

Strategic Education, Inc.
Form 10-Q
May 02, 2019
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2019
Commission File No. 0-21039

Strategic Education, Inc.

(Exact name of registrant as specified in this charter)

Maryland	52-1975978
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2303 Dulles Station Boulevard	20171
Herndon, VA	

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Common Stock, \$0.01 par value	STRA	Nasdaq Global Select Market
(Title of each class)	(Trading symbol(s))	(Name of each exchange on which registered)

As of April 15, 2019, there were outstanding 21,931,496 shares of Common Stock, par value \$0.01 per share, of the Registrant.

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

	December 31, 2018	March 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 311,732	\$352,387
Marketable securities, current	37,121	36,486
Tuition receivable, net	55,694	50,842
Other current assets	15,814	16,874
Total current assets	420,361	456,589
Property and equipment, net	122,677	119,040
Right-of-use lease assets	—	101,533
Marketable securities, non-current	37,678	31,866
Intangible assets, net	328,344	314,511
Goodwill	732,540	732,799
Other assets	19,429	19,052
Total assets	\$ 1,661,029	\$ 1,775,390
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 85,979	\$80,085
Income taxes payable	419	6,144
Contract liabilities	38,733	40,826
Lease liabilities, current	—	26,462
Total current liabilities	125,131	153,517
Deferred income tax liabilities	59,358	70,298
Lease liabilities, non-current	—	90,501
Other long-term liabilities	51,316	37,636
Total liabilities	235,805	351,952
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.01; 32,000,000 shares authorized; 21,743,498 and 21,923,800 shares issued and outstanding at December 31, 2018 and March 31, 2019, respectively	217	219
Additional paid-in capital	1,306,653	1,304,170
Accumulated other comprehensive income	32	266
Retained earnings	118,322	118,783
Total stockholders' equity	1,425,224	1,423,438
Total liabilities and stockholders' equity	\$ 1,661,029	\$ 1,775,390
The accompanying notes are an integral part of these condensed consolidated financial statements.		

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

	For the three months ended March 31,	
	2018	2019
Revenues	\$ 116,469	\$ 246,508
Costs and expenses:		
Instructional and support costs	68,452	134,050
General and administration	31,342	64,139
Amortization of intangible assets	—	15,417
Merger and integration costs	5,347	7,179
Total costs and expenses	105,141	220,785
Income from operations	11,328	25,723
Other income	289	3,327
Income before income taxes	11,617	29,050
Provision for income taxes	2,150	17,550
Net income	\$ 9,467	\$ 11,500
Earnings per share:		
Basic	\$ 0.88	\$ 0.53
Diluted	\$ 0.84	\$ 0.52
Weighted average shares outstanding:		
Basic	10,745	21,499
Diluted	11,311	22,050
Cash dividend declared per share	\$ 0.25	\$ 0.50

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

	For the three months ended March 31,	
	2018	2019
Net income	\$ 9,467	\$ 11,500
Other comprehensive income:		
Unrealized gain on marketable securities, net of tax	—	234
Comprehensive income	\$ 9,467	\$ 11,734

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

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STRATEGIC EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Par Value	Paid-in Capital	Earnings	Other Comprehensive Income	
Balance at December 31, 2017	11,167,425	\$ 112	\$ 47,079	\$ 162,006	\$	—\$209,197
Impact of adoption of new accounting standard	—	—	—	(171)	—	(171)
Stock-based compensation	—	—	2,688	—	—	2,688
Restricted stock grants, net of forfeitures	133,246	1	(1)	—	—	—
Common stock dividends	—	—	—	(2,889)	—	(2,889)
Net income	—	—	—	9,467	—	9,467
Balance at March 31, 2018	11,300,671	\$ 113	\$ 49,766	\$ 168,413	\$	—\$218,292
	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Par Value	Paid-in Capital	Earnings	Other Comprehensive Income	
Balance at December 31, 2018	21,743,498	\$ 217	\$ 1,306,653	\$ 118,322	\$ 32	\$ 1,425,224
Stock-based compensation	—	—	2,772	82	—	2,854
Exercise of stock options, net	51,889	1	(1,700)	—	—	(1,699)
Restricted stock grants, net of forfeitures	121,714	1	(1)	—	—	—
Issuance of restricted stock, net	6,699	—	(3,554)	—	—	(3,554)
Common stock dividends	—	—	—	(11,121)	—	(11,121)
Unrealized gains on marketable securities, net of tax	—	—	—	—	234	234
Net income	—	—	—	11,500	—	11,500
Balance at March 31, 2019	21,923,800	\$ 219	\$ 1,304,170	\$ 118,783	\$ 266	\$ 1,423,438

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

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STRATEGIC EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the three months ended March 31,	
	2018	2019
Cash flows from operating activities:		
Net income	\$9,467	\$11,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs	66	83
Amortization of investment discount/premium	—	127
Depreciation and amortization	5,035	25,983
Deferred income taxes	(1,842)) 10,834
Stock-based compensation	2,688	3,010
Changes in assets and liabilities:		
Tuition receivable, net	(2,249)) 4,847
Other current assets	931	(1,060)
Other assets	115	325
Accounts payable and accrued expenses	(867)) (3,537)
Income taxes payable and income taxes receivable	3,995	6,031
Contract liabilities	1,192	1,702
Other long-term liabilities	(1,482)) (1,187)
Net cash provided by operating activities	17,049	58,658
Cash flows from investing activities:		
Purchases of property and equipment	(4,233)) (8,756)
Purchases of marketable securities	—	(6,249)
Maturities of marketable securities	—	12,910
Other investments	—	(374)
Net cash used in investing activities	(4,233)) (2,469)
Cash flows from financing activities:		
Common dividends paid	(2,889)) (11,091)
Taxes paid for stock awards	—	(4,443)
Net cash used in financing activities	(2,889)) (15,534)
Net increase in cash, cash equivalents, and restricted cash	9,927	40,655
Cash, cash equivalents, and restricted cash — beginning of period	156,448	312,237
Cash, cash equivalents, and restricted cash — end of period	\$166,375	\$352,892
Noncash transactions:		
Purchases of property and equipment included in accounts payable	\$2,385	\$634

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

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STRATEGIC EDUCATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Nature of Operations

Strategic Education, Inc. ("Strategic Education" or the "Company"), a Maryland corporation formerly known as Strayer Education, Inc., is a national leader in education innovation, dedicated to enabling economic mobility for working adults through education. As further discussed in Note 2 and Note 3, the Company completed its merger with Capella Education Company ("CEC") on August 1, 2018. The accompanying condensed consolidated financial statements and footnotes include the results of the Company's three reportable segments: Strayer University, Capella University and Non-Degree Programs. The Company's reportable segments are discussed further in Note 15.

2. Significant Accounting Policies

Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

On August 1, 2018, the Company completed its merger with CEC, whereby the Company was deemed the acquirer in the business combination for accounting purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Therefore, Strayer Education, Inc. is considered Strategic Education's predecessor, and its historical financial statements prior to the merger date are reflected in this Quarterly Report on Form 10-Q as the historical financial statements of the Company. Accordingly, the financial results of the Company as of and for any periods ended prior to August 1, 2018 do not include the financial results of CEC and therefore are not directly comparable.

All information as of December 31, 2018 and March 31, 2018 and 2019, and for the three months ended March 31, 2018 and 2019 is unaudited but, in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the condensed consolidated financial position, results of operations, and cash flows of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the full fiscal year.

Certain amounts in the prior period financial statements have been reclassified to conform to the current period's presentation. Effective during the first quarter of 2019, the Company made changes in its presentation of operating expenses and reclassified prior periods to conform to the current presentation. The Company determined that these changes aligned with its organizational structure and will improve comparability with several of its peer companies. There were no changes to total operating expenses or operating income as a result of these reclassifications. Below is a description of the nature of the costs included in the Company's operating expense categories.

Instruction and support costs ("I&SC") generally contain items of expense directly attributable to activities of Strayer University and Capella University (the "Universities") that support students and learners. This expense category includes salaries and benefits of faculty and academic administrators, as well as admissions and administrative personnel who support and serve student interests. Instructional and support costs also include course development costs and costs associated with delivering course content, including educational supplies, facilities, and all other physical plant and occupancy costs, with the exception of costs attributable to the corporate offices. Bad debt expense incurred on delinquent student account balances is also included in instructional and support costs.

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

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The following table presents the Company's operating expenses as previously reported and as reclassified on its unaudited condensed consolidated statements of income for the three months ended (in thousands):

	New Classification							
	March 31, 2018		June 30, 2018		September 30, 2018		December 31, 2018	
Prior Classification	I&SC	G&A	I&SC	G&A	I&SC	G&A	I&SC	G&A
Instructional and educational support	\$63,776	\$—	\$64,690	\$—	\$93,290	\$—	\$118,320	\$—
Admissions advisory	4,676	—	4,609	—	9,789	—	12,392	—
Marketing	—	20,124	—	21,113	—	46,165	—	49,577
General and administration	—	11,218	—	11,063	—	15,811	—	18,964
Total reclassified costs and expenses ⁽¹⁾	\$68,452	\$31,342	\$69,299	\$32,176	\$103,079	\$61,976	\$130,712	\$68,541

⁽¹⁾This amount excludes the amortization of intangible assets and merger and integration costs expense line items on the condensed consolidated statements of income as those expense line items were not impacted by the operating expense reclassification.

Restricted Cash

A significant portion of the Company's revenues are funded by various federal and state government programs. The Company generally does not receive funds from these programs prior to the start of the corresponding academic term. The Company may be required to return certain funds for students who withdraw from the Universities during the academic term. The Company had approximately \$5,000 of these unpaid obligations as of December 31, 2018 and March 31, 2019, which are recorded as restricted cash and included in other current assets in the unaudited condensed consolidated balance sheets.

As part of commencing operations in Pennsylvania in 2003, the Company is required to maintain a "minimum protective endowment" of at least \$0.5 million in an interest-bearing account as long as the Company operates its campuses in the state. The Company holds these funds in an interest-bearing account which is included in other assets. The following table illustrates the reconciliation of cash, cash equivalents, and restricted cash shown in the unaudited condensed consolidated statements of cash flows as of March 31, 2018 and 2019 (in thousands):

	As of March 31,	
	2018	2019
Cash and cash equivalents	\$165,867	\$352,387
Restricted cash included in other current assets	8	5
Restricted cash included in other long-term assets	500	500
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$166,375	\$352,892

Tuition Receivable and Allowance for Doubtful Accounts

The Company records tuition receivable and contract liabilities for its students upon the start of the academic term or program. Therefore, at the end of the quarter (and academic term), tuition receivable generally represents amounts due from students for educational services already provided and contract liabilities generally represents advance payments from students for academic services to be provided in the future. Tuition receivables are not collateralized; however, credit risk is minimized as a result of the diverse nature of the Universities' student bases and through the participation of the majority of the students in federally funded financial aid programs. An allowance for doubtful accounts is established primarily based upon historical collection rates by group of receivable reflecting factors such as age of the balance due, student academic status, and size of outstanding balance, net of estimated recoveries, and consideration of other relevant factors. These collection rates incorporate historical performance based on a student's current enrollment status and likelihood of future enrollment. The Company periodically assesses its methodologies for estimating bad debts in consideration of actual experience.

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The Company's tuition receivable and allowance for doubtful accounts were as follows as of December 31, 2018 and March 31, 2019 (in thousands):

	December 31, March 31,	
	2018	2019
Tuition receivable	\$ 84,151	\$ 80,229
Allowance for doubtful accounts	(28,457)	(29,387)
Tuition receivable, net	\$ 55,694	\$ 50,842

Approximately \$1.1 million and \$0.8 million of tuition receivable are included in other assets as of December 31, 2018 and March 31, 2019, respectively, because these amounts are expected to be collected after 12 months.

The following table illustrates changes in the Company's allowance for doubtful accounts for the three months ended March 31, 2018 and 2019 (in thousands):

	For the three months ended March 31,	
	2018	2019
Allowance for doubtful accounts, beginning of period	\$12,687	\$28,457
Additions charged to expense	6,391	12,320
Write-offs, net of recoveries	(5,303)	(11,390)
Allowance for doubtful accounts, end of period	\$13,775	\$29,387

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases with a term longer than 12 months. ASU 2016-02 also requires additional quantitative and qualitative disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. During 2018 and 2019, the FASB issued additional ASUs amending certain aspects of ASU 2016-02. On January 1, 2019, the Company adopted the new accounting standard and all the related amendments ("ASC 842") using the modified retrospective method. The Company applied ASU 2016-02 to all leases that had commenced as of January 1, 2019. In addition, as permitted by ASU 2016-02, comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company elected the package of practical expedients permitted under ASU 2016-02, which allowed the Company to not reassess prior conclusions regarding lease identification, lease classification, and initial direct costs under the new standard. As a result of adopting the new standard, the Company recognized a lease liability of \$123 million and a right-of-use asset of \$107 million on January 1, 2019. The standard did not materially impact the Company's condensed consolidated statements of income and cash flows.

The Company determines if an arrangement is a lease at inception. Leases with an initial term longer than 12 months are included in right-of-use ("ROU") lease assets, short-term lease liabilities, and long-term lease liabilities on the Company's condensed consolidated balance sheets. The Company combines lease and non-lease components for all leases.

ROU lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU lease assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the implicit interest rates for most of the Company's leases cannot be readily determined, the Company uses its incremental borrowing rate based on information available at the commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term for operating leases.

Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. The Company subleases certain building space to third parties and sublease income is recognized on a straight-line basis over the lease term. See Note 7 for additional information.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of an acquired business over the amount assigned to the assets acquired and liabilities assumed in a business combination. Indefinite-lived intangible assets, which include trade names, are recorded at fair value on their acquisition date. An indefinite life was assigned to the trade names because they have the continued ability to generate cash flows indefinitely.

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Goodwill and the indefinite-lived intangible assets are assessed at least annually for impairment during the fourth quarter, or more frequently if events occur or circumstances change between annual tests that would more likely than not reduce the fair value of the respective reporting unit or indefinite-lived intangible asset below its carrying amount. Finite-lived intangible assets that are acquired in business combinations are recorded at fair value on their acquisition dates and are amortized on a straight-line basis over the estimated useful life of the asset. Finite-lived intangible assets consist of student relationships.

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

Authorized Stock

The Company has authorized 32,000,000 shares of common stock, par value \$0.01, of which 21,743,498 and 21,923,800 shares were issued and outstanding as of December 31, 2018 and March 31, 2019, respectively. The Company also has authorized 8,000,000 shares of preferred stock, none of which is issued or outstanding. Before any preferred stock may be issued in the future, the Board of Directors would need to establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, and the terms or conditions of the redemption of the preferred stock.

In February 2019, the Company's Board of Directors declared a regular, quarterly cash dividend of \$0.50 per share of common stock. The dividend was paid on March 18, 2019.

Net Income Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the periods. Diluted earnings per share reflects the potential dilution that could occur assuming conversion or exercise of all dilutive unexercised stock options, restricted stock, and restricted stock units. The dilutive effect of stock awards was determined using the treasury stock method. Under the treasury stock method, all of the following are assumed to be used to repurchase shares of the Company's common stock: (1) the proceeds received from the exercise of stock options, and (2) the amount of compensation cost associated with the stock awards for future service not yet recognized by the Company. Stock options are not included in the computation of diluted earnings per share when the stock option exercise price of an individual grant exceeds the average market price for the period.

Set forth below is a reconciliation of shares used to calculate basic and diluted earnings per share for the three months ended March 31, 2018 and 2019 (in thousands):

	For the three months ended March 31, 2018 2019	
Weighted average shares outstanding used to compute basic earnings per share	10,745	21,499
Incremental shares issuable upon the assumed exercise of stock options	45	92
Unvested restricted stock and restricted stock units	521	459
Shares used to compute diluted earnings per share	11,311	22,050

During the three months ended March 31, 2019, the Company had approximately 59,000 shares of restricted stock excluded from the diluted earnings per share calculation because the effect would have been antidilutive. During the three months ended March 31, 2018, the Company had no issued and outstanding awards that were excluded from the calculation.

Comprehensive Income

Comprehensive income includes net income and all changes in the Company's equity during a period from non-owner sources, which for the Company consists of unrealized gains and losses on available-for-sale marketable securities, net of tax. As of December 31, 2018 and March 31, 2019, the balance of accumulated other comprehensive income was \$32,000, net of tax of \$10,000 and \$266,000, net of tax of \$116,000, respectively. There were no reclassifications out of accumulated other comprehensive income to net income for the three months ended March 31, 2019.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period reported. The most significant management estimates include allowances for doubtful accounts, useful lives of property and equipment and intangible assets, fair value of future contractual operating lease obligations, incremental borrowing rates, potential sublease income and vacancy periods, accrued expenses, forfeiture rates and the likelihood of achieving performance criteria for stock-based awards, value of free courses earned by students that will be redeemed in the future, valuation of goodwill and intangible assets, and the provision for income taxes. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting (“ASU 2018-07”), which simplifies the accounting for share-based payments granted to nonemployees for goods and services. ASU 2018-07 aligns guidance on share-based payments to nonemployees with the requirements for share-based payments granted to employees, including determination of the measurement date and accounting for performance conditions and for share-based payments after vesting. The Company adopted this guidance as of January 1, 2019 with no material impact on its unaudited condensed consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new guidance revises the accounting requirements related to the measurement of credit losses and will require organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectibility. Assets must be presented in the financial statements at the net amount expected to be collected. The guidance will be effective for the Company's annual and interim reporting periods beginning January 1, 2020, with early adoption permitted. The Company is evaluating the impact this standard will have on its financial condition, results of operations, and disclosures.

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

3. Merger with Capella Education Company

On August 1, 2018, the Company completed its merger with CEC and its wholly owned subsidiaries, pursuant to a merger agreement dated October 29, 2017. The merger has enabled the Company to become a national leader in education innovation that improves affordability and enhances career outcomes by offering complementary programs and sharing academic and technological best practices, through a best-in-class corporate platform supporting two independent universities.

Pursuant to the merger agreement, the Company issued 0.875 shares of the Company's common stock for each issued and outstanding share of CEC common stock. Outstanding equity awards held by existing CEC employees and certain non-employee directors of CEC were assumed by the Company and converted into comparable Company awards at the exchange ratio. Outstanding equity awards held by CEC non-employee directors who did not serve as directors of the Company after completion of the merger were converted to Company awards and settled. Outstanding equity awards held by former CEC employees were settled upon completion of the merger in exchange for cash payments as specified in the merger agreement.

The following table summarizes the components of the aggregate consideration transferred for the acquisition of CEC (in thousands):

Fair value of Company common stock issued in exchange for CEC outstanding shares ⁽¹⁾	\$ 1,209,483
Fair value of Company equity-based awards issued in exchange for CEC equity-based awards	27,478
Total fair value of consideration transferred	\$ 1,236,961

- (1) The Company issued 10,263,775 common shares at a market price of \$117.84 in exchange for each issued and outstanding share of CEC common stock.

The Company applied the acquisition method of accounting to CEC's business, whereby the excess of the acquisition date fair value of consideration transferred over the fair value of identifiable net assets was allocated to goodwill. Goodwill reflects workforce and synergies expected from cost savings, operations, and revenue enhancements of the combined company that are expected to result from the acquisition. The goodwill recorded as part of the merger has been provisionally allocated to the Strayer University and

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Capella University reportable segments in the amount of \$330.6 million and \$395.4 million, respectively, and is not deductible for tax purposes.

To date, the Company has incurred \$20.1 million of acquisition-related costs which have been recognized in Merger and integration costs in the unaudited condensed consolidated statements of income. Issuance costs of \$0.1 million were recognized in additional paid-in capital in the unaudited condensed consolidated balance sheets.

The preliminary opening balance sheet is subject to adjustment based on final assessment of the fair values of certain acquired assets and liabilities, primarily intangible assets and income taxes. As the Company finalizes its assessment of the fair value of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period. The Company reflects measurement period adjustments, if any, in the period in which the adjustments occur. During the first quarter of 2019, the Company reduced current assets by \$0.3 million and the acquired deferred income tax liability by \$0.1 million, which resulted in a \$0.2 million increase to goodwill recognized in connection with the CEC merger.

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

Cash and cash equivalents	\$ 167,859
Marketable securities, current	31,419
Tuition receivable	38,803
Income tax receivable	163
Other current assets	8,496
Marketable securities, non-current	34,700
Property and equipment, net	53,182
Other assets	14,556
Intangible assets	349,800
Goodwill	725,999
Total assets acquired	1,424,977
Accounts payable and accrued expenses	(46,735)
Contract liabilities	(39,000)
Deferred income taxes	(100,044)
Other long term liabilities	(2,237)
Total liabilities assumed	(188,016)
Total consideration	\$ 1,236,961

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

	Fair Value	Weighted Average Useful Life in Years
Trade names	\$ 183,800	Indefinite
Student relationships	166,000	3
	\$ 349,800	

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

Intangible assets - To determine the fair value of the trade name, the Company used the relief from royalty approach.

The excess earnings method was used to estimate the fair value of student relationships.

Property and equipment - Included in property and equipment is course content of \$14.0 million, valued using the relief from royalty approach, and internally developed software of \$5.0 million, valued using the cost approach. Each will be amortized over three years. All other property and equipment was valued at estimated cost.

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Contract liabilities - The Company estimated the fair value of contract liabilities using the cost build-up method, which represents the cost to deliver the services plus a normal profit margin.

Other current and noncurrent assets and liabilities - The carrying value of all other assets and liabilities approximated fair value at the time of acquisition.

4. Revenue Recognition

The Company's revenues primarily consist of tuition revenue arising from educational services provided in the form of classroom instruction and online courses. Tuition revenue is deferred and recognized ratably over the period of instruction, which varies depending on the course format and chosen program of study. Strayer's educational programs and Capella's GuidedPath classes typically are offered on a quarterly basis and such periods coincide with the Company's quarterly financial reporting periods, while Capella's FlexPath courses are delivered over a twelve-week subscription period.

The following table presents the Company's revenues from contracts with customers disaggregated by material revenue category for the three months ended March 31, 2018 and 2019 (in thousands):

	For the three months ended March 31,	
	2018	2019
Strayer University Segment		
Tuition, net of discounts, grants and scholarships	\$ 110,960	\$ 123,515
Other ⁽¹⁾	4,311	4,543
Total Strayer University Segment	115,271	128,058
Capella University Segment		
Tuition, net of discounts, grants and scholarships	—	109,468
Other ⁽¹⁾	—	5,230
Total Capella University Segment	—	114,698
Non-Degree Programs Segment ⁽²⁾	1,198	3,752
Consolidated revenue	\$ 116,469	\$ 246,508

⁽¹⁾ Other revenue is primarily comprised of academic fees, sales of textbooks, other course materials, and other revenue streams.

⁽²⁾ Non-Degree Programs revenue is primarily comprised of tuition revenue and placement fee revenue.

Revenues are recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods and services. The Company applies the five-step revenue model under ASC 606 to determine when revenue is earned and recognized.

Arrangements with students may have multiple performance obligations. For such arrangements, the Company allocates net tuition revenue to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on the prices charged to customers and observable market prices. The standalone selling price of material rights to receive free classes in the future is estimated based on class tuition prices and likelihood of redemption based on historical student attendance and completion behavior.

At the start of each academic term or program, a liability (contract liability) is recorded for academic services to be provided and a tuition receivable is recorded for the portion of the tuition not paid in advance. Any cash received prior to the start of an academic term or program is recorded as a contract liability. Some students may be eligible for scholarship awards, the estimated value of which will be realized in the future and is deducted from revenue when earned, based on historical student attendance and completion behavior. Contract liabilities are recorded as a current or long-term liability in the consolidated balance sheets based on when the benefit is expected to be realized.

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

academic fees recognized within the quarter of instruction, and certificate revenue and licensing revenue, which are recognized as the services are provided.

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Contract Liabilities – Graduation Fund

In 2013, Strayer University introduced the Graduation Fund, which allows new undergraduate students to earn tuition credits that are redeemable in the final year of a student’s course of study if he or she successfully remains in the program. New students registering in credit-bearing courses in any undergraduate program receive one free course for every three courses that are successfully completed. Students must meet all of Strayer University’s admission requirements and must be enrolled in a bachelor’s degree program. The Company’s employees and their dependents are not eligible for the program. Students who have more than one consecutive term of non-attendance lose any Graduation Fund credits earned to date, but may earn and accumulate new credits if the student is reinstated or readmitted by Strayer University in the future.

Revenue from students participating in the Graduation Fund is recorded in accordance with ASC 606. The Company defers the value of the related performance obligation associated with the credits estimated to be redeemed in the future based on the underlying revenue transactions that result in progress by the student toward earning the benefit. The Company’s estimate of the benefits that will be redeemed in the future is based on its historical experience of student persistence toward completion of a course of study within this program and similar programs. Each quarter, the Company assesses its methodologies and assumptions underlying these estimates, and to date, any adjustments to the estimates have not been material. The amount estimated to be redeemed in the next 12 months is \$22.4 million and is included as a current contract liability in the unaudited condensed consolidated balance sheets. The remainder is expected to be redeemed within two to four years.

The table below presents activity in the contract liability related to the Graduation Fund for the three months ended March 31, 2018 and 2019 (in thousands):

	As of March 31,	
	2018	2019
Balance at beginning of period	\$37,400	\$43,329
Revenue deferred	5,885	6,945
Benefit redeemed	(4,967)	(5,798)
Balance at end of period	\$38,318	\$44,476

Unbilled receivables – Student tuition

Academic materials may be shipped to certain students in advance of the term of enrollment. Under ASC 606, the materials represent a performance obligation to which the Company allocates revenue based on the fair value of the materials relative to the total fair value of all the performance obligations in the arrangement with the student. When control of the materials passes to the student in advance of the term of enrollment, an unbilled receivable and related revenue is recorded. The balance of unbilled receivables related to such materials was \$1.2 million as of March 31, 2019, and is included in tuition receivable.

5. Restructuring and Related Charges

In October 2013, the Company implemented a restructuring to better align the Company’s resources with student enrollments at the time. This restructuring included the closing of 20 physical locations and reductions in the number of campus-based and corporate employees. At the time of this restructuring, a liability for lease obligations, some of which continue through 2022, was recorded and measured at fair value using a discounted cash flow approach encompassing significant unobservable inputs (Level 3). The estimation of future cash flows included non-cancelable contractual lease costs over the remaining terms of the leases discounted at the Company’s marginal borrowing rate of 4.5%, partially offset by estimated future sublease rental income discounted at credit-adjusted rates.

In addition, the Company has incurred personnel-related restructuring charges due to cost reduction efforts and management changes. These changes are primarily intended to integrate CEC successfully and establish an efficient ongoing cost structure for the Company.

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The following details the changes in the Company's restructuring liability during the three months ended March 31, 2019 (in thousands):

	Lease and Related Costs, Net	Severance and Other Employee Separation Costs	Total
Balance at December 31, 2017	\$8,781	\$—	\$8,781
Restructuring and other charges ⁽¹⁾	—	—	—
Payments	(724)	—	(724)
Adjustments ⁽²⁾	41	—	41
Balance at March 31, 2018	\$8,098	\$—	\$8,098
Balance at December 31, 2018 ⁽³⁾	\$6,540	\$14,347	\$20,887
Restructuring and other charges ⁽¹⁾	—	1,913	1,913
Payments	—	(2,424)	(2,424)
Adjustments ⁽²⁾	(6,540)	—	(6,540)
Balance at March 31, 2019 ⁽³⁾	\$—	\$13,836	\$13,836

Restructuring and other charges of \$1.9 million for the three months ended March 31, 2019 are included in Merger⁽¹⁾ and integration costs on the unaudited condensed consolidated statements of income. There were no restructuring and other charges for the three months ended March 31, 2018.

For the three months ended March 31, 2018, adjustments include accretion of interest on lease costs, partially offset by changes in the timing and expected income from sublease income. For the three months ended March 31, 2019, adjustments represent the impact of adopting ASC 842 on January 1, 2019. In accordance with ASC 842, the⁽²⁾ lease related restructuring liability balance as of December 31, 2018 was netted against the initial ROU asset recognized upon adoption. Asset retirement obligations related to these restructured properties are also included in the adjustments amount.

The current portion of restructuring liabilities was \$9.8 million and \$8.4 million as of December 31, 2018 and⁽³⁾ March 31, 2019, respectively, which are included in accounts payable and accrued expenses. The long-term portion is included in other long-term liabilities.

6. Marketable Securities

The following is a summary of available-for-sale securities as of March 31, 2019 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Losses)	Estimated Fair Value
Corporate debt securities	\$46,685	\$95	\$ (89)	\$46,691
Tax-exempt municipal securities	18,969	83	(9)	19,043
Variable rate demand notes	1,600	—	—	1,600
Commercial paper	1,018	—	—	1,018
Total	\$68,272	\$178	\$ (98)	\$68,352

The following is a summary of available-for-sale securities as of December 31, 2018 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Losses)	Estimated Fair Value
Corporate debt securities	\$48,202	\$12	\$ (284)	\$47,930
Tax-exempt municipal securities	22,858	45	(34)	22,869
Variable rate demand notes	4,000	—	—	4,000

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Total	\$ 75,060	\$ 57	\$ (318)
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