STRAYER EDUCATION INC
Form 10-K
February 26, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

Commission file number: 0-21039

STRAYER EDUCATION, INC.
(Exact name of registrant as specified in its charter)

MARYLAND	**52-1975978**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1100 Wilson Boulevard, Suite 2500, Arlington, VA 22209
(Address of principal executive offices)

REGISTRANT S TELEPHONE NUMBER INCLUDING AREA CODE: (703) 247-2500

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

COMMON STOCK, $.01 PAR VALUE	**NASDAQ GLOBAL SELECT MARKET**
(Title of class)	(Name of each exchange on which registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: x Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: o Yes x No

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 last 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act). o Yes x No

The aggregate market value of the voting and non-voting common stock held by non-affiliates (computed by reference to the price at which the common stock was last sold) as of June 30, 2009, the last business day of the Registrant s most recently completed second fiscal quarter, was approximately $3.0 billion.

The total number of shares of common stock outstanding as of February 1, 2010 was 13,957,596.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrant s Definitive Proxy Statement for its 2010 Annual Meeting of Stockholders (which is expected to be filed with the Commission within 120 days after the end of the Registrant s 2009 fiscal year) are incorporated by reference into Part III of this Report.

STRAYER EDUCATION, INC.

FORM 10-K

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PART I

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS:

This document and the documents incorporated by reference herein include forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), including, in particular, the statements about our plans, strategies and prospects under the headings Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. We have typically used the words may, will, expect, believe, estimate, intend and similar expressions in this document and the documents incorporated by reference herein to identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. Actual results could differ materially from those projected in the forward-looking statements. These forward-looking statements are subject to many risks, uncertainties and assumptions, including, among other things:

- the pace of growth of student enrollment;
- our continued compliance with Title IV of the Higher Education Act and the regulations thereunder, as well as state regulatory requirements and accrediting agency requirements;
- risks related to the timing of regulatory approvals;
- competitive factors;
- our ability to continue to implement our online growth strategy;
- risks associated with the opening of new campuses;
- risks associated with the offering of new educational programs and adapting to other program changes;
- risks associated with the acquisition of existing educational institutions;
- 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. You should understand that many important factors, including those discussed under the headings Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, could cause our results to differ materially from those expressed or suggested in any forward-looking statements. Further information about these and other relevant risks and uncertainties may be found in Item 1A (Risk Factors) below and elsewhere in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission. We undertake no obligation to update or revise forward-looking statements, except as required by law.

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Item 1. Business

Overview

Our company is a for-profit post-secondary education services corporation. Our mission is to make higher education achievable and convenient for working adults in today s economy. We work to fulfill this mission by offering a variety of academic programs through our wholly-owned subsidiary Strayer University, Inc. (the University), both in traditional classroom courses and online via the Internet. Strayer University prides itself on making post-secondary education accessible to working adults who were previously unable to take advantage of higher education opportunities.

Founded in 1892, Strayer University is an institution of higher learning that offers undergraduate and graduate degree programs in business administration, accounting, information technology, education, health care, public administration and criminal justice at 78 physical campuses in Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, West Virginia, and Washington, D.C. As of December 31, 2009, we had more than 54,000 students enrolled in our programs. Strayer University is accredited by the Middle States Commission on Higher Education (Middle States), one of the six regional collegiate accrediting agencies recognized by the U.S. Secretary of Education. As part of its program offering, the University also offers classes online via the Internet, providing its working adult students a flexible and convenient alternative. Strayer University, with its online offerings, attracts students from around the country and throughout the world.

Over the last several years, we have experienced significant growth, primarily by expanding geographically by opening new campuses. Since our initial public offering in 1996, we have grown from eight campuses in one state and Washington, D.C., to 78 campuses in 18 states and Washington, D.C. Our mission is to serve working adults demand for post-secondary education. We accomplish this by opening new campuses in the promising areas in those states in which we currently operate physical campuses, as well as by expanding into contiguous states that exhibit strong demand for adult education in business and information technology programs. We have opened 64 of our campuses since the beginning of 2001 and currently plan to open 13 new campuses in 2010, including seven already opened. We have also developed a robust online education program. Since receiving regulatory approval to offer our degree programs online in 1997, our online programs have experienced significant growth, with over 39,000 students enrolled in at least one class online during the 2009 fall term. To better serve students who do not reside or work near one of our physical campus locations, we opened a second Global Online Operations Center located in Salt Lake City, Utah in 2009.

In May 2001, we hired a new senior management team, made significant investments in information technology infrastructure to support planned growth in our online programs, and embarked on a long term program to open new campuses in areas where there is a strong demand for adult education. As a result of these efforts, between 2000 and 2009 our revenues grew 23% on a compound annual basis, as our revenues increased from $78 million in 2000 to $512 million in 2009. During the same period, diluted earnings per share grew at a compound annual rate of 21% including the impact of stock-based compensation which we began recording in 2006, as we continued to invest heavily in our various initiatives to serve working adult students. For more information relating to our revenues, profits and financial condition, please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Industry Background and Outlook

The market for post-secondary education is large, growing and highly fragmented. The U.S. Bureau of Labor Statistics has reported that approximately 61 million working adults in the United States do not have more than a high school education and approximately 32 million people have some college experience but no degree. We believe that the demand for post-secondary education will continue to increase during the next several years as a result of demographic, economic and social trends, including:

an increase in demand by employers for professional and skilled workers;

a projected 18% growth in the annual number of high school graduates from 2.8 million in 2000 to 3.3 million in 2010;

the significant and measurable income premium attributable to post-secondary education; and

budgetary constraints at traditional colleges and universities.

The adult education market is a significant and growing component of the post-secondary education market. We believe that the market for post-secondary adult education should continue to increase as working adults seek additional education to update and improve their skills. In addition, we believe that many working adults will seek degree programs from regionally accredited institutions that provide flexibility to accommodate the fixed schedules and time commitments associated with their professional, family and personal obligations.

In addition to Strayer, there are currently several hundred not-for-profit universities, several public companies and numerous smaller private companies operating in the post-secondary education market in which we operate.

Company Strengths

We have a 118-year operating history and a track record of providing practical and convenient education programs for working adults. We believe the following strengths position us to capitalize on the growing demand for post-secondary education among working adults:

Consistent operating history. We have been in continuous operation since 1892 and have demonstrated an ability to operate consistently and grow profitably. Our enrollment and revenue have grown each year since our initial public offering in 1996.

Practical and diversified curricula. We offer core curricula in stable, high-demand areas of adult education. In order to keep pace with a changing knowledge-based economy, we constantly strive to meet the evolving needs of our working adult students and their employers by regularly refining and updating our existing educational programs. Additionally, we replicate programs that are successful in a given campus at additional locations throughout our network of campuses. Strayer University currently offers more than 100 different degree, diploma and certificate programs, including emphases and concentrations, to its students.

Focus on working adults pursuing degree programs. We focus on serving working adults who are pursuing undergraduate and graduate degrees in order to advance their careers and employment opportunities. We believe this is an attractive market within the post-secondary education sector due to the growing number of adult students enrolling in post-secondary education programs and the highly motivated nature of adult students. We consider adult students to be our primary customers, with the various business and government organizations that provide tuition assistance to their employees as our secondary customers. In addition, we believe that the structure of our curriculum, featuring associate, bachelor s and graduate-level degree programs, encourages students to continue their education and results in extended periods of student enrollment which positively impacts the visibility and predictability of our future revenues. Approximately 94% of our students were enrolled in degree programs for the 2009 fall term.

Flexible program offerings. We maintain flexible quarterly programs that allow working adult students to attend classes and complete coursework on a convenient evening and weekend schedule throughout the calendar year. Additionally, we developed online programs to enable students to pursue a degree partially or entirely via the Internet, thereby increasing the

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convenience, accessibility and flexibility of our educational programs. Approximately 72% of our students enrolled for the 2009 fall term were taking at least one course online. We believe that these flexible offerings distinguish us from many traditional universities that currently do not effectively address the special requirements of working adults.

Attractive and convenient campus locations. Our campuses are located in growing metropolitan areas, mostly in the Mid-Atlantic and Southern regions where there are large populations of working adults with demographic characteristics similar to those of our typical students. Strayer University s campuses are attractive and modern, offering conducive learning environments in convenient locations.

Established brand name and alumni support. With a 118-year operating history, Strayer University is an established brand name in post-secondary adult education, and our students and graduates work throughout corporate America. Our alumni network fosters additional recruitment opportunities for students.

Strong owner-oriented management team. In connection with our recapitalization in 2001, we developed a new growth strategy and hired a new senior management team to implement this strategy. As described below, under the leadership of Robert S. Silberman, our Chairman and Chief Executive Officer, we embarked on various initiatives to serve the working adult market by expanding our campuses and developing an online learning platform. In addition, our senior officers have made investments in Strayer through outright share purchases, in addition to any compensatory stock awards.

Company Strategy

Our goal is to be a leading, nationwide provider of high quality post-secondary education programs for working adults primarily in the areas of business administration, accounting and information technology. We have identified the following factors as key to executing our growth strategy:

Maintain stable enrollment in our mature markets. We have a total of 78 campuses (including three new campuses opened for the 2010 winter term and four new campuses opened for the 2010 spring term) in various stages of growth. Our goal is to enroll an incremental 100-150 students at each campus each year until it reaches an enrollment level of approximately 1,000 students. We had 19 campuses with over 1,000 students for the 2010 winter term. Once a campus has reached this state of maturity, our goal is to maintain stable campus enrollment while increasing revenues with market-based tuition increases.

Open new campuses. Our goal is to open new campuses every year by meeting unmet demand in states in which we currently operate physical campuses, and by expanding into contiguous states that exhibit strong demand for adult education in business and information technology programs. Since our initial public offering in 1996, we have grown from eight campuses in one state and Washington, D.C. to 78 campuses in 18 states and Washington, D.C. We have opened 64 new campuses since the beginning of 2001. These campuses are set forth in the table below:

New Campuses Opened
(since the beginning of 2001)

2001	Baltimore, MD (Owings Mills Campus)
	Norfolk, VA (Chesapeake Campus)
	Norfolk, VA (Newport News Campus)

2002	Charlotte, NC (North Charlotte Campus) Charlotte, NC (South Charlotte Campus)

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	Raleigh-Durham, NC (Cary Campus)
2003	Memphis, TN (Thousand Oaks Campus) Nashville, TN Raleigh-Durham, NC (North Raleigh Campus) Philadelphia, PA (Lower Bucks Campus) Philadelphia, PA (Delaware County Campus)
2004	Greenville, SC Memphis, TN (Shelby Oaks Campus) Atlanta, GA (Cobb County Campus) Atlanta, GA (Chamblee Campus) Philadelphia, PA (King of Prussia Campus)
2005	Tampa, FL (Tampa East Campus) Tampa, FL (Tampa West Campus) Greensboro, NC Columbia, SC Atlanta, GA (Morrow Campus)
2006	Wilmington, DE Philadelphia, PA (Center City Campus) Pittsburgh, PA (Penn Center West Campus) Pittsburgh, PA (Cranberry Woods Campus) Norfolk, VA (Virginia Beach Campus) Atlanta, GA (Roswell Campus) Charleston, SC Birmingham, AL
2007	Louisville, KY Lexington, KY Orlando, FL (Maitland Campus) Orlando, FL (Orlando East Campus) Atlanta, GA (Douglasville Campus) Cherry Hill, NJ Willingboro, NJ Knoxville, TN
2008	Charlotte, NC (Huntersville Campus) Raleigh, NC (Garner Campus) Atlanta, GA (Lithonia Campus) Orlando, FL (Sandlake Campus) Jacksonville, FL Palm Beach, FL Ft. Lauderdale, FL Ft. Lauderdale, FL (Coral Springs Campus) Savannah, GA

2009	Augusta, GA
	Huntsville, AL
	Allentown, PA
	Charleston, WV
	Salt Lake City, UT
	Cincinnati, OH (Mason Campus)

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	Columbus, OH Cleveland, OH (Fairview Park Campus) Akron, OH Florence, KY Miami, FL (Miramar Campus)
2010 (to date)	Lawrenceville, NJ New Brunswick, NJ Little Rock, AR Austin, TX Miami, FL (Doral Campus) Miami, FL (Brickell Campus) New Orleans, LA (Metarie Campus)

In 2010, we plan to open a total of 13 new campuses. Three of the planned new campuses were opened in Lawrenceville and New Brunswick, New Jersey and in Little Rock, Arkansas, for the 2010 winter term. Another four campuses have been opened for the 2010 spring term two in Miami, Florida and one each in New Orleans, Louisiana and Austin, Texas. The locations of the remaining six campuses planned for this year will be announced after all necessary regulatory approvals are obtained.

We continue to apply to operate in other states generally adjacent to our current operating region and expect to pursue approvals in those states and open campuses in favorable demographic locations in such states as part of our multi-year expansion plan, with our ultimate goal to become a nationwide university.

Expand Online. Our online classes are available to students throughout the U.S. and on a global basis. Strayer has demonstrated its success with both asynchronous (on demand) and synchronous (real time) course offerings that are favored by working adult students because of their quality and convenience. We believe that the added flexibility of being able to offer both traditional and online courses allows us to better serve our working adult students. Due to the convenience and flexibility of online courses, particularly in the asynchronous format, this medium has rapidly grown in acceptance and is expected to continue to grow. There were over 39,000 students taking at least one online course for the 2009 fall term. We intend to make additional investments in our online programs to support the continued growth in this area, including through a second Global Online Operations Center that we opened in 2009 in Salt Lake City, Utah.

Develop corporate/institutional alliances. We believe we are well positioned to pursue significant opportunities in the large corporate/institutional market. Our convenient evening, weekend and online courses provide an attractive solution for the education and training needs of employers and their employees. We currently have employer agreements or billing arrangements of various types with many corporations and government organizations, including Bank of America, Capital One, General Dynamics, Lowe s, Northrop Grumman, SAIC, Sodexo USA, UPS, FBI, United States Postal Service, Verizon, and Verizon Wireless. We are actively working with other corporations and institutions, such as community colleges, to increase the number of such arrangements and to further develop existing relationships. These relationships, once established, provide an ongoing source of new and continuing students.

Optimize the use of stockholders capital. We compare all uses of our capital (including but not limited to organic growth investments, acquisitions, share repurchases and dividends) in terms of return on our owners capital and enhancing shareholder value. In 2009, we repurchased approximately 452,000 shares of our common stock and increased our annual dividend from $2.00 to $3.00 per share, effective December 2009.

We periodically evaluate opportunities to acquire other providers of post-secondary education. Currently, we have no commitments with regard to potential acquisitions.

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Strayer University

Curriculum

Strayer University offers business, information technology and professional-oriented curricula to equip students with specialized and practical knowledge and skills for careers in business, industry and government. Our Academic School Deans and Program Curriculum Committees regularly review and revise the University s course offerings to improve the educational programs and respond to competitive changes in job markets. We regularly evaluate new programs and degrees to ensure that we stay current with the needs of our students and their employers.

Strayer University offers programs in the following areas:

Graduate Programs

Master of Business Administration (M.B.A.) Degree

Master of Education (M.Ed.) Degree

Master of Health Services Administration (M.H.S.A.) Degree

Master of Public Administration (M.P.A.) Degree

Master of Science (M.S.) Degree
Information Systems
Accounting
Human Resource Management

Executive Graduate Certificate Programs
Business Administration
Information Systems
Accounting

Undergraduate Programs

Bachelor of Science (B.S.) Degree
Accounting
Information Systems
Economics
International Business
Criminal Justice

Bachelor of Business Administration (B.B.A.) Degree

Associate in Arts (A.A.) Degree
Accounting
Acquisition and Contract Management
Business Administration
Information Systems
Economics
General Studies
Marketing
Criminal Justice

Diploma Programs
Accounting
Acquisition and Contract Management
Information Systems

Undergraduate Certificate Programs Accounting
Business Administration
Information Systems

Each undergraduate degree program includes courses in oral and written communication skills as well as mathematics and various disciplines in the humanities and social sciences. In addition to our degree, diploma and certificate programs, we offer classes to non-degree and non-program students wishing to take courses for personal or professional enrichment.

Although all of our programs are generally offered at each campus, the University adapts its course offerings to the demands of the student population at each location. Strayer University students may enroll in courses at more than one campus and take courses online.

Strayer University structures its curricula to allow students to advance sequentially from one learning level to another by applying credits earned in one program toward attainment of a more advanced degree. For example, a student originally pursuing a diploma in computer information systems can extend his or her original educational objective by taking additional courses leading to an associate s degree in computer information systems, a bachelor s degree in computer information systems, and ultimately a master s degree in computer information systems. This curriculum design provides students a level of competency and a measure of attainment in the event they interrupt their education or choose to work in their field of concentration prior to obtaining their final degree.

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Online

In August 1997, we began offering classes online via the Internet. Students can take classes online using either a synchronous (real time) or asynchronous (on demand) format. The asynchronous format was first introduced by the University in the summer 2001 quarter and has grown significantly due to increasing demand. Students may take all of their courses online or may take online courses as a supplement to traditional, site-based courses. A student taking classes online has the same admission and financial aid requirements, is subject to the same policies and procedures and receives the same student services as campus-based Strayer University students. Tuition for online courses is the same as for campus courses. During the fall 2009 quarter, Strayer University had over 39,000 students participating in its online classes, approximately 33,000 of whom took classes solely online.

Faculty

The University appoints faculty who hold appropriate academic credentials, are dedicated, active professionals in their field and are enthusiastic and committed to teaching working adults. In accordance with our educational mission, the University faculty focuses its efforts on teaching. The normal course load for a full-time faculty member is four courses per quarter for each of three quarters, or 12 courses per academic year. In addition, the University requires full-time faculty members to provide eight hours per week of student academic counseling and other student support services. Further, full-time faculty members participate actively in the life of the University through service on curricular and assessment committees.

We provide financial support for faculty members seeking to enhance their skills and knowledge. The University maintains a tuition plan that typically reimburses full-time faculty enrolled in advanced degree programs for 75% of the tuition for one new course per term when taken at institutions other than Strayer. Deans pursuing doctorate degrees may be eligible for up to 100% tuition reimbursement. Full-time faculty (and all other employees) receive a 90% discount for all Strayer courses. The University also conducts annual in-house faculty workshops in each discipline. We believe that our dedicated and capable faculty is one of the keys to our success.

Organization of Strayer University

The University s annual financial budget and overall academic and business decisions are directed by its Board of Trustees. The Board of Trustees consists of Dr. Charlotte F. Beason, Chairwoman of the Board of Trustees, and nine other members. The University By-Laws prescribe that a majority of voting members be unaffiliated with either University management or Strayer Education, Inc. to assure independent oversight of all academic programs and services. With the exception of the University President and Strayer Education s President, all of our trustees are independent, non-management members. The current Board of Trustees members are listed below:

Board of Trustees

Dr. Charlotte F. Beason	Dr. Beason is the Chairwoman of the Board of Trustees. She has served as a member of the Board of Trustees since 1996. She has extensive experience in education, distance learning, and the accreditation of education programs. (See Item 10 below for additional biographical information.)

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Mr. Daniel R. Abbasi	Mr. Abbasi has served as a member of the Board of Trustees since 2005. He is Director of MissionPoint Capital Partners, a private equity firm specializing in clean energy. Previously, Mr. Abbasi was Associate Dean of the Yale School of Forestry and Environmental Studies, where he remains affiliated. In addition, he has also held management positions with Kaplan, Inc., Time Warner, Inc., the U.S. Environmental Protection Agency and the Stanford Center on Conflict and Negotiation. Mr. Abbasi holds a bachelor s degree in government and a master s in business administration, both from Harvard University. Mr. Abbasi also holds a master s degree in political science from Stanford University.
Mr. Roland Carey	Mr. Carey has served as a member of the Board of Trustees since 1990. He served for 23 years as a U.S. Army Officer in the specialties of Air Defense Missile Evaluation and Military Education. He retired in 1986 as a Lieutenant Colonel. Mr. Carey served 12 years as a mathematics instructor and as an Intervention Program Coordinator with Fairfax County Public Schools. Additionally, he has served on two other organizational management and supervisory boards. Mr. Carey holds a bachelor s degree in mathematics from Florida A&M University and a master s degree in educational leadership from George Mason University.
Mr. Karl McDonnell	Mr. McDonnell was elected to the Board of Trustees in 2007. Mr. McDonnell joined Strayer Education, Inc. in July 2006 as President and Chief Operating Officer. (See Item 10 below for additional biographical information.)
Mr. Todd A. Milano	Mr. Milano has served as a member of the Board of Trustees since 1992 and has more than 30 years of experience in post-secondary education. Since 1989, he has served as President of Central Pennsylvania College near Harrisburg, Pennsylvania. (See Item 10 below for additional biographical information.)
Dr. William C. Reha, MD	Dr. Reha was elected to the Board of Trustees in 2007. He is a Board Certified Urologic Surgeon in Woodbridge, Virginia. He also serves as Vice-Speaker for the Medical Society of Virginia. Dr. Reha is active in Strayer University alumni affairs and is the 2005 Outstanding Alumni Award winner. Dr. Reha has served as president of the Prince William County Medical Society and the Potomac Hospital Medical Staff and is a Fellow of the Claude Moore Physician Leadership Institute. He holds a bachelor s degree in biochemistry from Binghamton University, an M.D. from New York Medical College, and a master s in business administration from Strayer University.
Dr. Peter D. Salins	Dr. Salins has served as a member of the Board of Trustees since 2002. Having served as Provost and Vice Chancellor for Academic Affairs of the State University of New York (SUNY) system from 1997 to 2006, he is currently University Professor of Political Science at SUNY s Stony Brook University. Dr. Salins also serves on the Advisory Board of Syracuse University School of Architecture, is a Trustee of the Lavanburg Foundation, and is a Director of the Citizens Housing and Planning Council of New York. Dr. Salins holds a bachelor s degree in architecture, and a doctorate in metropolitan studies and regional planning, both from Syracuse University.

Dr. Sondra F. Stallard	Dr. Stallard was elected to the Board of Trustees in 2007 shortly after joining Strayer University as University President. Prior to joining Strayer, Dr. Stallard had a long and distinguished career at the University of Virginia. (See Item 10 below for additional biographical information.)
Dr. Donald R. Stoddard*	Dr. Stoddard has served as a member of the Board of Trustees since 1996 and was President of Strayer University from 1997 to 2002. His background includes serving in the United States Army, university teaching with a specialty in American literature, higher education administration, a Fulbright Lectureship in Romania, and authoring many articles on literary topics. Dr. Stoddard holds a bachelor s degree in business administration and a master s degree in English, both from Northeastern University, as well as a doctorate in English from the University of Pennsylvania.
Dr. J. Chris Toe*	Dr. Toe has served as a member of the Board of Trustees since 2003. He served as President of Strayer University from 2003 to April 2006 and as Minister of Agriculture of the Republic of Liberia from 2006 to 2009. Dr. Toe now serves as Chairman of the APEX Group, a consulting, trading and investment company based in Liberia. Dr. Toe holds a bachelor s degree in economics from the University of Liberia, and a master s degree in agricultural economics and a doctorate in economics, both from Texas Tech University.

* Non-voting member.

Within the academic, strategic and financial parameters set by the Board of Trustees, the University is managed on a daily basis by the University President. The President is charged with the responsibility of overseeing the implementation of the policies established by the Board of Trustees and is supported in this function by senior administrative officers, including the Provost. The majority of the University s operations are centralized within the President s office or the University s senior administrative staff offices, such as faculty development, curriculum development, institutional research and assessment, library administration, student records, student affairs, accounting and auditing, human resources, operations, marketing, public relations, facilities, information technology, and regulatory compliance, including oversight of the University s participation in federal student financial aid programs.

Within this centralized structure is a division of responsibilities into two broad categories: academics and administrative operations. For the academic functions, the President is supported by the Provost and three Senior Vice Provosts for Academic Programs, Faculty, and Student Affairs, as well as the Associate Provost & University Registrar, the University Librarian, and the Dean of Institutional Research, Assessment, and Evaluation. The President is responsible for the general curriculum and University policies, as well as many regulatory compliance matters. The Provost is responsible for implementing academic policies and programs of the University, including the supervision of the Senior Vice Provosts and the Academic Deans.

For administrative operations, the Senior Vice President Academic Administration works closely with the Senior Vice Presidents for Operations, who are responsible for ensuring that regional, campus and online operations meet the annual University budget and financial goals established by the Board of Trustees, and the Senior Vice Provosts for Academics, who are responsible for academic operations on a regional and local level. Other senior administrative officers also support the President in areas such as legal compliance, accounting and auditing, computer technology, insurance and human resources.

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University Senior Management

Dr. Sondra F. Stallard is the University President. Her biographical information is set forth in Item 10 below. At the campus level, the day-to-day business operations are managed by a Campus Director and the academic functions are overseen by a Campus Dean. Each campus is staffed with personnel performing instructional, admissions, academic advising, financial aid, student services and career development functions. A learning resource center at each campus supports the University s instructional programs. Each learning resource center contains a library and computer laboratories and is operated by a full-time manager and support staff who assist students in the use of research resources.

Strayer Education, Inc. Executive Officers

For a description of Strayer Education, Inc. s senior management, see the biographical information set forth in Item 10 below.

Marketing

To generate interest among potential students, we engage in a broad range of activities to inform the working adult public and their employers about the programs we offer. These activities include direct mail, Internet marketing, marketing to our existing students and graduates, print and broadcast advertising, student referrals, and corporate and government outreach activities. Direct response methods (direct mail and Internet advertising) are used to generate inquiries from potential students. Strayer University maintains booths and information tables at appropriate conferences and expos, as well as at transfer days at community colleges. Through our business-to-business outreach efforts, we market our programs to corporations with personal sales calls, distribution of information through corporate intranets and human resource departments and on-site information meetings. We implement a continuous marketing strategy to record inquiries in our database and track them through to application and registration. Additionally, we market information about new programs and new locations to students and alumni to encourage them to return for further education.

Student Profile

The majority of Strayer University students are working adults completing their first college degree to improve their job skills and advance their careers. Of the students enrolled in Strayer University s programs at the beginning of the 2009 fall quarter, approximately 61% were age 31 or older and approximately 85% were engaged in part-time study (fewer than three courses each quarter). In the 2009 fall quarter, our students registered for an average of 8.2 course credits (about two classes per student).

Strayer University has a very diverse student population. At the beginning of the 2009 fall quarter, approximately 73% of students were minorities and approximately 68% of students were women. Approximately 2% of the University s students were international, and approximately 2% were active duty military personnel. Strayer University prides itself on making post-secondary education accessible to working adults who missed or were previously unable to take advantage of educational opportunities.

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The following is a breakdown of our students by program level as of the 2009 fall term:

Program	Number of students	Percentage of total students
Bachelor s	29,904	55%
Master s	14,154	26%
Associate	6,777	13%
Total Degree	50,835	94%
Diploma	185	*
Undergraduate Certificate	176	*
Graduate Certificate	307	*
Undeclared	2,814	5%
Total Non-Degree	3,482	6%
Total Students	54,317	100%

* Represents less than 1%.

Our business is seasonal and as a result, our quarterly results of operations tend to vary within a year due to student enrollment patterns. Enrollment generally is highest in the fourth quarter, or fall term, and lowest in the third quarter, or summer term.

Student Admissions

Students attending Strayer University s undergraduate programs must possess a high school diploma or a General Educational Development (GED) Certificate. Students attending Strayer University s graduate programs must have a bachelor s degree from an accredited institution and meet certain other requirements. If a student s undergraduate major varies widely from the student s proposed graduate course of study, certain undergraduate prerequisite courses may also be necessary for admission. To maximize undergraduate students chances for academic success and to ensure they receive the support they need, Strayer University evaluates incoming student s proficiency in fundamental English and math prior to the first quarter s registration.

International students applying for admission must meet the same admission requirements as other students. Those students whose native language is not English must provide evidence that they are able to use the English language with sufficient facility to perform college-level work in an English-speaking institution.

Tuition and Fees

Strayer charges tuition by the course. Tuition rates may vary in states with specific regulations governing tuition costs. Each course is 4.5 credit hours. As of January 1, 2010, undergraduate full-time students are charged $1,515 per course. Undergraduate part-time students are charged $1,590 per course. Students in graduate programs are charged at the rate of $2,050 per course. Accordingly, a full-time student seeking to obtain a bachelor s degree in four years currently would pay approximately $15,000 per year in tuition. Strayer University implemented a tuition price increase of approximately 5% per course effective January 1, 2010, which is reflected in the above tuition rates. Under a variety of different programs, Strayer University offers scholarships and tuition discounts to active duty military students and in connection with various corporate and government sponsorship and tuition reimbursement arrangements.

Career Development Services

Although most of Strayer University s students are already employed, the University actively assists its students and alumni with job placement and other career-related matters through career development offices in each region where the University has campuses. Strayer s career development personnel conduct workshops on employment-related topics (including resume preparation, interviewing techniques and job search strategies), maintain job listings, arrange campus interviews by employers and provide other placement assistance. Strayer University sponsors career fairs in the fall and spring quarters for students and alumni to discuss career opportunities with companies and governmental agencies.

We regularly conduct alumni surveys to monitor the career progression of our graduates and to support outcome assessment efforts required by Middle States and state regulators.

Employees

As of December 31, 2009, we had 1,811 full-time employees including 334 full-time faculty members. Full-time faculty members teach on average 4-5 courses per quarter. The remainder of the classes are taught by adjunct faculty who normally teach 1-2 courses per quarter. Although we had approximately 2,400 adjunct faculty, not all of them teach every quarter. In the 2009 fall quarter, approximately 30% of our courses were taught by full-time faculty. We also employed 1,636 non-faculty staff in information systems, financial aid, recruitment and admissions, student administration, marketing and human resources, corporate accounting and other administrative functions. Of our non-faculty staff, 1,477 were employed full-time and 159 were employed part-time.

Intellectual Property

In the ordinary course of business, we develop many kinds of intellectual property that are or will be the subject of copyright, trademark, service mark, patent, trade secret or other protections. Such intellectual property includes our courseware materials for classes taught via the Internet or other distance-learning means and business know-how and internal processes and procedures developed to respond to the requirements of its operations and various education regulatory agencies. We also claim rights to the mark STRAYER for educational services and has obtained federal registration of the mark.

Regulation

Regulatory Environment

The Higher Education Act of 1965, as amended (the Higher Education Act), and the regulations promulgated thereunder require all higher education institutions that participate in the various financial aid programs under Title IV of the Higher Education Act (Title IV programs), including Strayer University, both to comply with detailed substantive and reporting requirements and to undergo periodic regulatory scrutiny. The Higher Education Act mandates specific regulatory responsibility for each of the following components of the higher education regulatory triad: (1) the federal government through the U.S. Department of Education (Department of Education); (2) the institutional accrediting agencies recognized by the U.S. Secretary of Education (Secretary of Education) and (3) state education regulatory bodies. The regulations, standards and policies of these regulatory agencies are subject to frequent change.

Accreditation

Strayer University has been institutionally accredited since 1981 by Middle States, a regional accrediting agency recognized by the Secretary of Education. Strayer University is accredited by Middle States through 2017. Accreditation is a system for recognizing educational institutions and their programs for integrity, educational quality, faculty, physical resources, administrative capability and financial stability that signifies that they merit the confidence of the educational community and the public. In the United States, this recognition comes primarily through private voluntary associations of institutions and programs of higher education. These associations establish criteria for accreditation, conduct peer-review evaluations of institutions and programs, and publicly designate those institutions that meet their standards. Accredited schools are subject to periodic review by accrediting bodies to determine whether such schools maintain the performance, integrity and quality required for accreditation.

The Higher Education Act charges the National Advisory Committee on Institutional Quality and Integrity (NACIQI) with recommending to the Secretary of Education which accrediting or specific state approval agencies should be recognized as reliable authorities for judging the quality of postsecondary institutions and programs. Middle States was most recently recognized through the NACIQI process in 2007 and must periodically seek re-recognition.

Middle States accredits degree-granting public and private colleges and universities in its region (including Delaware, Washington, D.C., Maryland, New Jersey, New York, Pennsylvania, Puerto Rico and U.S. Virgin Islands), including distance education programs offered by those institutions. Accreditation by Middle States is an important attribute of Strayer University. Colleges and universities depend on accreditation in evaluating transfers of credit and applications to graduate schools. Employers rely on the accredited status of institutions when evaluating a candidate s credentials, and students and corporate and government sponsors under tuition reimbursement programs look to accreditation for assurance that an institution maintains quality educational standards. Moreover, institutional accreditation is necessary to qualify for eligibility to participate in federal student financial assistance programs.

As with all its regulatory relationships, Strayer University strives to maintain close contact with, and to provide frequent status updates to, Middle States regarding matters pertinent to Middle States standards and policies. This regular contact keeps Middle States informed of the University s planned activities and aims to ensure that the University s performance continues to meet Middle States expectations. To this end, Strayer University is committed to evaluating periodically its own performance, submitting reports to Middle States and making any necessary improvements to continue meeting Middle States accreditation standards as the University grows and expands geographically. If an institution s performance were ever not to meet its accrediting agency s (or other regulator s) expectations or failed to meet applicable standards, then its operations could be conditioned, or severely constrained or even curtailed, depending on the severity of the non-compliance. Accordingly, Strayer University endeavors proactively to keep Middle States (and all of its other regulators) fully informed and satisfied with its performance and strives to maintain good regulatory relationships as a key University priority.

In 2006, Strayer University completed a comprehensive self study report, which was submitted to Middle States to support Strayer University s request for early reaffirmation of accreditation prior to Middle States next scheduled accreditation review in 2011. Our objective is to provide a high quality post-secondary education to working adult students, and participation in academic peer review processes is an important way to help us meet that objective. Middle States reviewed Strayer University s report and on June 28, 2007, reaffirmed Strayer University s accreditation for 10 years through 2017. All of Strayer University s new campus locations and other substantive changes require prior Middle States approval.

In 2000, the agencies that accredit higher education institutions in various regions of the United States adopted a Policy Statement on Evaluation of Institutions Operating Interregionally. Under that policy, both the home regional accreditor and the host regional accreditor cooperate to evaluate an institution that delivers education at a physical site in the host accreditor s region. Although the home region is solely responsible for final accreditation actions, as we open campuses in regions outside Middle States region, the host regional accreditors may elect to participate in the accreditation process of such expansion operations.

State Education Licensure

We are authorized to offer our programs, including those offered through Strayer University Online, by the applicable educational regulatory agencies in all states where our campuses and Strayer University Online facilities are located. We are dependent upon the authorization of each state where we are physically located to allow us to operate and to grant degrees, diplomas or certificates to students in those states. We are subject to extensive regulation in each of the 19 jurisdictions (Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, West Virginia and Washington, D.C.) in which we currently maintain or are authorized to maintain campuses and in which we are authorized to offer educational programs, and we will be subject to similar extensive regulation in those additional states in which we may expand our operations in the future. State laws and regulations affect our operations and may limit our ability to introduce educational programs or establish new campuses. We are required by the Higher Education Act to maintain appropriate state education licensure in each state where we maintain a campus that participates in Title IV programs.

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

Other Approvals

We are approved by appropriate authorities for the education of veterans and members of the selective reserve and their dependents, as well as for the rehabilitation of veterans. In addition, we are authorized by the U.S. Department of Homeland Security to admit foreign students for study in the United States subject to applicable requirements. The U.S. Department of Homeland Security, working with the U.S. Department of State, has implemented a mandatory electronic reporting system for schools that enroll foreign students and exchange visitors.

Financing Student Education

Students finance their Strayer University education in a variety of ways. A significant number of students borrow money from banks through a federally guaranteed loan or receive loans directly from the Department of Education. In the 2009 fall term, approximately 72% of Strayer University s students participated in one or more Title IV programs. In addition, many of our working adult students finance their own education or receive full or partial tuition reimbursement from their employers. Congress has enacted several tax credits for students pursuing higher education and has provided for a tax deduction for interest on student loans and exclusions from income of certain tuition reimbursement amounts. Congress also recently expanded education benefits available to veterans who have served on active duty since September 11, 2001. Under the relevant law, known as the Post-9/11 Veterans Educational Assistant Act of 2008, sometimes referred to as the New GI Bill, eligible veterans may receive, among other benefits, benefits for tuition purposes up to the cost of in-state tuition at the most expensive public institution of higher education in the state where the veteran is enrolled. Eligible veterans who are not enrolled in wholly distance education programs also may receive monthly housing stipends.

Many financial aid programs are designed to assist eligible students whose financial resources are inadequate to meet the cost of education. With these programs, financial aid is awarded on the basis of financial need, generally defined under the Higher Education Act as the difference between the cost of attending a program of study and the amount a student reasonably can be expected to contribute to

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those expenses. All recipients of federal student financial aid must maintain a satisfactory grade point average and progress in a timely manner toward completion of a program of study.

Title IV Programs

Strayer University maintains eligibility for its students to participate in the following Title IV programs:

Federal Grants. Grants under the Federal Pell Grant (Pell) program are available to eligible students based on financial need and other factors. By virtue of Strayer University s eligibility to participate in the Pell program and its offering of certain academic programs, Strayer University students who meet certain criteria may also be eligible for grants under the Academic Competitiveness Grant (ACG) program and the National Science and Mathematics Access to Retain Talent (National SMART) Grant program. ACG is designed for students in their first or second academic year of a degree program who recently graduated from a high school at which they were enrolled in a rigorous curriculum. National SMART Grant is designed for students in their third or fourth academic year with a cumulative grade point average of 3.0 or greater in certain designated bachelor s degree or higher programs, primarily focused on science and math.

Campus-Based Programs. The campus-based Title IV programs include the Federal Supplemental Educational Opportunity Grant program, the Federal Perkins Loan (Perkins) program, and the Federal Work-Study Program. Strayer University does not actively participate in the Perkins program or the Federal Work-Study Program.

Federal Family Education Loans. Pursuant to the Federal Family Education Loan Program (the FFEL Program), which currently includes the Federal Stafford Loan (Stafford) program, the Federal Parent Loan for Undergraduate Students (PLUS) program (which includes the Graduate PLUS loan for eligible graduate and professional students), and the Federal Consolidation Loan Program, students and their parents can obtain from lending institutions subsidized and unsubsidized student loans, which are guaranteed by a guaranty agency and ultimately by the federal government. Students who demonstrate financial need may qualify for a subsidized Stafford loan. With a subsidized Stafford loan, the federal government will pay the interest on the loan while the student is in school and during any approved periods of deferment, until the student s obligation to repay the loan begins. Unsubsidized Stafford loans are available to students who do not qualify for a subsidized Stafford loan or, in some cases, in addition to a subsidized Stafford loan. PLUS loans, including Graduate PLUS loans, are unsubsidized.

Federal Direct Student Loans. Under the William D. Ford Federal Direct Loan Program (the Direct Loan Program), the Department of Education makes loans directly to students rather than guaranteeing loans made by lending institutions.

Congress is considering legislation that among other changes would eliminate the FFEL Program and require all institutions participating in Title IV programs to convert exclusively to the Direct Loan Program by July 1, 2010. *See Regulation Pending Legislative and Regulatory Changes.*

Strayer University s current program participation agreement will expire on September 30, 2010, assuming compliance with its terms. Strayer will apply for recertification prior to the deadline for the application, which is June 30, 2010.

Return of Federal Funds

Under the Higher Education Act s return-of-funds provision, an institution must return in a timely manner Title IV funds to programs from which a student who withdraws received aid that he or she did not earn due to such withdrawal. The institution must first determine the amount of Title IV program funds that the student earned. If the student withdraws during the first 60% of any period

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of enrollment or payment period, the amount of Title IV program funds that the student earned is equal to a pro rata portion of the funds for which the student would otherwise be eligible. If the student withdraws after the 60% point, then the student has earned 100% of the Title IV program funds. The institution must return to the appropriate Title IV programs, in a specified order (and excluding the Federal Work-Study Program), the lesser of the unearned Title IV program funds or the institutional charges incurred by the student for the period multiplied by the percentage of unearned Title IV program funds. An institution must return the funds no later than 45 days after the date of the institution s determination that a student withdrew. If such payments are not made in a timely manner, an institution may be subject to adverse action, including being required to submit a letter of credit equal to 25% of the refunds the institution should have made in its most recently completed fiscal year. Under Department of Education regulations, if late returns of Title IV program funds constitute 5% or more of students sampled in the institution s annual compliance audit for either of its two most recently completed fiscal years, an institution generally must submit an irrevocable letter of credit payable to the Secretary of Education. In June 2008, the University issued to the Department of Education an irrevocable letter of credit in the amount of $1.4 million, which expired in June 2009, in connection with this regulation. Strayer University is no longer required to maintain a letter of credit in connection with this regulation.

Other Financial Aid Programs

Eligible students at Strayer University may also participate in educational assistance programs administered by the U.S. Department of Veterans Affairs, the U.S. Department of Defense, the District of Columbia, the Commonwealth of Pennsylvania, the State of Florida, and private organizations.

Financial Aid Regulation

To be eligible to participate in Title IV programs, Strayer University must comply with specific standards and procedures set forth in the Higher Education Act and the regulations issued thereunder by the Department of Education. An institution must, among other things, be authorized by each state within which it is physically located to offer its educational programs and maintain institutional accreditation by a recognized accrediting agency. The institution also must be certified by the Department of Education to participate in Title IV programs, based on a determination that, among other things, the institution meets certain standards of administrative capability and financial responsibility. For purposes of the Title IV programs, Strayer University and all of its campuses are considered to be a single institution of higher education so that Department of Education requirements applicable to an institution of higher education are generally applied to all of Strayer University s campuses in the aggregate rather than on an individual basis. Strayer University and each of its campuses are currently certified to participate in Title IV programs.

Congress reauthorizes the Higher Education Act approximately every five to six years. On July 31, 2008, Congress completed the reauthorization process by passing the Higher Education Opportunity Act or HEOA, which then President Bush signed into law on August 14, 2008. HEOA provisions are effective upon enactment, unless otherwise specified in the law. In addition to HEOA, three other laws to amend and reauthorize aspects of the Higher Education Act have been enacted over the last few years. In February 2006, then President Bush signed the Deficit Reduction Act of 2005, which includes the Higher Education Reconciliation Act of 2005, or HERA. Among other measures, HERA reauthorized the Higher Education Act with respect to the federal guaranteed student loan programs. In September 2007, then President Bush signed the College Cost Reduction and Access Act, which increased benefits to students under the Title IV programs and reduced payments to and raised costs for lenders that participate in the federal student loan programs. In May 2008, then President Bush signed the Ensuring Continued Access to Student Loans Act of 2008, or ECASLA, which was designed to facilitate student loan availability and to increase student access to federal financial aid in light of current market conditions. Congress recently extended ECASLA for an additional year, to June 30, 2010.

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HEOA includes numerous new and revised requirements for higher education institutions. In October 2009, the Department of Education published final regulations to implement HEOA changes to Title IV of the Higher Education Act. Those regulations are effective July 1, 2010.

In addition, Congress reviews and determines appropriations for Title IV programs on an annual basis. An elimination of certain Title IV programs, a reduction in federal funding levels of such programs, material changes in the requirements for participation in such programs, or the substitution of materially different programs could reduce the ability of certain students to finance their education. This, in turn, could lead to lower enrollments at Strayer University or require Strayer University to increase its reliance upon alternative sources of student financial aid. Given the significant percentage of Strayer University s revenues that are derived indirectly from the Title IV programs, the loss of or a significant reduction in Title IV program funds available to Strayer University s students could have a material adverse effect on Strayer.

The Title IV regulations applicable to Strayer University have been subject to frequent revisions, many of which have increased the level of scrutiny to which higher education institutions are subjected and have raised applicable standards. As previously noted, in October 2009 the Department of Education published final regulations to implement the HEOA s numerous new and revised requirements for higher education institutions. If Strayer University were not to continue to comply with applicable Title IV regulations, such non-compliance might affect the operations of the University and its ability to participate in Title IV programs.

Certain elements of the regulations applicable to Strayer University are described below.

Administrative Capability

Department of Education regulations specify extensive criteria by which an institution must establish that it has the requisite administrative capability to participate in Title IV programs. To meet the administrative capability standards, an institution, among other things, must comply with all applicable Title IV program regulations, must not have cohort default rates above specified levels, must report annually to the Secretary of Education on any reasonable reimbursements paid by a private education lender to any employee who is employed in the financial aid office of the institution or who otherwise has responsibility with respect to education loans, must have various procedures in place for safeguarding federal funds, must not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension, must submit in a timely manner all reports and financial statements required by the regulations and must not otherwise appear to lack administrative capability.

Provisional Certification

In certain circumstances, including a change in ownership resulting in a change of control, the Department of Education may certify an institution s continuing eligibility to participate in Title IV programs on a provisional basis that may extend no longer than through the end of the third complete award year (July 1 June 30) from the date of provisional certification. During the period of provisional certification, the institution must comply with any additional conditions included in its program participation agreement. If the Department of Education determines that a provisionally certified institution is unable to meet its responsibilities under its program participation agreement, it may seek to revoke or further condition the institution s certification to participate in Title IV programs with fewer due process protections for the institution than if it were fully certified. Strayer University s current program participation agreement is not provisional.

Third Party Servicers

Department of Education regulations permit an institution to enter into a written contract with a third-party servicer for the administration of any aspect of the institution s participation in Title IV programs. The third-party servicer must, among other obligations, comply with Title IV requirements

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and be jointly and severally liable with the institution to the Secretary of Education for any violation by the servicer of any Title IV provision. An institution must report to the Department of Education new contracts or any significant modifications to contracts with third-party servicers as well as other matters related to third-party servicers. Strayer University has written contracts with third-party servicers, including Global Financial Aid Services, Inc., which performs activities related to Strayer University s participation in Title IV programs, such as certifying FFEL and Direct Program loan applications, preparing reports from Strayer University to the Department of Education, and issuing federal grant program payments. Strayer University also has a contract with Sallie Mae Business Solutions for processing credit balances due to students and with General Revenue Corporation for loan default prevention. Because Strayer University is jointly and severally liable to the Department of Education for the actions of third-party servicers, failure of such servicers to comply with applicable regulations could have a material adverse effect on Strayer University.

Financial Responsibility

The Higher Education Act and Department of Education regulations establish extensive standards of financial responsibility that institutions such as Strayer University must satisfy in order to participate in Title IV programs. These standards generally require that an institution provide the services described in its official publications and statements, properly administer the Title IV programs in which it participates and meet all of its financial obligations, including required refunds and any repayments to the Department of Education for debts and liabilities incurred in programs administered by the Department of Education.

Department of Education standards utilize a complex formula to assess financial responsibility. The standards focus on three financial ratios: (1) equity ratio (which measures the institution s capital resources and ability to borrow); (2) primary reserve ratio (which measures the institution s financial viability and liquidity) and (3) net income ratio (which measures the institution s ability to operate at a profit or within its means). An institution s financial ratios must yield a composite score of at least 1.5 for the institution to be deemed financially responsible without the need for further federal oversight. Strayer University has applied the financial responsibility standards to its audited financial statements as of and for the year ended December 31, 2008 and calculated a composite score of 3.0, the highest score available. Based on its composite score and other relevant factors, Strayer believes that Strayer University meets the Department of Education s financial responsibility standards.

Student Loan Defaults

Under the Higher Education Act, an educational institution may lose its eligibility to participate in some or all of the Title IV programs if defaults on the repayment of FFEL Program or Direct Loan Program loans by its students exceed certain levels. The method used for determining default rates and the regulatory consequences are in transition, as further discussed below.

Current Law

The Department of Education calculates a rate of student defaults (known as a cohort default rate) for each institution with 30 or more borrowers entering repayment in a given federal fiscal year. For such institutions, the Department of Education includes in the cohort all current or former student borrowers at the institution who entered repayment on any FFEL Program or Direct Loan Program loan during that year. The cohort default rate is the percentage of such borrowers who default by the end of the following federal fiscal year (a two-year cohort default rate). Because of the need to collect data on defaults, the Department publishes cohort default rates two years in arrears; for example, in the fall of 2009, the Department issued cohort default rates for federal fiscal year 2007.

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Excessive cohort default rates can give rise to adverse actions by the Department of Education, including the following:

If the Department of Education notifies an institution that its most recent cohort default rate is greater than 40%, the institution s participation in the FFEL Program and Direct Loan Program ends 30 days after notification, unless the institution timely appeals that determination on specified grounds and according to specified procedures.

If the Department of Education notifies an institution that its three most recent cohort default rates are each 25% or greater, the institution s participation in the FFEL Program, Direct Loan Program, and Federal Pell Grant Program ends 30 days after the notification, unless the institution timely appeals that determination on specified grounds and according to specified procedures.

An institution whose participation ends under either of the foregoing provisions may not participate in the relevant programs for the remainder of the fiscal year in which the institution receives the notification, as well as for the next two fiscal years.

If an institution s cohort default rate equals or exceeds 25% in any of the three most recent federal fiscal years, the Department of Education may place the institution on provisional certification. Provisional certification does not limit an institution s access to Title IV program funds; however, an institution with provisional status is subject to closer review by the Department of Education and may be subject to summary adverse action if it violates Title IV program requirements.

The regulations also address cohort default rates for institutions that have undergone a change in status, such as acquisition or merger of institutions and acquisition of another institution s branches or locations.

Strayer University s cohort default rates on FFEL Program loans for the 2005, 2006, and 2007 federal fiscal years, the three most recent years for which this information is available, were 3.9%, 3.8%, and 6.0%, respectively. The average cohort default rates for proprietary institutions nationally were 8.2%, 9.7%, and 11.0% for federal fiscal years 2005, 2006, and 2007, respectively.

Higher Education Opportunity Act

HEOA modifies the Higher Education Act s cohort default rate provisions related to FFEL Program and Direct Loan Program loans in two significant ways, described below. HEOA provides, however, that the current method of calculating cohort default rates will remain in effect and will be used to determine any sanctions on institutions because of their cohort default rates until three consecutive years of official cohort default rates calculated under the new formula are available i.e., in 2014.

First, HEOA extends by one year the period for measuring defaults. More specifically, beginning with cohort default rate calculations for federal fiscal year 2009, the cohort default rate will be the percentage of borrowers who become subject to their repayment obligation in the relevant federal fiscal year and default by the end of the second federal fiscal year following that fiscal year (a three-year cohort default rate).

Second, HEOA increases the cohort default rate ceiling from 25% to 30%. This change has several consequences, such as the following:

If an institution s cohort default rate is equal to or greater than 30% for each of the three most recent federal fiscal years for which data are available, the institution will be ineligible to participate in the FFEL Program, Direct Loan Program, and Federal Pell Grant Program.

If an institution s cohort default rate is 30% or more in a given fiscal year, the institution will be required to assemble a default prevention task force and submit to the Department of Education a default improvement plan.

If an institution s cohort default rate exceeds 30% for two consecutive years, the institution will be required to review, revise and resubmit its default improvement plan. The Department of Education may direct that such plan be amended to include actions, with measurable objectives, that it determines will promote loan repayment.

If an institution s cohort default rate exceeds 30% for two out of three consecutive years, the Department of Education may subject the institution to provisional certification. Such an institution may file a timely appeal on specified grounds and according to specified procedures, and if the Secretary of Education determines that the institution demonstrated a basis for relief, the Secretary may not subject the institution to provisional certification based solely on the institution s cohort default rate.

HEOA does not change the current provision, noted above, that an institution generally loses eligibility to participate in the FFEL Program and Direct Loan Program if its most recent cohort default rate is greater than 40%.

The Department of Education has issued final regulations implementing the HEOA provisions on cohort default rates and other student loan matters effective as of July 1, 2010. The final regulations clarify that the Department will issue two cohort default rates both a two-year cohort default rate and a three-year cohort default rate for fiscal years 2009 through 2011. The final regulations indicate that the Department will rely on the two-year cohort default rate and related thresholds to determine institutional eligibility until 2014, when the Department issues official three-year cohort default rates for the fiscal year 2011 cohort.

In December 2009, the Department of Education sent to institutions unofficial, trial cohort default rates showing institutions cohort default rates for federal fiscal years 2005, 2006, and 2007 as they would be calculated under the HEOA methodology. Three-year cohort default rates were generally expected to be higher than two-year cohort default rates, because of both the longer repayment history and current economic conditions. Strayer s trial three-year cohort default rates are 9.3%, 10.5%, and 13.0% for federal fiscal years 2005, 2006, and 2007, respectively. The average trial three-year cohort default rates for proprietary institutions nationally were 17.2%, 18.8%, and 21.2% for federal fiscal years 2005, 2006, and 2007, respectively.

The 90/10 Rule

A requirement of the Higher Education Act, commonly referred to as the 90/10 Rule, applies only to proprietary institutions of higher education, which includes Strayer University. Under the Higher Education Act, a proprietary institution is prohibited from deriving from Title IV funds, on a cash accounting basis (except for certain institutional loans) for any fiscal year, more than 90% of its revenues (as computed for 90/10 Rule purposes). Prior to enactment of HEOA, an institution that violated the rule became ineligible to participate in Title IV programs as of the first day of the fiscal year following the fiscal year in which its Title IV revenues exceeded 90% of its revenues, and it was unable to apply to regain its eligibility until the next fiscal year.

HEOA changed the 90/10 Rule from an eligibility requirement to a compliance obligation that is part of an institution s program participation agreement with the Department of Education. Under HEOA, a proprietary institution of higher education that violates the 90/10 Rule for any fiscal year will be placed on provisional status for two fiscal years. Proprietary institutions of higher education that violate the 90/10 Rule for two consecutive fiscal years will become ineligible to participate in Title IV programs for at least two fiscal years and will be required to demonstrate compliance with Title IV eligibility and certification requirements for at least two fiscal years prior to resuming Title IV program participation. HEOA requires the Secretary to disclose on its website any proprietary institution of higher education that fails to meet the 90/10 requirement and to report annually to Congress the relevant ratios for each proprietary institution of higher education. HEOA generally codifies the formula for 90/10 Rule calculations as set forth in preceding Department of Education regulations, but also expands on the Department of Education s formula in certain respects, including by broadening the categories of funds that may be counted as non-Title IV revenue for 90/10 Rule purposes. HEOA s changes to the 90/10 Rule are effective upon enactment, which occurred on August 14, 2008.

The Department of Education issued final regulations implementing the 90/10 Rule and certain other HEOA provisions on October 29, 2009. The 90/10 Rule regulations generally track relevant HEOA provisions, but clarify the treatment of certain types of revenue. The regulations require institutions to report in their annual financial statement audits not only the percentage of revenues derived from Title IV funds during the fiscal year, but also the dollar amounts of the numerator and denominator of the 90/10 calculation and specified categories of revenue. The regulations shorten from 90 to 45 days the time period within which institutions must notify the Secretary after the end of a fiscal year in which the institution failed to meet the 90/10 Rule requirement. The regulations are effective July 1, 2010, but institutions may, at their discretion, implement the 90/10 Rule regulations on or after November 1, 2009.

Using the formula in effect prior to enactment of HEOA, Strayer University derived approximately 72% of its cash-basis revenues from Title IV programs in 2007 and 2006. Using the HEOA formula, Strayer University derived approximately 77% of its cash-basis revenues from Title IV program funds in 2008. Strayer s auditors have not yet computed the relevant ratio for 2009.

Incentive Compensation

As a part of an institution s program participation agreement with the Department of Education and in accordance with the Higher Education Act, the institution may not provide any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruitment, admissions or financial aid awarding activity. Department of Education regulations set forth 12 safe harbors, which describe payments or arrangements that do not violate the incentive payment rule. Failure to comply with the incentive payment rule could result in loss of certification to participate in federal student financial aid programs, limitations on participation in the federal student financial aid programs, or financial penalties. Although there can be no assurance that the Department of Education would not find deficiencies in Strayer University s present or former employee compensation and third-party contractual arrangements, Strayer University believes that its employee compensation and third-party contractual arrangements comply with the incentive compensation provisions of the Higher Education Act in all material respects.

Lender Relationships

HEOA adds a new requirement, as part of an institution s program participation agreement with the Department of Education, that institutions that participate in Title IV programs adopt a code of conduct pertinent to student loans. Strayer University has a code of conduct that it believes complies with the provisions of HEOA in all material respects. In addition to the code of conduct requirements that apply to institutions, HEOA contains provisions that apply to federal and private lenders, prohibiting such lenders from engaging in certain activities as they interact with institutions.

The Department of Education has rules applicable to institutions that make available a list of recommended or suggested federal loan lenders for use by potential borrowers. On October 28, 2009, the Department issued final regulations implementing certain HEOA provisions related to preferred lender lists and preferred lender arrangements. The new regulations regarding preferred lender lists, which are effective July 1, 2010, are largely comparable to those in the Department of Education s current regulations except that, for example, the new regulations address preferred lender lists for

private as well as federal loan lenders. Strayer University has a preferred lender list that it believes complies with applicable regulations in all material respects.

Compliance Reviews

Strayer University is subject to announced and unannounced compliance reviews and audits by various external agencies, including the Department of Education, its Office of Inspector General, state licensing agencies, guaranty agencies and accrediting agencies. The Higher Education Act and Department of Education regulations also require an institution to submit annually to the Secretary of Education a compliance audit of its administration of the Title IV programs conducted by an independent certified public accountant in accordance with Government Auditing Standards and applicable audit guides of the Department of Education s Office of Inspector General. In addition, to enable the Secretary of Education to make a determination of financial responsibility, an institution must submit annually to the Secretary of Education audited financial statements prepared in accordance with Department of Education regulations.

In 2008, the Department of Education conducted a regular, periodic program review of Strayer University to evaluate compliance with requirements of the Title IV programs. The program review was in addition to the annual Title IV compliance audit. There were no material findings resulting from the program review, which has now been completed and formally closed.

Potential Effect of Regulatory Violations

If Strayer University fails to comply with the regulatory standards governing Title IV programs, the Department of Education could impose one or more sanctions, including transferring Strayer University from the advance payment method to the reimbursement or cash monitoring system of payment, seeking to require repayment of certain Title IV funds, requiring the University to post a letter of credit in favor of the Department of Education as a condition for continued Title IV certification, taking emergency action against the University, referring the matter for criminal prosecution or initiating proceedings to impose a fine or to limit, condition, suspend or terminate Strayer University s participation in Title IV programs. In addition, agencies that guarantee FFEL Program loans for Strayer University students could initiate proceedings to limit, suspend or terminate Strayer University s eligibility to provide guaranteed student loans in the event of certain regulatory violations. Although there are no such sanctions currently in force, and Strayer University does not believe any such sanctions or proceedings are presently contemplated, if such sanctions or proceedings were imposed against Strayer University and resulted in a substantial curtailment, or termination, of the University s participation in Title IV programs or resulted in substantial fines or monetary liabilities, Strayer University would be materially and adversely affected.

If Strayer University lost its eligibility to participate in Title IV programs, or if Congress reduced the amount of available federal student financial aid, the University would seek to arrange or provide alternative sources of revenue or financial aid for students. Although the University believes that one or more private organizations would be willing to provide financial assistance to students attending Strayer University, there is no assurance that this would be the case, and the interest rate and other terms of such student financial aid are unlikely to be as favorable as those for Title IV program funds. Strayer University might be required to guarantee all or part of such alternative assistance or might incur other additional costs in connection with securing alternative sources of financial aid. Accordingly, the loss of eligibility of Strayer University to participate in Title IV programs, or a reduction in the amount of available federal student financial aid, would be expected to have a material adverse effect on Strayer University even if it could arrange or provide alternative sources of revenue or student financial aid.

In addition to the actions that may be brought against us as a result of our participation in Title IV programs, we also may be subject, from time to time, to complaints and lawsuits relating to

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regulatory compliance brought not only by our regulatory agencies, but also by other government agencies and third parties.

Restrictions on Adding Locations and Educational Programs

State requirements and accrediting agency standards limit the ability of Strayer University to establish additional locations and programs. Most states require approval before institutions can add new programs, campuses or teaching locations. Middle States requires institutions that it accredits to notify it in advance of implementing new programs or locations, which may require additional approval. At its discretion, Middle States may also conduct site visits to additional locations to ensure that accredited institutions that experience rapid growth in the number of additional locations maintain educational quality. All new Strayer University campus locations require Middle States approval before students are enrolled (see Accreditation, above). In addition, recent amendments to the Higher Education Act require Middle States to monitor institutions that are undergoing significant enrollment growth.

The Higher Education Act requires proprietary institutions of higher education to be in full operation for two years before qualifying to participate in Title IV programs. However, the applicable regulations in many circumstances permit an institution that is already qualified to participate in Title IV programs to establish additional locations that are exempt from the two-year rule. Such additional locations generally may qualify immediately for participation in the Title IV programs, unless the location was acquired from another institution that has ceased offering educational programs at that location and has Title IV liabilities that it is not repaying in accordance with an agreement to do so, and the acquiring institution does not agree, among other matters, to be responsible for certain liabilities of the acquired institution. The new location must satisfy all other applicable requirements for institutional eligibility, including approval of the additional location by the relevant state authorizing agency and the institution s accrediting agency. Strayer University s expansion plans assume its continued ability to establish new campuses as additional locations of Strayer University under such applicable regulations and thereby to avoid incurring the two-year delay in participation in Title IV programs. The loss of state authorization or accreditation of Strayer University or an existing campus, or the failure of Strayer University or a new campus to obtain state authorization or accreditation, would render Strayer University ineligible to participate in Title IV programs at least in that state or at that location.

Department of Education regulations require institutions to report to the Department of Education a new additional location at which at least 50% of an eligible program will be offered, if the institution wants to disburse Title IV program funds to students enrolled at that location. For an institution like Strayer University for which notice only is required, once the institution reports the location to the Department of Education, the institution may disburse Title IV program funds to eligible students at that location if the location is licensed and accredited. Institutions are responsible for knowing whether they need approval, and institutions that add locations and disburse Title IV program funds without having obtained any necessary approval may be subject to administrative repayments and other sanctions.

Generally, if an institution eligible to participate in Title IV programs adds an educational program after it has been designated as an eligible institution, the institution must apply to the Department of Education to have the additional program designated as eligible. However, a degree-granting institution such as Strayer University is not obligated to obtain Department of Education approval of additional programs that lead to an associate, bachelor s, professional or graduate degree at a level for which the Department of Education has already granted approval. Similarly, an institution is not required to obtain advance approval for new programs that both prepare students for gainful employment in the same or related recognized occupation as an educational program that has previously been designated as an eligible program at that institution and meet certain minimum-length requirements. In the event that an institution that does not have the Department of Education s express approval for the addition of a new program erroneously determines that the new educational

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program is eligible for Title IV funds, the institution may be liable for repayment of Title IV aid received by the institution or students in connection with that program. Strayer does not believe that the Department of Education s regulations will create significant obstacles to Strayer University s plans to add new programs.

Change in Ownership Resulting in a Change of Control

Many states and accrediting agencies require institutions of higher education to report or obtain approval of certain changes in ownership or other aspects of institutional status, but the types of and triggers for such reporting or approval vary among states and accrediting agencies. In addition, Strayer University s accrediting agency, Middle States, requires institutions that it accredits to inform it in advance of any substantive change, including a change that significantly alters the ownership or control of the institution. Examples of substantive changes requiring advance notice to and approval of Middle States include changes in the legal status, ownership or form of control of the institution, such as the sale of a proprietary institution. Middle States must approve a substantive change in advance in order to include the change in the institution s accreditation status. Middle States will undertake a site visit to an institution that has undergone a change in ownership or control no later than six months after the change.

The Higher Education Act provides that an institution that undergoes a change in ownership resulting in a change of control loses its eligibility to participate in the Title IV programs and must apply to the Department of Education in order to reestablish such eligibility. An institution is ineligible to receive Title IV program funds during the period prior to recertification. The Higher Education Act provides that the Department of Education may temporarily, provisionally certify an institution seeking approval of a change of ownership and control based on preliminary review by the Department of Education of a materially complete application received by the Department of Education within 10 business days after the transaction. The Department of Education may continue such temporary, provisional certification on a month-to-month basis until it has rendered a final decision on the institution s application. If the Department of Education determines to approve the application after a change in ownership and control, it issues a provisional certification, which extends for a period expiring not later than the end of the third complete award year following the date of provisional certification. The Higher Education Act defines one of the events that would trigger a change in ownership resulting in a change of control as the transfer of the controlling interest of the stock of the institution or its parent corporation. For a publicly traded corporation, the securities of which are required to be registered under the Exchange Act, such as Strayer, the Department of Education regulations implementing the Higher Education Act define a change in ownership resulting in a change of control as occurring when a person acquires ownership and control of a corporation such that the corporation is required to file a Form 8-K with the Securities and Exchange Commission (SEC) notifying that agency of the change of control. The regulations also provide that a change in ownership and control of a publicly traded corporation occurs if a person who is a controlling stockholder of the corporation ceases to be a controlling stockholder. A controlling stockholder is a stockholder who holds or controls through agreement both 25% or more of the total outstanding voting stock of the corporation and more shares of voting stock than any other stockholder.

Strayer University currently has Department of Homeland Security approval to admit foreign students for U.S. study, subject to applicable regulations. In certain circumstances, the Department of Homeland Security may require an institution to obtain approval for a change in ownership and control.

Pursuant to federal law providing benefits for veterans and reservists, some of the programs offered by Strayer University are approved for the enrollment of persons eligible to receive Veterans Administration educational benefits by the state approving agency in Alabama, Delaware, Florida, Georgia, Kentucky, Maryland, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, and Washington, D.C. In certain circumstances, state approving agencies may require an institution to obtain approval for a change in ownership and control.

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If Strayer University underwent a change of control that required approval by any state authority, Middle States or any federal agency, and any required regulatory approval were significantly delayed, limited or denied, there could be a material adverse effect on Strayer University s ability to offer certain educational programs, award certain degrees, diplomas or certificates, operate one or more of its locations, admit certain students or participate in Title IV programs, which in turn would materially and adversely affect Strayer University s operations. A change that required approval by a state regulatory authority, Middle States or a federal agency could also delay Strayer University s ability to establish new campuses or educational programs and may have other adverse regulatory effects. Furthermore, the suspension from Title IV programs and the necessity of obtaining regulatory approvals in connection with a change of control may materially limit Strayer University s flexibility in future financing or acquisition transactions.

Pending Legislative and Regulatory Changes

Congress is considering legislation that would make further changes in the Higher Education Act and other education-related federal laws, and the Department of Education recently conducted a negotiated rulemaking to amend certain regulations relating to Title IV programs. Some of the proposed changes are noted below. We cannot predict the impact, if any, of these pending legislative and regulatory changes.

Congress

The U.S. House of Representatives has passed H.R. 3221, the Student Aid and Fiscal Responsibility Act of 2009. Among other changes, that bill would eliminate the FFEL Program, require all institutions participating in Title IV programs to convert exclusively to the Direct Loan Program by July 1, 2010, and make certain temporary changes in the 90/10 Rule. See Regulation Financial Aid Regulation.

U.S. Department of Education

In fall 2009 the Department of Education established a negotiated rulemaking committee to address matters relating to the integrity of Title IV programs. Negotiated rulemaking is a process required by the Higher Education Act to allow affected constituencies to share with the Department of Education their views on regulatory issues before the Department issues proposed regulations. Among the topics that were considered are institutional eligibility issues (including state authorization for postsecondary education institutions), definitional issues (such as the definition of gainful employment in a recognized occupation and credit hour for certain eligibility and other purposes), student eligibility issues (including the validity of high school diplomas), and other Title IV provisions (including incentive compensation). The negotiated rulemaking committee failed to reach consensus on the regulatory package that was the subject of negotiation. Accordingly, if the Department of Education decides to proceed with regulations, it may use regulatory language developed during the negotiations as the basis for its proposed regulations, or develop new regulatory language for all or a portion of its proposed regulations. Any proposed regulations will be published for public comment. Any final regulations will become effective on July 1, 2011 at the earliest.

Additional Information

We maintain a website at www.strayereducation.com. The information on our website is not incorporated by reference in this Annual Report on Form 10-K and our web address is included as an inactive textual reference only. We make available on 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 Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

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The Form 10-K and other reports filed with the SEC can be read or copied at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC; the website address is www.sec.gov.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this Annual Report on Form 10-K or in the documents incorporated by reference herein before deciding to purchase our common stock. The occurrence of any of the following risks could materially harm 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. See Cautionary Notice Regarding Forward-Looking Statements.

Risks Related to Extensive Regulation of Our Business

If we fail to comply with the extensive regulatory requirements for our business, we could face significant monetary liabilities, fines and penalties, including loss of access to federal student loans and grants for our students.

As a provider of higher education, we are subject to extensive regulation on both the federal and state levels. In particular, the Higher Education Act of 1965, as amended (the Higher Education Act), and related regulations subject Strayer University and all other higher education institutions that participate in the various federal student financial aid programs under Title IV of the Higher Education Act (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 U.S. Department of Education (the Department of Education); (2) the accrediting agencies recognized by the U.S. Secretary of Education (Secretary of Education) and (3) state education regulatory bodies.

The regulations, standards and policies of these regulatory agencies 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, receipt of funds under Title IV programs or costs of doing business.

Because we operate in a highly regulated industry, we are subject to compliance reviews and claims of non-compliance and related lawsuits by government agencies, accrediting agencies and third parties, including claims brought by third parties on behalf of the federal government. For example, the Department of Education regularly conducts program reviews of educational institutions that are participating in Title IV programs and the Office of Inspector General of the Department of Education regularly conducts audits and investigations of such institutions.

If we are found to be in noncompliance with any of these laws, regulations, standards or policies, we could lose our access to Title IV program funds, which would have a material adverse effect on our business. In the 2009 fall term, approximately 72% of our students participated in one or more Title IV programs. Findings of noncompliance also could result in our being required to pay monetary damages, or being subjected to fines, penalties, injunctions, restrictions on our access to Title IV program funds or other censure that could have a material adverse effect on our business.

If we fail to maintain our institutional accreditation, we would lose our ability to participate in Title IV programs.

Strayer University is institutionally accredited by the Middle States Commission on Higher Education (Middle States), one of the six regional accrediting agencies recognized by the Secretary of Education as a reliable authority as to educational quality. Institutional accreditation by an accrediting agency recognized by the Secretary of Education is required in order for an institution to become and remain eligible to participate in Title IV programs. Increased scrutiny of accreditors by the Secretary of Education in connection with the Department of Education s recognition process may result in increased scrutiny of institutions by accreditors. The loss of accreditation would, among other things, render Strayer University ineligible to participate in Title IV programs and would have a material adverse effect on our business. In addition, an adverse action by Middle States other than loss of accreditation, such as issuance of a warning, could have a material adverse effect on our business.

If we fail to maintain any of our state authorizations, we would lose our ability to operate in that state and to participate in Title IV programs there.

With respect to each campus, Strayer University is authorized to operate and to grant degrees, diplomas or certificates by the applicable education agency of the state where the campus is located. Such state authorization is required in order for students at the campus to be eligible to participate in Title IV programs. The loss of authorization in a state would, among other things, render Strayer University ineligible to participate in Title IV programs at least at those state campus locations, limit Strayer University s ability to operate in that state and could have a material adverse effect on our business.

If we fail to obtain recertification by the Department of Education when required, we would lose our ability to participate in Title IV programs.

An institution generally must seek recertification from the Department of Education at least every six years and possibly more frequently depending on various factors, such as whether it is provisionally certified. The Department of Education may also review an institution s continued eligibility and certification to participate in Title IV programs, or scope of eligibility and certification, in the event the institution undergoes a change in ownership resulting in a change of control or expands its activities in certain ways, such as the addition of certain types of new programs, or, in certain cases, changes to the academic credentials that it offers. In certain circumstances, the Department of Education must provisionally certify an institution. The Department of Education may withdraw our certification if it determines that we are not fulfilling material requirements for continued participation in Title IV programs. If the Department of Education does not renew or withdraws our certification to participate in Title IV programs, our students would no longer be able to receive Title IV program funds, which would have a material adverse effect on our business. Strayer University s current program participation agreement is effective until September 30, 2010, assuming continued compliance with its terms. During 2010, we plan to apply timely for recertification. *See Regulation Title IV Programs.*

A failure to demonstrate administrative capability or financial responsibility may result in the loss of eligibility to participate in Title IV programs.

If we fail to maintain administrative capability as defined by the Department of Education, we could lose our eligibility to participate in Title IV programs or have that eligibility adversely conditioned, which would have a material adverse effect on our business. Furthermore, if we fail to demonstrate financial responsibility under the Department of Education s regulations, we could lose our eligibility to participate in Title IV programs or have that eligibility adversely conditioned, which would have a material adverse effect on our business.

Student loan defaults could result in the loss of eligibility to participate in Title IV programs.

In general, under the Higher Education Act, an educational institution may lose its eligibility to participate in some or all Title IV programs if, for three consecutive federal fiscal years, 25% or more of its students who were required to begin repaying their student loans in the relevant federal fiscal year default on their payment by the end of the next federal fiscal year. In addition, an institution may lose its eligibility to participate in some or all Title IV programs if its default rate for a federal fiscal year was greater than 40%.

Beginning with cohort default rate calculations for federal fiscal year 2009, the cohort default rate will be calculated by determining the rate at which borrowers who become subject to their repayment obligation in the relevant federal fiscal year, default by the end of the second federal fiscal year that follows that fiscal year. The current method of calculating rates will remain in effect and will be used to determine institutional eligibility until three consecutive years of official cohort default rates calculated under the new formula are available. In addition, the cohort default rate threshold of 25% will be increased to 30% for purposes of certain sanctions and requirements related to cohort default rates. If we lose eligibility to participate in Title IV programs because of high student loan default rates, it would have a material adverse effect on our business. Strayer University s cohort default rates calculated by the Department of Education on Federal Family Education Loan Program loans for the 2005, 2006, and 2007 federal fiscal years, the three most recent years for which this information is available, were 3.9%, 3.8%, and 6.0%, respectively. The average cohort default rates for proprietary institutions nationally, as calculated by the Department of Education, were 8.2%, 9.7%, and 11.0% in federal fiscal years 2005, 2006, and 2007, respectively.

We are subject to sanctions if we fail to calculate and make timely payment of refunds of Title IV program funds for students who withdraw before completing their educational program.

The Higher Education Act and Department of Education regulations require us to calculate refunds of unearned Title IV program funds disbursed to students who withdraw from their educational program before completing it. If refunds are not properly calculated or timely paid, we may be sanctioned or subject to other adverse actions by the Department of Education, which could have a material adverse effect on our business.

We are dependent on the renewal and maintenance of Title IV programs.

Congress reauthorizes the Higher Education Act, which is the law governing Title IV programs, approximately every five to six years. Additionally, Congress determines the funding level for each Title IV program on an annual basis. Any action by Congress that significantly reduces funding for Title IV programs or the ability of our school or students to participate in these programs could materially harm our business. A reduction in government funding levels could lead to lower enrollments at our school and require us to arrange for alternative sources of financial aid for our students. Lower student enrollments or our inability to arrange such alternative sources of funding could adversely affect our business.

Investigations, legislative and regulatory developments and general credit market conditions related to the student loan industry may result in fewer lenders and loan products and increased regulatory burdens and costs.

The Higher Education Opportunity Act contains new requirements pertinent to relationships between lenders and institutions. The Department of Education also recently promulgated regulations that address these relationships, and state legislators have also passed or may be considering legislation related to relationships between lenders and institutions. These legislative and regulatory developments as well as general credit market conditions may cause some lenders to decide not to participate in the Federal Family Education Loan Program or not to provide certain loan products and may impose increased administrative and regulatory costs. Such actions could have a material adverse effect on our business.

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Our school could lose its eligibility to participate in federal student financial aid programs or b