12-week accelerated software development program, together with placement services and coaching.
- In the second quarter, USHE enrollment decreased 10% to 83,923 compared to 93,123 for the same period in 2020.

Alternative Learning Segment

- The Alternative Learning segment is primarily focused on developing and maintaining relationships with large employers to build employee education benefits programs that provide employees with access to affordable and industry relevant training, certificate, and degree programs. The employer relationships developed by the Alternative Learning division are an important source of student enrollment for Capella University and Strayer University, and the majority of the revenue attributed to the Alternative Learning division is driven by the volume of enrollment derived from these employer relationships. Enrollments attributed to the Alternative Learning segment are determined based on a student’s employment status and the existence of a corporate partnership arrangement with SEI. All enrollments attributed to the Alternative Learning division continue to be attributed to the division until the student graduates or withdraws, even if his or her employment status changes or if the partnership contract expires.
- In the second quarter, employer affiliated enrollment as a percentage of USHE enrollment was 20.5% compared to 17.2% for the same period in 2020.
- Sophia Learning provides low-cost online general education courses recommended by the American Council on Education for credit to other colleges and universities.
- Workforce Edge is a platform which provides employers a full-service education benefits administration solution.
- Digital Enablement Partnerships provide online course delivery and support capabilities related to online course delivery to other higher education institutions.

Australia/New Zealand Segment

- Torrens University is the only investor-funded university in Australia. Torrens University offers undergraduate and graduate courses primarily in five fields of study: business, design and creative technology, health, hospitality, and education. Courses are offered both online and on physical campuses. Torrens University is registered with the Tertiary Education Quality and Standards Agency (“TEQSA”), the regulator for higher education providers and universities throughout Australia, as an Australian University that is authorized to self-accredit its courses.
- Think Education is a vocational registered training organization and accredited higher education provider in Australia. Think Education delivers education at several campuses in Sydney, Melbourne, Brisbane, and Adelaide as well as through online study. Think Education and its colleges are accredited in Australia by the TEQSA and the Australian Skills Quality Authority, the regulator for vocational education and training organizations that operate in Australia.
- Media Design School is a private tertiary institution for creative and technology qualifications in New Zealand. Media Design School offers industry-endorsed courses in 3D animation and visual effects, game art, game programming, graphic and motion design, digital media artificial intelligence, and creative advertising. Media Design School is accredited in New Zealand by the New Zealand Qualifications Authority, responsible for the quality assurance of non-university tertiary training providers.
- In the second quarter, Australia/New Zealand enrollment increased 1% to 18,800 compared to 18,592 for the same period in 2020.

We believe we have the right operating strategies in place to provide the most direct path between learning and employment for our students. We are constantly innovating to differentiate ourselves in our markets and drive growth by supporting student success, producing affordable degrees, optimizing our comprehensive marketing strategy, serving a broader set of our students' professional needs, and establishing new growth platforms. The talent of our faculty and employees, supported by market leading technology, enable these strategies. We believe our strategy will allow us to continue to deliver high quality, affordable education, resulting in continued growth over the long-term. We will continue to invest in this strategy to strengthen the foundation and future of our business.

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 credit losses; income tax provisions; the useful lives of property and equipment and intangible assets; redemption rates for scholarship programs and valuation of contract liabilities; fair value of right-of-use lease assets for facilities that have been vacated; incremental borrowing rates; valuation of deferred tax assets, goodwill, and intangible assets; forfeiture rates and achievability of performance targets for stock-based compensation plans; and accrued expenses. Management bases its estimates and judgments on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Management regularly reviews its estimates and judgments for reasonableness and may modify them in the future. Actual results may differ from these estimates under different assumptions or conditions.

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

Revenue recognition — Like many traditional institutions, Strayer University and Capella University offer educational programs primarily on a quarter system having four academic terms, which generally coincide with our quarterly financial reporting periods. Torrens University offers the majority of its education programs on a trimester system having three primary academic terms, which all occur within the calendar year. Approximately 96% of our revenues during the six months ended June 30, 2021 consisted of tuition revenue. Capella University offers monthly start options for new students, who then transition to a quarterly schedule. Capella University also offers its FlexPath program, which allows students to determine their 12-week billing session schedule after they complete their first course. Tuition revenue for all students is recognized ratably over the course of instruction as the universities and the schools offering non-degree programs provide academic services, 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 universities also derive revenue from other sources such as textbook-related income, certificate revenue, certain academic fees, licensing revenue, accommodation revenue, food and beverage fees, and other income, which are all recognized when earned. In accordance with 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. At the start of each academic term or program, a 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 at Strayer University and Capella 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 program 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.

In Australia, domestic students attending an ANZ institution finance their education themselves or by taking a loan through the government's Higher Education Loan Program or Vocational Student Loan Program. In New Zealand, domestic students may utilize government loans to fund tuition, and in addition may be eligible for a period of "fees free" study funded by the government. International students attending an ANZ institution are not eligible for funding from the Australian or New Zealand government.

A typical class is offered in weekly increments over a six- to twelve-week period, depending on the university and course type, and is followed by an exam. 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. We use the student's withdrawal date or last date of attendance for this purpose. Our specific refund policies vary across the universities and non-degree programs. For students attending Strayer University, our refund policy typically permits students who complete less than half of a course to receive a partial refund of tuition for that course. For students attending Capella University, our refund policy varies based on course format. GuidedPath students are allowed a 100% refund through the first five days of the course, a 75% refund from six to twelve days, and 0% refund for the remainder of the period. FlexPath students receive a 100% refund through the 12th calendar day of the course for their first billing session only and a 0% refund after that date and for all subsequent billing sessions. For domestic students attending an ANZ institution, refunds are typically provided to students that withdraw within the first 20% of a course term. For international students attending an ANZ institution, refunds are provided to students that withdraw prior to the course commencement date. In limited circumstances refunds to student attending an ANZ institution may be granted after these cut-offs subject to an application for special consideration by the student and approval of that application by the institution. Refunds reduce the tuition revenue that otherwise would have been recognized for that student. Since the academic terms coincide with our financial reporting periods for most programs, nearly all refunds are processed and recorded in the same quarter as the corresponding revenue. For certain programs where courses may overlap a quarter-end date, we estimate a refund or withdrawal rate and do not recognize the related revenue until the uncertainty related to the refund is resolved. The portion of tuition revenue refundable to students may vary based on the student's state of residence.

For students who withdraw from all their courses during the period 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 and the term is complete.

For U.S. students who receive funding under Title IV and withdraw, 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 and then may seek payment from the withdrawn 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. When a student withdraws from all of his or her courses, we consider it to be a contract modification and reassess collectibility at that time. As a result of this reassessment, we cease revenue recognition as our historical experience has shown that amounts outstanding for this group of students are not collectible. In Australia and New Zealand, government funding for eligible students is provided directly to the institution on an estimated basis annually. The amount of government funding provided is based on a course-by-course forecast of enrollments that the institution submits for the upcoming calendar year. Using the enrollment forecast provided as well as the requesting institution's historical enrollment trends, the government approves a fixed amount, which is then funded to the institution evenly on a monthly basis. Periodic reconciliation and true-ups are undertaken between the relevant government authority and the institution based on actual eligible enrollments, which may result in a net amount being due to or from the government.

Students at Strayer University registering in credit-bearing courses in any undergraduate program beginning in the summer 2013 term or graduate program beginning in the summer 2020 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 Strayer 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 or master'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 Strayer University in the future. In response to the COVID-19 pandemic, Strayer University is temporarily allowing students to miss two consecutive terms without losing their Graduation Fund credits. In their final academic year, qualifying students will receive one free course for every three courses that the student successfully completed in prior years. Strayer University's 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 June 30, 2021, we had deferred \$53.6 million for estimated redemptions earned under the Graduation Fund, as compared to \$53.3 million at December 31, 2020. 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 credit losses related to tuition receivable from students primarily based on our historical collection rates by age of receivable and adjusted for reasonable expectations of future collection performance, net of recoveries. 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 credit losses in consideration of actual experience. If the financial condition of our students were to deteriorate based on current or expected future events 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 second quarter of 2021, our bad debt expense was 3.3% of revenue, compared to 4.7% for the same period in 2020. A change in our allowance for credit losses of 1% of gross tuition receivable as of June 30, 2021 would have changed our income from operations by approximately \$1.3 million.

Business combinations — We account for business combinations using the acquisition method of accounting, which requires that once control is obtained, the purchase price be allocated to all tangible assets and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Any excess purchase price over the fair value of the net assets acquired is recorded as goodwill. The determination of the fair value of assets acquired and liabilities assumed requires many estimates and assumption with respect to the timing and amounts of cash flow projections, revenue growth rates, earnings before interest and taxes margins, student attrition rates, royalty rates, discount rates, and useful lives. These estimates are based on assumptions believed to be reasonable, and when appropriate, include assistance from independent third-party valuation firms. During the measurement period, which is up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with corresponding offsets to goodwill. We applied the acquisition method of accounting to our acquisition of ANZ in 2020. Refer to Note 3, Acquisition of Torrens University and Associated Assets in Australia and New Zealand, within the footnotes to the condensed consolidated financial statements for additional information.

Goodwill and 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. At the time of acquisition, goodwill and indefinite-lived intangible assets are allocated to reporting units. Management identifies its reporting units by assessing whether the components of its operating segments constitute businesses for which discrete financial information is available and management regularly reviews the operating results of those components. Goodwill and indefinite-lived intangible assets are assessed at least annually for impairment. No events or circumstances occurred in the three and six months ended June 30, 2021 to indicate an impairment to goodwill or indefinite-lived intangible assets. Accordingly, no impairment charges related to goodwill or indefinite-lived intangible assets were recorded during the three and six month periods ended June 30, 2021.

Finite-lived intangible assets that are acquired in business combinations are recorded at fair value on their acquisition dates and are amortized on a straight-line basis over the estimated useful life of the asset. Finite-lived intangible assets consist of student relationships. We review our finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are not recoverable, a potential impairment loss is recognized to the extent the carrying amount of the assets exceeds the fair value of the assets. No impairment charges related to finite-lived intangible assets were recorded during the three and six month periods ended June 30, 2021.

Other estimates — We record estimates for certain of our accrued expenses and for income tax liabilities. We estimate the useful lives of our property and equipment and intangible assets 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 accrued expenses, carrying amount of goodwill and intangible assets, stock-based compensation expense, and income tax liabilities may be required.

Results of Operations

As discussed above, we completed our acquisition of ANZ on November 3, 2020. Our results of operations for the three and six months ended June 30, 2021 include the results of ANZ, but the results of operations for the three and six months ended June 30, 2020 do not include the financial results of ANZ. Accordingly, the financial results of each period presented are not directly comparable.

In the second quarter of 2021, we generated \$299.2 million in revenue compared to \$255.8 million in 2020. Our income from operations was \$26.7 million for the second quarter of 2021 compared to \$46.4 million in 2020 primarily due to lower earnings in

the USHE segment and restructuring costs incurred in the second quarter of 2021, partially offset by the inclusion of ANZ's income from operations. Net income in the second quarter of 2021 was \$20.0 million compared to \$34.2 million for the same period in 2020. Diluted earnings per share was \$0.83 compared to \$1.55 for the same period in 2020. For the six months ended June 30, 2021, we generated \$589.5 million in revenue, compared to \$521.1 million for the same period in 2020. Our income from operations was \$38.7 million for the six months ended June 30, 2021 compared to \$90.4 million for the same period in 2020 primarily due to lower earnings in the USHE segment and restructuring costs incurred in the first six months of 2021, partially offset by the inclusion of ANZ's income from operations. Net income was \$29.6 million for the six months ended June 30, 2021 compared to \$69.4 million for the same period in 2020, and diluted earnings per share was \$1.22 in the six months ended June 30, 2021 compared to \$3.15 for the same period in 2020.

In the accompanying analysis of financial information for 2021 and 2020, we use certain financial measures including Adjusted Revenue, Adjusted Total Costs and Expenses, Adjusted Income from Operations, Adjusted Operating Margin, Adjusted Income Before Income Taxes, 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 the following:

- purchase accounting adjustments to record acquired contract liabilities at fair value as a result of our acquisition of Torrens University and associated assets in Australia and New Zealand and to record amortization and depreciation expense related to intangible assets and software assets acquired through our merger with Capella Education Company and our acquisition of Torrens University and associated assets in Australia and New Zealand;
- transaction and integration expenses associated with our merger with Capella Education Company and our acquisition of Torrens University and associated assets in Australia and New Zealand;
- severance costs and right-of-use lease asset impairment charges associated with our restructuring;
- income from partnership and other investments that are not part of our core operations;
- discrete tax adjustments related to stock-based compensation and other adjustments; and
- foreign currency exchange impact related to translating foreign currency results at a constant exchange rate.

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 associated with our ongoing operations.

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 \$53.7 million in the second quarter of 2021 compared to \$63.0 million in 2020. Adjusted net income was \$37.5 million in the second quarter of 2021 compared to \$45.4 million in 2020, and adjusted diluted earnings per share was \$1.55 in the second quarter of 2021 compared to \$2.06 in 2020. Adjusted income from operations was \$106.7 million for the six months ended June 30, 2021 compared to \$126.1 million for the same period in 2020. Adjusted net income was \$74.5 million for the six months ended June 30, 2021 compared to \$91.9 million for the same period in 2020, and adjusted diluted earnings per share was \$3.09 for the six months ended June 30, 2021 compared to \$4.17 for the same period in 2020.

The tables below reconcile our reported results of operations to adjusted results (amounts in thousands, except per share data):

Reconciliation of Reported to Adjusted Results of Operations for the three months ended June 30, 2021

	As Reported (GAAP)	Non-GAAP Adjustments						As Adjusted (Non-GAAP)
		Purchase accounting adjustments ⁽¹⁾	Merger and integration costs ⁽²⁾	Restructuring costs ⁽³⁾	Income from other investments ⁽⁴⁾	Tax adjustments ⁽⁵⁾	Foreign exchange adjustments ⁽⁶⁾	
Revenues	\$ 299,173	\$ 1,423	\$ —	\$ —	\$ —	\$ —	\$ (2,534)	\$ 298,062
Total costs and expenses	\$ 272,473	\$ (19,392)	\$ (1,937)	\$ (4,811)	\$ —	\$ —	\$ (2,008)	\$ 244,325
Income from operations	\$ 26,700	\$ 20,815	\$ 1,937	\$ 4,811	\$ —	\$ —	\$ (526)	\$ 53,737
Operating margin	8.9%							18.0%
Income before income taxes	\$ 27,457	\$ 20,815	\$ 1,937	\$ 4,811	\$ (1,398)	\$ —	\$ (526)	\$ 53,096
Net income	\$ 19,976	\$ 20,815	\$ 1,937	\$ 4,811	\$ (1,398)	\$ (8,164)	\$ (526)	\$ 37,451
Diluted earnings per share	\$ 0.83							\$ 1.55
Weighted average diluted shares outstanding	24,126							24,126

Reconciliation of Reported to Adjusted Results of Operations for the three months ended June 30, 2020

	As Reported (GAAP)	Non-GAAP Adjustments						As Adjusted (Non-GAAP)
		Purchase accounting adjustments ⁽¹⁾	Merger and integration costs ⁽²⁾	Restructuring costs ⁽³⁾	Income from other investments ⁽⁴⁾	Tax adjustments ⁽⁵⁾	Foreign exchange adjustments ⁽⁶⁾	
Revenues	\$ 255,831	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 255,831
Total costs and expenses	\$ 209,436	\$ (15,417)	\$ (1,174)	\$ —	\$ —	\$ —	\$ —	\$ 192,845
Income from operations	\$ 46,395	\$ 15,417	\$ 1,174	\$ —	\$ —	\$ —	\$ —	\$ 62,986
Operating margin	18.1%							24.6%
Income before income taxes	\$ 48,034	\$ 15,417	\$ 1,174	\$ —	\$ (1,135)	\$ —	\$ —	\$ 63,490
Net income	\$ 34,152	\$ 15,417	\$ 1,174	\$ —	\$ (1,135)	\$ (4,213)	\$ —	\$ 45,395
Diluted earnings per share	\$ 1.55							\$ 2.06
Weighted average diluted shares outstanding	22,012							22,012

Reconciliation of Reported to Adjusted Results of Operations for the six months ended June 30, 2021

	As Reported (GAAP)	Non-GAAP Adjustments						As Adjusted (Non-GAAP)
		Purchase accounting adjustments ⁽¹⁾	Merger and integration costs ⁽²⁾	Restructuring costs ⁽³⁾	Income from other investments ⁽⁴⁾	Tax adjustments ⁽⁵⁾	Foreign exchange adjustments ⁽⁶⁾	
Revenues	\$ 589,509	\$ 3,646	\$ —	\$ —	\$ —	\$ —	\$ (4,553)	\$ 588,602
Total costs and expenses	\$ 550,809	\$ (38,799)	\$ (2,949)	\$ (23,078)	\$ —	\$ —	\$ (4,049)	\$ 481,934
Income from operations	\$ 38,700	\$ 42,445	\$ 2,949	\$ 23,078	\$ —	\$ —	\$ (504)	\$ 106,668
Operating margin	6.6%							18.1%
Income before income taxes	\$ 41,624	\$ 42,445	\$ 2,949	\$ 23,078	\$ (4,181)	\$ —	\$ (504)	\$ 105,411
Net income	\$ 29,553	\$ 42,445	\$ 2,949	\$ 23,078	\$ (4,181)	\$ (18,852)	\$ (504)	\$ 74,488
Diluted earnings per share	\$ 1.22							\$ 3.09
Weighted average diluted shares outstanding	24,139							24,139

Reconciliation of Reported to Adjusted Results of Operations for the six months ended June 30, 2020

	As Reported (GAAP)	Non-GAAP Adjustments						As Adjusted (Non-GAAP)
		Purchase accounting adjustments ⁽¹⁾	Merger and integration costs ⁽²⁾	Restructuring costs ⁽³⁾	Income from other investments ⁽⁴⁾	Tax adjustments ⁽⁵⁾	Foreign exchange adjustments ⁽⁶⁾	
Revenues	\$ 521,133	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 521,133
Total costs and expenses	\$ 430,779	\$ (30,834)	\$ (4,938)	\$ —	\$ —	\$ —	\$ —	\$ 395,007
Income from operations	\$ 90,354	\$ 30,834	\$ 4,938	\$ —	\$ —	\$ —	\$ —	\$ 126,126
Operating margin	17.3%							24.2%
Income before income taxes	\$ 94,116	\$ 30,834	\$ 4,938	\$ —	\$ (1,389)	\$ —	\$ —	\$ 128,499
Net income	\$ 69,391	\$ 30,834	\$ 4,938	\$ —	\$ (1,389)	\$ (11,898)	\$ —	\$ 91,876
Diluted earnings per share	\$ 3.15							\$ 4.17
Weighted average diluted shares outstanding	22,041							22,041

⁽¹⁾ Reflects a purchase accounting adjustment to record acquired contract liabilities at fair value as a result of the Company's acquisition of Torrens University and associated assets in Australia and New Zealand, and amortization and depreciation expense of intangible assets and software assets acquired through the Company's merger with Capella Education Company and the Company's acquisition of Torrens University and associated assets in Australia and New Zealand.

⁽²⁾ Reflects transaction and integration expenses associated with the Company's merger with Capella Education Company and the Company's acquisition of Torrens University and associated assets in Australia and New Zealand.

⁽³⁾ Reflects severance costs and right-of-use lease asset impairment charges associated with the Company's restructuring.

⁽⁴⁾ Reflects income recognized from the Company's investments in partnership interests and other investments.

⁽⁵⁾ Reflects tax impacts of the adjustments described above and discrete tax adjustments related to stock-based compensation and other adjustments, utilizing an adjusted effective tax rate of 28.5% for the three and six months ended June 30, 2020 and an adjusted effective tax rate of 29.5% and 29.3% for the three and six months ended June 30, 2021, respectively.

⁽⁶⁾ Reflects foreign currency exchange impact related to translating foreign currency results at a constant exchange rate of 0.743 Australian Dollars to U.S. Dollars, which is the 2021 budget rate.

Three Months Ended June 30, 2021 Compared to the Three Months Ended June 30, 2020

Revenues. Consolidated revenue increased to \$299.2 million, compared to \$255.8 million in the same period in the prior year, primarily due to the inclusion of ANZ. In the USHE segment for the three months ended June 30, 2021, total enrollment decreased 10% to 83,923 from 93,123 for the same period in 2020. USHE segment revenue decreased 14.2% to \$212.2 million compared to \$247.4 million in 2020 as a result of declines in enrollment and revenue-per-student due to higher scholarships and discounts we are offering in response to the COVID-19 pandemic. Near term revenue in the USHE segment is expected to continue to be impacted negatively by the ongoing COVID-19 pandemic with weaker demand for enrollments and higher scholarships and discounts. In the Alternative Learning segment, revenue for the three months ended June 30, 2021 increased 52.2% to \$12.9 million compared to \$8.5 million in 2020 as a result of rapid growth in Sophia Learning and increasing employer affiliated enrollment. Revenues for the Australia/New Zealand segment were \$74.1 million and included a \$1.4 million purchase accounting reduction related to contract liabilities acquired in the acquisition.

Instructional and support costs. Consolidated instructional and support costs increased to \$152.9 million, compared to \$125.5 million in the same period in the prior year, principally due to the inclusion of \$35.1 million of instructional and support costs related to ANZ, partially offset by cost savings implemented as a result of the impact of the COVID-19 pandemic, which included lower expenses associated with travel and facilities costs, as well as savings from the employee restructuring plan implemented in the third quarter of 2020. Consolidated instructional and support costs as a percentage of revenues increased to 51.1% in the second quarter of 2021 from 49.1% in the second quarter of 2020.

General and administration expenses. Consolidated general and administration expenses increased to \$93.4 million in the second quarter of 2021 compared to \$67.3 million in the prior year, principally due to the inclusion of \$23.4 million of general and administration expenses related to ANZ, as well as increased investments in branding initiatives and partnerships with brand ambassadors. Consolidated general and administration expenses as a percentage of revenues increased to 31.2% in the second quarter of 2021 from 26.3% in the second quarter of 2020.

Amortization of intangible assets. Amortization of intangible assets increased to \$19.4 million in the second quarter of 2021 compared to \$15.4 million in 2020, due to the additional amortization expense of intangible assets acquired in the acquisition of ANZ in November 2020.

Merger and integration costs. Merger and integration costs increased to \$1.9 million in the second quarter of 2021 compared to \$1.2 million for the same period in 2020, as a result of transaction and integration expenses associated with the acquisition of ANZ.

Restructuring costs. Restructuring costs of \$4.8 million in the second quarter of 2021 primarily include impairments of right-of-use lease assets associated with vacating leased space, as well as severance and other personnel-related expenses from employee terminations in connection with a restructuring plan implemented in 2020.

Income from operations. Consolidated income from operations decreased to \$26.7 million in the second quarter of 2021 compared to \$46.4 million in the second quarter of 2020, principally due to lower earnings in the USHE segment and restructuring costs incurred in the second quarter of 2021, partially offset by the inclusion of ANZ's income from operations. USHE segment income from operations decreased 45.4% to \$32.1 million in the second quarter of 2021, compared to \$58.8 million in the second quarter of 2020, primarily due to lower enrollments and increased scholarship offerings during the COVID-19 pandemic, as well as increased investments in marketing initiatives. In the Alternative Learning segment, income from operations for the three months ended June 30, 2021 increased 22.7% to \$5.2 million compared to \$4.2 million in 2020 as a result of rapid growth in Sophia Learning and an increase in employer affiliated enrollment, partially offset by increased investment in outreach to corporate partners. Income from operations for the Australia/New Zealand segment was \$15.6 million, which included a \$1.4 million purchase accounting reduction related to contract liabilities acquired in the acquisition.

Other income. Other income decreased to \$0.8 million in the second quarter of 2021 compared to \$1.6 million in the second quarter of 2020, as a result of an increase in interest expense due to the \$141.7 million balance outstanding on our revolving credit facility which was used to partially fund the ANZ acquisition in November 2020. We incurred \$0.9 million of interest expense in the three months ended June 30, 2021 compared to \$0.2 million in 2020.

Provision for income taxes. Income tax expense was \$7.5 million in the second quarter of 2021, compared to \$13.9 million in the second quarter of 2020. Our effective tax rate for the quarter was 27.2%, compared to 28.9% for the same period in 2020.

Net income. Net income decreased to \$20.0 million in the second quarter of 2021 compared to \$34.2 million in the second quarter of 2020 due to the factors discussed above.

Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

Revenues. Consolidated revenue increased to \$589.5 million, compared to \$521.1 million in the same period in the prior year, primarily due to the inclusion of ANZ. USHE segment revenue decreased 13% to \$438.8 million compared to \$502.9 million in 2020 as a result of declines in enrollment and revenue-per-student due to higher scholarships and discounts we are offering in response to the COVID-19 pandemic. Near term revenue in the USHE segment is expected to continue to be impacted negatively by the ongoing COVID-19 pandemic with weaker demand for enrollments and higher scholarships and discounts. In the Alternative Learning segment, revenue for the six months ended June 30, 2021 increased 39% to \$25.4 million compared to \$18.3 million in 2020 as a result of rapid growth in Sophia Learning, and increasing employer affiliated enrollment. Revenues for the Australia/New Zealand segment were \$125.3 million and included a \$3.6 million purchase accounting reduction related to contract liabilities acquired in the acquisition.

Instructional and support costs. Consolidated instructional and support costs increased to \$305.7 million in the six months ended June 30, 2021 from \$258.5 million in the six months ended June 30, 2020, principally due to the inclusion of \$68.0 million of instructional and support costs related to ANZ, partially offset by cost savings implemented as a result of the impact of the COVID-19 pandemic, which included lower expenses associated with travel and facilities costs, as well as savings from the employee restructuring plan implemented in the third quarter of 2020. Consolidated instructional and support costs as a percentage of revenues increased to 51.9% in the six months ended June 30, 2021 from 49.6% in the six months ended June 30, 2020.

General and administration expenses. Consolidated general and administration expenses increased to \$180.2 million in the six months ended June 30, 2021 from \$136.5 million in the six months ended June 30, 2020, principally due to the inclusion of \$44.7 million of general and administration expenses related to ANZ. Consolidated general and administration expenses as a percentage of revenues increased to 30.6% in the six months ended June 30, 2021 from 26.2% in the six months ended June 30, 2020.

Amortization of intangible assets. Amortization of intangible assets increased to \$38.8 million in the six months ended June 30, 2021 from \$30.8 million in the six months ended June 30, 2020, due to the additional amortization expense of intangible assets acquired in the acquisition of ANZ in November 2020.

Merger and integration costs. Merger and integration costs decreased to \$2.9 million in the six months ended June 30, 2021 from \$4.9 million in the six months ended June 30, 2020, as a result of lower expenses for integration support services and severance costs related to the merger with Capella Education Company, partially offset by transaction and integration expenses associated with the acquisition of ANZ.

Restructuring costs. Restructuring costs of \$23.1 million in the six months ended June 30, 2021 primarily include impairments of right-of-use lease assets and fixed assets associated with vacating leased space based on an assessment of our real estate portfolio completed in the six months ended June 30, 2021, as well as severance and other personnel-related expenses from employee terminations in connection with a restructuring plan implemented in 2020.

Income from operations. Consolidated income from operations decreased to \$38.7 million in the six months ended June 30, 2021 from \$90.4 million in the six months ended June 30, 2020, principally due to lower earnings in the USHE segment and restructuring costs incurred in 2021, partially offset by the inclusion of ANZ's income from operations. USHE segment income from operations decreased 31% to \$79.8 million in the six months ended June 30, 2021 from \$115.5 million in the six months ended June 30, 2020, primarily due to lower enrollments and increased scholarship offerings during the COVID-19 pandemic. Alternative Learning segment income from operations increased 4% to \$11.1 million in the six months ended June 30, 2021 from \$10.6 million in the six months ended June 30, 2020 as a result of rapid growth in Sophia Learning, partially offset by increased investment in outreach to corporate partners. Income from operations for the Australia/New Zealand segment was \$12.7 million, which included a \$3.6 million purchase accounting reduction related to contract liabilities acquired in the acquisition.

Other income. Other income decreased to \$2.9 million in the six months ended June 30, 2021 from \$3.8 million in the six months ended June 30, 2020, as a result of an increase in interest expense due to the \$141.7 million balance outstanding on our revolving credit facility which was used to partially fund the ANZ acquisition in November 2020. We incurred \$1.8 million of interest expense in the six months ended June 30, 2021 compared to \$0.4 million in the six months ended June 30, 2020.

Provision for income taxes. Income tax expense was \$12.1 million in the six months ended June 30, 2021, compared to \$24.7 million in the six months ended June 30, 2020. Our effective tax rate for the quarter was 29.0%, compared to 26.3% in the six months ended June 30, 2020. The effective tax rate in 2020 includes higher windfall tax benefits recognized through share-based payment arrangements.

Net income. Net income decreased to \$29.6 million in the six months ended June 30, 2021 compared to \$69.4 million in the six months ended June 30, 2020 due to the factors discussed above.

Liquidity and Capital Resources

At June 30, 2021, we had cash, cash equivalents, and marketable securities of \$293.7 million compared to \$225.3 million at December 31, 2020 and \$525.3 million at June 30, 2020. At June 30, 2021, most of our cash was held in demand deposit accounts at high credit quality financial institutions.

We are party to a credit facility (the “Amended Credit Facility”), which provides for a senior secured revolving credit facility (the “Revolving Credit Facility”) in an aggregate principal amount of up to \$350 million. The Amended Credit Facility provides us with an option, subject to obtaining additional loan commitments and satisfaction of certain conditions, to increase the commitments under the Revolving Credit Facility or establish one or more incremental term loans (each, an “Incremental Facility”) in an amount up to the sum of (x) the greater of (A) \$300 million and (B) 100% of the Company’s consolidated EBITDA (earnings before interest, taxes, depreciation, amortization, and noncash charges, such as stock-based compensation) calculated on a trailing four-quarter basis and on a pro forma basis, and (y) if such Incremental Facility is incurred in connection with a permitted acquisition or other permitted investment, any amounts so long as the Company’s leverage ratio (calculated on a trailing four-quarter basis) on a pro forma basis will be no greater than 1.75:1.00. In addition, the Amended Credit Facility provides for a subfacility for borrowings in certain foreign currencies in an amount equal to the U.S. dollar equivalent of \$150 million. Borrowings under the Revolving Credit Facility bear interest at a per annum rate equal to LIBOR or a base rate, plus a margin ranging from 1.50% to 2.00%, depending on our leverage ratio. An unused commitment fee ranging from 0.20% to 0.30% per annum, depending on our leverage ratio, accrues on unused amounts. We were in compliance with all applicable covenants related to the Amended Credit Facility as of June 30, 2021. At June 30, 2021, we had \$141.7 million outstanding on our Revolving Credit Facility. We had no borrowings outstanding as of June 30, 2020. During the six months ended June 30, 2021 and 2020, we paid \$1.4 million and \$0.3 million, respectively of interest and unused commitment fees related to our Revolving Credit Facility.

Our net cash provided by operating activities for the six months ended June 30, 2021 was \$125.8 million, compared to \$111.9 million for the same period in 2020. The increase in net cash from operating activities was largely driven by the inclusion of ANZ and timing of working capital payments, partially offset by lower earnings in the USHE segment.

Capital expenditures decreased to \$23.1 million for the six months ended June 30, 2021, compared to \$25.5 million for the same period in 2020, due to lower capital investments in new and closed campuses, partially offset by the inclusion of ANZ.

The Board of Directors declared a regular, quarterly cash dividend of \$0.60 per share of common stock for each of the first two quarters of 2021. During the six months ended June 30, 2021, we paid a total of \$29.5 million in cash dividends on our common stock. During the six months ended June 30, 2021, we paid \$2.9 million to repurchase common shares in the open market under our repurchase program. As of June 30, 2021, we had \$247.1 million of share repurchase authorization remaining to use through December 31, 2021.

For the second quarter of 2021 and 2020, bad debt expense as a percentage of revenue was 3.3% and 4.7%, respectively.

We believe that existing cash and cash equivalents, cash generated from operating activities, and if necessary, cash borrowed under our Amended Credit Facility will be sufficient to meet our requirements for at least the next 12 months. Currently, we maintain our cash primarily in demand deposit bank accounts and money market funds, which are included in cash and cash equivalents at June 30, 2021 and 2020. We also hold marketable securities, which primarily include tax-exempt municipal securities and corporate debt securities. During the six months ended June 30, 2021 and 2020, we earned interest income of \$0.6 million and \$2.9 million, respectively.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate 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 June 30, 2021, 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.

At June 30, 2021, we had \$141.7 million outstanding under our Amended Credit Facility. Borrowings under the Amended Credit Facility bear interest at LIBOR or a base rate, plus a margin ranging from 1.50% to 2.00%, depending on our leverage ratio. An unused commitment fee ranging from 0.20% to 0.30%, depending on our leverage ratio, accrues on unused amounts under the Amended 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 \$3.5 million in interest expense per year assuming the entire \$350 million revolving credit facility was utilized.

Foreign Currency Risk

The United States Dollar ("USD") is our reporting currency. The functional currency of each of our foreign subsidiaries is the currency of the economic environment in which the subsidiary primarily does business. Revenues denominated in currencies other than the USD, resulting from our acquisition of ANZ on November 3, 2020, accounted for 21.3% of our consolidated revenues for the six months ended June 30, 2021. We therefore have foreign currency risk related to these currencies, which is primarily the Australian dollar. Accordingly, changes in exchange rates, and in particular a weakening of foreign currencies relative to the USD may negatively affect our revenue and operating income as expressed in the USD. We do not use foreign exchange contracts or derivatives to hedge any foreign currency exposures.

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 June 30, 2021. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company had in place, as of June 30, 2021, 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.* On November 3, 2020, the Company completed its acquisition of Torrens University and associated assets in Australia and New Zealand. As noted under Item 9A, Controls and Procedures, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, management's assessment of, and conclusion on, the effectiveness of internal control over financial reporting did not include the internal controls of Torrens University and associated assets in Australia and New Zealand. See Note 3, Acquisition of Torrens University and Associated Assets in Australia and New Zealand in the condensed consolidated financial statements appearing in Part I, Item 1 of this report for a discussion of the acquisition and related financial data. Under guidelines established by the SEC, companies are permitted to exclude acquisitions from their assessment of internal control over financial reporting for a period of up to one year following an acquisition while integrating the acquired company. The Company is in the process of integrating Torrens University and associated assets in Australia and New Zealand and the Company's internal controls over financial reporting. As a result of these integration activities, certain controls will be evaluated and may be changed. Except as noted above, there have not been any changes in the Company's internal control over financial reporting during the quarter ended June 30, 2021 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

We are involved in litigation and other legal proceedings arising out of the ordinary course of our business. From time to time, certain matters may arise that are other than ordinary and routine. The outcome of such matters is uncertain, and we may incur costs in the future to defend, settle, or otherwise resolve them. We currently believe that the ultimate outcome of such matters will not, individually or in the aggregate, have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, depending on the amount and timing, an unfavorable resolution of some or all of these matters could materially affect future results of operations in a particular period.

On April 20, 2021, Capella University received a letter from the Department of Education referencing the *Wright* matter (described below), and indicating that the Department will require a fact-finding process pursuant to the borrower defense to repayment regulations to determine the validity of more than 1,000 borrower defense applications that have been submitted regarding Capella. According to the Department, some of the applications allege similar claims as in the *Wright* matter concerning alleged misrepresentations of the length of time to complete doctoral programs. Capella has since received approximately 500 applications for borrower defense to repayment and is cooperating with the Department's fact-finding process.

Wright, et al. v. Capella Education Co., et al. was filed several years ago in the United States District Court for the District of Minnesota. After the court granted Capella's motion to dismiss in relation to all but one plaintiff, the plaintiff filed a motion for leave to file a second amended complaint on October 5, 2020, seeking to add six named plaintiffs as well as additional sub-classes and causes of action to the lawsuit. On April 2, 2021, the magistrate judge issued an order granting plaintiff's motion to amend the complaint in part, allowing for the addition of six new plaintiffs as well as additional subclasses and causes of action. Capella intends to vigorously defend this case, including any request for class certification.

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, 2020, 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 our Annual Report on Form 10-K for the year ended December 31, 2020, other than the revised risk factor included below. 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."

Strayer University or Capella University could lose its eligibility to participate in federal student financial aid programs or be provisionally certified with respect to such participation if the percentage of its revenues derived from those programs were too high, or could be restricted from enrolling students in certain states if the percentage of the University's revenues from federal or state programs were too high.

A proprietary institution may lose its eligibility to participate in the federal Title IV student financial aid program if it derives more than 90% of its revenues, on a cash basis, from Title IV programs for two consecutive fiscal years. A proprietary institution of higher education that violates the 90/10 Rule for any fiscal year will be placed on provisional status for up to two fiscal years. Using the formula specified in the Higher Education Act, Strayer University derived approximately 82.95% of its cash-basis revenues from these programs in 2020. Capella University derived approximately 71.98% of its cash-basis revenues from Title IV program funds in 2020. On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021, which amends the "90/10 Rule" to include "all federal education assistance" in the "90" side of the ratio calculation. The legislation requires the Department to conduct a negotiated rulemaking process to modify related Department regulations. This rulemaking process may result in a definition of "federal education assistance" that will include tuition assistance programs offered by the U.S. Department of Defense and U.S. Department of Veterans Affairs, in addition to the Title IV programs already covered by the 90/10 Rule. Under the legislation, these revisions to the 90/10 Rule would apply to institutional fiscal years beginning on or after January 1, 2023. Further legislation has been introduced in both chambers of Congress that seek to modify the 90/10 Rule further, including proposals to change the ratio requirement to 85/15 (federal to nonfederal revenue). We cannot predict whether Congress will pass any of these legislative proposals. If one of the Universities were to violate the 90/10 Rule, the loss of eligibility to participate in the federal student financial aid programs would have a material adverse effect on our business. Certain states have also proposed legislation that would prohibit enrollment of their residents based on a state and federal funding threshold that is more restrictive than the federal 90/10 Rule. If such legislation were to be enacted, and the Universities were unable to meet the threshold, loss of eligibility to enroll students in certain states would have a material adverse effect on our business.

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

During the three months ended June 30, 2021, the Company paid \$2.9 million to repurchase shares of common stock under its repurchase program. The Company's remaining authorization for common stock repurchases was \$247.1 million as of June 30, 2021, and is available for use through December 31, 2021. A summary of the Company's share repurchases during the quarter is set forth below:

	Total number of shares purchased ⁽¹⁾	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (\$ mil)
Beginning Balance (at 03/31/21)				\$ 250.0
April	—	\$ —	—	250.0
May	37,494	77.46	37,494	247.1
June	—	—	—	247.1
Total (at 06/30/21)	<u>37,494</u>	<u>\$ 77.46</u>	<u>37,494</u>	<u>\$ 247.1</u>

⁽¹⁾ The Company's repurchase program was announced on November 3, 2003 for repurchases up to an aggregate amount of \$15 million in value of common stock through December 31, 2004. The Board of Directors amended the program on various dates increasing the amount authorized and extending the authorization date. On November 3, 2020, the Board of Directors increased the amount authorized to \$250.0 million for use through December 31, 2021.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Departure of Director

On July 26, 2021, Mr. James Dallas resigned as a director of the Company for personal reasons. Mr. Dallas's resignation from the Board of Directors did not result from any disagreement relating to the Company's operations, policies or practices.

Amendments to Amended and Restated Bylaws

On July 27, 2021, the Board of Directors adopted amendments to the Company's Amended and Restated Bylaws to, among other things, (i) conform the list of individuals permitted to call a special meeting of the Company's stockholders with the Maryland General Corporation Law, (ii) remove certain provisions relating to certification of the Company's beneficial owners and the process for the issuance of shares of common stock, with the result in each case that the provisions of the Maryland General Corporation Law will control going forward, (iii) permit meetings of the Company's stockholders to occur outside of the United States, and (iv) increase the maximum number of directors on the Board of Directors from up to 12 members to up to 18 members, as determined from time to time by a majority of the entire Board of Directors. The foregoing summary of the provisions of the Amended and Restated Bylaws, as amended, does not purport to be complete and is qualified in its entirety by reference to the full text of the Amended and Restated Bylaws, as amended, a copy of which is filed as Exhibit 3.2 to this this Quarterly Report on Form 10-Q.

Item 6. Exhibits

3.1	<u>Amended and Restated Articles of Incorporation 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 August 1, 2018).</u>
3.2	<u>Amended and Restated Bylaws of the Company.</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.</u>
32.1	<u>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.</u>
32.2	<u>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.</u>
101.	INS Inline XBRL Instance Document
101.	SCH Inline XBRL Schema Document
101.	CAL Inline XBRL Calculation Linkbase Document
101.	DEF Inline XBRL Definition Linkbase Document
101.	LAB Inline XBRL Label Linkbase Document
101.	PRE XBRL Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

STRATEGIC EDUCATION, INC.

By: /s/ Daniel W. Jackson

Daniel W. Jackson

Executive Vice President and Chief Financial Officer

Date: July 29, 2021

**AMENDED AND RESTATED
BYLAWS
of
STRATEGIC EDUCATION, INC.**

ARTICLE I. OFFICES

Section 1. Principal Office

The address of the principal office of the Corporation in the State of Maryland shall be as set forth in the Articles of Incorporation of the Corporation, as amended and supplemented from time to time (the “Charter”).

Section 2. Other Offices

The Corporation may also have other offices, including a principal executive office, at locations both inside and outside the State of Maryland as the Board of Directors may determine or as the business of the Corporation may require.

ARTICLE II. MEETINGS OF STOCKHOLDERS

Section 1. Place of Meetings

All meetings of the stockholders of the Corporation shall be held at the principal executive office of the Corporation or at any other place as may be designated by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings

The annual meeting of stockholders of the Corporation for the election of directors and the transaction of other business as may properly be brought before the meeting shall be held on a day and begin at a time as shall be set by the Board of Directors. Any business of the Corporation may be considered at the annual meeting without the purpose of the meeting having been specified in the notice thereof, except as otherwise provided by these Bylaws or by law.

Section 3. Special Meetings

(a) General. Special meetings of stockholders of the Corporation for any purpose or purposes may be called at any time by the Chairman of the Board, the Chief Executive Officer, the President or the Board of Directors, and shall be called by the Secretary upon the written request of stockholders entitled to cast at least 25 percent of all votes entitled to be cast at the meeting pursuant to the provisions of Section 3(b) of this Article II. No special meeting need be called upon the request of stockholders entitled to cast less than a majority of all votes entitled to be cast at the meeting to consider any matter that is substantially the same as a matter voted on at any special meeting of the stockholders held during the preceding 12 months.

(b) Stockholder Requested Special Meetings. (1) Any stockholder of record seeking to have stockholders request a special meeting shall, by sending written notice to the Secretary (the “Record Date Request Notice”) at the principal executive office of the Corporation, request the Board of Directors to fix a record date to determine the stockholders entitled to request a special meeting (the “Request Record Date”). The Record Date Request Notice shall set forth the purpose of the meeting and the matters proposed to be acted on at the special meeting, shall be signed by one or more stockholders of record as of the date of signature (or their agents duly authorized in a writing accompanying the Record Date Request Notice), shall bear the date of signature of each such stockholder (or such agent) and shall set forth all information relating to each such stockholder that must be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Upon receiving the Record Date Request Notice, the Board of Directors may fix a Request Record Date. The Request Record Date shall not precede and shall not be more than 10 days after the close of business on the date on which the resolution fixing the Request Record Date is adopted by the Board of Directors. If the Board of Directors, within 10 days after the date on which a valid Record Date Request Notice is received, fails to adopt a resolution fixing the Request Record Date, the Request Record Date shall be the close of business on the 10th day after the first date on which the Record Date Request Notice is received by the Secretary.

(2) In order for any stockholder to request a special meeting, one or more written requests for a special meeting signed by stockholders of record (or their agents duly authorized in a writing accompanying the request) as of the Request Record Date entitled to cast not less than 25% (the “Special Meeting Percentage”) of all the votes entitled to be cast at such meeting (the “Special Meeting Request”) shall be delivered to the Secretary at the principal executive office of the Corporation and shall be received by the Secretary within 60 days after the Request Record Date. In addition, the Special Meeting Request shall set forth (a) (i) the purpose of the meeting and the matters proposed to be acted on at it (which shall be limited to those lawful matters set forth in the Record Date Request Notice received by the Secretary), (ii) the reasons for proposing such business at the meeting, (iii) any material interest in such business of the stockholder or any Associated Person (as defined in Section 12 of this Article II), individually or in the aggregate (including any anticipated benefit to the stockholder or any Associated Person therefrom), and (iv) the text of the proposal or business (including the text of any resolutions proposed for consideration); (b) the date of signature of each stockholder (or such agent) signing the Special Meeting Request; (c) the name and address of each such stockholder and any Associated Person; (d) the class, series and number of shares of stock of the Corporation that are owned beneficially and of record by each such stockholder and any Associated Person; (e) the date such shares were acquired and the investment intent of such acquisition; (f) a description of any agreement, arrangement or understanding (including any derivative or short position, profits interests, options, hedging transactions, borrowing or lending of securities or proxy or voting agreements) in effect at the time of the giving of the notice or at any time during the six-month period then ending, by or on behalf of each such stockholder and any Associated Person, and whether the effect or intent of such agreement, arrangement or understanding is to manage risk or benefit from changes in the price of any securities issued by the Corporation, or to increase or decrease the voting power of any such person in respect of securities issued by the Corporation; (g) a description of any direct or indirect economic interest of such stockholder and any Associated Person in the Corporation (including by virtue of an existing or prospective commercial or contractual relationship with the Corporation), other than an interest arising solely out of the ownership of securities issued by the Corporation; and (h) all other information relating to such stockholder and any Associated Person that would be required to be disclosed in connection with the solicitation of proxies for the matters proposed to be considered at the special meeting of stockholders pursuant to Regulation 14A (or any successor provision) under the Exchange Act. Any requesting stockholder (or a stockholder’s agent duly authorized in a writing accompanying the revocation of the Special Meeting Request) may revoke his, her or its request for a special meeting at any time by written revocation delivered to the Secretary at the principal executive office of the Corporation.

(3) The Secretary shall inform the requesting stockholders of the reasonably estimated cost of preparing and mailing the notice of the special meeting. The Secretary shall not be required to call a special meeting upon stockholder request and such meeting shall not be held unless, in addition to the documents required by paragraph (2) of this Section 3(b), the Secretary receives payment of such reasonably estimated cost prior to the mailing of the notice of the special meeting.

(4) Except as provided in the next sentence, any special meeting shall be held at such place, date and time as may be designated by whichever of the Chairman of the Board, the Chief Executive Officer, the President or the Board of Directors has called the meeting. In the case of any special meeting called by the Secretary upon the request of stockholders (a “Stockholder Requested Meeting”), such meeting shall be held at such place, date and time as may be designated by the Board of Directors; provided, however, that the date of any Stockholder Requested Meeting shall be not more than 90 days after the record date for such meeting (the “Meeting Record Date”); and provided, further that if the Board of Directors fails to designate, within 10 days after the date that a valid Special Meeting Request is actually received by the Secretary (the “Delivery Date”), a date and time for a Stockholder Requested Meeting, then such meeting shall be held at 2:00 p.m. local time on the 90th day after the Meeting Record Date or, if such 90th day is not a Business Day (as defined below), on the first preceding Business Day; and provided further that in the event that the Board of Directors fails to designate a place for a Stockholder Requested Meeting within 10 days after the Delivery Date, then such meeting shall be held at the principal executive office of the Corporation. In fixing a place, date or time for any special meeting, the Chairman of the Board, the Chief Executive Officer, the President or Board of Directors may consider such factors as he, she or it deems relevant within the good faith exercise of business judgment, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for the meeting and any plan of the Board of Directors to call an annual meeting or a special meeting. In the case of any Stockholder Requested Meeting, if the Board of Directors fails to fix a Meeting Record Date that is a date within 30 days after the Delivery Date, then the close of business on the 30th day after the Delivery Date shall be the Meeting Record Date. The Board of Directors may revoke the notice for any Stockholder Requested Meeting if the requesting stockholders fail to comply with the provisions of paragraph (3) of this Section 3(b). Notwithstanding anything in these Bylaws to the contrary, the Board of Directors may submit its own proposal or proposals for consideration at such a special meeting.

(5) If written revocations of requests for the special meeting have been delivered to the Secretary and the result is that stockholders of record (or their agents duly authorized in writing), as of the Request Record Date, entitled to cast less than the Special Meeting Percentage have delivered, and not revoked, requests for a special meeting to the Secretary, the Secretary shall: (i) if the notice of meeting has not already been mailed, refrain from mailing the notice of the meeting and send to all requesting stockholders who have not revoked such their written request for a special meeting a written notice to that

effect, or (ii) if the notice of meeting has been mailed and if the Secretary first sends to all requesting stockholders who have not revoked their written requests for a special meeting a written notice of any revocation of a request for the special meeting and written notice of the Secretary's intention to revoke the notice of the meeting, or for the chairman of the meeting to announce at the meeting that the meeting is being closed without action on the matter, (A) the Secretary may revoke the notice of the meeting at any time before 10 days prior to the date of the meeting or (B) the chairman of the meeting may call the meeting to order and then close the meeting upon the chairman's own initiative without acting on the matter that otherwise would have been the subject of the meeting. Any request for a special meeting received after a revocation by the Secretary of a notice of a meeting shall be considered a request for a new special meeting.

(6) The Chairman of the Board, Chief Executive Officer or Board of Directors may appoint regionally or nationally recognized independent inspectors of elections to act as the agent of the Corporation for the purpose of promptly performing a ministerial review of the validity of any purported Special Meeting Request received by the Secretary. For the purpose of permitting the inspectors to perform such review, no such purported request shall be deemed to have been delivered to the Secretary until the earlier of (i) five Business Days after receipt by the Secretary of such purported request and (ii) such date as the independent inspectors certify to the Corporation that the valid requests received by the Secretary represent at least 25% of the issued and outstanding shares of stock that would be entitled to vote at such meeting. Nothing contained in this paragraph (6) shall in any way be construed to suggest or imply that the Corporation or any stockholder shall not be entitled to contest the validity of any request, whether during or after such five Business Day period, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(7) For purposes of these Bylaws, "Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of Maryland are authorized or obligated by law or executive order to close.

Section 4. Conduct of Meetings

At every meeting of stockholders, the Chairman of the Board, if there be one, shall conduct the meeting or, in the case of vacancy in office or absence of the Chairman of the Board, one of the following officers of the Corporation present shall conduct the meeting in the order stated: the Lead Director of the Board of Directors, if there be one, the Chief Executive Officer, the President, the Vice Presidents in their order of rank and seniority or, in the absence of any of such directors or officers, a chairman chosen by the stockholders present in person or by proxy that are entitled to cast a majority of the votes at the meeting, shall act as chairman, and the Secretary, or, in his or her absence, an Assistant Secretary, or in the absence of both the Secretary and Assistant Secretary, a person appointed by the chairman of the meeting shall act as secretary and shall record the minutes of the meeting. The order of business and all other matters of procedure at any meeting of stockholders shall be determined by the chairman of the meeting subject to any rules, regulations and procedures as may be adopted from time to time by the Board of Directors. Subject to any rules, regulations and procedures as may be adopted from time to time by the Board of Directors, the chairman of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of such chairman, are appropriate for the proper conduct of the meeting, including, without limitation, (a) restricting admission to the time set for the commencement of the meeting; (b) limiting attendance at the meeting to stockholders of record of the Corporation, their duly authorized proxies and other such individuals as the chairman of the meeting may determine; (c) limiting participation at the meeting on any matter to stockholders of record of the Corporation entitled to vote on such matter, their duly authorized proxies and other such individuals as the chairman of the meeting may determine; (d) limiting the time allotted to questions or comments by participants; (e) determining when the polls should be opened and closed; (f) maintaining order and security at the meeting; (g) removing any stockholder or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the chairman of the meeting; and (h) concluding a meeting or recessing or adjourning the meeting to a later date and time and at a place announced at the meeting. Unless otherwise determined by the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 5. Notice of Meetings; Waiver of Notice

Notice in writing or by electronic transmission of the time and place of each meeting of stockholders, and the purpose of any special meeting or as otherwise required by law, shall be given to each stockholder entitled to vote at or to notice of the meeting not less than 10 nor more than 90 days before the date of the meeting, either personally delivered to him, left at his residence or usual place of business, mailed to him, postage prepaid, at his address as it appears on the records of the Corporation, or transmitted to him by an electronic transmission to any address or number of the stockholder at which the stockholder receives electronic transmissions, unless in the case of electronic transmission the stockholder has advised the Corporation that notice may not be given by electronic transmission or the Corporation otherwise is ineligible to deliver notice to the stockholder by electronic transmission under Section 2.504(d) of the Maryland General Corporation Law (the "MGCL").

Notwithstanding the foregoing, the Corporation may give a single notice to stockholders who share an address in accordance with Section 2-504.1 of the MGCL, unless the Corporation has received a request from a stockholder at that address in writing or by electronic transmission that a single notice not be given. No notice of the time, place, or purpose of any meeting of stockholders need be given to any stockholder entitled to the notice who is present in person or is represented by proxy at the meeting, or who, either before or after the meeting, executes a written waiver or a waiver by electronic transmission of notice which shall be filed by the Secretary with the records of meetings of stockholders, as provided by these Bylaws.

Section 6. Record Date and Closing of Transfer Books

For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders, or any adjournment thereof, or entitled to receive dividends or be allotted any other right, or for any other proper purpose, the Board of Directors may fix, in advance, a record date, which shall not be more than 90 days before the date on which the action requiring the determination will be taken, or the Board of Directors may direct that the stock transfer books be closed for a stated period, not to exceed 20 days. In the case of a meeting of stockholders, the record date or the closing of the transfer books shall be at least 10 days before the date of the meeting. Except as otherwise provided by law, the record date may not be prior to the close of business on the day the record date is fixed.

Section 7. Quorum

Unless otherwise provided by law or the Charter, the presence in person or by proxy of stockholders entitled to cast a majority of all votes entitled to be cast at a meeting shall constitute a quorum at all meetings of stockholders. The chairman of the meeting or the stockholders entitled to cast a majority of the votes so represented may adjourn the meeting from time to time without further notice other than announcement at the meeting to a date not more than 120 days after the original record date. At the adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. The stockholders present at a duly organized meeting at which a quorum has been established may continue to transact business until adjournment, notwithstanding any absence or withdrawal of any stockholder or stockholders during the meeting that has or have the effect of reducing the number of stockholders remaining in attendance at the meeting to less than a quorum.

Section 8. Proxies

At all meetings of stockholders of the Corporation, a stockholder may vote either in person or by proxy executed by the stockholder or by the stockholder's duly authorized agent in any manner permitted by law. No proxy shall be valid for more than 11 months after its date, unless the proxy otherwise provides.

Section 9. Voting

At all meetings of stockholders of the Corporation, each outstanding share of Common Stock as of the record date of the meeting shall be entitled to one vote on each matter submitted to a vote. A majority of all the votes cast at a meeting at which a quorum is present is sufficient to approve any matter that properly comes before the meeting unless otherwise provided by law, the Charter or these Bylaws. In the case of voting for the election of directors, each director of the Board of Directors shall be elected by a majority of votes cast with respect to such director at any meeting for the election of directors at which a quorum is present; provided, however, that, if as of a date that is 14 days in advance of the date the Corporation files its definitive proxy statement with the Securities and Exchange Commission (regardless of whether or not the proxy statement is thereafter revised or supplemented), the number of director nominees exceeds the number of directors to be elected, then each director shall be elected by a plurality of the votes cast in person or by proxy at such meeting. For purposes of the third sentence of this Section 9, a majority of the votes cast means that the number of votes "for" a director nominee exceeds the number of votes "against" that director nominee.

Section 10. List of Stockholders

The Secretary of the Corporation shall prepare a list of the stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order, and indicating the number of shares of stock held by each stockholder as of the record date for the meeting. The list of stockholders shall be kept at the place of the meeting of stockholders during the meeting.

Section 11. Informal Action

Any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting if a unanimous consent in writing or by electronic transmission signed by each stockholder entitled to vote on the matter and setting forth the action being taken filed in paper or electronic form with the records of stockholder meetings.

Section 12. Advance Notice of Stockholder Nominees for Directors and Other Stockholder Proposals

(a) Director Nominations and Stockholder Business at Annual Meetings of Stockholders. (1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who (A) was a stockholder of record both at the time of giving of notice provided for in this Section 12(a) and at the time of the meeting, (B) is entitled to vote at the meeting and (C) complies with the provisions of this Section 12(a).

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (1) of this Section 12(a), the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for action by the stockholders at an annual meeting. To be timely, a stockholder's notice shall either (i) be sent to the Corporation in compliance with the requirements of Regulation 14A (or any successor provision) under the Exchange Act, if the proposal is submitted under such regulation, or (ii) be delivered to the Secretary at the principal executive office of the Corporation before 5:00 p.m., Eastern time, not less than 90 days nor more than 120 days before the first anniversary of the date of the Corporation's proxy statement released to stockholders in connection with the previous year's annual meeting, and shall include all of the information required by this Section 12; provided, however, that if the annual meeting is advanced or delayed by more than 30 days from the anniversary of the date of the previous year's annual meeting, to be timely notice by the stockholder must be so delivered before 5:00 p.m., Eastern time, not earlier than 120 days before the annual meeting and not later than the later of 90 days before the annual meeting or the 10th day following the day on which public announcement of the date of the annual meeting is first made. The announcement of a postponement of an annual meeting after notice of the meeting has been given or an adjournment of an annual meeting shall not commence a new time period for the giving of a stockholder's notice as described in this Section 12.

Such stockholder's notice shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (A) the name, age, business address and residence address of such person, (B) the class, series and number of shares of capital stock of the Corporation that are beneficially owned by such person, and (C) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, (A) a description of the business desired to be brought before the meeting, (B) the reasons for proposing such business at the meeting, (C) any material interest in such business of the stockholder or any Associated Person (as defined below), individually or in the aggregate (including any anticipated benefit to the stockholder or any Associated Person therefrom), and (D) the text of the proposal or business (including the text of any resolutions proposed for consideration); (iii) as to the stockholder giving the notice, any Associated Person and any nominee for election or reelection as a director, (A) the name and address of such stockholder, as they appear on the Corporation's books, and of such Associated Person or nominee, (B) the class, series and number of shares of stock of the Corporation which are owned beneficially and of record by such stockholder, any Associated Person and any nominee, (C) the date such shares were acquired and the investment intent of such acquisition, (D) a description of any agreement, arrangement or understanding (including any derivative or short position, profits interests, options, hedging transactions, borrowing or lending of securities or proxy or voting agreements) in effect at the time of the giving of the notice or at any time during the six-month period then ending, by or on behalf of the stockholder giving the notice, any Associated Person and any nominee, and whether the effect or intent of such agreement, arrangement or understanding is to manage risk or benefit from changes in the price of any securities issued by the Corporation, or to increase or decrease the voting power of any such person in respect of securities issued by the Corporation, and (E) a description of any direct or indirect economic interest of the stockholder giving the notice, any Associated Person and any nominee in the Corporation (including by virtue of an existing or prospective commercial or contractual relationship with the Corporation), other than an interest arising solely out of the ownership of securities issued by the Corporation; and (iv) a representation that the stockholder giving the notice intends to appear in person or by proxy at the meeting to nominate the persons named in the notice or to bring such business before the meeting, as applicable.

(3) Notwithstanding anything in this Section 12(a) to the contrary, in the event that the number of directors to be elected is increased and there is no public announcement of the increase at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 12 also shall be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(b) Director Nominations and Stockholder Business at Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors, or (iii) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any stockholder of the Corporation who (A) is a stockholder of record both at the time of giving of notice provided for in this Section 12(b) and at the time of the meeting, (B) is entitled to vote at the meeting and (C) complies with the provisions of this Section 12. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more persons to the Board, any such stockholder may nominate a person or persons (as the case may be) for election as a director as specified in the Corporation's notice of meeting, if the stockholder's notice containing all of the information required by paragraph (2) of Section 12(a) of this Article II, shall be delivered to the Secretary at the principal executive office of the Corporation before 5:00 p.m., Eastern time, not earlier than 120 days before the special meeting and not later than the later of 90 days before the special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at the special meeting. The announcement of a postponement of a special meeting after notice of the meeting has been given or an adjournment of a special meeting shall not commence a new time period for the giving of a stockholder's notice as described in this Section 12(b).

(c) General. (1) If information submitted pursuant to this Section 12 by any stockholder proposing a nominee for election as a director or any proposal for other business at a meeting of stockholders shall be inaccurate to a material extent, such information may be deemed not to have been provided in accordance with this Section 12. Upon written request by the Secretary or the Board of Directors or any committee thereof, any stockholder proposing a nominee for election as a director or any proposal for other business at a meeting of stockholders shall provide, within five Business Days of delivery of such request (or such other period as may be specified in such request), written verification, satisfactory, in the discretion of the Board of Directors or any committee thereof or any authorized officer of the Corporation, to demonstrate the accuracy of any information submitted by the stockholder pursuant to this Section 12. If a stockholder fails to provide such written verification within such period, the information as to which written verification was requested may be deemed not to have been provided in accordance with this Section 12.

(2) Only such persons who are nominated in accordance with the procedures set forth in this Section 12 shall be eligible for election by stockholders as directors, and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the provisions of this Section 12. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the provisions of this Section 12 and, if any proposed nomination or business is not in compliance with this Section 12, to declare that such defective nomination or proposal be disregarded.

(3) For purposes of this Section 12, "public announcement" shall mean disclosure (i) in a press release reported by the Dow Jones News Service, Associated Press, Business Wire, PR Newswire or other widely circulated news or wire service or (ii) in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act. For purposes of Section 3 and Section 12 of this Article II, an "Associated Person" of a stockholder means (i) any person acting in concert with the stockholder, (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by the stockholder (other than a stockholder that is a depository), and (iii) any person that, directly or indirectly, controls, is controlled by or is under common control with the stockholder or an Associated Person of the stockholder.

(4) Notwithstanding the foregoing provisions of this Section 12, a stockholder also shall comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 12. Nothing in this Section 12 shall be deemed to affect any rights of stockholders to request inclusion of proposals in, nor the right of the Corporation to omit a proposal from, the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act.

Section 13. Telephone Meetings.

The Board of Directors or the chairman of the meeting may permit stockholders to participate in meetings of the stockholders by means of a conference telephone or other communications equipment by which all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means constitutes presence in person at the meeting.

Section 14. Inspectors

The Board of Directors, in advance of any meeting, may, but need not, appoint one or more individual inspectors or one or more entities that designate individuals as inspectors to act at the meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the chairman of the meeting may, but need not, appoint one or more persons as inspectors for such meeting. In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the Board of Directors in advance of the meeting or at the meeting by the chairman of the meeting. Such inspectors, if any, shall determine the number of shares outstanding and the voting power of each, ascertain and report the number of shares represented at the meeting based upon their determination of the validity and effect of proxies, the existence of a quorum, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, report the results and perform such other acts as are proper to conduct the election and voting with impartiality and fairness to all the stockholders. Each report of an inspector shall be in writing and signed by the inspector or by a majority of inspectors if there is more than one inspector acting at the meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be *prima facie* evidence thereof.

ARTICLE III. BOARD OF DIRECTORS

Section 1. General Powers

The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. All powers of the corporation may be exercised by or under the authority of the board of directors, except as conferred upon or reserved to the stockholders by law, the Charter or these Bylaws.

Section 2. Number and Term

The Board of Directors of the Corporation shall consist of not less than 3 or more than 18 directors as determined from time to time by a majority of the entire Board of Directors; provided, however, that the tenure of office of any director shall not be changed by reason of any such change in the number of directors. Directors shall be elected at the annual meeting of stockholders and shall hold office until the next annual meeting of stockholders and until their respective successors are elected and qualify.

Section 3. Qualifications

Unless otherwise provided by law, the Charter or these Bylaws, directors need not be stockholders of the Corporation.

Section 4. Regular Meetings

The regular annual meeting of the Board of Directors shall be held without notice as soon as practicable after the annual meeting of stockholders at such time and place as may be designated by the Board of Directors. Other regular meetings of the Board of Directors may be held without notice at a time and place in or out of the State of Maryland as shall from time to time be determined by the Board of Directors.

Section 5. Special Meetings

Special meetings of the Board of Directors may be called by the Chairman of the Board or the Chief Executive Officer and shall be called by the Secretary upon the written request of a majority of the directors. Special meetings of the Board of Directors shall be held at any place in or out of the State of Maryland as the Board may from time to time determine or as shall be specified in any notice or waiver of notice of the meeting.

Section 6. Notice; Waiver of Notice

Notice of any special meeting of the Board of Directors shall be given to each director at least one day prior thereto if delivered personally, by telephone, by facsimile or by electronic transmission or at least five days prior thereto if delivered by mail, addressed to the director at his residence or business address. Any director may waive notice of any meeting, either before or after the meeting, by executing a waiver of notice in writing or electronic transmission which is filed with the records of the meeting. Attendance of a director at a meeting shall constitute a waiver of notice of the meeting, except where the director attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at nor the purpose of any meeting of the Board of Directors need be specified in the notice or waiver of notice of the meeting.

Section 7. Quorum; Manner of Acting

A majority of the entire Board of Directors shall constitute a quorum for transaction of business at any meeting of the Board of Directors. If a quorum is not present at a meeting, the directors present may adjourn the meeting. Notice of any adjourned meeting shall be given in the same manner as prescribed by Section 6 of this Article III. Unless a greater proportion is required by law, the Charter or these Bylaws, the action of a majority of the directors present at a meeting at which a quorum is present shall be the action of the Board of Directors.

Section 8. Action Without a Meeting; Telephone Meeting

Any action required or permitted to be taken at a meeting of the Board of Directors, or any committee thereof, may be taken without a meeting if a consent in writing or by electronic transmission, setting forth the action so taken, is given by each member of the Board or committee and filed in paper or electronic form with the minutes of proceedings of the Board or committee. Members of the Board of Directors, or any committee thereof, may participate in meetings by means of a conference telephone or other communications equipment by which all persons participating in the meeting can hear each other at the same time. The participation shall constitute presence in person at the meeting.

Section 9. Resignation and Removal

Any director may resign at any time by giving written notice of the resignation to the Chief Executive Officer or the Secretary at the principal executive office of the Corporation. Unless otherwise specified therein, the resignation shall take effect upon receipt thereof. The acceptance of a resignation shall not be required to make it effective. The stockholders of the Corporation may remove any director, with or without cause, by the affirmative vote of a majority of all votes entitled to be cast for the election of directors.

Section 10. Vacancies

The stockholders may elect a successor to fill a vacancy on the Board of Directors which results from the removal of a director. A vacancy occurring on the Board of Directors other than by reason of an increase in the number of directors may be filled by the affirmative vote of a majority of the remaining directors, although less than a quorum. Any directorship to be filled by reason of an increase in the number of directors may be filled by a majority of the entire Board of Directors. A director elected by the Board of Directors to fill a vacancy shall serve until the next annual meeting of stockholders and until his successor is elected and qualifies. A director elected by the stockholders to fill a vacancy which results from the removal of a director shall serve for the balance of the term of the removed director.

Section 11. Presumption of Assent

A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be assumed to have assented to the action unless the director announces his or her dissent at the meeting and (a) the director's dissent is entered in the minutes of the meeting, (b) the director files his or her written dissent to the action with the secretary of the meeting before the adjournment thereof, or (c) the director forwards his or her written dissent, by certified mail, return receipt requested, bearing a postmark from the United States Postal Service, to the secretary of the meeting or the Secretary of the Corporation within 24 hours after the meeting is adjourned. The right to dissent shall not apply to a director who voted in favor of the action or failed to make the dissent known at the meeting.

Section 12. Compensation of Directors

The directors may be paid their expenses of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated amount for serving as a director of the Corporation. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be paid like compensation for attending committee meetings and for their services as members of the committees.

ARTICLE IV. COMMITTEES

Section 1. Appointment

The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee and other committees composed of one or more directors for those purposes and with powers as the Board may determine, subject to Section 2 of this Article IV, and as may be set forth in a charter of the committee. The members of any committee present at any meeting of the committee, whether or not they constitute a quorum, may appoint another director to act in the place of an absent member of the committee. The Board of Directors shall appoint a chairman of each committee.

Section 2. Executive Committee; Authority

The Board of Directors may, by resolution, establish an Executive Committee to consist of two or more directors. When the Board of Directors is not in session, the Executive Committee shall have and may exercise all of the powers of the Board of Directors, except to the extent that the authority shall be limited by resolution of the Board of Directors or by law. The Board of Directors may delegate to committees appointed under Section 1 of this Article IV any of the powers of the Board of Directors, except as prohibited by law.

Section 3. Tenure

Subject to the provisions of Section 8 of this Article IV, each member of the Executive Committee or any other committee shall hold office until the next regular annual meeting of the Board of Directors following the member's appointment and until the member's successor is designated by the Board of Directors.

Section 4. Meetings and Notices

Regular meetings of committees of the Board of Directors may be held without notice at times and places as the committees may determine from time to time. Special meetings of committees may be called by any member thereof or as designated in the committee charter upon not less than one day's notice stating the place, date, and hour of the meeting, which notice may be delivered personally, by telephone, by facsimile or by electronic transmission. The notice of a meeting of a committee need not state the business proposed to be transacted at the meeting. Any member of a committee may waive notice of any meeting thereof, either before or after the meeting, by executing a waiver of notice which shall be filed with the records of the meeting, or by attendance at the meeting.

Section 5. Quorum

Except as provided otherwise in Section 1 of this Article IV or as provided otherwise in the charter of a committee, the presence of a majority of the members of a committee shall constitute a quorum for the transaction of business at any meeting thereof. The vote of a majority of the members of a committee present at a meeting at which a quorum is present shall constitute action of the committee.

Section 6. Action Without a Meeting; Telephone Meetings

Any action required or permitted to be taken at a meeting of a committee may be taken without a meeting if a consent in writing or by electronic transmission, setting forth the action so taken, is given by all of the members of the committee and filed in paper or electronic form with the minutes of proceedings of the committee. Members of committees may participate in meetings by means of a conference telephone or other communications equipment by which all persons participating in the meeting can hear each other at the same time. Such participation shall constitute presence in person at the meeting.

Section 7. Vacancies

Any vacancy on a committee may be filled by a resolution adopted by the Board of Directors.

Section 8. Removal and Resignations

Any member of a committee may be removed at any time, with or without cause, by resolution of the Board of Directors. Any member of a committee may resign from the committee at any time by giving written notice to the Chairman of the Board, Chief Executive Officer or Secretary of the Corporation, and unless otherwise specified therein, the resignation shall take effect upon receipt thereof.

Section 9. Procedure

All committees established by the Board of Directors shall keep correct and complete minutes of any actions taken at their proceedings which minutes shall be recorded in written or electronic form, and the Chairman of each committee shall report any actions taken to the Board of Directors at a meeting thereof held after the committee meeting. The minutes of committee meetings shall be distributed to all members of the Board of Directors upon the Board Chairman's request.

Section 10. Emergency

In the event of a state of disaster of sufficient severity to prevent the conduct and management of the affairs and business of the Corporation by its directors and officers as contemplated by the Charter and these Bylaws, any two or more available members of any then incumbent Executive Committee shall constitute a quorum of that committee for the full conduct and management of the affairs and business of the Corporation. In the event of the unavailability, at such time, of a minimum of two members of the then incumbent Executive Committee, or in the event the Corporation does not have an Executive Committee, the available directors shall elect an Executive Committee consisting of any two members of the Board of Directors, which two members shall constitute the Executive Committee for the full conduct and management of the affairs of the Corporation in accordance with the foregoing provisions of this Section 10. This Section 10 shall be subject to implementation by resolution of the Board of Directors passed from time to time for that purpose, and any provisions of the Bylaws (other than this Section 10) and any resolutions which are contrary to the provisions of this Section 10 or to the provisions of any such implementing resolutions shall be suspended until it shall be determined by any interim Executive Committee acting under this Section 10 that it shall be to the advantage of the Corporation to resume the conduct and management of its affairs and business under all the other provisions of the Bylaws.

ARTICLE V. OFFICERS

Section 1. Positions

The officers of the Corporation shall be the President, the Secretary, and the Treasurer, and such other officers as the Board of Directors may appoint, including a Chairman of the Board, Chief Executive Officer and one or more Vice Presidents, who shall exercise the powers and perform the duties as are provided in these Bylaws and as may be determined from time to time by resolution of the Board of Directors. Any two or more offices may be held by the same person, except that (a) one person may not serve concurrently as both President and Vice President, and (b) any person who holds more than one office may not act in more than one capacity to execute, acknowledge, or verify any instrument required by law to be executed, acknowledged or verified by more than one officer.

Section 2. Chairman of the Board

If the directors shall appoint a Chairman of the Board, the Chairman shall, when present, preside at all meetings of the Board of Directors and shall perform other duties and have other powers as may be vested in the Chairman by the Board of Directors.

Section 3. Chief Executive Officer

The Board of Directors may designate a Chief Executive Officer. The Chief Executive Officer shall have general and active supervision over the business and affairs of the Corporation, shall insure that all lawful orders and resolutions of the Board of Directors are carried into effect, and shall preside at all meetings of the Board of Directors in the absence of the Chairman of the Board. The Chief Executive Officer may execute bonds, mortgages, and other contracts of the Corporation, except where required or permitted by law to be otherwise signed and executed, and except where the execution thereof shall be

expressly delegated by the Board of Directors to some other officer or agent of the Corporation. The Chief Executive Officer shall perform other duties incident to the office of chief executive officer and such other duties as may be prescribed by the Board of Directors from time to time.

Section 4. President

In the absence of a designation of a Chief Executive Officer, the President shall be the chief executive officer of the Corporation and shall have general and active supervision over the business and affairs of the Corporation, and shall insure that all lawful orders and resolutions of the Board of Directors are carried into effect. The President may execute bonds, mortgages, and other contracts of the Corporation, except where required or permitted by law to be otherwise signed and executed, and except where the execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. The President shall perform other duties incident to the office of president and such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer from time to time.

Section 5. Vice President(s)

In the absence of the Chief Executive Officer or the President or in the event of the Chief Executive Officer's or the President's inability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice President shall perform other duties and have other powers as the Board of Directors, the Chief Executive Officer or the President may from time to time prescribe. One or more vice presidents may be designated as executive vice president, senior vice president or as vice president for a particular area of responsibility.

Section 6. Secretary

The Secretary shall attend all meetings of the stockholders and the Board of Directors, shall record or cause to be recorded all the proceedings of the meetings of the stockholders and of the Board of Directors in a book or books to be kept for that purpose, and shall perform like duties for the Executive Committee or other committees, when required. The Secretary shall give, or cause to be given, notices as are required to be given in accordance with the provisions of these Bylaws or as required by law or the Charter. The Secretary shall have custody of the seal of the Corporation, and shall have the authority to affix the same to any instrument or document the execution of which in the name or on behalf of the Corporation is duly authorized, and when so affixed it may be attested by the signature of the Secretary. The Secretary shall see that the books, records, and other documents required by law (including the stock ledger and the records of the issue, transfer and registration of certificates for shares of Common Stock) are properly kept and filed. The Secretary shall perform all other duties incident to the office of Secretary and other duties as from time to time may be prescribed by these Bylaws or may be assigned to him or her by the Board of Directors, the Chief Executive Officer or the President.

Section 7. Assistant Secretary

The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there shall have been no such determination, then in the order of their election), shall, in the absence of the Secretary or in the event of the Secretary's inability or refusal to act, perform the duties and exercise the powers of the Secretary, and shall have other powers as the Board of Directors, the Chief Executive Officer or the President may from time to time prescribe.

Section 8. Treasurer

The Treasurer shall have the custody of the corporate funds and securities, and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation, and shall deposit all monies and valuable effects in the name and to the credit of the Corporation in depositories as may be designated by the Board of Directors. The Treasurer shall render to the Chief Executive Officer and to the Board of Directors at its regular meetings, or when the Board of Directors so requires, an account as to all transactions as Treasurer and of the financial condition of the Corporation. The Treasurer shall also perform all other duties incident to the office of Treasurer and other duties as from time to time may be assigned to him or her by the Board of Directors, the Chief Executive Officer or the President, or as may be prescribed by these Bylaws.

Section 9. Assistant Treasurer

The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or if there shall have been no such determination, then in the order of their election), shall, in the absence of the Treasurer or in the event of the Treasurer's inability or refusal to act, perform the duties and exercise the powers of the Treasurer, and shall perform other duties and have other powers as the Board of Directors, the Chief Executive Officer or the President may from time to time prescribe.

Section 10. Other Officers

The Board of Directors may create other officers and appoint or provide for the appointment of such other officers as the Board of Directors shall deem necessary. The officers shall bear such titles, have such authority, receive such compensation, hold their offices for such terms, shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

Section 11. Election and Term of Office

The officers of the Corporation shall be elected annually by the Board of Directors, except that the Chief Executive Officer or President may from time to time appoint one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers or other officers. Each officer shall hold office until his or her successor is elected and qualified, or until his or her earlier death, resignation, or removal.

Section 12. Compensation

The compensation of all officers of the Corporation shall be fixed from time to time by the Board of Directors or a committee thereof.

Section 13. Resignation and Removal

Any officer may at any time resign in the same manner provided for directors in Section 9 of Article III of these Bylaws. Any officer may be removed by the Board of Directors, but the removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 14. Vacancies

A vacancy in any office because of death, resignation, removal, disqualification or otherwise may be filled by the Board of Directors for the unexpired portion of the term of the office and until a successor is elected and qualified.

Section 15. Fidelity Bonds

The Corporation may secure the fidelity of any or all of its officers or agents by bond or otherwise.

ARTICLE VI. INDEMNIFICATION

To the maximum extent permitted by Maryland law in effect from time to time, the Corporation shall indemnify (a) any director or officer or any former director or officer (including among the foregoing, for all purposes of this Article VI and without limitation, any individual who, while a director and at the request of the Corporation, serves or has served as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, limited liability company, other enterprise, or employee benefit plan), who has been successful, on the merits or otherwise, in the defense of a proceeding to which the individual was made a party by reason of such status, against reasonable expenses incurred by the individual in connection with the proceeding, and (b) any director or officer or any former director or officer against any claim or liability to which he or she may become subject by reason of such status unless it is established that (i) his or her act or omission was committed in bad faith or was the result of active and deliberate dishonesty, (ii) he or she actually received an improper personal benefit in money, property or services or (iii) in the case of a criminal proceeding, he or she had reasonable cause to believe that his or her act or omission was unlawful. In addition, the Corporation shall pay or reimburse, in advance of final disposition of a proceeding, reasonable expenses incurred by a director or officer or former director or officer made a party to a proceeding by reason of his or her status as a director or officer; provided that the Corporation shall have received (i) a written affirmation by the director or officer of his or her good faith belief that he or she has met the applicable standard of conduct necessary for indemnification by the Corporation as authorized by these Bylaws and (ii) a written

undertaking by or on his or her behalf to repay the amount paid or reimbursed by the Corporation if it shall ultimately be determined that the applicable standard of conduct was not met. The Corporation may, with the approval of the Board of Directors, also provide indemnification and payment or reimbursement of expenses to any employee or agent of the Corporation on such terms and conditions as may be determined by the Board of Directors, subject to any restrictions of law. Neither the amendment nor repeal of this Article VI, nor the adoption or amendment of any other provision of the Charter or these Bylaws inconsistent with this Article VI, shall apply to or affect in any respect the applicability of this paragraph with respect to any act or failure to act that occurred prior to such amendment, repeal or adoption. Any indemnification or payment or reimbursement of the expenses permitted by these Bylaws shall be furnished in accordance with the procedures provided for indemnification and payment or reimbursement of expenses under Section 2-418 of the MGCL for directors of Maryland corporations. The Corporation may provide such other and further indemnification or payment or reimbursement of expenses as may be permitted by the MGCL, as in effect from time to time.

ARTICLE VII. CAPITAL STOCK

Section 1. Stock Certificates

The Corporation and its authorized transfer agent may maintain the record of ownership of shares of the Corporation electronically, without the issuance or transfer of any physical share certificate. A stockholder may request in writing a certificate that represents and certifies the shares of stock the stockholder holds in the Corporation; provided that the Board of Directors may provide for some or all of any class of stock to be uncertificated. A certificate may not be issued until the stock represented by it is fully paid. In the event that the Corporation issues shares of stock represented by certificate, such certificates representing shares of stock of the Corporation shall be signed by the President, Vice President, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Chairman of the Board or the Vice Chairman of the Board, and countersigned by the Secretary, an Assistant Secretary, the Treasurer, or an Assistant Treasurer. Each certificate may be sealed with the corporate seal or a facsimile or other form thereof. The signatures of the officers upon a stock certificate may be either manual or facsimile. Any stock certificate so signed shall be valid and may be issued whether or not the officer who signed it is still an officer when it is issued. Stock certificates shall be consecutively numbered or otherwise identified, and each certificate shall state on its face the name of the Corporation, the class of stock and the number of shares it represents, and the name of the stockholder or other person to whom it is issued.

Section 2. Transfer of Shares; Replacement Certificates

Transfer of shares of Common Stock of the Corporation shall be made only on its stock ledger. Authority for the transfer shall be given only by the holder of record thereof or by his legal representative, who shall furnish proper evidence of the authority, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Corporation. Within a reasonable time after the transfer of uncertificated shares, to the extent required by the MGCL the Corporation shall furnish to the registered owner of the shares a written statement containing the information required by the MGCL to be set forth on certificates representing shares of such stock. In case of a lost, stolen, or destroyed certificate, a new certificate may be issued upon those conditions and indemnity to the Corporation as the Board of Directors in its discretion may prescribe.

Section 3. Books and Records; Stock Ledgers

The Corporation shall keep correct and complete books and records of its accounts and transactions and minutes of the proceedings of its stockholders and Board of Directors and of any executive or other committee when exercising any of the powers of the Board of Directors. The Corporation shall maintain a stock ledger, containing the names and addresses of the stockholders of the Corporation and the number of shares of stock of each class held by each stockholder, which shall be kept at the principal executive office of the Corporation, or at another place as the Board of Directors may determine.

Section 4. Dividends

The Board of Directors may declare dividends on the stock of the Corporation, which may be paid in cash, property, or the Corporation's stock, subject to applicable provisions of law and the Charter.

Section 5. Registered Stockholders

The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, to receive notifications, to vote as the owner, and to exercise the rights and powers of an owner. The Corporation shall not be bound to recognize any equitable or other claim to or interest in the share or shares on the part of

any other person, whether or not it shall have express or other notice thereof, except as expressly provided by the laws of the State of Maryland.

ARTICLE VIII. MISCELLANEOUS PROVISIONS

Section 1. Fiscal Year

The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 2. Financial Statements

The Chief Executive Officer, Treasurer, or any other officer as may be designated by the Board of Directors of the Corporation, shall prepare, or cause to be prepared, annually a full and correct statement of the affairs of the Corporation, including a balance sheet and a financial statement of operations for the preceding fiscal year, which shall be submitted at the annual meeting of stockholders of the Corporation and filed within 20 days thereafter at the principal executive office of the Corporation in written form, or any other form that complies with Section 2-114 of the MGCL.

Section 3. Seal

The corporate seal of the Corporation shall have inscribed thereon the name of the Corporation, the year of its organization, and the words "Corporate Seal" and "Maryland," and shall be in the form as shall be approved from time to time by the Board of Directors. The seal may be used by causing it, or a facsimile thereof, to be impressed, affixed, or otherwise reproduced.

Section 4. Amendments

(a) By Directors. These Bylaws may be amended or repealed from time to time by action of the Board of Directors.

(b) By Stockholders. These Bylaws may be amended or repealed by an affirmative vote of stockholders holding a majority of shares of Common Stock then outstanding and entitled to vote on the matter.

Revised: July 27, 2021

CERTIFICATIONS

I, Karl McDonnell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Strategic 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: July 29, 2021

/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 Strategic 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: July 29, 2021

/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 Strategic Education, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 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

July 29, 2021

**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 Strategic Education, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 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

July 29, 2021