

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 September 30, 2022

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

52-1975978

(State or other jurisdiction of
incorporation or organization)

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

2303 Dulles Station Boulevard
Herndon, VA

20171

(Address of principal executive offices)

(Zip Code)

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

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 October 21, 2022, there were outstanding 24,453,658 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, 2021	September 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 268,918	\$ 262,757
Marketable securities	6,501	11,387
Tuition receivable, net	51,277	81,676
Income taxes receivable	313	—
Other current assets	40,777	46,928
Total current assets	367,786	402,748
Property and equipment, net	150,589	136,073
Right-of-use lease assets	149,587	125,081
Marketable securities, non-current	23,377	14,648
Intangible assets, net	276,380	259,855
Goodwill	1,285,864	1,226,499
Other assets	52,297	50,347
Total assets	\$ 2,305,880	\$ 2,215,251
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 95,518	\$ 101,357
Income taxes payable	—	3,316
Contract liabilities	73,232	131,705
Lease liabilities	27,005	23,539
Total current liabilities	195,755	259,917
Long-term debt	141,630	141,234
Deferred income tax liabilities	44,595	33,688
Lease liabilities, non-current	162,821	136,791
Other long-term liabilities	47,089	45,139
Total liabilities	591,890	616,769
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.01; 32,000,000 shares authorized; 24,592,098 and 24,454,377 shares issued and outstanding at December 31, 2021 and September 30, 2022, respectively	246	245
Additional paid-in capital	1,529,969	1,507,902
Accumulated other comprehensive income (loss)	9,203	(66,369)
Retained earnings	174,572	156,704
Total stockholders' equity	1,713,990	1,598,482
Total liabilities and stockholders' equity	\$ 2,305,880	\$ 2,215,251

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 September 30,		For the nine months ended September 30,	
	2021	2022	2021	2022
Revenues	\$ 270,078	\$ 263,123	\$ 859,587	\$ 795,542
Costs and expenses:				
Instructional and support costs	153,651	153,162	459,394	445,154
General and administration	95,714	97,753	275,954	289,259
Amortization of intangible assets	8,932	3,522	47,731	10,954
Merger and integration costs	1,111	269	4,060	933
Restructuring costs	3,322	610	26,400	6,129
Total costs and expenses	262,730	255,316	813,539	752,429
Income from operations	7,348	7,807	46,048	43,113
Other income (expense)	(1,848)	(262)	1,076	(1,133)
Income before income taxes	5,500	7,545	47,124	41,980
Provision for income taxes	1,646	1,453	13,717	13,639
Net income	\$ 3,854	\$ 6,092	\$ 33,407	\$ 28,341
Earnings per share:				
Basic	\$ 0.16	\$ 0.26	\$ 1.39	\$ 1.19
Diluted	\$ 0.16	\$ 0.25	\$ 1.38	\$ 1.18
Weighted average shares outstanding:				
Basic	23,948	23,550	23,966	23,765
Diluted	24,113	23,902	24,131	24,026

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2022	2021	2022
Net income	\$ 3,854	\$ 6,092	\$ 33,407	\$ 28,341
Other comprehensive income (loss):				
Foreign currency translation adjustment	(28,876)	(38,171)	(46,864)	(74,677)
Unrealized gains (losses) on marketable securities, net of tax	9	(189)	(60)	(895)
Comprehensive loss	\$ (25,013)	\$ (32,268)	\$ (13,517)	\$ (47,231)

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 September 30, 2021						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Par Value				
Balance at June 30, 2021	24,621,111	\$ 246	\$ 1,523,022	\$ 179,089	\$ 30,823	\$ 1,733,180
Stock-based compensation	—	—	4,624	22	—	4,646
Issuance of restricted stock, net	18,843	1	—	—	—	1
Repurchase of common stock	(39,475)	(1)	(2,457)	(543)	—	(3,001)
Common stock dividends (\$0.60 per share)	—	—	—	(14,757)	—	(14,757)
Foreign currency translation adjustment	—	—	—	—	(28,876)	(28,876)
Unrealized gains on marketable securities, net of tax	—	—	—	—	9	9
Net income	—	—	—	3,854	—	3,854
Balance at September 30, 2021	24,600,479	\$ 246	\$ 1,525,189	\$ 167,665	\$ 1,956	\$ 1,695,056

For the three months ended September 30, 2022						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Par Value				
Balance at June 30, 2022	24,637,268	\$ 246	\$ 1,513,509	\$ 166,175	\$ (28,009)	\$ 1,651,921
Stock-based compensation	—	—	5,605	7	—	5,612
Issuance of restricted stock, net	(4,138)	1	(91)	—	—	(90)
Repurchase of common stock	(178,753)	(2)	(11,121)	(821)	—	(11,944)
Common stock dividends (\$0.60 per share)	—	—	—	(14,749)	—	(14,749)
Foreign currency translation adjustment	—	—	—	—	(38,171)	(38,171)
Unrealized losses on marketable securities, net of tax	—	—	—	—	(189)	(189)
Net income	—	—	—	6,092	—	6,092
Balance at September 30, 2022	24,454,377	\$ 245	\$ 1,507,902	\$ 156,704	\$ (66,369)	\$ 1,598,482

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 nine months ended September 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	—	—	12,659	55	—	12,714
Exercise of stock options, net	1,632	—	113	—	—	113
Issuance of restricted stock, net	256,877	3	(2,342)	—	—	(2,339)
Repurchase of common stock	(76,969)	(1)	(4,790)	(1,114)	—	(5,905)
Common stock dividends (\$1.80 per share)	—	—	—	(44,329)	—	(44,329)
Foreign currency translation adjustment	—	—	—	—	(46,864)	(46,864)
Unrealized losses on marketable securities, net of tax	—	—	—	—	(60)	(60)
Net income	—	—	—	33,407	—	33,407
Balance at September 30, 2021	24,600,479	\$ 246	\$ 1,525,189	\$ 167,665	\$ 1,956	\$ 1,695,056

For the nine months ended September 30, 2022						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Par Value				
Balance at December 31, 2021	24,592,098	\$ 246	\$ 1,529,969	\$ 174,572	\$ 9,203	\$ 1,713,990
Stock-based compensation	—	—	16,202	7	—	16,209
Issuance of restricted stock, net	434,068	5	(2,873)	—	—	(2,868)
Repurchase of common stock	(571,789)	(6)	(35,396)	(1,514)	—	(36,916)
Common stock dividends (\$1.80 per share)	—	—	—	(44,702)	—	(44,702)
Foreign currency translation adjustment	—	—	—	—	(74,677)	(74,677)
Unrealized losses on marketable securities, net of tax	—	—	—	—	(895)	(895)
Net income	—	—	—	28,341	—	28,341
Balance at September 30, 2022	24,454,377	\$ 245	\$ 1,507,902	\$ 156,704	\$ (66,369)	\$ 1,598,482

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 nine months ended September 30,	
	2021	2022
Cash flows from operating activities:		
Net income	\$ 33,407	\$ 28,341
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of marketable securities	781	—
Gain on sale of property and equipment	(681)	—
Amortization of deferred financing costs	414	414
Amortization of investment discount/premium	55	29
Depreciation and amortization	88,188	49,193
Deferred income taxes	(12,197)	(9,213)
Stock-based compensation	12,714	16,209
Impairment of right-of-use lease assets	18,914	1,185
Changes in assets and liabilities:		
Tuition receivable, net	(38,490)	(33,320)
Other assets	(6,106)	417
Accounts payable and accrued expenses	(253)	6,768
Income taxes payable and income taxes receivable	4,050	4,498
Contract liabilities	66,022	65,437
Other liabilities	(5,655)	(5,226)
Net cash provided by operating activities	161,163	124,732
Cash flows from investing activities:		
Purchases of property and equipment	(33,632)	(32,508)
Proceeds from marketable securities	9,300	2,600
Proceeds from sale of property and equipment	4,328	—
Other investments	(589)	(223)
Cash paid for acquisition, net of cash acquired	—	(193)
Net cash used in investing activities	(20,593)	(30,324)
Cash flows from financing activities:		
Common dividends paid	(44,289)	(44,600)
Net payments for stock awards	(2,283)	(2,973)
Repurchase of common stock	(5,905)	(36,916)
Net cash used in financing activities	(52,477)	(84,489)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(3,280)	(10,729)
Net increase (decrease) in cash, cash equivalents, and restricted cash	84,813	(810)
Cash, cash equivalents, and restricted cash — beginning of period	202,020	279,212
Cash, cash equivalents, and restricted cash — end of period	\$ 286,833	\$ 278,402
Non-cash transactions:		
Non-cash additions to property and equipment	\$ 6,849	\$ 1,910
Right-of-use lease assets obtained in exchange for operating lease liabilities	\$ 46,213	\$ 4,278

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.

The accompanying condensed consolidated financial statements and footnotes include the results of the Company’s three reportable segments: (1) U.S. Higher Education (“USHE”), which is primarily comprised of Strayer University and Capella University and is focused on providing flexible and affordable certificate and degree programs to working adults; (2) Education Technology Services, which is primarily focused on developing and maintaining relationships with employers to build employee education benefits programs; and (3) Australia/New Zealand, which through Torrens University and associated assets, provides certificate and degree programs in Australia and New Zealand. The Company’s reportable segments are discussed further in Note 14.

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.

All information as of September 30, 2021 and 2022, and for the three and nine months ended September 30, 2021 and 2022 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, 2021 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 accounting principles generally accepted in the United States of America (“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, 2021. The results of operations for the three and nine months ended September 30, 2022 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 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 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 Torrens University and associated assets in Australia and New Zealand (“ANZ”).

Merger and integration costs include integration expenses associated with the Company’s merger with CEC and 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 4 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 a U.S. higher education institution during the academic term. The Company had approximately \$0.7 million and \$1.3 million of these unpaid obligations as of December 31, 2021 and September 30, 2022, 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, 2021 and September 30, 2022, the Company had approximately \$9.1 million and \$13.9 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 conducting operations in Pennsylvania, 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 September 30, 2021 and 2022 (in thousands):

	As of September 30,	
	2021	2022
Cash and cash equivalents	\$ 274,774	\$ 262,757
Restricted cash included in other current assets	11,559	15,145
Restricted cash included in other assets	500	500
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$ 286,833	\$ 278,402

Tuition Receivable and Allowance for Credit Losses

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, 2021 and September 30, 2022 (in thousands):

	December 31, 2021	September 30, 2022
Tuition receivable	\$ 100,060	\$ 126,616
Allowance for credit losses	(48,783)	(44,940)
Tuition receivable, net	\$ 51,277	\$ 81,676

Approximately \$2.5 million and \$2.7 million of tuition receivable, net, are included in other assets as of December 31, 2021 and September 30, 2022, 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 nine months ended September 30, 2021 and 2022 (in thousands).

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2022	2021	2022
Allowance for credit losses, beginning of period	\$ 49,591	\$ 43,507	\$ 49,773	\$ 48,783
Additions charged to expense	10,291	11,895	30,850	27,899
Write-offs, net of recoveries	(10,604)	(10,462)	(31,345)	(31,742)
Allowance for credit losses, end of period	\$ 49,278	\$ 44,940	\$ 49,278	\$ 44,940

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 on the first day of 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 24,592,098 and 24,454,377 shares were issued and outstanding as of December 31, 2021 and September 30, 2022, 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 July 2022, 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 September 12, 2022.

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, restricted stock, and restricted stock units are excluded from the computation of diluted earnings per share when their effect would be anti-dilutive.

Set forth below is a reconciliation of shares used to calculate basic and diluted earnings per share for the three and nine months ended September 30, 2021 and 2022 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2022	2021	2022
Weighted average shares outstanding used to compute basic earnings per share	23,948	23,550	23,966	23,765
Incremental shares issuable upon the assumed exercise of stock options	4	3	5	3
Unvested restricted stock and restricted stock units	161	349	160	258
Shares used to compute diluted earnings per share	24,113	23,902	24,131	24,026
Anti-dilutive shares excluded from the diluted earnings per share calculation	377	11	293	149

Comprehensive Income (Loss)

Comprehensive income (loss) 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, 2021, the balance of accumulated other comprehensive income was \$9.2 million, net of tax of \$0.2 million, and as of September 30, 2022, the balance of accumulated other comprehensive loss was \$66.4 million, net of tax of \$0.1 million. There were no reclassifications out of accumulated other comprehensive income (loss) to net income for the three and nine months ended September 30, 2021 and 2022.

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. Actual results could differ from those estimates.

Recently Issued Accounting Standards Not Yet Adopted

Accounting Standards Updates 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. 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 nine months ended September 30, 2021 and 2022 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2022	2021	2022
U.S. Higher Education Segment				
Tuition, net of discounts, grants and scholarships	\$ 184,126	\$ 177,678	\$ 605,036	\$ 546,407
Other ⁽¹⁾	7,767	7,821	25,611	24,884
Total U.S. Higher Education Segment	191,893	185,499	630,647	571,291
Australia/New Zealand Segment				
Tuition, net of discounts, grants and scholarships	64,456	60,238	187,018	173,621
Other ⁽¹⁾	768	939	3,531	3,611
Total Australia/New Zealand Segment	65,224	61,177	190,549	177,232
Education Technology Services Segment ⁽²⁾	12,961	16,447	38,391	47,019
Consolidated revenue	\$ 270,078	\$ 263,123	\$ 859,587	\$ 795,542

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

⁽²⁾ Education Technology Services 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 or scholarships in the future is estimated based on class tuition prices or amounts of scholarships, 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. 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.

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 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 \$20.5 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 nine months ended September 30,	
	2021	2022
Balance at beginning of period	\$ 53,314	\$ 52,024
Revenue deferred	15,005	12,647
Benefit redeemed	(16,733)	(16,295)
Balance at end of period	\$ 51,586	\$ 48,376

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.

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 our ANZ segment. These costs are deferred and then amortized over the period of benefit which ranges from one year to two years.

4. Restructuring and Related Charges

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.

In addition, the 2020 restructuring plan included an evaluation of the Company's owned and leased real estate portfolio, which resulted in the consolidation and sale of underutilized facilities. The Company recorded right-of-use lease asset charges of approximately \$1.9 million and \$18.9 million during the three and nine months ended September 30, 2021, respectively, and approximately \$0.1 million and \$1.2 million during the three and nine months ended September 30, 2022, respectively, related to facilities consolidated as a result of the restructuring plan. The Company also recorded fixed asset impairment charges of approximately \$0.6 million and \$2.6 million during the three and nine months ended September 30, 2021, respectively, and approximately \$0.1 million and \$2.5 million during the three and nine months ended September 30, 2022, respectively. During the three and nine months ended September 30, 2021, the Company recorded a \$0.7 million gain from the sale of property and equipment of an owned campus that was closed in connection with the 2020 restructuring plan. All severance and other employee separation charges, right-of-use lease asset and fixed asset impairment charges, and gains on the sale of property and equipment related to the 2020 restructuring plan are included in Restructuring costs on the unaudited condensed consolidated statements of income.

The following details the changes in the Company's severance and other employee separation costs restructuring liabilities during the nine months ended September 30, 2021 and 2022 (in thousands):

	CEC Integration Plan ⁽¹⁾	2020 Restructuring Plan	Total
Balance at December 31, 2020	\$ 1,835	\$ 1,287	\$ 3,122
Restructuring and other charges	—	3,737	3,737
Payments	(1,835)	(4,227)	(6,062)
Balance at September 30, 2021	\$ —	\$ 797	\$ 797
Balance at December 31, 2021 ⁽²⁾	\$ —	\$ 1,612	\$ 1,612
Restructuring and other charges	—	1,241	1,241
Payments	—	(2,853)	(2,853)
Balance at September 30, 2022	\$ —	\$ —	\$ —

⁽¹⁾ Restructuring plan implemented following the Company's merger with CEC.

⁽²⁾ Restructuring liabilities are included in accounts payable and accrued expenses.

5. Marketable Securities

The following is a summary of available-for-sale securities as of September 30, 2022 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Losses)	Estimated Fair Value
Tax-exempt municipal securities	\$ 18,636	\$ 1	\$ (540)	\$ 18,097
Corporate debt securities	8,179	—	(241)	7,938
Total	\$ 26,815	\$ 1	\$ (781)	\$ 26,035

The following is a summary of available-for-sale securities as of December 31, 2021 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Losses)	Estimated Fair Value
Tax-exempt municipal securities	\$ 18,546	\$ 271	\$ —	\$ 18,817
Corporate debt securities	10,898	163	—	11,061
Total	\$ 29,444	\$ 434	\$ —	\$ 29,878

The unrealized gains and losses on the Company's investments in corporate debt and municipal securities as of December 31, 2021 and September 30, 2022 were caused by changes in market values primarily due to interest rate changes. As of September 30, 2022, 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 nine months ended September 30, 2021 and 2022.

The following table summarizes the maturities of the Company's marketable securities as of December 31, 2021 and September 30, 2022 (in thousands):

	December 31, 2021	September 30, 2022
Due within one year	\$ 6,501	\$ 11,387
Due after one year through five years	23,377	14,648
Total	\$ 29,878	\$ 26,035

The following table summarizes the proceeds from the maturities and sales of available-for-sale securities for the three and nine months ended September 30, 2021 and 2022 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2022	2021	2022
Maturities of marketable securities	\$ 1,900	\$ 500	\$ 7,495	\$ 2,600
Sales of marketable securities	1,805	—	1,805	—
Total	\$ 3,705	\$ 500	\$ 9,300	\$ 2,600

The Company recorded approximately \$0.8 million in gross realized losses in net income during the three and nine months ended September 30, 2021 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 nine months ended September 30, 2022.

6. Fair Value Measurement

Assets measured at fair value on a recurring basis consist of the following as of September 30, 2022 (in thousands):

	September 30, 2022	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	\$ 7,191	\$ 7,191	\$ —	\$ —
Marketable securities:				
Tax-exempt municipal securities	18,097	—	18,097	—
Corporate debt securities	7,938	—	7,938	—
Total assets at fair value on a recurring basis	\$ 33,226	\$ 7,191	\$ 26,035	\$ —

Assets and liabilities measured at fair value on a recurring basis consist of the following as of December 31, 2021 (in thousands):

	December 31, 2021	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	\$ 4,134	\$ 4,134	\$ —	\$ —
Marketable securities:				
Tax-exempt municipal securities	18,817	—	18,817	—
Corporate debt securities	11,061	—	11,061	—
Total assets at fair value on a recurring basis	\$ 34,012	\$ 4,134	\$ 29,878	\$ —
Liabilities:				
Deferred payments	\$ 658	\$ —	\$ —	\$ 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 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 (loss) in stockholders' equity. The Company's cash and cash equivalents held at December 31, 2021 and September 30, 2022 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 were classified within Level 3 as there was no liquid market for similarly priced instruments and were valued using discounted cash flow models that encompass significant unobservable inputs. The assumptions used to prepare the discounted cash flows included estimates for interest rates, enrollment growth, retention rates, and pricing strategies. The final payment related to the deferred payment arrangements was made in the first quarter of 2022.

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 nine months ended September 30, 2021 and 2022.

Changes in the fair value of the Company's Level 3 liabilities during the nine months ended September 30, 2021 and 2022 are as follows (in thousands):

	As of September 30,	
	2021	2022
Balance as of the beginning of period	\$ 1,658	\$ 658
Amounts paid	(1,470)	(658)
Other adjustments to fair value	458	—
Balance at end of period	<u>\$ 646</u>	<u>\$ —</u>

7. Goodwill and Intangible Assets

Goodwill

The following table presents changes in the carrying value of goodwill by segment for the nine months ended September 30, 2022 (in thousands):

	U.S. Higher Education	Australia / New Zealand	Education Technology Services	Total
Balance as of December 31, 2021	\$ 632,075	\$ 553,789	\$ 100,000	\$ 1,285,864
Additions	—	947	—	947
Impairments	—	—	—	—
Currency translation adjustments	—	(60,312)	—	(60,312)
Adjustments to prior acquisitions	—	—	—	—
Balance as of September 30, 2022	<u>\$ 632,075</u>	<u>\$ 494,424</u>	<u>\$ 100,000</u>	<u>\$ 1,226,499</u>

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 nine months ended September 30, 2022 to indicate an impairment to goodwill at any of its segments. There were no impairment charges related to goodwill recorded during the three and nine months ended September 30, 2021 and 2022.

Intangible Assets

The following table represents the balance of the Company's intangible assets as of December 31, 2021 and September 30, 2022 (in thousands):

	December 31, 2021			September 30, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
<i>Subject to amortization</i>						
Student relationships	\$ 201,309	\$ (180,007)	\$ 21,302	\$ 199,715	\$ (188,498)	\$ 11,217
<i>Not subject to amortization</i>						
Trade names	255,078	—	255,078	248,638	—	248,638
Total	\$ 456,387	\$ (180,007)	\$ 276,380	\$ 448,353	\$ (188,498)	\$ 259,855

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 \$41.4 million and \$8.5 million for the nine months ended September 30, 2021 and 2022, 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 nine months ended September 30, 2022 to indicate an impairment to indefinite-lived intangible assets. There were no impairment charges related to indefinite-lived intangible assets recorded during the three and nine months ended September 30, 2021 and 2022.

8. Other Assets

Other assets consist of the following as of December 31, 2021 and September 30, 2022 (in thousands):

	December 31, 2021	September 30, 2022
Prepaid expenses, net of current portion	\$ 19,852	\$ 18,753
Equity method investments	15,582	13,979
Cloud computing arrangements	5,957	6,835
Other investments	3,576	3,896
Tuition receivable, net, non-current	2,466	2,716
Other	4,864	4,168
Other assets	\$ 52,297	\$ 50,347

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, 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 December 31, 2021 and September 30, 2022, \$19.2 million and \$18.0 million, respectively, 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 \$2.8 million across these

partnerships through 2031. 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 nine months ended September 30, 2021 and 2022 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2022	2021	2022
Limited partnership investments, beginning of period	\$ 17,401	\$ 14,011	\$ 15,795	\$ 15,582
Capital contributions	327	—	589	48
Pro-rata share in the net income (loss) of limited partnerships	(610)	(32)	2,993	32
Distributions	(2,586)	—	(4,845)	(1,683)
Limited partnership investments, end of period	<u>\$ 14,532</u>	<u>\$ 13,979</u>	<u>\$ 14,532</u>	<u>\$ 13,979</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 technology 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.

Tuition Receivable

Non-current tuition receivable, net, represents tuition that the Company expects to collect, but not within the next 12 months.

Other

Other is comprised primarily of deferred financing costs associated with the Company's credit facility, deferred contract costs related to commissions paid by our ANZ segment to third party international agents, and refundable security deposits associated with the Company's leased campus and office space.

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of December 31, 2021 and September 30, 2022 (in thousands):

	December 31, 2021	September 30, 2022
Trade payables	\$ 45,340	\$ 54,736
Accrued compensation and benefits	27,424	36,912
Accrued student obligations and other	22,754	9,709
Accounts payable and accrued expenses	<u>\$ 95,518</u>	<u>\$ 101,357</u>

10. 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 September 30, 2022.

As of December 31, 2021 and September 30, 2022, the Company had approximately \$141.6 million and \$141.2 million, respectively, outstanding under the Revolving Credit Facility. Approximately \$3.6 million and \$3.2 million was denominated in Australian dollars as of December 31, 2021 and September 30, 2022, respectively.

During the nine months ended September 30, 2021 and 2022, the Company paid \$2.1 million and \$3.0 million, respectively, of interest and unused commitment fees related to its Revolving Credit Facility.

11. Other Long-Term Liabilities

Other long-term liabilities consist of the following as of December 31, 2021 and September 30, 2022 (in thousands):

	December 31, 2021	September 30, 2022
Contract liabilities, net of current portion	\$ 34,704	\$ 34,369
Asset retirement obligations	9,122	7,593
Other	3,263	3,177
Other long-term liabilities	<u>\$ 47,089</u>	<u>\$ 45,139</u>

Contract Liabilities

As discussed in Note 3, 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.

12. 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 nine months ended September 30, 2021 and 2022 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2022	2021	2022
Instructional and support costs	\$ 1,365	\$ 1,802	\$ 3,871	\$ 5,190
General and administration	3,503	3,810	9,546	11,019
Restructuring costs	(222)	—	(703)	—
Stock-based compensation expense included in operating expense	4,646	5,612	12,714	16,209
Tax benefit	1,228	1,460	3,359	4,250
Stock-based compensation expense, net of tax	\$ 3,418	\$ 4,152	\$ 9,355	\$ 11,959

During the nine months ended September 30, 2021 and 2022, the Company recognized a \$26,000 and \$1.4 million tax shortfall, respectively, related to share-based payment arrangements, which was recorded as an adjustment to the provision for income taxes.

13. Income Taxes

During the nine months ended September 30, 2021 and 2022, the Company recorded income tax expense of \$13.7 million and \$13.6 million, reflecting an effective tax rate of 29.1% and 32.5%, respectively.

The Company had \$1.0 million of unrecognized tax benefits as of December 31, 2021 and September 30, 2022. 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 \$21.8 million and \$20.2 million in income taxes during the nine months ended September 30, 2021 and 2022, respectively.

The tax years since 2018 remain open for federal, state, and local taxing jurisdictions in which the Company is subject to taxation.

14. 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. The Company's organizational structure includes three operating and reportable segments: U.S. Higher Education, Education Technology Services, and Australia/New Zealand.

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, which are units of Strayer University.

The Education Technology Services segment is primarily focused on developing and maintaining relationships with 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 Education Technology Services division are an important source of student enrollment for Strayer University and Capella University, and the majority of the revenue attributed to the Education Technology Services division is driven by the volume of enrollment derived from these employer relationships. Education Technology Services also supports employer partners through Workforce Edge, a platform which provides employers a full-service education benefits administration solution, and Sophia Learning, which enables education benefits programs through the use of low-cost online general education-level courses recommended by the American Council on Education for credit at other colleges and universities.

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 Chief Operating Decision Maker does not evaluate operating segments using asset information.

A summary of financial information by reportable segment for the three and nine months ended September 30, 2021 and 2022 is presented in the following table (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2022	2021	2022
Revenues				
U.S. Higher Education	\$ 191,893	\$ 185,499	\$ 630,647	\$ 571,291
Australia/New Zealand	65,224	61,177	190,549	177,232
Education Technology Services	12,961	16,447	38,391	47,019
Consolidated revenues	\$ 270,078	\$ 263,123	\$ 859,587	\$ 795,542
Income (loss) from operations				
U.S. Higher Education	\$ 5,168	\$ (1,948)	\$ 84,981	\$ 25,386
Australia/New Zealand	10,364	8,934	23,016	20,506
Education Technology Services	5,181	5,222	16,242	15,237
Amortization of intangible assets	(8,932)	(3,522)	(47,731)	(10,954)
Merger and integration costs	(1,111)	(269)	(4,060)	(933)
Restructuring costs	(3,322)	(610)	(26,400)	(6,129)
Consolidated income from operations	\$ 7,348	\$ 7,807	\$ 46,048	\$ 43,113

15. Litigation

The Company is involved in litigation and other legal proceedings arising out of the ordinary course of its business. Certain of these matters are discussed below. 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 accrues for estimated costs related to existing lawsuits, claims and proceedings when it is probable that it will incur these costs in the future and the costs are reasonably estimable. 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.

Wright, et al. v. Capella Education Co., et al. (now captioned *Ornelas, et al. v. Capella, et al.*) was filed several years ago in the United States District Court for the District of Minnesota, Case No. 18-cv-1062. 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 September 22, 2021, the court affirmed a magistrate's order granting plaintiff's motion to amend, and plaintiffs subsequently filed their second amended complaint. The parties entered into a confidential settlement which became effective on April 20, 2022, and on April 25, 2022 the parties filed a joint stipulation of dismissal with prejudice. On May 17, 2022, the court entered an order of dismissal with prejudice.

On April 20, 2021, Capella University received a letter from the Department of Education referencing *Wright, et al. v. Capella Education Co., et al.* and indicating that the Department would 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 University. 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 University subsequently received approximately 500 applications for borrower defense to repayment. Capella University contested each claim for defense to repayment in individualized responses with supporting evidence, the last of which was sent to the Department in August 2021. Since that time, Capella University has not received any communication from the Department related to the set of borrower defense claims, nor has Capella University received indication that any such claim has been evaluated on the facts presented and adjudicated on the merits.

On June 22, 2022, in litigation in which Capella University is not a party, *Sweet, et al. v. Miguel Cardona and the United States Department of Education*, United States District Court for the Northern District of California, Case No. 3:19-cv-03674-WHA, the Department joined a proposed class settlement agreement that, if approved, would result in a blanket grant of automatic,

presumptive relief for all borrower defense to repayment applications filed by students at any of approximately 150 different listed institutions, including Capella University, through June 22, 2022. In a July 25, 2022 filing in the same litigation, the Department stated that providing automatic relief to such borrowers “does not constitute the granting or adjudication of a borrower defense pursuant to the Borrower Defense Regulations, and therefore provides no basis to the Department for initiating a borrower defense recoupment proceeding against any institution identified” on the list. The proposed class settlement agreement would also provide certain expedited review of borrower defense claims related to schools excluded from the automatic relief list, as well as for borrowers who apply during the period after execution of the settlement and before final approval. The *Sweet* settlement received preliminary court approval on August 4, 2022. A joint motion for final approval was filed on September 22, 2022, which multiple intervening higher education institutions and companies opposed, and a fairness hearing for final approval is scheduled for November 3, 2022. The settlement will not be effective unless and until it achieves final court approval. If the settlement agreement ultimately becomes effective and all Capella University borrower defense applications are forgiven in this manner, it is unclear whether the Department would attempt to seek recovery from Capella University for the amounts of discharged loans. The Department has indicated that any recoupment against institutions “could be imposed only after the Department initiated a separate, future proceeding, in accordance with regulations that require the Department to prove a sufficient basis for liability and provide schools with notice and an opportunity to be heard.” If the Department were to seek recovery for the amounts of discharged loans, Capella University would dispute and defend against such efforts. At this time, the Company is unable to predict the ultimate outcome of Capella-related borrower defense applications.

16. Regulation

United States Regulation

CARES Act

On March 27, 2020, former 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, institutions of higher education were provided relief from conducting a return to Title IV (R2T4) calculation in cases where the student withdrew because of the COVID-19 pandemic, 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 the COVID-19 pandemic. The CARES Act also allows institutions to exclude from satisfactory academic progress calculations any attempted credits that the student did not complete due to the COVID-19 pandemic, without requiring an appeal from the student. Additionally, under the legislation, institutions are permitted to transfer up to 100% of Federal Work-Study (“FWS”) funds into their Federal Supplemental Educational Opportunity Grant (“FSEOG”) allocation and are granted a waiver of the 2019/2020 and 2020/2021 non-federal share institutional match. Institutions may continue to make FWS payments to student employees who are unable to meet their employment obligations due to the COVID-19 pandemic. The Department issued sub-regulatory guidance to institutions regarding implementation of the provisions included in the CARES Act.

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 March 30, 2021, the Secretary of Education also extended student loan relief to all Federal Family Education Loans (“FFEL”) not previously covered. Through a series of administrative actions, student loan relief has been extended, including on August 24, 2022, when the Department announced, “a final extension of the pause on student loan repayment, interest, and collections through December 31, 2022.”

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 the COVID-19 pandemic. 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 for costs associated with significant changes to the delivery of instruction due to the COVID-19 pandemic, 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 received 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 University 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 University was ineligible for Education Stabilization funding.

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 was made available for student emergency aid for students at for-profit institutions. Capella University disbursed \$184,323 to students of the highest need in June 2021, and Strayer University disbursed \$2,554,682 to students of the highest need in July 2021.

The legislation also amended 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 required the Department to conduct a negotiated rulemaking process to modify related Department regulations, which the Department began in January 2022. In March 2022, the Institutional and Programmatic Eligibility negotiated rulemaking committee reached consensus on changes to the 90/10 Rule, which 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 ("VA"), in addition to the Title IV programs already covered by the 90/10 Rule. The Department of Education released proposed 90/10 regulations consistent with this consensus language on July 26, 2022, allowing for a 30 day comment period that ended August 26, 2022. On October 27, 2022, the Department of Education released final 90/10 regulations, which are consistent with the consensus language. The new 90/10 regulations are effective for fiscal years beginning on or after January 1, 2023.

Other legislation has been introduced in both chambers of Congress that seeks to modify the 90/10 Rule further, including proposals to change the ratio requirement to 85/15 (federal to nonfederal revenue), or to eliminate the 90/10 Rule. We cannot predict whether or how legislative or regulatory changes will affect the 90/10 Rule.

Consolidated Appropriations Act, 2021

On December 27, 2020, former President Trump signed into law the Consolidated Appropriations Act of 2021. Among other things, this package funded the federal government through September 2021, provided 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. The legislation also 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.

In addition, the legislation includes a number of higher education-related provisions, including: adopting the FAFSA Simplification Act, which includes 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 published a FAFSA Simplification Information webpage on October 14, 2022 and is expected to provide institutions with guidance on the higher education provisions included in the Consolidated Appropriations Act of 2021, which take effect on July 1, 2023.

The bill also provided \$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, former President Trump signed into law the Veterans Health Care and Benefits Improvement Act of 2020, which expanded 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 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 during any one-month period. Most provisions became effective August 1, 2021. Institutions were permitted to 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 sought 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 U.S. 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 amended 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.

REMOTE Act

On December 21, 2021, President Biden signed into law the Responsible Education Mitigating Options and Technical Extensions (“REMOTE”) Act, which amended provisions of the Veterans Health Care and Benefits Improvement Act, the American Rescue Plan Act, and the THRIVE Act. The law includes changes to help institutions satisfy the Veterans Health Care and Benefits Improvement Act’s requirements by using the College Financing Plan template, in addition to extending some COVID-related flexibilities previously granted amid the pandemic. The law also extended remote learning waivers through June 1, 2022, simplified the VA verification process for tuition reimbursement, and fixed a technical error to ensure U.S. institutions of higher education can continue to use incentive compensation to recruit foreign students without losing GI Bill funding for their students.

Ensuring the Best Schools for Veterans Act of 2022

On August 26, 2022, President Biden signed into law the Ensuring the Best Schools for Veterans Act of 2022, which amended prior statutory language and made modifications to how the VA operationalizes the 85/15 requirement (that is, the rule that generally forbids use of Department of Veterans Affairs benefits for students enrolling in a program in which more than 85% of students enrolled in the program have any portion of their tuition, fees, or other charges paid to or for them by the institution or by the VA). Among other things, the law clarifies that reporting associated with the 85/15 requirement does not apply to institutions at which 35% or fewer students receive GI bill benefits. The law also exempts programs for which fewer than 10 students have any portion of their tuition, fees, or other charges paid to or for them by the institution or by the VA.

Consolidated Appropriations Act, 2022

On March 15, 2022, President Biden signed into law the Consolidated Appropriations Act of 2022. The bill allocated \$76.4 billion to the Department of Education and its programs, including an increase to the maximum Pell Grant award, bringing the total to \$6,895 for the 2022-23 award year. In addition, campus-based aid programs were increased, with \$895 million allocated for the FSEOG program, an increase of \$15 million above the FY 2021 enacted level, and \$1.21 billion allocated for FWS, an increase of \$20 million above the FY 2021 enacted level.

In addition to the increases in federal student aid funding, the bill provided \$2.1 billion for career, technical, and adult education, \$61 million above the FY 2021 enacted level, and an additional \$3 billion for higher education programs, \$452 million more than the FY 2021 enacted level. The bill also dictated Department requirements related to federal loan servicing, including appropriations for just over \$2 billion for expenses related to the administration of the federal loan program, and made a number of changes to the FAFSA Simplification Act.

Current Negotiated Rulemaking

On May 26, 2021, the Department first 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 indicated its intention to convene multiple committees, including the Affordability and Student Loans committee and the Institutional and Programmatic Eligibility committee. See "Affordability and Student Loans Committee" and "Institutional and Programmatic Eligibility Committee" below.

Following completion of a negotiated rulemaking process, the Department of Education issues proposed rules for public comment. If the negotiated rulemaking committee reached consensus on a topic, the Department of Education is bound to propose a rule consistent with the consensus. Following public comment, the Department issues final regulations, which, if published by November 1, would take effect July 1 of the following year.

Gainful Employment

Under the Higher Education Act of 1965, as amended ("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 additional disclosure requirements that became effective January 1, 2017 and July 1, 2019 (the "2015 Regulations").

On July 1, 2019, the Department of Education updated gainful employment final regulations, which contained a full repeal of the 2015 Regulations and became effective on July 1, 2020 (the "2019 Regulations"). Both Strayer University and Capella University implemented the 2019 Regulations early, by means permitted by the Secretary of Education, 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, Strayer University and Capella 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 December 8, 2021, the Department announced its intention to establish negotiated rulemaking committees to develop proposed regulations for gainful employment and other topics related to programs authorized under Title IV of the HEA. Negotiated rulemaking committee sessions occurred January-March 2022, and the Institutional and Programmatic Eligibility committee failed to reach consensus on the Gainful Employment topic. The Department has indicated its intention to publish draft Gainful Employment rules in April 2023, which would be effective no earlier than July 2024. We cannot predict what a future gainful employment regulation may include.

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 ("BDTR") claims in connection with loans first disbursed on or after July 1, 2020, the date the 2019 BDTR Rule became effective.

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 in compliance with the terms of the regulations, 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. Former 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 updated 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 August 10, 2021, the Department announced its intention to establish a negotiated rulemaking committee to develop proposed regulations for borrower defenses to repayment and other topics related to programs authorized under Title IV of the HEA. Negotiated rulemaking for the Affordability and Student Loans Committee began in October 2021 and concluded in December 2021, with the committee failing to reach consensus on Borrower Defense to Repayment. On October 31, 2022, the Department released final BDTR regulations. Among other things, the final rule sets a single standard and streamlined process for relief that will apply to all future and pending BDTR claims as of July 1, 2023, instead of various standards based on the date of the borrower’s first loan disbursement; define what kinds of misconduct could lead to borrower defense discharges, including substantial misrepresentations, substantial omissions of fact, breaches of contract, aggressive and deceptive recruitment, and state or federal judgments or final Department of Education actions that could give rise to a BDTR claim; establish a reconsideration process for borrowers whose claims are not approved for a full discharge; and create a process for forming groups of borrowers and adjudicating claims based on the common facts of those group claims. The final rule also sets the expectation that the Department will hold colleges accountable for the cost of discharges, including establishing a recoupment process separate from the approval of BDTR claims. In addition, the final rule prohibits institutions from requiring borrowers to sign mandatory pre-dispute arbitration agreements or class action waivers for claims related to the making of a Federal Direct Loan or the provision of educational services for which the loan was obtained.

On October 31, 2022, the Department published final rules updating the eligibility criteria for and the process by which borrowers can be eligible to receive a closed school loan discharge. The updated rules allow the Secretary to process automatic closed school discharges and establishes a discharge window of 180 days prior to the school’s closure. The regulation also states that eligible borrowers may receive a discharge if the borrower does not complete either a teach-out or the continuation of their program at another location of the school, and gives the Secretary the authority to adjust the closures date in cases where the institution discontinues the programs in which most borrowers were enrolled. The new regulation is effective July 1, 2023.

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.

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. Both HLC and Middle States Commission on Higher Education (“Middle States”), the institutional accreditor for Strayer University, have applied for renewal of their recognition by the Department. NACIQI is scheduled to consider their applications in winter 2023 and already has solicited written comments from the public (which were due January 2022).

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 established an updated definition of distance education; amended the existing definition of the credit hour; created a definition of academic engagement; and updated eligibility and program design, for programs offered through the direct assessment of learning. The final rules also made 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 University’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 defined what constitutes sexual harassment for purposes of Title IX in the administrative enforcement context, described what actions trigger an institution’s obligation to respond to incidents of alleged sexual harassment, and specified how an institution must respond to allegations of sexual harassment. Among other things, the 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 obtain its own 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’ (“OCR”) comprehensive review of the regulation. On June 16, 2021, OCR 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 OCR's interpretation of the Title IX regulations related to sexual harassment. On August 24, 2021, OCR, in alignment with recent federal court decisions, issued guidance indicating it would cease enforcement of Title IX's current prohibition against consideration of statements made by individuals failing to submit to cross-examination. The June 2021 notice of interpretation is currently under legal challenge in *Tennessee et al. v. United States Department of Education et al.*, United States District Court for the Eastern District of Tennessee, Case No. 3:21-cv-00308-CEA-DCP. A July 15, 2022 court-issued preliminary injunction prohibits the Department of Education from enforcing the challenged guidance in the plaintiff states.

On June 23, 2022, the Department of Education released proposed Title IX regulations for public comment. Among other changes, the proposed rule would address all forms of sex-based harassment (not only sexual harassment); clarify that Title IX's prohibition against sex discrimination includes discrimination on the basis of sex stereotypes, sex characteristics, pregnancy or related conditions, sexual orientation and gender identity; and eliminate the requirement for live hearings at the post-secondary level. The public comment period on the proposed rule ended on September 12, 2022. When the Department publishes a final Title IX rule, it will indicate an effective date.

On October 4, 2022, OCR released a resource document for students and institutions in which it reinforced that current Title IX regulations prohibit discrimination based on pregnancy, childbirth, false pregnancy, termination of pregnancy or recovery therefrom. The resource document further emphasized that Title IX requires institutions to treat pregnancy, childbirth, false pregnancy, termination of pregnancy and recovery therefrom the same as other temporary disabilities with respect to medical benefits, services, plans, and policies, and detailed requirements for leave and reinstatement for both students and employees.

Affordability and Student Loans Committee

On August 10, 2021, the Department announced its intention to establish the Affordability and Student Loans committee, to prepare proposed regulations to address the following topics: borrower defense to repayment, closed school discharges, discharges for borrowers with a total and permanent disability, discharges for false certification by a school of a student's eligibility to receive a loan, loan repayment plans, interest capitalization, mandatory pre-dispute arbitration and prohibition of class action lawsuits provisions in institutions' enrollment agreements and associated counseling about such arrangements, Pell Grant eligibility for prison education programs, and the Public Service Loan Forgiveness program. The Department also announced the formation of a Prison Education Program Subcommittee. The Department selected negotiators in September 2021, with negotiations occurring October-December 2021. In December 2021, the Affordability and Student Loans committee reached consensus on four of twelve topics: discharges for false certification of student eligibility, Pell Grant eligibility for prison education programs, discharges for borrowers with total and permanent disability, and interest capitalization. It did not reach consensus on borrower defenses to repayment and other topics.

On July 6, 2022, the Department released proposed rules governing student loan discharges and processes, including borrower defense to repayment. The proposed rules also addressed closed school discharges, arbitration proceedings, public service loan forgiveness, interest capitalization, total and permanent disability discharges, and false certification. The public comment period on the proposed rules ended on August 12, 2022. As discussed above, the Department published final rules on October 31, 2022.

Institutional and Programmatic Eligibility Committee

On December 8, 2021, the Department announced its intention to establish the Institutional and Programmatic Eligibility committee, to prepare proposed regulations to address the following topics: 90/10, ability to benefit, certification procedures for participating in Title IV programs, change of ownership and change in control of institutions of higher education, financial responsibility for participating institutions of higher education, gainful employment, and standards of administrative capability. Committee meetings occurred January-March 2022. In March 2022, the committee reached consensus on two of seven topics: ability to benefit and changes to the 90/10 rule. On July 26, 2022, the Department released proposed regulations related to the 90/10 rule, and change of ownership and change in control of institutions of higher education. On October 27, 2022, the Department of Education released final 90/10 regulations, which are consistent with the consensus language.

The 90/10 rule's final regulations include changes to requirements impacting non-Title IV program revenue, and the treatment of "Federal funds" within the calculation. The final regulations indicate that the Secretary of Education will identify via Federal Register notice, the federal agencies and educational assistance funds provided by that agency that will count toward the "90" portion of the 90/10 calculation. Such agencies may include the U.S. Department of Defense and the VA given the Department's confirmation that institutions no longer would be permitted to count federal aid for veterans and service members toward the "10" portion of the 90/10 calculation. The final regulations also include modifications to the criteria for revenue generated from non-Title IV programs, allowing institutions to count funds as non-Federal revenue only for programs that: (1) do not include any courses offered in an eligible program that is provided by the institution; (2) are provided by the institution and taught by one of

the institution's instructors; and (3) are located at the institution's main campus, one of its approved additional locations, at another school facility approved by the appropriate State agency or accrediting agency, or at an employer facility. In the preamble to the final 90/10 regulations, the Department indicated that non-Title IV programs that are offered online are not eligible to be included in the "10" portion of the calculation. The final regulations establish new disclosure requirements for institutions that fail 90/10, including a student notification requirement, and clarify reporting requirements and liabilities for institutions that lose access to Title IV because of failing 90/10. The new 90/10 regulations are effective for fiscal years beginning on or after January 1, 2023.

During the negotiated rulemaking process, the Department also proposed a number of changes to financial responsibility regulations, but did not reach consensus on the language. The proposal included new mandatory and discretionary triggers that would require the posting of financial protections. Among other things, the Department proposed a discretionary trigger in the event of significant fluctuations in Title IV aid; a discretionary trigger for pending borrower defense claims; and a discretionary trigger for when institutions close most or all on-ground locations but maintain an online presence.

The Department also proposed as part of the negotiated rulemaking process the reestablishment of gainful employment regulations, which would apply to all programs (including non-degree programs) at proprietary institutions and non-degree programs at public and private nonprofit institutions. Among other items, the Department proposed to use the first four digits of the CIP (Classification of Instructional Program) code to identify gainful employment programs; to remove the "zone" concept pertaining to debt-to-earnings rates; and to establish that a program would fail the debt-to-earnings rate measure if, among other measures, its debt-to-earnings rate is greater than 8 percent and its discretionary earnings rate is greater than 20 percent. The Department also proposed including Parent PLUS loans when determining student debt load, and included a new "earnings threshold" measure comparing the median annual earnings for students who completed the program to the median earnings for a working adult aged 25-34 with only a high school diploma in the state in which the institution is located (or nationally based on the percentage of students located in the same state as the institution). The Department's proposal would deem a program ineligible for Title IV funding if the program failed either metric (debt-to-earnings or earnings threshold) two out of three consecutive years.

Among other topics, the Department proposed a number of additional changes to regulations regarding administrative capability, change of control and certification issues, none of which reached consensus. In June 2022, the Department indicated its intention to publish proposed rules regarding gainful employment, ability to benefit, financial responsibility, administrative capability, and certification procedures in April 2023. We cannot predict the outcome of the negotiated rulemaking process.

Student Loan Relief

On August 24, 2022, the Department announced that it would provide student loan relief to eligible borrowers to address financial hardships in connection with the COVID-19 pandemic. Under the relief measures, up to \$10,000 in student debt will be forgiven for individual borrowers earning less than \$125,000 or married couples or heads of household earning less than \$250,000, and up to \$20,000 will be forgiven for such borrowers who formerly received Pell Grants. In a memorandum prepared by the Department's General Counsel, the Department stated that it has interpreted provisions of the Higher Education Relief Opportunities for Students Act of 2003 to authorize the Secretary to exercise broad discretion in granting student loan relief. Since the Department's student loan relief announcement, multiple lawsuits have been filed against the Department challenging its authority to grant such relief. We cannot predict the outcome of these lawsuits.

The Department also announced its intent to publish a proposed rule to create a new income-driven repayment plan to reduce future monthly payments for lower- and middle-income borrowers. The new plan would include a lower payment cap, coverage of unpaid monthly interest, and loan forgiveness after 10 years of payment for borrowers with original loan balances under a certain threshold.

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 covered the 2019-2020 and 2020-2021 federal student financial aid years. On September 21, 2021, Strayer University received the Department's Final Program Review Determination, which closed the Program Review without further action required on the part of Strayer University.

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 December 13, 2021, 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 September 30, 2025.

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 University 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 University filed its application for recertification in advance of the September 30, 2022 deadline.

Office of Enforcement

On October 8, 2021, the Department of Education announced establishment of an Office of Enforcement within the Department's Office of Federal Student Aid, designed to strengthen oversight over and enforcement against postsecondary schools that participate in federal student loan, grant, and work-study programs. The Office of Enforcement restores an office first established by the Department in 2016. The Department announced the Office of Enforcement would comprise four existing divisions: Administrative Actions and Appeals Services Group, Borrower Defense Group, Investigations Group, and Resolution and Referral Management Group. The Department intends the Office of Enforcement to coordinate with other state and federal partners, including the Department of Justice, Consumer Financial Protection Bureau, Federal Trade Commission, and state attorneys general.

Federal Trade Commission

On October 6, 2021 the Federal Trade Commission ("FTC") announced that it is resurrecting Penalty Offense Authority under Section 5(m) of the FTC Act (the "Act"). Under the Act, the FTC may secure penalties against entities not a party to an original proceeding if the FTC can show that the entity had actual knowledge that the conduct in question was found to be unfair or deceptive. Entities that have actual knowledge of acts or practices the FTC has found to be unlawful and that subsequently engage in such unlawful acts or practices may be held liable for civil penalties up to \$43,792 per violation.

Also on October 6, 2021, in an effort to establish actual knowledge and create a pathway for penalties in the event of post-notice acts or practices, the FTC issued notice to the 70 largest for-profit schools based on enrollment and revenues. The notice included a list of acts and practices that the FTC has determined are unfair or deceptive, including but not limited to acts relating to misrepresentation of employment opportunities and other benefits, together with citation to various prior determinations from cases previously litigated by the FTC.

Strayer University and Capella University received the FTC's notice on October 7, 2021. The FTC made clear that receipt of the notice itself does not reflect any assessment as to whether Strayer University or Capella University has engaged in deceptive or unfair conduct.

Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau ("CFPB") is a U.S. government agency established to protect the interests of consumers in their dealings with banks, lenders and other financial institutions. On April 4, 2022, the Company received correspondence from the CFPB, in which the CFPB took the position that it has supervisory authority over the Company as a covered person that offers or provides private education loans pursuant to 12 U.S.C. 5514(a)(1)(D) and further indicated the CFPB is considering whether to cite violations based on preliminary findings that the Company may have violated the Dodd-Frank Wall Street Reform and Consumer Protection Act, 12 U.S.C. 5301 et seq., due to alleged student loan servicing and collections practices or policies. Specifically, the CFPB referred to Capella University and Strayer University's historical practice of withholding official transcripts from students who were delinquent in paying amounts due, a practice which both universities

discontinued prior to receipt of the correspondence. The CFPB subsequently sent a letter on July 8, 2022, indicating that it believed the withholding of transcripts was a violation, and requiring the Company to cease withholding transcripts for those with an outstanding balance and to take other remedial actions. The Company had already discontinued its historical practice prior to the CFPB's notice and informed the CFPB that it completed the remedial actions in the allotted thirty days. While the Company disagrees with CFPB's position as to its supervisory authority and disputes any alleged legal or regulatory violations, SEI is cooperating with CFPB's inquiry and responded to CFPB as requested on April 25, 2022. On April 26, 2022, the CFPB informed the Company that it intended to conduct an announced education loan exam in June 2022. The examination started on June 13, 2022. Fieldwork concluded on August 5, 2022, but the examination is ongoing. On September 12, 2022, the CFPB informed the Company of a preliminary finding related to a product that is no longer utilized, and invited the Company's response. The Company timely responded to the CFPB's letter, disagreeing with the preliminary finding and noting that the product to which it related is no longer utilized.

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 44 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

The following discussion and analysis of our financial condition and results of operations is a supplement to and should be read in conjunction with our condensed consolidated financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2021.

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 and other action by the Department or other governmental entities, including without limitation action related to borrower defense to repayment applications, 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 our acquisition of Torrens University and associated assets in Australia and New Zealand, the risk that the benefits of our acquisition of Torrens University and associated assets in Australia and New Zealand may not be fully realized or may take longer to realize than expected, the risk that our acquisition of Torrens University and associated assets in Australia and New Zealand may not advance our business strategy and growth strategy, risks related 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. You should not put undue reliance on any forward-looking statements. 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, and Torrens University, an accredited post-secondary institution of higher education located in Australia. Our operations emphasize relationships through our Education Technology Services segment with employers to build employee education benefits programs that provide employees with access to affordable and industry relevant training, certificate, and degree programs.

Company Overview

As of September 30, 2022, we had the following reportable segments:

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, which are units 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 higher education 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.
- In the third quarter of 2022, USHE enrollment decreased 3% to 75,144 compared to 77,574 for the same period in 2021.
- Trailing 4-quarter student persistence within USHE was 87.3% in the second quarter of 2022 compared to 87.0% for the same period in 2021. Student persistence is calculated as the rate of students continuing from one quarter to the next, adjusted for graduates, on a trailing 4-quarter basis. Student persistence is reported one quarter in arrears. The table below summarizes USHE trailing 4-quarter student persistence for the past 8 quarters.

Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
86.8 %	86.7 %	86.5 %	87.0 %	86.9 %	86.8 %	87.1 %	87.3 %

- Trailing 4-quarter government provided grants and loans per credit earned within USHE decreased 6.4% as of the end of the second quarter of 2022. Government provided grants and loans per credit earned includes all Federal loans and grants for students (Title IV hereafter) in our USHE institutions, and is calculated on a trailing 4-quarter basis and reported one quarter in arrears. Title IV per credit earned has been declining as employer-affiliated enrollment has grown, and as more students earn credit through Sophia Learning and other affordable alternative pathways. The table below summarizes the percentage change in USHE trailing 4-quarter Title IV per credit earned for the past 8 quarters.

Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
(5.8)%	(10.3)%	(15.1)%	(17.2)%	(15.1)%	(11.3)%	(8.1)%	(6.4)%

Education Technology Services Segment

- Our Education Technology Services segment is primarily focused on developing and maintaining relationships with 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 Education Technology Services division are an important source of student enrollment for Strayer University and Capella University, and the majority of the revenue attributed to the Education Technology Services division is driven by the volume of enrollment derived from these employer relationships. Enrollments attributed to the Education Technology Services 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 Education Technology Services 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 third quarter of 2022, employer affiliated enrollment as a percentage of USHE enrollment was 25.3% compared to 21.1% for the same period in 2021.
- Education Technology Services also supports employer partners through Workforce Edge, a platform which provides employers a full-service education benefits administration solution, and Sophia Learning, which enables education benefits programs through the use of low-cost online general education-level courses recommended by the American Council on Education for credit at other colleges and universities.

Australia/New Zealand Segment

- Torrens University is the only investor-funded university in Australia. Torrens University offers undergraduate, graduate, higher degree by research, and specialized degree courses primarily in five fields of study: business, design and creative technology, health, hospitality, and education. Courses are offered both online and at 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, the organization responsible for the quality assurance of non-university tertiary training providers.
- In the third quarter of 2022, Australia/New Zealand enrollment was 18,493 compared to 18,188 for the same period in 2021.

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 — 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 nine months ended September 30, 2022 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 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 75% 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 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 governments.

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 students 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 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. 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 or graduate program 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. 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 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 September 30, 2022, we had deferred \$48.4 million for estimated redemptions earned under the Graduation Fund, as compared to \$52.0 million at December 31, 2021. Each quarter, we assess our 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 third quarter of 2022, our bad debt expense was 4.5% of revenue, compared to 3.8% for the same period in 2021. A change in our allowance for credit losses of 1% of gross tuition receivable as of September 30, 2022 would have changed our income from operations by approximately \$1.3 million.

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 nine months ended September 30, 2022 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 nine month periods ended September 30, 2022.

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 nine month periods ended September 30, 2022.

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

In the third quarter of 2022, we generated \$263.1 million in revenue compared to \$270.1 million in 2021. Our income from operations was \$7.8 million for the third quarter of 2022 compared to \$7.3 million in 2021, principally due to lower amortization expense of intangible assets, restructuring costs, and merger and integration costs, partially offset by lower earnings in the USHE segment. Net income in the third quarter of 2022 was \$6.1 million compared to \$3.9 million for the same period in 2021. Diluted earnings per share was \$0.25 compared to \$0.16 for the same period in 2021. For the nine months ended September 30, 2022, we generated \$795.5 million in revenue, compared to \$859.6 million for the same period in 2021. Our income from operations was \$43.1 million for the nine months ended September 30, 2022 compared to \$46.0 million for the same period in 2021, principally due to lower earnings in the USHE segment, partially offset by lower amortization expense of intangible assets, restructuring costs, and merger and integration costs. Net income was \$28.3 million for the nine months ended September 30, 2022 compared to \$33.4 million for the same period in 2021, and diluted earnings per share was \$1.18 in the nine months ended September 30, 2022 compared to \$1.38 for the same period in 2021.

In the accompanying analysis of financial information for 2022 and 2021, 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;

- 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/loss from partnership and other investments that are not part of our core operations; and
- discrete tax adjustments related to stock-based compensation and other adjustments.

To illustrate currency impacts to operating results, 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 for the three and nine months ended September 30, 2022 are also presented on a constant currency basis.

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 results for 2021 exclude an adjustment for foreign currency exchange impacts and are therefore not directly comparable to adjusted results previously reported for the three and nine months ended September 30, 2021. Adjusted income from operations was \$12.2 million in the third quarter of 2022 compared to \$20.7 million in 2021. Adjusted net income was \$8.0 million in the third quarter of 2022 compared to \$14.1 million in 2021, and adjusted diluted earnings per share was \$0.33 in the third quarter of 2022 compared to \$0.59 in 2021. Adjusted income from operations was \$61.1 million for the nine months ended September 30, 2022 compared to \$127.9 million for the same period in 2021. Adjusted net income was \$41.5 million for the nine months ended September 30, 2022 compared to \$89.0 million for the same period in 2021, and adjusted diluted earnings per share was \$1.73 for the nine months ended September 30, 2022 compared to \$3.69 for the same period in 2021.

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 September 30, 2022

	Non-GAAP Adjustments						As Adjusted (Non-GAAP)
	As Reported (GAAP)	Purchase accounting adjustments ⁽¹⁾	Merger and integration costs ⁽²⁾	Restructuring costs ⁽³⁾	Income from other investments ⁽⁴⁾	Tax adjustments ⁽⁵⁾	
Revenues	\$ 263,123	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 263,123
Total costs and expenses	\$ 255,316	\$ (3,522)	\$ (269)	\$ (610)	\$ —	\$ —	\$ 250,915
Income from operations	\$ 7,807	\$ 3,522	\$ 269	\$ 610	\$ —	\$ —	\$ 12,208
Operating margin	3.0%						4.6%
Income before income taxes	\$ 7,545	\$ 3,522	\$ 269	\$ 610	\$ (39)	\$ —	\$ 11,907
Net income	\$ 6,092	\$ 3,522	\$ 269	\$ 610	\$ (39)	\$ (2,478)	\$ 7,976
Diluted earnings per share	\$ 0.25						\$ 0.33
Weighted average diluted shares outstanding	23,902						23,902

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

	As Reported (GAAP)	Non-GAAP Adjustments					As Adjusted (Non-GAAP)
		Purchase accounting adjustments ⁽¹⁾	Merger and integration costs ⁽²⁾	Restructuring costs ⁽³⁾	Loss from other investments ⁽⁴⁾	Tax adjustments ⁽⁵⁾	
Revenues	\$ 270,078	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 270,078
Total costs and expenses	\$ 262,730	\$ (8,932)	\$ (1,111)	\$ (3,322)	\$ —	\$ —	\$ 249,365
Income from operations	\$ 7,348	\$ 8,932	\$ 1,111	\$ 3,322	\$ —	\$ —	\$ 20,713
Operating margin	2.7%						7.7%
Income before income taxes	\$ 5,500	\$ 8,932	\$ 1,111	\$ 3,322	\$ 1,211	\$ —	\$ 20,076
Net income	\$ 3,854	\$ 8,932	\$ 1,111	\$ 3,322	\$ 1,211	\$ (4,312)	\$ 14,118
Diluted earnings per share	\$ 0.16						\$ 0.59
Weighted average diluted shares outstanding	24,113						24,113

Reconciliation of Reported to Adjusted Results of Operations for the nine months ended September 30, 2022

		Non-GAAP Adjustments						
	As Reported (GAAP)	Purchase accounting adjustments ⁽¹⁾	Merger and integration costs ⁽²⁾	Restructuring costs ⁽³⁾	Income from other investments ⁽⁴⁾	Tax adjustments ⁽⁵⁾	As Adjusted (Non-GAAP)	
Revenues	\$ 795,542	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 795,542	
Total costs and expenses	\$ 752,429	\$ (10,954)	\$ (933)	\$ (6,129)	\$ —	\$ —	\$ 734,413	
Income from operations	\$ 43,113	\$ 10,954	\$ 933	\$ 6,129	\$ —	\$ —	\$ 61,129	
Operating margin	5.4%						7.7%	
Income before income taxes	\$ 41,980	\$ 10,954	\$ 933	\$ 6,129	\$ (178)	\$ —	\$ 59,818	
Net income	\$ 28,341	\$ 10,954	\$ 933	\$ 6,129	\$ (178)	\$ (4,666)	\$ 41,513	
Diluted earnings per share	\$ 1.18						\$ 1.73	
Weighted average diluted shares outstanding	24,026						24,026	

Reconciliation of Reported to Adjusted Results of Operations for the nine months ended September 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⁾	
Revenues	\$ 859,587	\$ 3,646	\$ —	\$ —	\$ —	\$ —	\$ 863,233
Total costs and expenses	\$ 813,539	\$ (47,731)	\$ (4,060)	\$ (26,400)	\$ —	\$ —	\$ 735,348
Income from operations	\$ 46,048	\$ 51,377	\$ 4,060	\$ 26,400	\$ —	\$ —	\$ 127,885
Operating margin	5.4%						14.8%
Income before income taxes	\$ 47,124	\$ 51,377	\$ 4,060	\$ 26,400	\$ (2,970)	\$ —	\$ 125,991
Net income	\$ 33,407	\$ 51,377	\$ 4,060	\$ 26,400	\$ (2,970)	\$ (23,312)	\$ 88,962
Diluted earnings per share	\$ 1.38						\$ 3.69
Weighted average diluted shares outstanding	24,131						24,131

- (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 integration expenses associated with the Company's merger with Capella Education Company, including premerger litigation settlement, 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/loss 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 33.0% and 30.6% for the three and nine months ended September 30, 2022, respectively, and an adjusted effective tax rate of 29.7% and 29.4% for the three and nine months ended September 30, 2021, respectively.

The table below presents our adjusted results of operations on a constant currency basis for the three and nine months ended September 30, 2022 (amounts in thousands, except per share data):

	For the three months ended September 30, 2022			For the nine months ended September 30, 2022		
	As Adjusted (Non-GAAP)	Constant currency adjustment ⁽¹⁾	As Adjusted with Constant Currency (Non-GAAP)	As Adjusted (Non-GAAP)	Constant currency adjustment ⁽¹⁾	As Adjusted with Constant Currency (Non-GAAP)
Revenues	\$ 263,123	\$ 4,496	\$ 267,619	\$ 795,542	\$ 12,221	\$ 807,763
Total costs and expenses	\$ 250,915	\$ 3,791	\$ 254,706	\$ 734,413	\$ 11,006	\$ 745,419
Income from operations	\$ 12,208	\$ 705	\$ 12,913	\$ 61,129	\$ 1,215	\$ 62,344
Operating margin	4.6%		4.8%	7.7%		7.7%
Income before income taxes	\$ 11,907	\$ 708	\$ 12,615	\$ 59,818	\$ 1,210	\$ 61,028
Net income	\$ 7,976	\$ 474	\$ 8,450	\$ 41,513	\$ 812	\$ 42,325
Diluted earnings per share	\$ 0.33		\$ 0.35	\$ 1.73		\$ 1.76
Weighted average diluted shares outstanding	23,902		23,902	24,026		24,026

- (1) Reflects an adjustment to translate foreign currency results for the three and nine months ended September 30, 2022 at a constant exchange rate of 0.73 and 0.76 Australian Dollars to U.S. Dollars, respectively, which was the average exchange rate for the same periods in 2021.

Three Months Ended September 30, 2022 Compared to the Three Months Ended September 30, 2021

Revenues. Consolidated revenue decreased to \$263.1 million in the third quarter of 2022, compared to \$270.1 million in the same period in the prior year, primarily due to declines in USHE enrollment. In the USHE segment for the three months ended September 30, 2022, total enrollment decreased 3% to 75,144 from 77,574 for the same period in 2021. USHE segment revenue decreased 3.3% to \$185.5 million compared to \$191.9 million in 2021 primarily as a result of declines in enrollment. In the Australia/New Zealand segment for the three months ended September 30, 2022, total enrollment increased 1.7% to 18,493, compared to 18,188 for the same period in 2021. Australia/New Zealand segment revenue decreased 6.2% to \$61.2 million compared to \$65.2 million in 2021, primarily due to unfavorable foreign exchange impacts and lower revenue-per-student. In the Education Technology Services segment, revenue for the three months ended September 30, 2022 increased 26.9% to \$16.4 million compared to \$13.0 million in 2021, primarily as a result of growth in Sophia Learning and higher employer affiliated enrollment.

Instructional and support costs. Consolidated instructional and support costs decreased to \$153.2 million, compared to \$153.7 million in the same period in the prior year, principally due to lower facility costs, partially offset by higher bad debt expense. Consolidated instructional and support costs as a percentage of revenues increased to 58.2% in the third quarter of 2022 from 56.9% in the third quarter of 2021.

General and administration expenses. Consolidated general and administration expenses increased to \$97.8 million in the third quarter of 2022 compared to \$95.7 million in the prior year, principally due to increased investments in branding initiatives and partnerships with brand ambassadors. Consolidated general and administration expenses as a percentage of revenues increased to 37.2% in the third quarter of 2022 from 35.4% in the third quarter of 2021.

Amortization of intangible assets. Amortization of intangible assets decreased to \$3.5 million in the third quarter of 2022 compared to \$8.9 million in 2021, due to the finite-lived intangible assets acquired through the merger with Capella Education Company being fully amortized as of the third quarter of 2021.

Merger and integration costs. Merger and integration costs decreased to \$0.3 million in the third quarter of 2022 compared to \$1.1 million for the same period in 2021, as a result of lower integration expenses associated with the acquisition of ANZ.

Restructuring costs. Restructuring costs decreased to \$0.6 million in the third quarter of 2022 compared to \$3.3 million in 2021, primarily due to lower right-of-use lease asset and fixed asset impairment charges associated with vacating leased space and lower severance and other personnel-related expenses from employee terminations in connection with the Company's restructuring plan.

Income from operations. Consolidated income from operations increased to \$7.8 million in the third quarter of 2022 compared to \$7.3 million in the third quarter of 2021, principally due to lower amortization expense of intangible assets, restructuring costs, and merger and integration costs, partially offset by lower earnings in the USHE segment. In the USHE segment, loss from operations was \$1.9 million in the third quarter of 2022, compared to \$5.2 million of income from operations in the third quarter of 2021, primarily due to lower enrollments and increased investments in marketing initiatives. In the Australia/New Zealand segment, income from operations decreased 13.8% to \$8.9 million in the third quarter of 2022, compared to \$10.4 million in the third quarter of 2021, primarily driven by lower revenue, higher bad debt expense, and unfavorable foreign currency impacts. In the Education Technology Services segment, income from operations was \$5.2 million in the third quarter of 2022 and 2021. As discussed above, revenue in the Education Technology Services segment increased in the third quarter of 2022 compared to the third quarter of 2021 as a result of growth in Sophia Learning and an increase in employer affiliated enrollment; however, income from operations remained consistent due to increased investment in outreach to corporate partners in the third quarter of 2022.

Other expense. Other expense was \$0.3 million in the third quarter of 2022 compared to \$1.8 million in the third quarter of 2021, as a result of an increase in investment income from our limited partnership investments and an increase in interest income, partially offset by an increase in interest expense due to higher interest rates. We incurred \$1.6 million of interest expense in the three months ended September 30, 2022 compared to \$0.9 million in the three months ended September 30, 2021.

Provision for income taxes. Income tax expense was \$1.5 million in the third quarter of 2022, compared to \$1.6 million in the third quarter of 2021. Our effective tax rate for the quarter was 19.3%, compared to 29.9% for the same period in 2021.

Net income. Net income increased to \$6.1 million in the third quarter of 2022 compared to \$3.9 million in the third quarter of 2021 due to the factors discussed above.

Nine Months Ended September 30, 2022 Compared to the Nine Months Ended September 30, 2021

Revenues. Consolidated revenue decreased to \$795.5 million in the nine months ended September 30, 2022, compared to \$859.6 million in the same period in the prior year, primarily due to declines in enrollment. USHE segment revenue decreased 9.4% to \$571.3 million compared to \$630.6 million in 2021 primarily as a result of declines in enrollment. Australia/New Zealand segment revenue decreased 7.0% to \$177.2 million compared to \$190.5 million in 2021 as a result of unfavorable foreign exchange impacts, declines in enrollment, and lower revenue-per-student. In the Education Technology Services segment, revenue for the nine months ended September 30, 2022 increased 22.5% to \$47.0 million compared to \$38.4 million in 2021, primarily as a result of growth in Sophia Learning and higher employer affiliated enrollment.

Instructional and support costs. Consolidated instructional and support costs decreased to \$445.2 million in the nine months ended September 30, 2022 from \$459.4 million in the nine months ended September 30, 2021, principally due to lower facility costs and bad debt expense. Consolidated instructional and support costs as a percentage of revenues increased to 56.0% in the nine months ended September 30, 2022 from 53.4% in the nine months ended September 30, 2021.

General and administration expenses. Consolidated general and administration expenses increased to \$289.3 million in the nine months ended September 30, 2022 from \$276.0 million in the nine months ended September 30, 2021, principally due to increased investments in branding initiatives and partnerships with brand ambassadors. Consolidated general and administration expenses as a percentage of revenues increased to 36.4% in the nine months ended September 30, 2022 from 32.1% in the nine months ended September 30, 2021.

Amortization of intangible assets. Amortization of intangible assets decreased to \$11.0 million in the nine months ended September 30, 2022 from \$47.7 million in the nine months ended September 30, 2021, due to the finite-lived intangible assets acquired through the merger with Capella Education Company being fully amortized as of the third quarter of 2021.

Merger and integration costs. Merger and integration costs decreased to \$0.9 million in the nine months ended September 30, 2022 from \$4.1 million in the nine months ended September 30, 2021, as a result of lower integration expenses associated with the acquisition of ANZ.

Restructuring costs. Restructuring costs decreased to \$6.1 million in the nine months ended September 30, 2022 from \$26.4 million in the nine months ended September 30, 2021, primarily due to \$3.7 million of right-of-use lease asset and fixed asset impairment charges associated with vacating leased space in the first nine months of 2022, compared to \$21.5 million in the comparable period in 2021, as well as higher severance and other personnel-related expenses from employee terminations in the first nine months of 2021.

Income from operations. Consolidated income from operations decreased to \$43.1 million in the nine months ended September 30, 2022 from \$46.0 million in the nine months ended September 30, 2021, principally due to lower earnings in the USHE segment, partially offset by lower amortization expense of intangible assets, restructuring costs, and merger and integration costs. USHE segment income from operations decreased 70.1% to \$25.4 million in the nine months ended September 30, 2022 from \$85.0 million in the nine months ended September 30, 2021, primarily due to lower enrollments, lower revenue-per-student, and increased investments in marketing initiatives. Australia/New Zealand segment income from operations decreased 10.9% to \$20.5 million in the nine months ended September 30, 2022, compared to \$23.0 million of income from operations in the nine months ended September 30, 2021, primarily due to lower revenue and unfavorable foreign currency impacts. Education Technology Services segment income from operations decreased 6.2% to \$15.2 million for the nine months ended September 30, 2022 from \$16.2 million in the nine months ended September 30, 2021 as a result of increased investment in outreach to corporate partners, partially offset by growth in Sophia Learning and an increase in employer affiliated enrollment.

Other income (expense). Other income (expense) decreased to \$1.1 million of expense in the nine months ended September 30, 2022 from \$1.1 million of income in the nine months ended September 30, 2021, primarily due to a decrease in investment income from our limited partnership investments and an increase in interest expense, partially offset by an increase in interest income due to higher interest rates. We incurred \$3.6 million of interest expense in the nine months ended September 30, 2022 compared to \$2.7 million in nine months ended September 30, 2021.

Provision for income taxes. Income tax expense was \$13.6 million in the nine months ended September 30, 2022, compared to \$13.7 million in the nine months ended September 30, 2021. Our effective tax rate for the nine months ended September 30, 2022 was 32.5%, compared to 29.1% for the nine months ended September 30, 2021. The increase in the effective tax rate in 2022 was primarily due to a \$1.4 million tax shortfall recognized through share-based payment arrangements.

Net income. Net income decreased to \$28.3 million in the nine months ended September 30, 2022 compared to \$33.4 million in the nine months ended September 30, 2021 due to the factors discussed above.

Liquidity and Capital Resources

At September 30, 2022, we had cash, cash equivalents, and marketable securities of \$288.8 million compared to \$298.8 million at December 31, 2021 and \$305.0 million at September 30, 2021. At September 30, 2022, 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 September 30, 2022. As of September 30, 2022 and 2021, we had \$141.2 million and \$141.6 million, respectively, outstanding under our Revolving Credit Facility. During the nine months ended September 30, 2022 and 2021, we paid \$3.0 million and \$2.1 million, respectively, of interest and unused commitment fees related to our Revolving Credit Facility.

Our net cash provided by operating activities for the nine months ended September 30, 2022 was \$124.7 million, compared to \$161.2 million for the same period in 2021. The decrease in net cash from operating activities was primarily driven by lower earnings in the USHE segment, partially offset by favorable timing of payments of working capital.

Capital expenditures decreased to \$32.5 million for the nine months ended September 30, 2022, compared to \$33.6 million for the same period in 2021, due to the timing of capital projects.

The Board of Directors declared a regular, quarterly cash dividend of \$0.60 per share of common stock for each of the first three quarters of 2022. During the nine months ended September 30, 2022, we paid a total of \$44.6 million in cash dividends on our common stock. During the nine months ended September 30, 2022, we paid \$36.9 million to repurchase common shares in the open market under our repurchase program. As of September 30, 2022, we had \$213.1 million of share repurchase authorization remaining to use through December 31, 2022.

For the third quarter of 2022 and 2021, bad debt expense as a percentage of revenue was 4.5% and 3.8%, 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 September 30, 2022 and 2021. We also hold marketable securities, which primarily include tax-exempt municipal securities and corporate debt securities. During the nine months ended September 30, 2022 and 2021, we earned interest income of \$1.9 million and \$0.9 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 September 30, 2022, 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 September 30, 2022, we had \$141.2 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.

In March 2021, the administrator of LIBOR announced that the publication of certain LIBOR settings would cease after December 2021 and publication of the remainder of the LIBOR settings will cease after June 2023. At September 30, 2022, we had no exposure to the discontinued LIBOR settings and had approximately \$141.2 million of LIBOR-based debt outstanding on our Revolving Credit Facility. Our Revolving Credit Facility includes mechanisms for replacing the applicable reference rate, which we do not expect to be materially different from LIBOR.

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 accounted for 22.3% of our consolidated revenues for the nine months ended September 30, 2022. 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. For the nine months ended September 30, 2022, a hypothetical 10% adverse change in the average foreign currency exchange rates would have decreased our consolidated revenues by approximately \$17.7 million. In addition, the effect of exchange rate changes on cash, cash equivalents, and restricted cash for the nine months ended September 30, 2022 was a decrease of \$10.7 million. 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 September 30, 2022. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company had in place, as of September 30, 2022, 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 (the “Securities Exchange Act”), and the rules thereunder, is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Securities Exchange Act is accumulated and communicated to the Company’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.
- b) *Internal Control Over Financial Reporting.* There have not been any changes in the Company’s internal control over financial reporting during the quarter ended September 30, 2022 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. See Note 15, Litigation, in the condensed consolidated financial statements appearing in Part I, Item 1 of this report for additional information regarding our legal proceedings and related matters, which information is incorporated herein by reference.

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, 2021, 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, 2021, other than the revised risk factors included below. The risks described below and 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 2021. Capella University derived approximately 67.06% of its cash-basis revenues from Title IV program funds in 2021. 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, which was considered by the Institutional and Programmatic Eligibility negotiated rulemaking. Meetings of this negotiated rulemaking committee occurred January-March 2022, the Department issued and received public comments on the proposed rule in July-August 2022, and the Department of Education released final 90/10 regulations on October 27, 2022. The final regulations 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. These revisions to the 90/10 Rule will 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.

If Strayer University and Capella University fail to comply with the extensive legal and regulatory requirements for higher education institutions, they could face significant monetary or other liabilities and penalties, including loss of access to federal student loans and grants for their students.

As providers of higher education, Strayer University and Capella University are subject to extensive laws and regulation on both the federal and state levels and by accrediting agencies. In particular, the Higher Education Act and related regulations subject Strayer University, Capella University, and all other higher education institutions that participate in the various Title IV programs to significant regulatory scrutiny.

The Higher Education Act mandates specific regulatory responsibilities for each of the following components of the higher education regulatory triad: (1) the federal government through the Department of Education; (2) the accrediting agencies recognized by the Secretary of Education; and (3) state education regulatory bodies.

In addition, other federal agencies such as the Consumer Financial Protection Bureau (“CFPB”), Federal Trade Commission (“FTC”), and Federal Communications Commission and various state agencies and state attorneys general enforce consumer protection, calling and texting, marketing, privacy and data security, and other laws applicable to post-secondary educational institutions. Findings of noncompliance could result in monetary damages, fines, penalties, injunctions, or restrictions or obligations that could have a material adverse effect on our business. Some of these laws also include private rights of action.

On October 8, 2021, the Department of Education announced establishment of an Office of Enforcement within the Department’s Office of Federal Student Aid, designed to strengthen oversight over and enforcement against postsecondary schools that participate in federal student loan, grant, and work-study programs. The Office of Enforcement restores an office first established by the Department in 2016. The Department announced the Office of Enforcement would comprise four existing divisions: Administrative Actions and Appeals Services Group, Borrower Defense Group, Investigations Group, and Resolution and Referral Management Group. The Department intends the Office of Enforcement to coordinate with other state and federal partners, including the U.S. Department of Justice, CFPB, FTC, state attorneys general, and other state and federal partners.

On October 6, 2021 the FTC announced that it is resurrecting Penalty Offense Authority under Section 5(m) of the FTC Act (the “Act”). Under the Act, the FTC may secure penalties against entities not a party to an original proceeding if the FTC can show that the entity had actual knowledge that the conduct in question was found to be unfair or deceptive. In an effort to establish actual knowledge and create a pathway for penalties in the event of post-notice acts or practices, the FTC issued that same day an informational notice to the 70 largest for-profit schools based on enrollment and revenues. The notice included a list of acts and practices that the FTC has determined are unfair or deceptive, including but not limited to acts relating to misrepresentation of employment opportunities and other benefits, together with citation to various prior determinations from cases previously litigated by the FTC. Strayer University and Capella University received the FTC’s notice on October 7, 2021, although the FTC made clear that receipt of the notice itself does not reflect any assessment as to whether Strayer University or Capella University has engaged in deceptive or unfair conduct.

On April 4, 2022, the Company received correspondence from the CFPB, in which the CFPB took the position that it has supervisory authority over the Company as a covered person that offers or provides private education loans pursuant to 12 U.S.C. 5514(a)(1)(D) and further indicated the CFPB is considering whether to cite violations based on preliminary findings that the Company may have violated the Dodd-Frank Wall Street Reform and Consumer Protection Act, 12 U.S.C. 5301 et seq., due to alleged student loan servicing and collections practices or policies. Specifically, the CFPB referred to Capella University and Strayer University’s historical practice of withholding official transcripts from students who were delinquent in paying amounts due, a practice which both universities discontinued prior to receipt of the correspondence. While the Company disagrees with CFPB’s position as to its supervisory authority and disputes any alleged legal or regulatory violations, SEI is cooperating with CFPB’s inquiry and responded to CFPB as requested on April 25, 2022. The CFPB subsequently sent a letter on July 8, 2022, indicating that it believed the withholding of transcripts was a violation, and requiring the Company to cease withholding transcripts for those with an outstanding balance and to take other remedial actions. The Company had already discontinued its historical practice prior to the CFPB’s notice, and informed the CFPB that it completed the remedial actions in the allotted thirty days. On April 26, 2022, the CFPB informed the Company that it intended to conduct an announced education loan exam in June 2022. The examination started on June 13, 2022. Fieldwork concluded on August 5, 2022, but the examination is ongoing. On September 12, 2022, the CFPB informed the Company of a preliminary finding related to a product that is no longer utilized, and invited the Company’s response. The Company timely responded to the CFPB’s letter, disagreeing with the preliminary finding and noting that the product to which it related is no longer utilized.

The laws, regulations, standards, and policies applicable to our business frequently change, and changes in, or new interpretations of, applicable laws, regulations, standards, or policies could have a material adverse effect on our accreditation, authorization to operate in various states, permissible activities, ability to communicate with prospective students, receipt of funds under Title IV programs, or costs of doing business. The Department of Education periodically engages in negotiated rulemaking sessions to revise regulations that govern the federal Title IV student financial aid programs. As discussed in Note 16, Regulation, in the condensed consolidated financial statements appearing in Part I, Item 1 of this report under “Current Negotiated Rulemaking,” the Department of Education has convened negotiated rulemaking committees to address issues such as borrower defense to repayment, misrepresentation, arbitration proceedings, gainful employment rules, and federal government oversight into changes in ownership for institutions of higher education, among others. Certain proposals related to these issues could raise the cost of compliance for Strayer University or Capella University or require changes in the educational programs offered by Strayer University and Capella University in order to comply with new rules. We cannot predict whether the Department of Education will promulgate any regulations that would negatively affect Strayer University or Capella University.

Title IV requirements are enforced by the Department of Education and, in some instances, by private plaintiffs. If Strayer University and Capella University are found not to be in compliance with these laws, regulations, standards, or policies, they could lose access to Title IV program funds and face related monetary liability, which would have a material adverse effect on the Company.

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

During the three months ended September 30, 2022, the Company paid \$36.9 million to repurchase shares of common stock under its repurchase program. The Company's remaining authorization for common stock repurchases was \$213.1 million as of September 30, 2022, and is available for use through December 31, 2022. 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 06/30/22)				\$ 225.0
July	—	\$ —	—	225.0
August	96,438	69.42	96,438	218.3
September	82,315	63.77	82,315	213.1
Total (at 09/30/22)	178,753	\$ 66.82	178,753	\$ 213.1

⁽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, 2021, the Board of Directors increased the amount authorized to \$250.0 million for use through December 31, 2022.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

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 (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q filed with the Commission on July 29, 2021).</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: November 3, 2022

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: November 3, 2022

/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: November 3, 2022

/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 September 30, 2022 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

November 3, 2022

**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 September 30, 2022 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

November 3, 2022