WASTE CONNECTIONS INC/DE
Form 424B1
September 10, 2001

1

(WASTE CONNECTIONS, INC. LOGO)

$150,000,000

5 1/2% CONVERTIBLE SUBORDINATED NOTES DUE 2006 AND 3,944,755 SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THE NOTES

Selling holders will use this prospectus to sell the notes and the shares of common stock into which the notes are convertible at any time at market prices prevailing at the time of the sale or at privately negotiated prices. The selling holders may sell the notes or the common stock directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions.

The holders of the notes may convert the notes into shares of our common stock at any time at a conversion rate of approximately 26.2985 shares per $1,000 principal amount of notes. The conversion price is $38.03 per share. Interest on the notes is payable on April 15 and October 15 of each year, commencing on October 15, 2001. At any time on or after April 15, 2004, we may redeem the notes, in whole or in part, at the redemption prices as set forth in this prospectus.

In the event of a change in control, as defined in this prospectus, each holder of notes may require us to repurchase the notes for cash at 100% of the principal amount of the notes plus accrued interest.

The notes are unsecured obligations that are subordinated in right of payment to all of our existing and future senior indebtedness. There are no sinking fund provisions. Our long-term credit facility allows us to borrow up to $435 million; however, bank covenant restrictions existing as of June 30, 2001, limited our maximum borrowings under the credit facility to $325 million. Borrowings under our credit facility are senior to the notes.

We do not intend to list the notes for trading on any national securities exchange or The Nasdaq National Market. Our common stock is listed on The Nasdaq National Market under the symbol "WCNX." On September 4, 2001, the closing sale price of our common stock, as reported on The Nasdaq National Market, was $32.12.

INVESTING IN THE NOTES AND OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 8.

THE SECURITIES OFFERED OR SOLD UNDER THIS PROSPECTUS HAVE NOT BEEN APPROVED BY THE SEC OR ANY STATE SECURITIES COMMISSION, NOR HAVE THESE ORGANIZATIONS DETERMINED THAT THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is September 10, 2001.

2

[INSIDE FRONT COVER]

This prospectus contains registered service marks, trademarks and trade names of

Waste Connections, including the Waste Connections, Inc. name and logo.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We make "forward-looking statements" throughout this prospectus. These statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or comparable terminology, or by discussions of strategy. Waste Connections' business and operations are subject to a variety of risks and uncertainties and, consequently, actual results may materially differ from those projected by any forward-looking statements. Factors that could cause actual results to differ from those projected include, but are not limited to, the following:

- competition or unfavorable economic or industry conditions could lead to a decrease in demand for our services and to a decline in prices we realize for our services;

- we may be required to pay increased prices for acquisitions, and we may experience difficulty in integrating and deriving synergies from acquisitions;

- we cannot be certain that we will always have access to the additional capital that we may require for our growth strategy or that our cost of capital will not increase;

- governmental regulations may require increased capital expenditures or otherwise affect our business;

- companies that we acquire could have undiscovered liabilities;

- we are highly dependent on the services of senior management;

- if our financial condition deteriorates, we may be unable to repurchase the notes if a change in control occurs; and

- there is no public market for the notes and their transferability is significantly restricted.

These risks and uncertainties, as well as others, are discussed in greater detail in Waste Connections' filings with the SEC, including our most recent annual report on Form 10-K and quarterly reports on Form 10-Q. You should read carefully the section of this prospectus under the heading "Risk Factors" beginning on page 8. We make no commitment to revise or update any forward-looking statements in this prospectus to reflect events or circumstances after the date of this prospectus.

SUMMARY

This summary highlights some information from this prospectus. This document may not contain all of the information that is important to you. To understand this offering fully, you should read this prospectus carefully, including the risk factors and the financial statements incorporated by reference herein. You should also read and consider the information in the documents we have referred you to in "Where You Can Find More Information." Unless otherwise specified, all references to "Waste Connections" mean Waste Connections, Inc. and our subsidiaries, and all references to "solid waste" mean non-hazardous solid waste.

OUR BUSINESS

Waste Connections is a regional, integrated solid waste services company that provides solid waste collection, transfer, disposal and recycling services in secondary markets of the western U.S. We currently own and operate 65 collection operations, 23 transfer stations, and 17 recycling facilities. We own and operate 14 Subtitle D landfills and operate another landfill in which we own a majority interest. We also operate, but do not own, an additional nine transfer stations and six landfills. As of June 30, 2001, we served more than 700,000 commercial, industrial and residential customers in 15 states: California, Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, New Mexico, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington and Wyoming. Over 50% of our revenues are generated in exclusive markets, the majority of which are from exclusive arrangements, including franchise agreements, long-term municipal contracts and governmental certificates.

We have targeted secondary markets of the western U.S. because we believe that:

- there is a greater opportunity to obtain a strong market share in those markets through exclusive arrangements or competitive asset position;

- these markets have strong projected economic and population growth rates;

- a large number of independent solid waste services companies suitable for acquisition by us are located in these markets; and

- there is less competition in these markets from large, well-capitalized solid waste services companies.

In addition, our senior management team has extensive experience in acquiring, integrating and operating solid waste services business in the western U.S.

We have developed a two-pronged strategy tailored to the competitive and regulatory factors that affect our markets. In the markets where waste collection services are performed under exclusive arrangements, we generally focus on controlling the solid waste stream by providing collection services under these exclusive arrangements. In markets where we believe that competitive and regulatory factors make owning landfills advantageous, we generally focus on providing integrated services, from collection through disposal of solid waste in landfills that we own or operate.

Waste Connections' executive offices are located at 620 Coolidge Drive, Suite 350, Folsom, California 95630. Our telephone number is (916) 608-8200. Our website is www.wasteconnections.com. The information provided on our website is not incorporated into this prospectus.

SUMMARY FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following consolidated statement of operations and other data for the years ended December 31, 1998, 1999 and 2000, are derived from our audited financial statements. The unaudited statement of operations and other data for the six months ended June 30, 2000 and 2001 and unaudited consolidated balance sheet data as of June 30, 2001 are derived from our Quarterly Report on Form 10-Q filed August 14, 2001, with the SEC.

	YEAR ENDED DECEMBER 31, 1998	1999	2000	SIX M 20
STATEMENT OF OPERATIONS DATA(1):				
Revenues	$ 99,624	$ 184,225	$ 304,355	$ 1
Operating Expenses:				
Cost of operations	71,635	112,686	174,510	
Selling, general and administrative	9,967	15,754	25,416	
Depreciation and amortization	8,008	14,769	27,195	
Stock compensation	632	265	163	
Acquisition-related(2)	--	9,003	150	
Income from operations	9,382	31,748	76,921	
Interest expense	(3,458)	(11,531)	(28,705)	(
Other income (expense), net(3)	410	(66)	(717)	
Minority interests	--	--	--	
Income before income tax provision	6,334	20,151	47,499	
Income tax provision	(3,040)	(10,924)	(19,310)	
Extraordinary item(4)	(1,027)	--	--	
Net income	$ 2,267	$ 9,227	$ 28,189	$
Redeemable convertible preferred stock accretion	(917)	--	--	
Net income applicable to common stockholders	$ 1,350	$ 9,227	$ 28,189	$
Diluted net income per share	$ 0.11	$ 0.46	$ 1.17	$
Shares used in calculating diluted net income per share	12,323,990	19,929,539	23,994,994	22,0
OTHER DATA:				
Net cash provided by operating activities	$ 10,890	$ 21,973	$ 53,776	$
Net cash used in investing activities	(65,483)	(256,277)	(192,974)	(1
Net cash provided by financing activities	56,592	233,346	139,266	
EBITDA(5)	17,390	46,517	104,116	
EBITDA margin(6)	17.5%	25.3%	34.2%	

	JUNE 30, 2001
BALANCE SHEET DATA:	
Cash and equivalents	$ 5,157
Working capital (deficit)	(592)
Property and equipment, net	438,142
Total assets	894,190
Long-term debt, net of current portion	374,622
Total stockholders' equity	353,173

6

The ratio of earnings to combined fixed charges and preferred stock dividends for Waste Connections is set forth below for the periods indicated.

	YEAR ENDED DECEMBER 31,				
	1996	1997	1998	1999	2000
Ratio of earnings to combined fixed charges and preferred stock dividends(7).............	2.8	N/A(8)	2.2	2.7	2.6
Pro Forma ratio of earnings to combined fixed charges and preferred stock dividends(7)(9)..........					3.1

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(1) Waste Connections' historical financial statements have been retroactively restated to reflect the acquisitions consummated through June 30, 2001 that were accounted for using the pooling-of-interests method.

(2) Acquisition-related expenses consist of direct merger related expenses for acquisitions accounted for using the pooling-of-interests method.

(3) Other income (expense), net for the six months ended June 30, 2001 includes a $4.9 million loss recognized on the sale of certain Utah operations that were deemed to no longer be of strategic importance to us, and $6.3 million of expenses resulting from the early termination of an interest rate swap.

(4) Extraordinary item represents the expense from early extinguishment of debt, net of income tax effects.

(5) EBITDA represents income from operations plus depreciation and amortization. EBITDA does not represent and should not be considered as an alternative to net income or cash flow from operations as determined by generally accepted accounting principles. Further, EBITDA does not necessarily indicate whether cash flow will be sufficient for items such as working capital, capital expenditures, or to react to changes in our industry or the economy in general. We believe that EBITDA is a frequently used measure that provides additional information for determining our ability to meet debt service requirements and that it is one of the indicators upon which we, our lenders and certain investors assess our financial performance and our capacity to service debt. We therefore interpret the trends that EBITDA depicts as one measure of our liquidity. Because EBITDA is not calculated by all companies and analysts in the same fashion, the EBITDA measures presented by us may not necessarily be comparable to other similarly titled measures of other companies. Therefore, in evaluating EBITDA data, investors should consider, among other factors:

- the non-GAAP nature of EBITDA data;

- actual cash flows;

- the actual availability of funds for debt service, capital expenditures and working capital; and

- the comparability of our EBITDA data to similarly titled measures reported by other companies.

Our measurement of EBITDA under our credit facility, for purposes of determining debt covenant compliance, is further adjusted for the following:

- the effect of purchase accounting acquisitions closed during the preceding 12 months;

- amortization of deferred stock compensation charges;

- EBITDA from non-100% owned consolidated subsidiaries; and

- other one-time charges that are specifically stated in the credit facility agreement.

As of June 30, 2001, we are in compliance with the EBITDA requirements of our credit facility.

(6) EBITDA margin represents EBITDA expressed as a percentage of revenues.

(7) For purposes of calculating the ratios, fixed charges consist of interest on debt, amortization of discount on debt, and the interest portion of rental expense on operating leases.

The ratio of earnings to combined fixed charges and preferred stock dividends is calculated as follows:

(income before extraordinary charges and income taxes) + (fixed charges and preferred stock dividends) -- (capitalized interest)
(fixed charges and preferred stock dividends)

(8) For the year ended December 31, 1997, our earnings were inadequate to cover combined fixed charges and preferred stock dividends. The coverage deficiency was $3,367,000.

(9) Gives effect to the note offering as if it had occurred on January 1, 2000.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

Any or all of the following risks could materially and adversely affect our business, financial condition and results of operations. As a result, the trading price of our common stock could decline, and you may lose all or part of your investment.

This prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of the risks described below and elsewhere in this prospectus and other factors that we cannot now foresee.

RISKS RELATED TO OUR BUSINESS

DIFFICULTIES IN MAKING ACQUISITIONS, ACQUIRING EXCLUSIVE CONTRACTS AND GENERATING INTERNAL GROWTH MAY CAUSE OUR GROWTH TO BE SLOWER THAN EXPECTED.

Our growth strategy includes expanding through acquisitions, acquiring additional exclusive arrangements and generating internal growth. Since inception, most of our growth has been through acquisitions. Internally generated growth for the industry and Waste Connections has been less than 8% per year. Although we have identified numerous acquisition candidates that we believe are suitable, we may not be able to acquire them at prices or on terms and conditions favorable to us. Our ability to grow also depends on several other factors, including

- the availability of capital to support our growth,

- our ability to compete with existing and emerging companies,

- our ability to maintain profit margins in the face of competitive pressures,

- our ability to continue to recruit, train and retain qualified employees and

- continued strong demand for our services.

Difficulties in any of these areas could hinder our growth.

OUR GROWTH AND FUTURE FINANCIAL PERFORMANCE DEPEND SIGNIFICANTLY ON OUR ABILITY TO INTEGRATE ACQUIRED BUSINESSES INTO OUR ORGANIZATION AND OPERATIONS.

Part of our strategy is to achieve economies of scale and operating efficiencies by growing through acquisitions. We may not achieve these goals unless we effectively combine the operations of acquired businesses with our existing operations. Our senior management team may not be able to integrate our completed and future acquisitions. Any difficulties we encounter in the integration process could interfere with our operations and reduce our operating margins.

OUR ACQUISITIONS MAY NOT BE SUCCESSFUL, RESULTING IN CHANGES IN STRATEGY, OPERATING LOSSES OR A LOSS ON SALE OF THE BUSINESS ACQUIRED.

Even if we are able to make acquisitions on advantageous terms and are able successfully to integrate them into our operations and organization, some may not successfully fulfill our strategy in a given market due to factors that we cannot control, such as market position or customer base. As a result, operating margins could be less than we originally anticipated when we made the acquisition. We then may be forced to change our strategy with respect to the

market or businesses acquired in the market and to sell the operation at a loss. For example, we incurred a loss on sale of $4.9 million when we recently disposed of some of assets that we had previously acquired in Utah and later concluded were no longer of strategic importance.

RAPID GROWTH MAY STRAIN OUR MANAGEMENT, OPERATIONAL, FINANCIAL AND OTHER RESOURCES.

From inception through June 30, 2001, we acquired 123 solid waste services related businesses. To maintain and manage our growth, we will need to expand our management information systems capabilities and our operational and financial systems and controls. We will also need to attract, train, motivate, retain and manage additional senior managers, technical professionals and other employees. Failure to do any of these things would restrict our ability to maintain and improve our profitability while continuing to grow.

WE COMPETE FOR ACQUISITION CANDIDATES WITH OTHER PURCHASERS, SOME OF WHICH HAVE GREATER FINANCIAL RESOURCES THAN WASTE CONNECTIONS AND THUS MAY BE ABLE TO OFFER MORE FAVORABLE ACQUISITION TERMS, THEREBY LIMITING OUR ABILITY TO GROW THROUGH ACQUISITION.

Other companies have adopted or will probably adopt our strategy of acquiring and consolidating regional and local businesses. We expect that increased consolidation in the solid waste services industry will increase competitive pressures. Increased competition for acquisition candidates may make fewer acquisition opportunities available to us, and may cause us to make acquisitions on less attractive terms, such as higher purchase prices. Acquisition costs may increase to levels beyond our financial capability or to levels that would adversely affect our operating results and financial condition. Our ongoing ability to make acquisitions will depend in part on the relative attractiveness of our common stock as consideration for potential acquisition candidates. This attractiveness may depend largely on the relative market price and capital appreciation prospects of our common stock compared to the common stock of our competitors. If the market price of our common stock were to decline materially over a prolonged period of time, we may find it difficult to make acquisitions on attractive terms.

TIMING AND STRUCTURE OF ACQUISITIONS MAY CAUSE FLUCTUATIONS IN OUR QUARTERLY RESULTS, WHICH MAY CAUSE OUR STOCK PRICE TO DECLINE.

We are not always able to control the timing of our acquisitions. Obtaining third party consents and regulatory approvals, completing due diligence on the acquired businesses, and finalizing transaction terms and documents are not entirely within our control and may take longer than we anticipate, causing certain transactions to be delayed. Our inability to complete acquisitions in the time frames that we expect may cause our operating results to be less favorable than expected, which could cause our stock price to decline. In addition, whether we account for an acquisition using the purchase or the pooling-of-interests method determines how the acquisition affects our financial results.

WE MAY BE UNABLE TO COMPETE EFFECTIVELY WITH GOVERNMENTAL SERVICE PROVIDERS AND LARGER AND BETTER CAPITALIZED COMPANIES, WHICH MAY RESULT IN REDUCED REVENUES AND LOWER PROFITS.

Our industry is highly competitive, fragmented and requires substantial labor and capital resources. Some of the markets in which we compete or will likely compete are served by one or more large, national solid waste companies, as well as by numerous regional and local solid waste companies of varying sizes and resources, some of which have accumulated substantial goodwill in their markets. We also compete with counties, municipalities and solid waste districts that maintain their own waste collection and disposal operations. These operators may have financial advantages over Waste Connections because of their access to user fees and similar charges, tax revenues and tax-exempt financing. Some of our competitors may also be better capitalized, have greater name recognition or be able to provide services at a lower cost than Waste Connections.

WE MAY LOSE CONTRACTS THROUGH COMPETITIVE BIDDING, EARLY TERMINATION OR GOVERNMENTAL ACTION, WHICH WOULD CAUSE OUR REVENUES TO DECLINE.

We derive a substantial portion of our revenue from services provided under exclusive municipal contracts, franchise agreements and governmental certificates. Many of these will be subject to competitive bidding at some time in the future. For example, we have 45 municipal contracts, representing annual revenues of approximately $4 million, that will expire in the next 12 months. We also intend to bid on additional municipal contracts and franchise agreements. However, we may not be the successful bidder. In addition, some of our customers may terminate their contracts with us before the end of the contract term. Municipalities in Washington may by law annex unincorporated territory, which would likely remove such territory from the area covered by governmental certificates issued to us by the Washington Utilities and Transportation Commission. Annexation would reduce the areas covered by our governmental certificates and subject more of our Washington operations to competitive bidding in the future. Moreover, legislative action could amend or repeal the laws governing governmental certificates, which could harm our competitive position by subjecting more areas to competitive bidding. If we were not able to replace revenues from contracts lost through competitive bidding or early termination or from the renegotiation of existing contracts with other revenues within a reasonable time period, our revenues could decline.

WE MAY NOT HAVE ENOUGH CAPITAL OR BE ABLE TO RAISE ENOUGH ADDITIONAL CAPITAL ON SATISFACTORY TERMS TO MEET OUR CAPITAL REQUIREMENTS, WHICH WOULD LIMIT OUR GROWTH THROUGH ACQUISITIONS.

Continued growth will require additional capital. We expect to finance future acquisitions through cash from operations, borrowings under our credit facility, issuing additional equity or debt securities and/or seller financing. If acquisition candidates are unwilling to accept, or we are unwilling to issue, shares of our common stock as part of the consideration for acquisitions or if our common stock does not maintain a sufficient market value, we may have to use more of our cash or borrowings under our credit facility to fund acquisitions. Using cash for acquisitions limits our financial flexibility and makes us more likely to seek additional capital through future debt or equity financings. If available cash from operations and borrowings under the credit facility are not sufficient to fund acquisitions, we will need additional equity and/or debt financing. If we seek more debt, our interest expense would increase and we may have to agree to financial covenants that limit our operational and financial flexibility. We have pledged all of our assets as collateral for our credit facility, which could restrict our ability to obtain additional debt on attractive terms. If we seek more equity, we may dilute the ownership interests of our then-existing stockholders. If we are unable to obtain additional equity and/or debt financing on attractive terms, our rate of growth through acquisitions may decline. We will also need to make substantial capital expenditures to develop or acquire new landfills, transfer stations and other facilities and to maintain such properties.

WE DEPEND SIGNIFICANTLY ON THE SERVICES OF THE MEMBERS OF OUR MANAGEMENT TEAM, AND THE DEPARTURE OF ANY OF THOSE PERSONS COULD CAUSE OUR OPERATING RESULTS TO SUFFER.

Our success depends significantly on the continued individual and collective contributions of our senior and district management team. Key members of our management have entered into employment agreements, but we may not be able to enforce these agreements. The loss of the services of any member of our senior or district management or the inability to hire and retain experienced management personnel could harm our operating results.

OUR DECENTRALIZED DECISION MAKING STRUCTURE COULD ALLOW LOCAL MANAGERS TO MAKE DECISIONS THAT ADVERSELY AFFECT OUR OPERATING RESULTS.

We manage our operations on a decentralized basis. Local managers have the authority to make many decisions concerning their operations without obtaining prior approval from executive officers, subject to compliance with general company-wide policies. Poor decisions by local managers could result in loss of customers or increases in costs, in each case reducing operating results.

THE GEOGRAPHIC CONCENTRATION OF OUR BUSINESS MAKES OUR RESULTS VULNERABLE TO FACTORS AFFECTING THE WESTERN U.S., AND SEASONAL FLUCTUATIONS MAY CAUSE OUR BUSINESS AND FINANCIAL RESULTS TO VARY AMONG QUARTERS, WHICH COULD NEGATIVELY AFFECT OUR STOCK PRICE.

Our business and financial results would be harmed by downturns in the general economy of the western U.S. and other factors affecting the region, such as state regulations affecting the solid waste services industry and severe weather conditions. Based on historic trends experienced by the businesses we have acquired, we expect our operating results to vary seasonally, with revenues typically lowest in the first quarter, higher in the second and third quarters, and lower in the fourth quarter than in the second and third quarters. This seasonality reflects the lower volume of solid waste generated during the late fall, winter and early spring months because of decreased construction and demolition activities during the winter months in the western U.S. In addition, some of our operating costs should be generally higher in the winter months. Adverse winter weather conditions slow waste collection activities, resulting in higher labor and operational costs. Greater precipitation in the winter increases the weight of collected waste, resulting in higher disposal costs, which are calculated on a per ton basis. Because of these factors, we expect operating income to be generally lower in the winter months, and our stock price may be negatively affected by these variations.

UNUSUALLY ADVERSE WEATHER CONDITIONS MAY INTERFERE WITH OUR OPERATIONS, HARMING OUR OPERATING RESULTS.

Our collection and landfill operations could be adversely affected, beyond the normal seasonal variations described above, by unusually long periods of inclement weather, which could interfere with collection and landfill operations, reduce the volume of waste generated by our customers and delay the development of landfill capacity. Periods of particularly harsh weather may force us to temporarily suspend certain of our operations.

INCREASES IN THE COSTS OF LABOR, FUEL OR ENERGY COULD REDUCE OUR OPERATING MARGINS.

Our continued success will depend on our ability to attract and retain qualified personnel. We compete with other businesses in our markets for qualified employees. The labor market is currently tight in many of our markets. A shortage of qualified employees would require us to enhance our wage and benefits packages to compete more effectively for employees or to hire more expensive temporary employees. Labor is our second largest cost, and even relatively small increases in labor costs per employee could materially affect our cost structure. If we fail to attract and retain qualified employees, to control our labor costs, or to recover any increased labor costs through increased prices we charge for our services or otherwise offset such increases with cost savings in other areas, our operating margins could suffer.

Although fuel and energy costs account for a relatively small portion of our total operating expenses, the price of fuel and energy is volatile, and shortages sometimes occur. Although the energy crisis currently affecting California and other western states in which we operate has not to date materially affected our operations or profitability in those regions, further significant increases in the cost of fuel or energy, or shortages of fuel or energy, could interrupt or curtail our operations and lower our operating margins.

EACH BUSINESS THAT WE ACQUIRE OR HAVE ACQUIRED MAY HAVE LIABILITIES THAT WE FAIL OR ARE UNABLE TO DISCOVER, INCLUDING LIABILITIES THAT ARISE FROM PRIOR OWNERS' FAILURE TO COMPLY WITH ENVIRONMENTAL LAWS, WHICH MAY HARM OUR FINANCIAL CONDITION.

As a successor owner, we may be legally responsible for these liabilities. Even if we obtain legally enforceable representations, warranties and indemnities from the sellers of such businesses, they may not cover the liabilities fully. Some environmental liabilities, even if we do not expressly assume them, may be imposed on Waste Connections under various legal theories. Our insurance program does not cover liabilities associated with any environmental cleanup or remediation of our own sites. A successful uninsured claim against Waste Connections could harm our financial condition.

OUR GROWTH MAY BE LIMITED BY THE INABILITY TO OBTAIN NEW LANDFILLS AND EXPAND EXISTING ONES.

We currently own and operate a number of landfills. Based on current waste flows, the estimated remaining lives of our landfills range from approximately 11 to 297 years, with an average remaining life of approximately 77 years. Our ability to meet our growth objectives may depend in part on our ability to acquire, lease and expand landfills and develop new landfill sites. We may not be able to obtain new landfill sites or expand the permitted capacity of our landfills when necessary. Obtaining new landfill sites is important to our expansion into new non-exclusive markets; if we do not believe that we can obtain a landfill site in a non-exclusive market, we may choose not to enter into that market. Expanding existing landfill sites is important in those markets where the remaining life of our landfills is relatively short. We may choose to forego acquisitions and internal growth in these markets because increased volumes would further shorten the life of these landfills. Either of these circumstances could result in slower growth.

IN SOME AREAS IN WHICH WE OPERATE, SUITABLE LAND FOR NEW SITES OR EXPANSION OF EXISTING LANDFILL SITES MAY BE UNAVAILABLE WHICH COULD INCREASE OUR DISPOSAL COSTS AND REDUCE OUR OPERATING MARGINS.

Operating permits for landfills in states where we operate must generally be renewed at least every five years. It has become increasingly difficult and expensive to obtain required permits and approvals to build, operate and expand solid waste management facilities, including landfills and transfer stations. The process often takes several years, requires numerous hearings and compliance with zoning, environmental and other requirements and is resisted by citizen, public interest or other groups. We may not be able to obtain or maintain the permits we require to expand, and such permits may contain burdensome terms and conditions. Even when granted, final permits to expand are often not approved until the remaining permitted disposal capacity of a landfill is very low. Local laws and ordinances also may affect our ability to obtain permits to expand landfills. If we were to exhaust our permitted capacity at a landfill, our ability to expand internally would be limited, and we could be required to cap and close that landfill and forced to dispose of collected waste at more distant landfills or at landfills operated by our competitors. The resulting increased costs would reduce our operating margins.

OUR ACCRUALS FOR OUR LANDFILL CLOSURE AND POST-CLOSURE COSTS MAY BE INADEQUATE, AND OUR EARNINGS WOULD BE LOWERED IF WE ARE REQUIRED TO PAY ADDITIONAL AMOUNTS.

We may be required to pay closure and post-closure costs of landfills and any disposal facilities that we own or operate. We accrue for future closure and post-closure costs of our owned landfills, generally for a term of 30 years after final closure of a landfill, based on engineering estimates of consumption of permitted landfill airspace over the useful life of the landfill. Our obligations to pay closure or post-closure costs may exceed the amount we accrued and reserved and other amounts available from funds or reserves established to pay

such costs. Paying additional amounts would lower our earnings and could cause our stock price to decline.

WE MAY INCUR ADDITIONAL CHARGES RELATED TO CAPITALIZED EXPENDITURES, WHICH WOULD LOWER OUR EARNINGS.

In accordance with accounting principles generally accepted in the United States, we capitalize some expenditures and advances relating to acquisitions, pending acquisitions and landfill development projects. We expense indirect acquisition costs such as executive salaries, general corporate overhead, public affairs and other corporate services as we incur those costs. We charge against earnings any unamortized capitalized expenditures and advances (net of any amount that we estimate we will recover, through sale or otherwise) that relate to any operation that is permanently shut down, any pending acquisition that is not consummated and any landfill development project that we do not expect to complete. Therefore, Waste Connections may incur charges against earnings in future periods, which could lower our stock price.

WE MAY BE REQUIRED TO WRITE OFF ALL OR PART OF OUR GOODWILL OR TO ADJUST ITS AMORTIZATION PERIOD, WHICH WOULD ADVERSELY AFFECT OUR OPERATING RESULTS AND NET WORTH.

We continually evaluate the value and future benefits of our intangible assets, including goodwill. We assess recoverability from future operations using cash flows and income from operations of the related acquired business as measures. If we are required to write off all or part of the goodwill associated with some of our acquisitions, or to adjust its amortization period, our operating results and net worth would be adversely affected. For example, as of June 30, 2001, our goodwill exceeded our total stockholders' equity.

IF WE FAIL TO COMPLY WITH COVENANTS AND CONDITIONS OF OUR CREDIT FACILITY, WE MAY BE UNABLE TO MAKE ACQUISITIONS AND MAY BE REQUIRED TO REPAY OUR DEBT EARLY, WHICH COULD HARM OUR FINANCIAL RESULTS.

Our credit facility requires us to obtain the consent of the lending banks before acquiring any other business for more than $25 million in cash and assumed debt. If we are not able to obtain our banks' consent to acquisitions of this size, we may not be able to complete them, which could inhibit our growth. Our credit facility also contains financial covenants based on our current and projected financial condition after completing an acquisition. If we cannot satisfy these financial covenants on a pro forma basis after completing an acquisition, we would not be able to complete the acquisition without a waiver from our lending banks. Whether or not a waiver is needed, if the results of our future operations differ materially from what we expect, we may no longer be able to comply with the covenants in the credit facility. Our failure to comply with these covenants may result in a default under the credit facility, which would allow our lending banks to accelerate the date for repayment of debt incurred under the credit facility and could harm our business and financial results.

PROVISIONS IN OUR CHARTER AND BYLAWS MAY DETER CHANGES IN CONTROL THAT COULD BENEFIT OUR STOCKHOLDERS.

Provisions in our Certificate of Incorporation and By-Laws, and in the Delaware General Corporation Law, may deter tender offers and hostile takeovers and delay or prevent changes in control or management of Waste Connections, including transactions in which stockholders might be paid more than current market prices for their shares. These provisions may also limit our stockholders' ability to approve transactions that they believe are in their best interests.

RISKS RELATED TO OUR INDUSTRY

EXTENSIVE AND EVOLVING ENVIRONMENTAL LAWS AND REGULATIONS MAY RESTRICT OUR OPERATIONS AND GROWTH AND INCREASE OUR COSTS.

Environmental laws and regulations have been enforced more and more stringently in recent years because of greater public interest in protecting the environment. These laws and regulations impose substantial costs on us and affect our business in many ways, including as described below. In addition, federal, state and local governments may change the rights they grant to and the restrictions they impose on solid waste services companies, and those changes could restrict our operations and growth.

- WE MAY BE UNABLE TO OBTAIN AND MAINTAIN LICENSES OR PERMITS AND ZONING, ENVIRONMENTAL AND/OR OTHER LAND USE APPROVALS THAT WE NEED TO OWN AND OPERATE OUR LANDFILLS.

  These licenses or permits and approvals are difficult and time-consuming to obtain and renew, and elected officials and citizens' groups frequently oppose them. Failure to obtain and maintain the permits and approvals we need to own or operate landfills (including increasing their capacity) could increase our disposal costs and reduce our operating margins.

- EXTENSIVE REGULATIONS THAT GOVERN THE DESIGN, OPERATION AND CLOSURE OF LANDFILLS MAY RESTRICT OUR LANDFILL OPERATIONS OR INCREASE OUR COSTS OF OPERATING LANDFILLS.

  These regulations include the regulations that establish minimum federal requirements adopted by the U.S. Environmental Protection Agency in October 1991 under Subtitle D of the Resource Conservation and Recovery Act of 1976. If we fail to comply with these regulations, we could be required to undertake investigatory or remedial activities, curtail operations or close a landfill temporarily or permanently. Future changes to these regulations may require us to modify, supplement or replace equipment or facilities at substantial costs. If regulatory agencies fail to enforce these regulations vigorously or consistently, our competitors whose facilities do not comply with the Subtitle D regulations or their state counterparts may obtain an advantage over us. Our financial obligations arising from any failure to comply with these regulations could harm our business and earnings.

- WE MAY BE SUBJECT IN THE NORMAL COURSE OF BUSINESS TO JUDICIAL AND ADMINISTRATIVE PROCEEDINGS INVOLVING FEDERAL, STATE OR LOCAL AGENCIES OR

CITIZENS' GROUPS, WHICH COULD INTERRUPT OUR OPERATIONS, REQUIRE EXPENSIVE REMEDIATION, AND CREATE NEGATIVE PUBLICITY.

Governmental agencies may impose fines or penalties on us. They may also attempt to revoke or deny renewal of our operating permits, franchises or licenses for violations or alleged violations of environmental laws or regulations, or to require us to remediate potential environmental problems relating to waste that we or our predecessors collected, transported, disposed of or stored. Individuals or community groups might also bring actions against us in connection with our operations. Any adverse outcome in these proceedings could harm our operations and financial results and create adverse publicity about Waste Connections, which could damage our competitive position and stock price.

- LIABILITIES FOR ENVIRONMENTAL DAMAGE MAY ADVERSELY AFFECT OUR BUSINESS AND EARNINGS.

We are liable for any environmental damage that our solid waste facilities cause, including damage to neighboring landowners or residents, particularly as a result of the contamination of soil, groundwater or surface water, and especially drinking water. We

14

15

may be liable for damage resulting from conditions existing before we acquired these facilities. We may also be liable for any off-site environmental contamination caused by pollutants or hazardous substances whose transportation, treatment or disposal that we or our predecessors arranged. Any substantial liability for environmental damage could harm our business and earnings.

FLUCTUATIONS IN PRICES FOR RECYCLED COMMODITIES THAT WE SELL MAY CAUSE OUR REVENUES AND OPERATING RESULTS TO DECLINE.

We provide recycling services to some of our customers. The sale prices of and demand for recyclable waste products, particularly wastepaper, are frequently volatile and when they decline our revenues and operating results may decline.

RISKS RELATED TO THE NOTES AND THE OFFERING

OUR INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION; WE MAY INCUR SUBSTANTIALLY MORE DEBT BY INCREASING OUR COSTS AND LIMITING OUR ABILITY TO TAKE ACTIONS THAT WOULD INCREASE OUR REVENUE AND EXECUTE OUR GROWTH STRATEGY.

As of June 30, 2001, we had approximately $382.7 million of recourse indebtedness outstanding, including $150 million in notes covered by this prospectus. Our long-term credit facility allows us to borrow up to $435 million, but bank covenant restrictions existing as of June 30, 2001, limited our maximum borrowing under the credit facility to $325 million. Our indebtedness could have important consequences to you. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;

- limit our ability to obtain additional financing;

- require the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, our indebtedness, thereby reducing the availability of cash flow to fund our growth strategy, working capital, capital expenditures and other general corporate purposes;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry; and

- place us at a competitive disadvantage relative to our competitors with less debt.

We may incur substantial additional debt in the future. Neither the terms of our credit facility nor the terms of the notes fully prohibit us from doing so. If new debt is added to our current levels, the related risks described above could intensify.

WE MAY HAVE INSUFFICIENT CASH FLOW TO MEET OUR OBLIGATIONS TO PAY INTEREST AND PRINCIPAL WHEN DUE ON THE NOTES, RESULTING IN A DEFAULT.

We are required to generate cash sufficient to pay all amounts due on the notes and to conduct our business operations. As of June 30, 2001, our debt service obligations for the following 12 months were approximately $33.6 million. We may not be able to cover our anticipated debt service obligations. This may materially hinder our ability to make payments of interest and principal on the notes. Our ability to meet our future debt service obligations will depend upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control.

THE NOTES ARE SUBORDINATED TO SENIOR INDEBTEDNESS, SO THAT IN THE EVENT OF A DEFAULT, OUR SENIOR INDEBTEDNESS WOULD BE REPAID IN FULL BEFORE ANY PAYMENT IS MADE ON THE NOTES.

The notes are unsecured and subordinated in right of payment to all of our existing and future Senior Indebtedness, as defined in the "Description of Notes -- Subordination" section of this prospectus. As a result, in the event of bankruptcy, liquidation or reorganization or upon acceleration of the notes due to an event of default, as defined below, and in specific other events, our assets will be available to pay obligations on the notes only after all Senior Indebtedness has been paid in full in cash or other payment satisfactory to the holders of Senior Indebtedness. There may not be sufficient assets remaining to pay amounts due on any or all of the notes then outstanding. The notes are also effectively subordinated to the indebtedness and other liabilities, including trade payables, of our subsidiaries. The indenture does not prohibit or limit the incurrence of Senior Indebtedness or the incurrence of other indebtedness and other liabilities by us. Our credit facility provides for borrowing of up to $435 million. Our incurring additional indebtedness and other liabilities could adversely affect our ability to pay our obligations on the notes. As of June 30, 2001, we had approximately $232.7 million of indebtedness constituting Senior Indebtedness to which the $150 million in notes covered by this prospectus are subordinated in right of payment. We anticipate that from time to time, we and our subsidiaries will incur additional indebtedness, including Senior Indebtedness.

WE MAY REDEEM SOME OR ALL OF THE NOTES AT ANY TIME BEGINNING ON APRIL 15, 2004, AND MAY DO SO AT PRICES AND TIMES DISADVANTAGEOUS TO NOTE HOLDERS.

We have the right to redeem some or all of the notes at specified prices on or after April 15, 2004. Depending on the market price of our common stock and the outlook for our business, those redemptions may occur at prices and times disadvantageous to the note holders.

WE MAY NOT BE ABLE TO REPURCHASE THE NOTES IN THE EVENT OF A CHANGE IN CONTROL, RESULTING IN A DEFAULT.

Upon the occurrence of certain change in control events, holders of the notes may require us to offer to repurchase all of their notes. We may not have sufficient funds at the time of the change in control to make the required repurchases. Additionally, a change in control would be an event of default under our credit facility, which would permit the lenders to accelerate the debt, which could also cause an event of default under the indenture.

The source of funds for any repurchase required as a result of any change in control will be our available cash or cash generated from operating activities or other sources, including borrowings, sales of assets, sales of equity or funds provided by a new controlling entity. Sufficient funds may not be available at the time of any change in control to make any required repurchases of the notes tendered. Furthermore, if we use available cash to fund note repurchases upon a change in control, we may be unable to obtain additional financing in the future.

THERE IS NO CURRENT MARKET FOR THE NOTES, AND IT IS UNCERTAIN WHETHER AN ACTIVE TRADING MARKET WILL DEVELOP. LACK OF AN ACTIVE MARKET FOR THE NOTES MAY CAUSE THEIR PRICE TO DECLINE.

There is no established trading market for the notes, and a market for the notes may not develop or, if developed, be maintained. We do not intend to apply to list the notes for trading on any securities exchange. If an active market for the notes fails to develop or be maintained, their price may decline. Furthermore, if a market were to develop, the market price for the notes may be adversely affected by changes in our financial performance, changes in the overall market for similar securities and performance or prospects for companies in our industry.

THE NET TANGIBLE BOOK VALUE PER SHARE OF OUR COMMON STOCK WILL BE LESS THAN THE CONVERSION PRICE PER SHARE OF THE COMMON STOCK ISSUED ON CONVERSION OF THE NOTES.

Net tangible book value represents the amount of our total tangible assets less total liabilities. Upon conversion of the notes into shares of common stock, holders of those notes will suffer immediate substantial dilution in the net tangible book value per share of the common stock issued upon the conversion.

OUR STOCK PRICE HAS BEEN AND IS LIKELY TO CONTINUE TO BE VOLATILE, WHICH MAY MAKE IT DIFFICULT FOR YOU TO RESELL THE NOTES OR THE COMMON STOCK INTO WHICH THE NOTES ARE CONVERTIBLE WHEN YOU WANT AT PRICES YOU FIND ATTRACTIVE.

The trading price of our common stock has been and is likely to be volatile. Our stock price could be subject to wide fluctuations in response to a variety of factors, including:

- actual or anticipated variations in quarterly operating results;

- changes in financial estimates by securities analysts;

- conditions or trends in the solid waste services industry;

- changes in the economic performance and/or market valuations of other solid waste services companies and the solid waste services industry in general;

- our announcement of significant acquisitions or capital commitments;

- adverse or unfavorable publicity regarding us or our services;

- additions or departures of key personnel;

- sales of common stock; and

- other events or factors that may be beyond our control.

In addition, the stock markets in general and The Nasdaq National Market in particular have experienced extreme price and volume volatility and a significant cumulative decline in recent months. Such volatility and decline have affected many companies irrespective of or disproportionately to their operating performance. These broad market and industry factors may cause the market price of our common stock to decline materially, regardless of our actual operating performance.

USE OF PROCEEDS

We received proceeds of approximately $144.4 million from our private placement of the notes, net of approximately $5.6 million attributable to the initial purchaser's discount and other expenses of the offering. We used the net proceeds to repay a portion of our outstanding indebtedness under our credit facility and related costs. We reduced the balance under our credit facility from approximately $333.7 million to approximately $189.3 million. The weighted-average interest rate on the debt repaid was 8.7% per annum. We will not receive any proceeds from the future sale of the notes or the common stock into which the notes are convertible. The selling holders will receive all of the net proceeds from the future sale of the notes and the common stock into which the notes are convertible, which they respectively own.

PRICE RANGE OF COMMON STOCK

Our common stock trades on The Nasdaq National Market under the symbol "WCNX." The following table sets forth, for the periods indicated, the high and low sales prices per share for our common stock, as reported on The Nasdaq National Market for the periods indicated.

	HIGH	LOW
1999		
First Quarter	$24.00	$16.50
Second Quarter	32.13	22.00
Third Quarter	31.00	19.13
Fourth Quarter	20.94	10.88
2000		
First Quarter	$14.94	$ 9.25
Second Quarter	19.75	9.75
Third Quarter	25.94	17.13
Fourth Quarter	35.25	21.69
2001		
First Quarter	$33.50	$23.00
Second Quarter	37.31	25.70
Third Quarter (July 1 through September 4)	$34.90	$29.00

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On September 4, 2001, the last reported sale price of our common stock as reported on The Nasdaq National Market was $32.12 per share. On September 4, 2001, there were approximately 76 holders of record of our common stock.

DIVIDEND POLICY

We have never paid cash dividends on our common stock. We do not currently anticipate paying any cash dividends on the common stock. We intend to retain all earnings to fund the operation and expansion of our business. In addition, our existing credit facility restricts the payment of cash dividends.

SELLING HOLDERS

We originally issued the notes and the notes were sold by the initial purchaser in a transaction exempt from the registration requirements of the Securities Act to persons reasonably believed by the initial purchaser to be qualified institutional buyers as defined by Rule 144A under the Securities Act. Selling holders, including their transferees, pledgees or donees or their successors, may from time to time offer and sell pursuant to this prospectus any or all of the notes and common stock into which the notes are convertible. We agreed to use reasonable efforts to keep the registration statement covering the notes and the common stock into which the notes are convertible effective until April 4, 2003. Our registration of the notes and the shares of common stock into which the notes are convertible does not necessarily mean that the selling holders will sell any or all of the notes or the shares of the common stock into which the notes are convertible.

The following table sets forth information, as of September 4, 2001, with respect to the selling holders and the principal amounts of notes beneficially owned by each selling holder that may be offered under this prospectus. The information is based on information provided by or on behalf of the selling holders. The selling holders may offer all, some or none of the notes or common stock into which the notes are convertible. Because the selling holders may offer all or some portion of the notes or the common stock, no estimate can be given as to the amount of the notes or the common stock that will be held by the selling holders upon termination of any sales. In addition, the selling holders identified below may have sold, transferred or otherwise disposed of all or a portion of their notes since the date on which they provided the information regarding their notes in transactions exempt from the registration requirements of the Securities Act.

Each selling holder proposes to sell up to all of the common stock issuable to that holder upon conversion of the notes.

SELLING HOLDER	PRINCIPAL AMOUNT OF NOTES BENEFICIALLY OWNED AND OFFERED	COMMON STOCK UPON CONV OF THE NO
Deutsche Banc Alex Brown Inc.	$ 17,700,000	465,
Kentfield Trading, Ltd.	14,040,000	369,
Leonardo, LP	11,500,000	302,
CALAMOS Market Neutral Fund -- CALAMOS Investment Trust	6,905,000	181,
Highbridge International LLC	6,000,000	157,

Lipper Convertibles, LP....................................	6,000,000	157,
JMG Triton Offshore FD, Ltd................................	5,000,000	131,
Deephaven Domestic Convertible Trading Ltd.................	4,600,000	120,
MSD Portfolio L.P. -- Investments..........................	4,000,000	105,
Double Black Diamond Offshore LDC..........................	3,933,000	103,
Chrysler Corporation Master Retirement Trust...............	3,720,000	97,
TD Securities (USA) Inc....................................	3,500,000	92,
Vanguard Convertible Securities Fund, Inc..................	3,255,000	85,
JMG Capital Partners, LP...................................	3,000,000	78,
State of Connecticut Combined Investment Funds.............	2,805,000	73,
CALAMOS Convertible Fund -- CALAMOS Investment Trust........	2,750,000	72,
CALAMOS Convertible Growth and Income Fund -- CALAMOS Investment Trust..	2,250,000	59,
OCM Convertible Trust......................................	2,155,000	56,
Argent Classic Convertible Arbitrage Fund (Bermuda) Ltd.....	2,150,000	56,
Argent Convertible Arbitrage Fund Ltd......................	2,000,000	52,
South Dakota Retirement System.............................	2,000,000	52,
TQA Master Plus Fund, Ltd..................................	2,000,000	52,
ACM Offshore Fund..	1,715,000	45,
D.E. Shaw Valence, LP......................................	1,600,000	42,
Alta Partners Holdings, LDC................................	1,500,000	39,

SELLING HOLDER	PRINCIPAL AMOUNT OF NOTES BENEFICIALLY OWNED AND OFFERED	COMMON STOCK UPON CONV OF THE NO
Bear, Stearns & Co. Inc....................................	1,500,000	39,
White River Securities LLC.................................	1,500,000	39,
Zazore Hedged Convertible Fund LP..........................	1,500,000	39,
State Employees' Retirement Fund of the State of Delaware...	1,475,000	38,
Clinton Multistrategy Master Fund, Ltd.	1,250,000	32,
Clinton Riverside Convertible Portfolio Limited............	1,250,000	32,
McMahan Securities Co. LP..................................	1,150,000	30,
Argent Classic Convertible Arbitrage Fund L.P..............	1,000,000	26,
KBC Financial Products USA.................................	1,000,000	26,
San Diego County Employee Retirement Association............	1,000,000	26,
Zurich Institutional Benchmarks Master Fund LP..............	1,000,000	26,
American Motorist Insurance Company........................	900,000	23,
Delta Air Lines Master Trust...............................	860,000	22,
Black Diamond Offshore Ltd.................................	856,000	22,
AAM/Zazore Institutional Income Fund LP....................	800,000	21,
Consulting Group Capital Markets Funds.....................	660,000	17,
Partner Reinsurance Company Ltd............................	505,000	13,
Delta Pilots Disability and Survivorship Trust..............	425,000	11,
D.E. Shaw Investments, LP..................................	400,000	10,
Clarica Life Insurance Co. -- U.S.	350,000	9,
Alpha US Sub Fund VIII, LLC................................	300,000	7,
Motion Picture Industry Health Plan -- Active Member Fund...	300,000	7,
BP Amoco PLC, Master Trust.................................	286,000	7,
Worldwide Transactions Ltd.................................	211,000	5,
HFR Zazore Master Trust....................................	200,000	5,
HFR Arbitrage Fund...	160,000	4,
CALAMOS Convertible Portfolio -- CALAMOS Advisors Trust.....	135,000	3,
Southdown Pension Plan.....................................	130,000	3,
City of Albany Pension Plan................................	125,000	3,

Motion Picture Industry Health Plan -- Retiree Member Fund	120,000	3,
SCI Endowment Care Common Trust Fund -- National Fiduciary Services	120,000	3,
Hotel Union & Hotel Industry of Hawaii	107,000	2,
Kettering Medical Center Funded Depreciation Account	85,000	2,
National Fuel & Gas Co. Retirement Plan	50,000	1,
SCI Endowment Care Common Trust Fund -- Suntrust	50,000	1,
Drury University	45,000	1,
SCI Endowment Care Common Trust Fund -- First Union	45,000	1,
The Estate of James Campbell	41,000	1,
James Campbell Corporation	31,000	
PGEP IV, LLC	20,000	
Viacom Inc. Pension Plan Master Trust	12,000	
Jefferies & Company Inc	3,000	
All other holders	12,135,000	319,
	$150,000,000	3,944,

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(1) Assumes a conversion rate of approximately 26.2985 shares of common stock per $1,000 principal amount of notes and a cash payment in lieu of any fractional interest.

None of the selling holders nor any of their affiliates, officers, directors or principal equity holders has held any position or office or has had any material relationship with us within the past three years. The selling holders purchased all of the notes in a private transaction. All of the notes and the shares of common stock into which the notes are convertible are "restricted securities" under the Securities Act.

20

21

Information concerning the selling holders may change from time to time and any changed information will be set forth in post-effective amendments to the registration statement of which this prospectus is a part if and when necessary. In addition, the conversion price, and therefore the number of shares of common stock issuable upon conversion of the notes, is subject to adjustment. Accordingly, the aggregate principal amount of notes and the number of shares of common stock into which the notes are convertible may increase or decrease.

PLAN OF DISTRIBUTION

The selling holders and their successors, including their transferees, pledgees, or donees or their successors, may sell the notes and the common stock into which the notes are convertible directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions from the selling holders or the purchasers. These discounts, concessions or commissions as to any particular underwriter, broker-dealer or agent may be in excess of those customary in the types of transactions involved.

The notes and the common stock into which the notes are convertible may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market prices, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions:

- on any national securities exchange or U.S. inter-dealer system of a registered national securities association on which the notes or the common stock may be listed or quoted at the time of sale;

- in the over-the-counter market;

- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;

- through the writing of options, whether the options are listed on an options exchange or otherwise;

- by pledge to secure debts and other obligations;

- through the settlement of short sales; or

- a combination of any of the above transactions.

In connection with the sale of the notes and the common stock into which the notes are convertible or otherwise, the selling holders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the notes or the common stock into which the notes are convertible in the course of hedging the positions they assume. The selling holders may also sell the notes or the common stock into which the notes are convertible short and deliver these securities to close out their short positions, or loan or pledge the notes or the common stock into which the notes are convertible to broker-dealers that in turn may sell these securities.

The aggregate proceeds to the selling holders from the sale of the notes or common stock into which the notes are convertible offered by them will be the purchase price of the notes or common stock less discounts and commissions, if any. Each of the selling holders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of notes or common stock to be made directly or through agents. We will not receive any of the proceeds from this offering.

Our outstanding common stock is listed for trading on The Nasdaq National Market. We do not intend to list the notes for trading on any national securities exchange or on The Nasdaq National Market and a trading market for the notes might not develop.

To comply with the securities laws of some states, the notes and common stock into which the notes are convertible may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the notes and common stock into which the notes are convertible may not be sold unless they have been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

The selling holders and any underwriters, broker-dealers or agents that participate in the sale of the notes and common stock into which the notes are convertible may be "underwriters" within the meaning of Section 2(11) of the Securities Act. By virtue of being registered broker-dealers, the following shareholders are underwriters within the meaning of Section 2(11) of the Securities Act: Deutsche Banc Alex. Brown Inc., TD Securities (USA), Inc., D.E. Shaw Valence, LP, Bear Stearns & Co. Inc., White River Securities LLC, McMahan Securities Co. LP and D.E. Shaw Investments, LP. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling holders who are "underwriters" within the meaning of Section of 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. The selling holders have acknowledged that they understand their obligations to comply with the provisions of the Exchange Act and the rules thereunder relating to stock manipulation, particularly Regulation M.

In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than pursuant to this prospectus. A selling holder may not sell, transfer, make a gift of, or otherwise dispose of any notes or common stock described in this prospectus by any means other than as described in this prospectus.

To the extent required, the specific notes or common stock to be sold, the names of the selling holders, the respective purchase prices and public offering prices, the names of any agent, dealer or underwriter, and any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement of which this prospectus is a part.

We entered into a registration rights agreement for the benefit of holders of the notes to register their notes and common stock under applicable federal and state securities laws under specific circumstances and at specific times. The registration rights agreement provides for cross-indemnification of the selling holders and us and their and our respective directors, officers and controlling persons against specific liabilities in connection with the offer and sale of the notes and the common stock, including liabilities under the Securities Act.

A prospectus has not been and will not be filed under the securities laws of any province or territory of Canada to qualify the sale of notes in such jurisdictions. The notes are not being offered and may not be offered or sold, directly or indirectly, in Canada or to or for the account of any resident of Canada except in compliance with or pursuant to an exemption from the registration and prospectus requirements of applicable securities laws in Canada.

DESCRIPTION OF NOTES

The notes were issued under an indenture between Waste Connections, Inc. and State Street Bank and Trust Company of California, N.A., as Trustee. The following description is only a summary of the material provisions of the indenture, the notes and the registration rights agreement. We urge you to read the indenture, the notes and the registration rights agreement in their entirety because they, and not this description, define your rights as holders of the

22

23

notes. You may request copies of these documents at our address shown under the caption "Where You Can Find More Information." The terms of the notes include those stated in the Indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended. For purposes of this section, references to "we," "us," "ours" and "Waste Connections" include only Waste Connections, Inc. and not its subsidiaries.

GENERAL

We issued the notes with a principal amount of $150,000,000. The notes are unsecured, subordinated obligations of Waste Connections and will mature on April 15, 2006, unless earlier redeemed at our option or repurchased by us at a holder's option upon a change in control of Waste Connections. Interest on the notes will accrue at the rate of 5 1/2% per annum and will be payable semiannually in arrears on April 15 and October 15 of each year, commencing on October 15, 2001. Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. We will make each interest payment to the parties that were holders of record of the notes on the immediately preceding April 1 and October 1, whether or not that day was a business day. Interest on the notes will be computed on the basis of a 360-day year comprised of 12 30-day months. The indenture does not contain any restriction on:

- the payment of dividends;
- the issuance of Senior Indebtedness (as defined below) or other indebtedness; or
- the repurchase of securities of Waste Connections

and does not contain any financial covenants. Other than as described below the indenture contains no covenants or other provisions to afford protection to holders of notes in the event of a highly leveraged transaction or a change in control of Waste Connections. See "-- Optional Redemption of the Notes" and "-- Right to Require Purchase of Notes upon a Change in Control."

We will pay the principal of, premium, if any, and interest on the notes at the office or agency maintained by us in the Borough of Manhattan in New York City. Holders may register the transfer of their notes at the same location. We reserve the right to pay interest to holders of the notes by check mailed to the holders at their registered addresses. Except under the limited circumstances described below, the notes will be issued only in fully registered book-entry form, without coupons, and will be represented by one or more global notes. There will be no service charge for any registration of transfer or exchange of notes. We may, however, require holders to pay a sum sufficient to cover any tax or other governmental charge payable in connection with any transfer or exchange.

CONVERSION RIGHTS

A holder may, at any time on or before the close of business on the maturity date, convert a note or any portion of a note (if the portions are $1,000 or whole multiples of $1,000) into shares of common stock initially at a conversion price of $38.03 per share (which is equivalent to a conversion rate of approximately 26.2985 shares per $1,000 principal amount of notes), unless the note or a portion of the note has been previously redeemed or repurchased. The right to convert a note called for redemption will terminate at the close of business on the business day immediately preceding the date fixed for redemption, unless we default in making the payment due on the redemption date. If a holder of a note has delivered notice of its election to have the note repurchased as a result of a change in control, the note may be converted only if the notice of election is withdrawn as described under "-- Right to Require Purchase of Notes upon a Change in Control." See "-- Optional Redemption of the Notes."

We will adjust the conversion price if (without duplication):

(1) we issue common stock as a dividend or distribution on our common stock;

(2) we subdivide, combine or reclassify our common stock;

(3) we issue to substantially all holders of our common stock rights,

warrants or options entitling them to subscribe for or purchase common stock at less than the then current market price;

(4) we distribute to substantially all holders of common stock evidences of our indebtedness, shares of capital stock (other than common stock), securities, cash, property, rights, warrants or options, excluding:

- those rights, warrants or options referred to in clause (3) above;

- any dividend or distribution paid exclusively in cash not referred to in clause (5) below; and

- any dividend or distribution referred to in clause (1) above;

(5) we make a cash distribution to substantially all holders of our common stock that together with all other all-cash distributions and consideration payable in respect of any tender or exchange offer by us or one of our subsidiaries for our common stock made within the preceding 12 months exceeds 10% of our aggregate market capitalization on the date of the distribution; or

(6) we complete a repurchase (including by way of a tender offer) of our common stock that involves an aggregate consideration that, together with:

- any cash and other consideration payable in respect of any tender or exchange offer by us or one of our subsidiaries for our common stock concluded within the preceding twelve months; and

- the amount of any all-cash distributions to all holders of our common stock made within the preceding 12 months;

exceeds 10% of our aggregate market capitalization on the expiration of the tender or exchange offer.

The conversion price will not be adjusted until adjustments amount to 1% or more of the conversion price as last adjusted. We will carry forward any adjustment we do not make and will include it in any future adjustment.

If our common stock is converted into the right to receive other securities, cash or other property as a result of reclassifications, consolidations, mergers, sales or transfers of assets or other transactions, each note then outstanding would, without the consent of any holders of notes, become convertible only into the kind and amount of securities, cash and other property receivable upon the transaction by a holder of the number of shares of common stock which would have been received by a holder immediately prior to the transaction if the holder had converted the note.

We will not issue fractional shares of common stock to a holder who converts a note. In lieu of issuing fractional shares, we will pay cash based upon the market price.

Except as described in this paragraph, no holder of notes will be entitled, upon conversion of the notes, to any actual payment or adjustment on account of accrued and unpaid interest or on account of dividends on shares of common stock issued in connection with the conversion. If any holder surrenders a note for conversion between the close of business on any record date for the payment of an installment of interest and the opening of business on the related interest payment date the holder must deliver payment to us of an amount equal to the interest payable on the interest payment date on the principal amount converted together with the note being surrendered. The foregoing sentence will not apply to notes called for redemption on a redemption date within the period between and including the record date and interest payment date.

If we make a distribution of property to our stockholders which would be taxable to them as a dividend for federal income tax purposes and the conversion price of the notes is reduced, this reduction may be deemed to be the receipt of taxable income to holders of the notes.

In addition, we may make any reductions in the conversion price that our board of directors deems advisable to avoid or diminish any income tax to holders of our common stock resulting from any dividend or distribution of stock, or rights to acquire stock, or from any event treated as such for income tax purposes or for any other reasons.

SUBORDINATION

The payment of the principal or, premium, if any, and interest on the notes will be subordinated in right of payment to the prior payment in full of all our Senior Indebtedness to the extent described below. The holders of all Senior Indebtedness will first be entitled to receive payment in full of all amounts due or to become due on the Senior Indebtedness, or provision for payment in money or money's worth, before the holders of the notes will be entitled to receive any payment in respect of the notes, when there is a payment or distribution of assets to creditors upon our:

- liquidation;

- dissolution;

- winding up;

- reorganization;

- assignment for the benefit of creditors;

- marshaling of assets;

- bankruptcy;

- insolvency; or

- similar proceedings.

In addition, because our subsidiaries are not obligated under the notes, the notes will be effectively subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

No payments on account of the notes or on account of the purchase or acquisition of notes may be made if a default in any payment with respect to Senior Indebtedness has occurred and is continuing. If (1) there is a default on any designated Senior Indebtedness other than a payment default that occurs that permits the holders of that designated Senior Indebtedness to accelerate its maturity and (2) the Trustee and Waste Connections receive the notice required by the indenture, no payments may be made on the notes for up to 180 days in any 365-day period unless the default is cured or waived. By reason of this subordination, in the event of our insolvency, holders of the notes may recover less ratably than holders of our Senior Indebtedness.

Payments on the notes may and shall be resumed, in the case of a payment default, upon the date on which that default is cured or waived, and in the case of a non-payment default, upon the earliest of:

- the date on which that non-payment default is cured or waived,

- 180 days after the date on which the applicable payment blockage notice is received, or

- the date on which the payment blockage period is terminated by written notice from the representative of the Senior Indebtedness to the Trustee and Waste Connections, unless a payment default has occurred and is continuing.

Only one payment blockage period may be commenced within any 365-day period. No event of default with respect to designated Senior Indebtedness that existed or was continuing at the commencement of any payment blockage period with respect to that designated Senior Indebtedness can be the basis for the commencement of a second payment blockage period whether or not within a period of 365 days, unless that event of default was cured or waived for at least 90 days. No payment blockage period may extend beyond 180 days.

No action may be taken to declare the notes due and payable nor may any judicial or other proceedings to collect the notes be initiated during any standstill period. A standstill period commences on the occurrence of a payment default or the date on which Waste Connections and the Trustee receive notice of a payment blockage period and continues until:

- the date on which the default is cured or waived,

- holders of Senior Indebtedness take action to declare the Senior Indebtedness due and payable or take certain actions to collect the Senior Indebtedness,

- the date on which the Senior Indebtedness becomes automatically due and payable,

- the occurrence of a bankruptcy, insolvency or reorganization of Waste Connections or a significant subsidiary of Waste Connections or

- 120 days after a payment default or 180 days after a payment blockage notice is given.

The Trustee or the holders of the notes must give the agent for holders of Senior Indebtedness at least five business days' prior written notice of any intent to declare the notes due and payable or to make any other amount owing under the indenture due and payable.

"Senior Indebtedness" means:

- the principal of and premium, if any, and interest on, and fees, costs, enforcement expenses, collateral protection expenses and other reimbursement or indemnity obligations in respect of all of our indebtedness or obligations to any person for money borrowed that is evidenced by a note, bond, debenture, loan agreement, or similar instrument or agreement including default interest and interest accruing after a bankruptcy;

- commitment or standby fees due and payable to lending institutions with respect to credit facilities available to us;

- all of our noncontingent obligations (1) for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction, (2) under interest rate swaps, caps, collars, options, and similar arrangements, and (3) under any foreign exchange contract, currency swap agreement, futures contract, currency option contract or other foreign currency hedge;

- all of our obligations for the payment of money relating to capitalized lease obligations;

- any liabilities of others described in the preceding clauses that we have guaranteed or which are otherwise our legal liability; and

- renewals, extensions, refundings, refinancings, restructurings, amendments and modifications of any such indebtedness or guarantee, other than any indebtedness or other obligation of ours that by its terms is not superior in right of payment to the notes.

"Designated Senior Indebtedness" means our obligations under our revolving credit facility and any particular Senior Indebtedness in which the instrument creating or evidencing it or the assumption or guarantee of it, or related agreements or documents to which we are a party, expressly provides that that indebtedness will be designated Senior Indebtedness for purposes of the indenture. The instrument, agreement or other document evidencing any designated Senior Indebtedness may place limitations and conditions of the right of that senior debt to exercise the rights of designated Senior Indebtedness.

As of June 30, 2001, we had approximately $232.7 million of indebtedness constituting Senior Indebtedness. We expect from time to time to incur additional indebtedness. The indenture does not limit or prohibit us from incurring additional Senior Indebtedness or other debt. See "Risk Factors -- Risks Related to the Notes and the Offering -- We may not be able to repurchase the notes in the event of a change in control."

OPTIONAL REDEMPTION OF THE NOTES

At any time on or after April 15, 2004, with the consent of the lenders under our credit facility, we may redeem the notes in whole, or from time to time, in part, at our option on at least 30 days' notice. The redemption price, expressed as a percentage of the principal amount, will be as follows:

REDEMPTION PERIOD	REDEMPTION PRICE
April 15, 2004 through April 14, 2005..................	102.2%
April 15, 2005 through April 14, 2006..................	101.1%

and 100% of the principal amount on or after April 15, 2006.

Our decision whether to redeem the notes will be based on our balance sheet at the time. If we have available capital, either through cash flow from operations or from an external financing source that offers a lower cost of capital, we will consider redeeming the notes.

If we opt to redeem less than all of the notes at any time, the Trustee will select or cause to be selected the notes to be redeemed by any method that it deems fair and appropriate. In the event of a partial redemption, the Trustee may provide for selection for redemption of portions of the principal amount of any note of a denomination larger than $1,000.

MANDATORY REDEMPTION

Except as described below, we are not required to make mandatory redemption of, or sinking fund payments with respect to, the notes. See "-- Right to Require Purchase of Notes upon a Change of Control,"

RIGHT TO REQUIRE PURCHASE OF NOTES UPON A CHANGE IN CONTROL

If a change in control (as defined below) occurs, each holder of notes may require that we repurchase the holder's notes on the date fixed by us that is at least 45 but no more than 60 days after we give notice of the change in control. We will repurchase the notes for an amount of cash equal to 100% of the principal amount of the notes on the date of purchase, plus accrued and unpaid interest, if any, to the date of repurchase.

"Change in control" means the occurrence of one or more of the following events:

- any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or "substantially" all of the assets of Waste Connections and its subsidiaries, taken as a whole, to any person or group of related persons, as defined in Section 13(d) of the Securities Exchange Act of 1934;

- the approval by the holders of capital stock of Waste Connections of any plan or proposal for the liquidation or dissolution of Waste Connections (whether or not otherwise in compliance with the provisions of the applicable indenture);

- any person or group becoming the owner, directly or indirectly, beneficially or of record, of shares representing more than 50% of the aggregate ordinary voting power represented by Waste Connections' issued and outstanding voting stock of, or any successor to, all or substantially all of Waste Connections' assets; or

- the first day on which a majority of the members of Waste Connections' board of directors are not continuing directors.

The definition of change in control includes a phrase relating to the sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the assets of Waste Connections and its subsidiaries taken as a whole. Although there is a developing body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require Waste Connections to repurchase those notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Waste Connections and its subsidiaries taken as a whole to another person or group may be uncertain.

"Continuing directors" means, as of any date of determination, any member of the board of directors of Waste Connections who (1) was a member of the board of directors on the date of the original issuance of the notes or (2) was nominated for election or elected to the board of directors with the approval of a majority of the continuing directors who were members of that board at the time of that nomination or election.

On or prior to the date of repurchase, we will deposit with a paying agent an amount of money sufficient to pay the aggregate repurchase price of the notes which is to be paid on the date of repurchase.

We may not repurchase any note at any time when the subordination provisions of the indenture otherwise would prohibit us from making payments of principal in respect of the notes. If we fail to repurchase the notes when required as described above, this failure will constitute an event of default under the indenture whether or not the subordination provisions of the indenture permit repurchase.

On or before the 30th day after the change in control, we must mail to the Trustee and all note holders a notice of the change in control, stating:

- the repurchase date;

- the date by which the repurchase right must be exercised;

- the repurchase price for the notes; and

- the procedures which a note holder must follow to exercise the repurchase right.

To exercise the repurchase right, the note holder must deliver, on or before the third business day before the repurchase date, a written notice to us and the Trustee of the holder's exercise of the repurchase right. This notice must be accompanied by certificates evidencing the note or notes with respect to which the right is being exercised, duly endorsed for transfer. This notice of exercise may be withdrawn by the holder at any time on or before the close of business on the business day preceding the repurchase date.

These provisions granting the holders the right to require us to repurchase the notes upon a change in control may make it more difficult for any person or group to acquire control of us or to effect a business combination with us. Moreover, under the indenture, we will not be permitted to pay principal of or interest on, or otherwise acquire the notes, including any

repurchase at the election of the holders of notes upon a change in control, if a payment default on our Senior Indebtedness has occurred and is continuing, or if our Senior Indebtedness is not paid in full in the event of our insolvency, bankruptcy, reorganization, dissolution or other winding up. Our ability to pay cash to holders of notes following a change in control may be limited by our then existing financial resources. Sufficient funds may not be available when necessary to make any required repurchases. See "Risk Factors -- We may not be able to repurchase the notes in the event of a change in control."

If a change in control occurs and the holders exercise their rights to require us to repurchase notes, we intend to comply with applicable tender offer rules under the Exchange Act with respect to any repurchase.

The term "beneficial owner" is defined in accordance with Rules 13d-3 and 13d-5 under the Securities Exchange Act or any successor provision, except that a person will be deemed to have "beneficial ownership" of all shares that the person has the right to acquire, whether exercisable immediately or only after the passage of time.

CONSOLIDATION, MERGER AND SALE OF ASSETS

We may, without the consent of the holders of any of the notes, consolidate with or merge into any other person or convey, transfer or lease our properties and assets substantially as an entirety to, any other person, if:

- we are the resulting or surviving corporation or the successor, transferee or lessee, if other than us, is a corporation organized under the laws of any U.S. jurisdiction and expressly assumes our obligations under the indenture and the notes by means of a supplemental indenture entered into with the Trustee; and

- after giving effect to the transaction, no event of default and no event which, with notice or lapse of time, or both, would constitute an event of default, has occurred and is continuing.

Under any consolidation, merger or any conveyance, transfer or lease of our properties and assets as described in the preceding paragraph, the successor company will be our successor and will succeed to, and be substituted for, and may exercise every right and power of, Waste Connections under the indenture. Except in the case of a lease, if the predecessor still exists after the transaction, it will be released from its obligations and covenants under the indenture and the notes.

MODIFICATION AND WAIVER

We and the Trustee may enter into one or more supplemental indentures that add, change or eliminate provisions of the indenture or modify the rights of the holders of the notes with the consent of the holders of at least a majority in principal amount of the notes then outstanding. However, without the consent of each holder of an outstanding note, no supplemental indenture may, among other things:

- change the stated maturity of the principal of, or any installment of interest on, any note;

- reduce the principal amount of, or the premium or rate of interest on, any note;

- change the currency in which the principal of any note or any premium or interest is payable;

- impair the right to institute suit for the enforcement of any payment on or with respect to any note when due;

- adversely affect the right provided in the indenture to convert any note;

- modify the subordination provisions of the indenture in a manner adverse to the holders of the notes;

- modify the provisions of the indenture relating to our requirement to offer to repurchase notes upon a change in control in a manner adverse to the holders of the notes;

- reduce the percentage in principal amount of the outstanding notes necessary to modify or amend the indenture or to consent to any waiver provided for in the indenture; or

- waive a default in the payment of principal of, or any premium or interest on, any note.

The holders of a majority in principal amount of the outstanding notes may, on behalf of the holders of all notes:

- waive compliance by us with restrictive provisions of the indenture other than as provided in the preceding paragraph; and

- waive any past default under the indenture and its consequences, except a default in the payment of the principal of or any premium or interest on any note or in respect of a provision which under the indenture cannot be modified or amended without the consent of the holder of each outstanding note affected.

Without the consent of any holders of notes, we and the Trustee may enter into one or more supplemental indentures:

- to cure any ambiguity, omission, defect or inconsistency in the indenture;

- to evidence a successor to us and the assumption by the successor of our obligations under the indenture and the notes;

- to make any change that does not adversely affect the rights of any holder of the notes;

- to comply with any requirement in connection with the qualification of the indenture under the Trust Indenture Act; or

- to complete or make provision for other matters contemplated by the indenture.

EVENTS OF DEFAULT

Each of the following is an "event of default":

- a default in the payment of any interest upon any of the notes when due and payable, continued for 30 days;

- a default in the payment of the principal of and premium, if any, on any of the notes when due, including on a redemption date;

- failure to pay when due the principal of or interest on indebtedness for money borrowed by us or our subsidiaries in excess of $20.0 million, or the acceleration of that indebtedness that is not withdrawn within 15 days after the date of written notice to us by the Trustee or to us and the Trustee by the holders of at least 25% in principal amount of the outstanding notes;

- a default by us in the performance, or breach, of any of our other covenants in the indenture which are not remedied by the end of a period of 60 days after written notice to us by the Trustee or to us and the Trustee by the holders of at least 25% in principal amount of the outstanding notes; or

- events of bankruptcy, insolvency or reorganization of Waste Connections or any significant subsidiary of Waste Connections.

If an event of default described in the first four clauses above occurs and is continuing, either the Trustee or the holders of at least 25% in principal amount of the outstanding notes may declare the principal amount of and accrued interest on all notes to be immediately due and payable. This declaration may be rescinded if the conditions described in the indenture are satisfied. If an event of default of the type referred to in the fifth clause above occurs, the principal amount of and accrued interest on the outstanding notes will automatically become immediately due and payable.

"Significant subsidiary" means a "significant subsidiary" as defined in Regulation S-X under the Securities Exchange Act.

Within 90 days after a default, the Trustee must give to the registered holders of notes notice of all uncured defaults known to it. The Trustee will be protected in withholding the notice if it in good faith determines that the withholding of the notice is in the best interests of the registered holders, except in the case of a default in the payment of the principal of, or premium, if any, or interest on, any of the notes when due or in the payment of any redemption obligation.

The holders of at least a majority in principal amount of the outstanding notes may direct the time, method and place of conducting any proceedings for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee. Subject to the provisions of the indenture relating to the duties of the Trustee, if an event of default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any of the holders of the notes unless the holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due or the right to convert a note in accordance with the indenture, no holder may institute a proceeding or pursue any remedy with respect to the indenture or the notes unless it complies with the conditions in the indenture, including:

- holders of at least 25% in principal amount of the outstanding notes have requested the Trustee to pursue the remedy; and

- holders have offered the Trustee security or indemnity satisfactory, to the Trustee against any loss, liability or expense.

We are required to deliver to the Trustee annually a certificate indicating whether the officers signing the certificate know of any default by us in the performance or observance of any of the terms of the indenture. If the officers know of a default, the certificate must specify the status and nature of all defaults.

BOOK-ENTRY, DELIVERY AND FORM

We issued the notes sold in the United States in reliance on Rule 144A in the form of global notes. The global notes were deposited with, or on behalf of, the clearing agency registered under the Exchange Act that is designated to act as depositary for the notes and registered in the name of the depositary or its nominee. The DTC was the initial depositary.

Investors who are "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and who purchase notes in reliance on Rule 144A under the Securities Act may hold their interests in a global note directly through DTC if they are DTC participants, or indirectly through organizations that are DTC participants.

Except as set forth below, a global note may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

DTC has advised us that DTC is:

- a limited-purpose trust company organized under the laws of the State of New York;

- a member of the Federal Reserve System;

- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and

- a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act.

DTC was created to hold securities of institutions that have accounts with DTC and to facilitate the clearance and settlement of securities transactions among its participants in securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

Access to DTC's book-entry system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, whether directly or indirectly.

We expect that pursuant to the procedures established by DTC (1) upon the issuance of a global note, DTC will credit, on its book-entry registration and transfer system, the respective principal amount of the individual beneficial interests represented by the global note to the accounts of participants and (2) ownership of beneficial interests in a global note will be shown on, and the transfer of those ownership interests will be effected only through, records maintained by DTC (with respect to participants' interests) and the participants (with respect to the owners of beneficial interests in the global note other than participants). The accounts to be credited will be designated by the initial purchasers of the beneficial interests. Ownership of beneficial interests in a global note is limited to participants or persons that may hold interests through participants.

So long as DTC or its nominee is the registered holder and owner of a global note, DTC or its nominee, as the case may be, will be considered the sole legal owner of the notes represented by the global note for all purposes under the indenture and the notes. Except as set forth below, owners of beneficial interests in a global note will not be entitled to receive definitive notes and will not be considered to be the owners or holders of any notes under the global note. We understand that under existing industry practice, if an owner of a beneficial interest in a global note desires to take any action that DTC, as the holder of the global note, is entitled to take, DTC would authorize the participants to take the action, and that participants would authorize beneficial owners owning through the participants to take the action or would otherwise act upon the instructions of beneficial owners owning through them. No beneficial owner of an interest in a global note will be able to transfer the interest except in accordance with DTC's applicable procedures, in addition to those provided for under the indenture.

We will make payments of the principal of, and interest on, the notes represented by a global note registered in the name of and held by DTC or its nominee to DTC or its nominee, as the case may be, as the registered owner and holder of the global note.

We expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global note as shown on the records of DTC or its nominee. We also expect that payments by participants and indirect participants to owners of beneficial interests in a global note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for accounts of customers registered in the names of nominees for

these customers. The payments, however, will be the responsibility of the participants and indirect participants, and neither we, the Trustee nor any paying agent will have any responsibility or liability for:

- any aspect of the records relating to, or payments made on account of, beneficial ownership interests in a global note;

- maintaining, supervising or reviewing any records relating to the beneficial ownership interests;

- any other aspect of the relationship between DTC and its participants; or

- the relationship between the participants and indirect participants and the owners of beneficial interests in a global note.

Unless and until it is exchanged in whole or in part for definitive notes, a global note may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC.

Participants in DTC will effect transfers with other participants in the ordinary way in accordance with DTC rules and will settle transfers in same-day funds. If a holder requires physical delivery of a definitive note for any reason, including to sell notes to persons in jurisdictions which require physical delivery or to pledge notes, the holder must transfer its interest in a global note in accordance with the normal procedures of DTC and the procedures described in the indenture.

We expect that DTC will take any action permitted to be taken by a holder of notes (including the presentation of notes for exchange as described below) only at the direction of one or more participants to whose accounts at the DTC interests in a global note are credited and only in respect of the portion of the aggregate the principal amount of the notes as to which the participant or participants has or have given direction. However, if there is an event of default under the notes, DTC will exchange the global notes for definitive notes, which it will distribute to its participants. These definitive notes are subject to restrictions on registration of transfers and will bear appropriate legends restricting their transfer. Neither we nor the Trustee have any responsibility for the performance by DTC or its participants or indirect participants of its obligations under the rules and procedures governing its operations.

If DTC is at any time unwilling or unable to continue as a depositary for global notes or ceases to be a clearing agency registered under the Securities Exchange Act and we do not appoint a successor depositary within 90 days, we will issue definitive notes in exchange for the global notes. The definitive notes will be subject to restrictions on registration of transfers and will bear appropriate legends concerning these restrictions.

REGISTRATION RIGHTS

We entered into a registration rights agreement with the initial purchaser of the notes for the benefit of the holders of the notes and the common stock issuable on conversion of the notes. Under this agreement, we will, at our cost:

- on or prior to July 3, 2001, file a shelf registration statement with the SEC covering resales of the notes and the common stock issuable on conversion of the notes;

- use all reasonable efforts to cause the shelf registration statement to be declared effective under the Securities Act no later than October 1, 2001; and

- use all reasonable efforts to keep the shelf registration statement effective after its effective date for as long as required to permit sales under Rule 144(k) under the Securities Act or any successor rule or regulation.

We have the right to suspend use of the shelf registration statement, during specified periods of time relating to pending corporate developments and public filings with the SEC and similar events. If we fail to file the shelf registration statement on or prior to the 90th day after original issuance of the notes, or after the shelf registration statement has been declared effective, we fail to keep the shelf registration statement effective or usable in accordance with and during the periods specified in the registration rights agreement, then, in each case, we will pay liquidated damages to all holders of notes and all holders of common stock issued on conversion of the notes equal to 0.5% of the aggregate principal amount of notes per annum until such failure is cured.

A holder who elects to sell any securities pursuant to the shelf registration statement:

- will be required to be named as selling security holder;

- will be required to deliver a prospectus to purchasers;

- will be subject to the civil liability provisions under the Securities Act in connection with any sales; and

- will be bound by the provisions of the registration rights agreement, which are applicable, including indemnification obligations.

We refer to the notes and the common stock issuable on conversion of the notes as registrable securities. Promptly upon request from any holder of registrable securities, we will provide a form of notice and questionnaire to be completed and delivered by that holder to us at least three business days before any intended distribution of registrable securities under the shelf registration statement. If we receive from a holder of registrable securities a completed questionnaire, together with other information that we reasonably request, after the effectiveness of the shelf registration statement, we will file an amendment to the shelf registration statement, or supplement to the related prospectus, to permit the holder to deliver a prospectus to purchasers of registrable securities. Any holder that does not complete and deliver a questionnaire or provide such other information will not be named as a selling security holder in the prospectus and therefore will not be permitted to sell any registrable securities under the shelf registration statement.

GOVERNING LAW

The indenture and the notes are governed by and will be construed in accordance with the laws of the State of New York without regard to principles of conflict of laws.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 50,000,000 shares of common stock, par value $0.01 per share, and 10,000,000 shares of preferred stock, par value $0.01 per share.

COMMON STOCK

As of September 4, 2001, there were 27,263,796 shares of our common stock outstanding held of record by approximately 76 holders.

The holders of our common stock are entitled to one vote per share held on all matters submitted to a vote of our stockholders. Cumulative voting for the election of directors is not permitted. Holders of our common stock are entitled to receive pro rata dividends when, as and if declared by our Board of Directors out of any funds that we can legally use to pay dividends. We may pay dividends in cash, stock or other property. In some cases, holders of common stock may not receive dividends until we have satisfied our obligations to any holders of our preferred stock. If we liquidate, dissolve or wind up our business, holders of our common stock

are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of our preferred stock.

Holders of our common stock have no preemptive rights to subscribe for additional shares of our stock or other securities of ours, except as may be granted by our Board of Directors. The common stock has no conversion rights and is not redeemable. There are no sinking fund provisions applicable to our common stock. There is no restriction on our purchase of shares of our common stock except for regulatory limits. All outstanding shares of our common stock are fully paid and non-assessable.

PREFERRED STOCK

We may, by resolution of our Board of Directors, and without any further vote or action by our stockholders, authorize and issue, subject to limitations prescribed by law, up to an aggregate of 7,500,000 shares of preferred stock, in one or more series. The Board determines the rights, privileges and limitations of preferred stock, including dividend rights, conversion rights, voting rights, conversion privileges, redemption rights, liquidation rights and/or sinking fund rights. Preferred stock may be issued in the future in connection with acquisitions, financings or other matters that the Board of Directors believes appropriate. No shares of preferred stock are outstanding and we presently have no plans to issue shares of preferred stock.

One effect of having preferred stock authorized is that the Board of Directors alone may be able to authorize the issuance of preferred stock in ways that render more difficult or discourage an attempt to obtain control of Waste Connections by a tender offer, proxy contest, merger or otherwise, and thereby protect the continuity of our management. The issuance of shares of preferred stock may adversely affect the voting and other rights of holders of common stock. For example, preferred stock may rank prior to the common stock as to dividend rights, liquidation preferences or both, may have full or limited voting rights and may be convertible into common stock. Accordingly, the issuance of preferred stock may discourage bids for the common stock or otherwise adversely affect the market price of the common stock.

LIMITATION ON LIABILITY

Our Certificate of Incorporation provides that a director will not be personally liable to Waste Connections or our stockholders for monetary damages for a breach of fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to the company or our stockholders;

- for acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law;

- for unlawful payments of dividends, stock purchases or redemptions prohibited by Delaware corporate law; or

- for any transaction from which the director derived an improper personal benefit.

If the Delaware General Corporation Law is amended in the future to permit further limitation of the personal liability of directors, the liability of a director of Waste Connections will be eliminated or limited to the fullest extent permitted by that amended law.

CERTAIN STATUTORY, CHARTER AND BY-LAW PROVISIONS

Classified Board of Directors. Our Certificate of Incorporation provides that our Board will be divided into three classes serving staggered terms, and that the number of directors in each class will be as nearly equal as is possible based on the number of directors constituting the entire Board. At each annual meeting of stockholders, successors to directors of the class whose term expires at such meeting will be elected to serve for three-year terms.

The classification of directors makes it more difficult for stockholders to change the composition of the Board. At least two annual meetings of stockholders, instead of one, will generally be required to change the majority of the Board. This delay helps ensure that Waste Connections' directors, if confronted by a third party attempting to force a proxy contest, a tender or exchange offer or other extraordinary corporate transaction, would have sufficient time to review the proposal and available alternatives and to act in what they believe to be the best interests of the stockholders. However, classification could also discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to obtain control of Waste Connections, even though that attempt might benefit Waste Connections and our stockholders. The classification of the Board could thus make it more likely that incumbent directors will retain their positions.

Number of Directors; Removal; Filling Vacancies. The Certificate of Incorporation provides that the number of directors will be fixed from time by a majority of the directors then in office, and may not be less than three or more than nine unless approved by at least two-thirds of the directors then in office. In addition, newly created directorships resulting from an increase in the authorized number of directors, vacancies on the Board resulting from death, resignation, retirement, disqualification or removal of directors or any other cause may be filled only by the Board (and not by the stockholders unless there are no directors in office), if a quorum is then in office and present, or by a majority of the directors then in office, if less than a quorum is then in office, or by the sole remaining director. Accordingly, the Board could prevent any stockholder from enlarging the Board and filling the new directorships with that stockholder's own nominees.

The Certificate of Incorporation allows directors to be removed only for cause and only on the affirmative vote of at least 66 2/3% of the voting power of all the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class.

The provisions in the Certificate of Incorporation governing the number of directors, their removal and the filling of vacancies may discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of Waste Connections, or attempting to change the composition or policies of the Board, even though those attempts might benefit Waste Connections or our stockholders. These provisions of the Certificate of Incorporation could thus increase the likelihood that incumbent directors retain their positions.

Limitations on Special Meetings; No Stockholder Action by Written Consent. The Certificate of Incorporation and the By-Laws provide that only a majority of the Board of Directors or the President or Chairman of the Board may call a special meeting of stockholders, only matters stated in the notice of meeting or properly brought before the meeting by or at the direction of the Board may be transacted at the meeting, and stockholder action may be taken only at a duly called and convened meeting and may not be taken by written consent. These provisions, taken together, prevent stockholders from forcing consideration of stockholder proposals over the opposition of the Board, except at an annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals. The By-Laws establish an advance notice procedure for stockholders to make nominations of candidates for election as a director, or to bring other business before an annual meeting of stockholders. In general, only persons nominated by or at the direction of the Board, any committee appointed by the Board, or a stockholder who has given timely written notice to the Secretary of Waste Connections, may be elected as directors. At an annual meeting, only buTEXT-INDENT: 0pt; MARGIN-LEFT: 0pt; MARGIN-RIGHT: 0pt">

7

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. He is President Emeritus and Ambassador for Central Penn College, where he has devoted his entire professional career, having served as President and Chief Executive Officer from 1989 to 2012. (See Item 10 below for additional biographical information.)

Dr. Michael Plater	Dr. Michael Plater was elected to the Board of Trustees in 2012 as an ex officio member. He has served as Strayer University President since 2011. Dr. Plater joined Strayer in 2010 as the Provost and Chief Academic Officer. Prior to joining Strayer, Dr. Plater had a distinguished career with various other academic institutions. (See Item 10 below for additional biographical information.)
Dr. William C. Reha, MD*	Dr. Reha has served as a member of the Board of Trustees since 2007. He is a Board Certified Urologic Surgeon in Woodbridge, Virginia. He also serves as President-Elect for the Medical Society of Virginia and is the immediate Past President of the Virginia Urological Society. 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. He completed his residency in Surgery/Urology at Georgetown 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 and Director of its graduate program in public policy. Dr. Salins is a member of the Advisory Board of the Syracuse University School of Architecture and the Editorial Board of the Journal of the American Planning Association, and is a Director of the Citizens Housing and Planning Council of New York. Dr. Salins holds a bachelor's degree in architecture, a master's degree in regional planning and a doctorate in metropolitan studies and regional planning, all from Syracuse University.
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 Executive Chairman of Agrifore Advisory & Investment Services (AAIS), Incorporated in Liberia and Consultant for the World Food Programme, Food and Agriculture Organization, African Development Bank and the World Bank, among others. 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.

* Independent 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 College Deans, one for the College of Business and one for the College of Information Systems and Arts & Sciences. 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 two College Deans, with the assistance of Associate Deans, with primary responsibility for faculty hiring and management; curriculum development; and student learning outcomes. These academic areas are also supported by the University Registrar and the Dean of Institutional Research, Assessment and Evaluation.

Each College is co-led by a Senior Vice President, whose main responsibilities include program, class and faculty scheduling; assessing the feasibility of new program offerings; and overseeing the Learning Management System platform. For administrative operations, the President, the College Deans, and the Senior Vice Presidents work closely with the Associate Deans for Campus Academics, to ensure regional, campus and online operations meet the annual University budget established by the Board of Trustees. Other senior administrative officers also support the President in areas such as legal compliance, accounting and auditing, computer technology, insurance and human resources.

University Senior Management

Dr. Michael A. Plater is University President. His biographical information is set forth in Item 10 below. At the regional and campus levels, the academic functions are overseen by the Associate Dean of Campus Academics and the Campus Dean. Day-to-day business operations are managed by a Campus Director. Each campus is staffed with personnel performing instructional, academic advising, financial aid, student services, admissions 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.

Outreach

To identify potential students, we engage in a broad range of activities to inform working adults and their employers about the programs offered at Strayer University. These activities include direct mail, online 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 online 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. We also depend on the recommendation of our alumni network to maintain and enhance Strayer University's reputation and promote its quality education. Our business-to-business outreach efforts include personal telephone calls, distribution of information through corporate intranets and human resource departments, and on-site information meetings. We record inquiries in our database and track them through to application and registration. Additionally, we provide 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 2013 fall quarter, approximately 66% were age 31 or older and approximately 86% were engaged in part-time study (fewer than three courses each quarter). In the 2013 fall quarter, our students registered for an average of eight course credits (about two classes per student).

Strayer University has a very diverse student population. At the beginning of the 2013 fall quarter, approximately 75% of students reporting ethnicity were minorities and approximately 65% of students were women. Approximately 1% of the University's students were international, and approximately 1% were active duty military personnel. Strayer University prides itself on making post-secondary education accessible to working adults who were previously unable to take advantage of educational opportunities.

The following is a breakdown of our students by program level as of the 2013 fall term:

Program	Number of students	Percentage of total students
Bachelor’s	22,884	53%
Master’s	15,129	35%
Associate	4,544	11%
Total Degree	42,557	99%
Diploma	15	*
Undergraduate Certificate	33	*
Graduate Certificate	193	*
Undeclared	394	*
Total Non-Degree	635	1%
Total Students	43,192	100%

* Represents less than 1%.

Our business is seasonal and as a result, our quarterly results of operations tend to vary within the year due to student enrollment patterns. Enrollment generally is 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 students' 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 University 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, 2014, new undergraduate students are charged $1,420 per course. Undergraduate students who were enrolled at Strayer prior to January 1, 2014 are charged $1,700 per course if the student attends on a full-time basis or $1,775 per course if the student attends on a part-time basis. Students in graduate programs are charged at the rate of $2,325 per course, except for Jack Welch Management Institute students who pay $3,000 per course. Accordingly, a new undergraduate student seeking to obtain a bachelor's degree in four years currently would pay approximately $14,000 per year in tuition. Under a variety of different programs, Strayer University offers scholarships and tuition discounts to students and in connection with various corporate and government sponsorship and tuition reimbursement arrangements. One of these programs, the Graduation Fund, offers a student in a bachelor's program an opportunity to earn up to a 25% reduction of the tuition required for a degree.

Career Development Services

Although most of Strayer University's students are already employed, the University actively assists its students and alumni with career-related matters. The focus for Career Services at Strayer University is to provide career guidance and resources to assist students and alumni in reaching their educational and professional goals. Services are delivered through various media including online, in person, recorded video, books, periodicals, and by telephone. The services provided include career webinars, recorded seminars, career teleconferences, career advising and resume review.

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, 2013, we had a total of 1,485 full-time employees including 324 full-time faculty members and 1,161 non-faculty staff. 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 1,700 adjunct faculty, not all of them teach every quarter. In the 2013 fall quarter, approximately 30% of our courses were taught by full-time faculty. Because we are not a research university, all faculty are expected to spend their time teaching and advising students. In addition to our faculty, we employ 1,161 non-faculty staff plus 117 part-time employees in the areas of information systems, financial aid, recruitment and admissions, student administration, marketing and human resources, corporate accounting and other administrative functions.

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, but is not limited to, our courseware materials for classes taught online 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 certain marks, and have obtained federal registration of the marks, including the mark “STRAYER” for educational services.

Competition

The higher education industry is highly competitive, but with no single participant possessing a significant market share. We compete for students with traditional public and private two-year and four-year degree-granting accredited colleges and universities, other proprietary degree-granting accredited schools and also alternatives to higher education. In addition, we face competition from various nontraditional, credit-bearing and noncredit-bearing education programs, provided by both proprietary and not-for-profit providers, including massive open online courses offered worldwide without charge by traditional educational institutions and other direct-to-consumer education services. As the proportion of traditional colleges providing alternative learning modalities increases, we will face increasing competition for students from traditional colleges, including colleges with well-established reputations for excellence. As the online and distance learning segment of the post-secondary education market matures, we believe that the intensity of the competition we face will continue to increase.

We believe the key factors affecting our competitive position include the quality of the programs offered, the quality of other services provided to students, our reputation among students and in the general marketplace, the cost and perceived value of our offerings, the employment rate and terms of employment for our graduates, the ease of access to our offerings, the quality and reputation of our faculty and other employees, the time commitment required to complete our program and obtain a degree, the quality and size of our alumni, and our relationship with other learning institutions.

Regulation

Regulatory Environment

As an institution of higher education accredited by Middle States and operating in multiple jurisdictions, Strayer University is subject to accreditation rules and varying state licensing and regulatory requirements. In addition, the federal Higher Education Act and the regulations promulgated thereunder require all higher education institutions that participate in the various 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 institutional accrediting agencies recognized by the U.S. Secretary of Education ("Secretary of Education"); (2) state education regulatory bodies; and (3) the federal government through the Department of Education. 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's current period of accreditation by Middle States extends 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.

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 accreditation status of institutions when evaluating a candidate's credentials or considering tuition reimbursement programs. Students rely on accreditation status for assurance that an institution maintains quality educational standards.

In order for institutions to be eligible to participate in federal student financial assistance programs, they must be accredited by an institutional accreditor recognized by the Department of Education. 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 state approval agencies should be recognized as reliable authorities for judging the quality of post-secondary institutions and programs. NACIQI in December 2012 renewed its recognition of Middle States, and required Middle States to submit a follow-up staff report.

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 accrediting 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 applicable standards, then its operations could be conditioned, 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. Currently, Middle States is reviewing and revising its accreditation standards, and it is not known when Middle States will adopt revised accreditation standards.

In 2006, Strayer University completed a comprehensive self-study report, which was submitted to Middle States in support of 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. In accordance with Middle States' accreditation standards, every accredited institution must file a periodic review report at the mid-point between its decennial evaluations. Strayer University filed its periodic review report on May 15, 2012, demonstrating that the institution continues to meet Middle States' standards. At its regular meeting on November 15, 2012, Middle States accepted the Periodic Review Report and reaffirmed Strayer University's accreditation. Strayer University subsequently filed a progress report in November 2013, and the next evaluation visit is scheduled for 2016-2017. All of Strayer University's substantive changes require prior Middle States approval. In connection with our closing of approximately 20 physical locations in 2013, we received Middle States' approval, and will submit a follow-up report on the closures by April 1, 2014.

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.

In addition to our institutional accreditation, we have obtained specialized or programmatic accreditation, or professional recognition, from the following organizations for specific programs: The Accreditation Council for Business Schools and Programs, The Society for Human Resource Management, The National Security Agency's Committee on National Security Systems, and the Teacher Education Accreditation Council.

State Education Licensure

Licensure of Physical Campuses

Strayer University is required by the federal Higher Education Act and certain state laws to be legally authorized to provide educational programs in the states in which the University is physically located. We are authorized to offer our programs by the applicable educational regulatory agencies in all states where our physical campuses and online delivery 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 jurisdiction in which our campuses are located, including in 2013: Alabama, Arkansas, Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, Missouri, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, West Virginia, Wisconsin and Washington, D.C. 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. At the end of 2013, we implemented a restructuring intended to better align our resources with our current student enrollments, which included the closing of approximately 20 physical locations in eight states. The campuses served approximately 5% of the University's enrollment, and a majority of the students were already taking 100% of their classes online. As part of these closings, in 2014 we no longer have physical campuses in Illinois, Indiana, Kentucky, Minnesota, Missouri, Ohio, and Utah. Additionally, we will be closing our Wisconsin campus at the close of the winter quarter in March 2014. Students at the affected campuses have been offered support to continue their education online.

On October 29, 2010, the Department of Education adopted new regulations, effective July 1, 2011, that set new requirements for state authorization for purposes of Title IV eligibility. Every state above in which Strayer is authorized has processes in place that comply with these new requirements.

Licensure of Online Programs

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

On October 29, 2010, the Department of Education adopted new regulations, effective July 1, 2011, regarding state authorization of online programs. The revised rules specified that an institution offering distance post-secondary education must meet any state requirements for it to be legally offering post-secondary distance or correspondence education in that state. On May 6, 2011, the Department of Education issued a Dear Colleague Letter interpreting this new regulation, stating that it "will not initiate any action to establish repayment liabilities or limit student eligibility for distance education activities undertaken by an institution before July 1, 2014, so long as the institution is making good faith efforts to identify and obtain necessary State authorizations before that date." On July 12, 2011, the U.S. District Court for the District of Columbia vacated the regulation relating to state authorization for distance education, holding that the Department of Education did not provide proper notice of the proposed changes as required by the Administrative Procedure Act. On September 8, 2011, the Department of Education filed an appeal of the U.S. District Court's ruling with the U.S. Court of Appeals for the District of Columbia Circuit. On June 5, 2012, the Court of Appeals upheld the lower court's ruling vacating the state authorization of online programs requirement. On July 27, 2012, the Department of Education issued a Dear Colleague Letter cautioning education institutions to remain in compliance with all applicable state laws and regulations related to distance education. In April 2013, the Department of Education announced that it would add state authorization of distance education to a negotiated rulemaking previously initiated in May 2012. It is therefore expected that the Department will attempt to implement a new regulation pertaining to state authorization of online programs. Negotiation sessions are scheduled for the Spring of 2014.

Department of Education

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 to offer its educational programs by each state in which it is physically located and maintain institutional accreditation by a recognized accrediting agency as discussed above. The institution also must be certified by the Department of Education to participate in Title IV programs and follow Department of Education rules regarding the awarding and processing of funds issued under the Title IV programs. For purposes of the Title IV programs, Strayer University and all of its campuses are considered to be a single institution of higher education, such 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. On January 20, 2012, Strayer University executed a provisional Program Participation Agreement with the Department of Education allowing it to participate in Title IV programs until September 30, 2014.

Other Approvals

Strayer University is 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, Strayer University is 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. The University is also authorized to participate in state financial aid programs in Pennsylvania, Florida and Vermont.

Financing Student Education

Students finance their Strayer University education in a variety of ways, and historically about three quarters of our students participated in one or more Title IV programs. 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 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.

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. Eligible students at Strayer University may also participate in educational assistance programs administered by the Commonwealth of Pennsylvania, the State of Florida, the State of Vermont, private organizations, the U.S. Department of Veterans Affairs (and related state agencies), and the U.S. Department of Defense ("DOD").

Congress 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 Assistance Act of 2009 (as amended August 1, 2011), sometimes referred to as the "New GI Bill," eligible veterans may receive, among other benefits, tuition benefits up to the net cost to the student (after accounting for state and federal aid, scholarships, institutional aid, fee waivers, and similar assistance), subject to a cap of $17,500 for non-public domestic institutions. In addition, eligible students pursuing an educational program solely through distance learning are eligible to receive a housing stipend, equal to half the amount available to students attending classroom-based programs or programs that combine classroom learning and distance learning.

DOD promulgated regulations, published December 7, 2012 and effective January 7, 2013, that require all institutions participating in DOD military tuition assistance programs to sign a Memorandum of Understanding, or MOU, by March 1, 2013. Strayer University participates in DOD military tuition assistance programs under a Memorandum of Understanding with the DOD and various branches of the armed services. Thereunder, the University agrees to comply with DOD rules and procedures regarding the receipt of tuition assistance on behalf of active duty military personnel (and qualifying family members) in attendance at the University.

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 program are available to eligible students based on financial need and other factors. In April 2011, year-round Pell Grant awards beginning with the 2011-2012 award year were permanently eliminated. In addition, effective July 1, 2012, eligibility for Pell Grants was reduced from 18 semesters to 12 semesters.

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

- Federal Direct Student Loans. Under the William D. Ford Federal Direct Loan Program, the Department of Education makes loans directly to students and their parents. Students who demonstrate financial need may qualify for a subsidized loan. With a subsidized 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 loans are available to students who do not qualify for a subsidized loan or, in some cases, in addition to a subsidized loan. PLUS loans, including Graduate PLUS loans, are unsubsidized. The Budget Control Act of 2011, signed into law on August 2, 2011 eliminated federal direct subsidized loans for graduate and professional students as of July 1, 2012. The terms and conditions of subsidized loans originated prior to July 1, 2012 are not affected by the change.

Federal 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. As part of those participation standards, the Department of Education determines whether, among other things, the institution meets certain standards of administrative capability and financial responsibility. The institution must also follow extensive Department of Education rules regarding the awarding and processing of funds issued under the Title IV programs. Some of the key provisions regarding institutional eligibility and processing federal financial aid are described below.

Program Participation Agreement

Each institution participating in Title IV programs must enter into a Program Participation Agreement with the Department of Education. Under the agreement, the institution agrees to follow the Department of Education's rules and regulations governing Title IV programs. Strayer University's provisional Program Participation Agreement with the Department of Education allows it to participate in Title IV programs until September 30, 2014 and we will be submitting an application for a new Program Participation Agreement by June of 2014.

Provisional Certification

In certain circumstances, the Department of Education may certify an institution's continuing eligibility to participate in Title IV programs on a provisional basis for three complete award years (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. Should the Department of Education seek to revoke eligibility during the provisional period, the institution will have an opportunity to show cause why such revocation is not warranted and the Department's decision to accept or reject such cause will constitute final agency action. Strayer University is operating under a provisional Program Participation Agreement through September 30, 2014, and the only material additional condition that the University must comply with as a result of this provisional certification is obtaining the Department of Education's approval for substantial changes, including the addition of any new location, level of academic offering, or non-degree program.

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 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. On December 22, 2011, the Department of Education notified Strayer University that its Program Participation Agreement was approved on a provisional basis because "the institution did not disburse Title IV funds timely to students in each payment period."

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 alternative measures and 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, 2013, and 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 Direct Loan or Federal Family Education Loan (FFEL) Program loans by its students exceed certain levels. The Department of Education uses a specific methodology to determine default rates and imposes varying sanctions based upon the results of that calculation. As discussed below, the current cohort default rate calculation and threshold for regulatory sanctions will change effective 2014 as a result of the reauthorization of the Higher Education Act through the Higher Education Opportunity Act ("HEOA"), which was effective August 18, 2008.

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. The Department of Education includes in the cohort all student borrowers at the institution who entered repayment on any Direct or FFEL Program loan during that year. The cohort default rate is the percentage of those borrowers who default by the end of the following federal fiscal year, resulting in a two-year cohort default rate. Because of the need to collect data on defaults, the Department of Education publishes cohort default rates two years in arrears; for example, in the fall of 2013, the Department issued cohort default rates for federal fiscal year 2011.

The Department of Education may take adverse action against an institution if it has excessive cohort default rates, including the following:

- If an institution's most recent cohort default rate is greater than 40%, the institution's participation in Title IV loan programs terminates 30 days after notification by the Department of Education, unless the institution timely appeals that determination on specified grounds according to specified procedures.

- If an institution's three most recent cohort default rates are each 25% or greater, the institution's participation in Title IV loan programs and Federal Pell Grant Program terminates 30 days after notification by the Department of Education, unless the institution timely appeals that determination on specified grounds 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 15%, the institution must delay for 30 days disbursements to first-year, first-time subsidized and unsubsidized Direct Loan borrowers.

- 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 for the 2009, 2010, and 2011 federal fiscal years, the three most recent years for which this information is available, were 10.0%, 8.6%, and 10.5%, respectively. The average cohort default rates for proprietary institutions nationally were 15.0%, 12.9%, and 13.6% for federal fiscal years 2009, 2010, and 2011, respectively.

Cohort Default Rate Provisions Effective 2014

In 2008, Congress, through the HEOA, modified the cohort default rate provisions related to Title IV loans in two significant ways, described below. The HEOA provided, however, that the then current method of calculating cohort default rates would be used to determine any sanctions on institutions until 2014, when three consecutive years of official cohort default rates calculated under the new formula become available.

First, under the new provisions, the period for measuring defaults will be expanded by one year, resulting in a three-year cohort default rate. Beginning with cohort default rate calculations for federal fiscal year 2009, the cohort default rate is 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.

Second, the cohort default rate ceiling will increase from 25% to 30%. This change has several consequences:

- 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 the 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. The institution may file a timely appeal on specified grounds 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.

- 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 Direct Loan Program and Federal Pell Grant Program.

The revisions to the cohort default rate rule did not change the existing provision that an institution generally loses eligibility to participate in Title IV loan programs if its most recent cohort default rate is greater than 40%, or the existing provision that institutions with a cohort default rate equal to or greater than 15% are subject to a 30-day delayed disbursement period for first-year, first-time borrowers.

Effective July 1, 2010, the Department of Education issued two cohort default rates – a two-year cohort default rate and a three-year cohort default rate – for fiscal years 2009 through 2011. The Department of Education relied on the two-year cohort default rate and related thresholds to determine institutional eligibility until 2014, when the Department of Education will issue official three-year cohort default rates for the fiscal year 2011 cohort.

The Department of Education issued the first two official three-year cohort default rates, for fiscal years 2009 and 2010, in September 2012 and September 2013, respectively. Strayer's official fiscal year 2009 and 2010 three-year cohort default rates were 13.9% and 15.2%, respectively. The average official three-year cohort default rates for proprietary institutions nationally were 22.7% and 21.8% for fiscal years 2009 and 2010, respectively.

As part of its compliance program related to the cohort default rate, Strayer University provides entrance and exit counseling to its students and engages the services of a third party to counsel students once they are in repayment status regarding their repayment obligations.

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 this rule, 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 revenues are computed under the Department of Education's methodology).

The 90/10 Rule is a compliance obligation that is part of an institution's program participation agreement with the Department of Education. 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. In addition, the Department of Education discloses on its website any proprietary institution of higher education that fails to meet the 90/10 requirement, and reports annually to Congress the relevant ratios for each proprietary institution of higher education.

HEOA changes in 2008 generally codified the regulatory formula for 90/10 rule calculations, but also expanded 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. The HEOA provisions were effective on August 14, 2008, and the Department of Education issued final regulations implementing the 90/10 Rule and certain other HEOA provisions that were effective July 1, 2010, but institutions could have, at their discretion, implemented the 90/10 Rule regulations on or after November 1, 2009. These regulations clarify the treatment of certain types of revenue, and 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 also 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.

Using the HEOA formula, Strayer University derived approximately 76% of its cash-basis revenues from Title IV program funds in 2011 and 74% in 2012. Our computation for 2013 has not yet been finalized and audited.

The key components of non-Title IV revenue for Strayer University are individual student payments, employer tuition reimbursement payments, veterans benefits, vocational rehabilitation funds, private loans, state grants, and scholarships. Certain members of Congress have proposed to revise the 90/10 Rule to count DOD tuition assistance and veterans education benefits along with Title IV revenue toward the 90% limit and to reduce the limit to 85% of total revenue.

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. 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.

Effective July 1, 2011, the Department of Education eliminated 12 "safe harbors" that had been established in 2002 to define circumstances under which an institution would not run afoul of the incentive payment prohibition. The final rules prohibit payments made "in any part," directly or indirectly, upon the success of securing enrollments or financial aid, apply to all employees at an institution who are engaged in or responsible for any student recruitment or admission activity, limit "profit-sharing payments," and set rules for third-party contracts. The Department of Education has published a subsequent Dear Colleague Letter interpreting this regulation.

Gainful Employment

Under the Higher Education Act, a proprietary institution offering programs of study other than a baccalaureate degree in liberal arts (for which there is a limited statutory exception) must prepare students for gainful employment in a recognized occupation. The Department of Education previously attempted to define "an eligible program of training to prepare students for gainful employment in a recognized occupation." After a federal court invalidated the Department's regulation (except for disclosure requirements), the Department established a negotiated rulemaking committee to again consider the issue of gainful employment, and appointed Strayer University's General Counsel to serve on the committee. The Committee did not achieve the required consensus. The Department has indicated that it expects to issue a Notice of Proposed Rulemaking for public comment in early 2014.

Although it is not yet known what metrics the Department will ultimately propose in its Notice expected in 2014, the last proposal put before the negotiated rulemaking committee by the Department of Education contained measurements of program cohort default rates, annual debt-to-earnings and discretionary debt-to-earnings. Under this proposal, a program would pass:

- If the program's cohort default rate is less than 30% in two of three consecutive years; and
- If the program's graduates have an annual debt-to-earnings ratio that does not exceed 8%; or a discretionary debt-to-earnings ratio that does not exceed 20%.

In addition, a program that does not pass either of the debt-to-earnings metrics, and that has an annual debt-to-earnings ratio between 8% and 12%, or a discretionary debt-to-earnings ratio between 20% and 30%, would be considered to be in a warning zone. Under the annual and discretionary debt-to-earnings metrics, a program would become Title IV ineligible for three years if it fails to pass both metrics for two out of three consecutive years, or fails to pass at least one metric for four consecutive years. Under the program cohort default rate metric, a program would become Title IV ineligible for three years if the three-year program cohort default rate of three consecutive cohorts of students is greater than or equal to 30%. If a program could become ineligible at the end of the year, the institution would be required to post a letter of credit or agree to set aside a portion of Title IV funds to provide borrower relief to enrolled students in case the program were to become ineligible. However, the proposal contains a four-year transition period, during which time a program would not lose eligibility if an institution chooses to provide grants to students to reduce debt instead of posting a letter of credit or creating an excess fund.

Under the proposal, an institution would be required to give debt warnings to students if a program could become ineligible at the end of the year. For programs failing the annual or discretionary debt-to-earnings metrics, Title IV enrollment would be limited to the previous year’s level. Any program that could become ineligible at the end of the year under the programmatic cohort default rate would also be limited to the previous year’s level of Title IV enrollment.

Given the uncertainty as to what the Department will propose in any Notice of Proposed Rulemaking, the Company is unable to determine what impact, if any, a final rule will have on its financial condition or results of operations.

Return of Federal Funds

Under the Higher Education Act’s return-of-funds provision, an institution must return Title IV funds to a Title IV program in a timely manner if a student received funds from that program but did not earn them due to the student’s withdrawal from the institution. In order to determine if funds should be returned, the institution must first determine the amount of Title IV program funds that the student earned. If the student attends the institution, but withdraws during the first 60% of any period 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. Strayer University uses the student’s last day of attendance as the withdrawal date for purposes of return to Title IV. Effective July 1, 2011, institutions that use the last day of attendance are required to measure the last day of attendance based on official attendance records, and “attendance” for online classes must include participation in an academically related activity. Strayer University’s current systems allow for measurement on this basis. 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, 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 that the institution determines that a student withdrew.

17

If the funds are not returned 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.

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 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 to perform activities related to Strayer University's participation in Title IV programs. Strayer University also has a contract with Higher One Business Solutions, formerly Sallie Mae Business Solutions, for processing stipends due to students and with General Revenue Corporation for loan default prevention. Prior to September 30, 2011, Strayer University utilized Global Financial Aid Services, Inc., for services including certifying Title IV loan applications, preparing reports from Strayer University to the Department of Education, and issuing federal grant program payments. The University's agreement with Global Financial Aid Services expired on September 30, 2011, at which point Strayer University in-sourced its financial aid processing.

Lender Relationships

As part of an institution's program participation agreement with the Department of Education, the institution must adopt a code of conduct pertaining 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 lenders, prohibiting lenders from engaging in certain activities as they interact with institutions.

Prior to the termination of the FFEL Program on June 30, 2010, Strayer University was subject to rules applicable to institutions that make available a list of recommended or suggested federal loan lenders for use by potential borrowers. Strayer University remains subject to those rules with respect to private education loans.

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, and the Higher Education Act requires Middle States to monitor institutions with significant enrollment growth. In addition, under Strayer University's provisional certification, the Department of Education must approve any new campus location, level of academic offering and non-degree program.

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. These 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. Under its provisional Program Participation Agreement with the Department of Education, Strayer University must obtain Department of Education approval for the addition of any new location. 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.

The Department of Education regulations that became effective July 1, 2011, required a proprietary institution to notify the Department of Education of new programs if the program had a Classification of Instructional Programs ("CIP") code under the taxonomy of instructional program classifications and descriptions developed by the National Center for Education Statistics ("NCES") that was different from any other program offered by the institution, the program had the same CIP code as another program offered by the institution but lead to a different degree or certificate, or the institution's accrediting agency had determined the program to be an additional program. This regulation was struck down by the U.S. District Court for the District of Columbia in June 2012. The regulation now in effect provides that approval of new programs is not required if the additional program prepares students for gainful employment in the same or related occupation as an educational program that has previously been designated as eligible and is at least eight semester hours; or twelve quarter hours. As part of the gainful employment regulation proposed to a negotiated rulemaking committee by the Department of Education, an institution would need to get new program approval only if the program had previously been deemed ineligible, was a failing or zone program that was voluntarily discontinued by the institution, or is in the same "family of CIP" codes as a current or recent failing program.

Other Regulations Governing Title IV Programs

The Department of Education has enacted a comprehensive set of regulations governing an institution's participation in the Title IV programs. If Strayer University were not to continue to comply with these regulations, such non-compliance might affect the operations of the University and its ability to participate in Title IV programs.

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 an August 2010 letter to members of the Senate Health, Education, Labor and Pensions (HELP) Committee, the Secretary of Education announced plans to increase the number of program reviews by 50%, from 200 conducted in 2010 to 300 in 2011. The Department of Education conducted a program review of Strayer University's administration of Title IV programs beginning in the third quarter of 2010. On December 22, 2011, the Department of Education notified Strayer University that its Program Participation Agreement was approved on a provisional basis because "the institution did not disburse Title IV funds timely to students in each payment period." On July 18, 2013, the University received its Final Program Review Determination from the Department, with no material adverse findings and no additional actions required.

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. Although there are no such sanctions currently in force, 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 in a manner that complies with rules governing schools' relationships with lenders 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 regulatory compliance brought not only by our regulatory agencies, but also by other government agencies and third parties.

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.

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. Strayer University currently is authorized by the U.S. Department of Homeland Security to admit foreign students for study in the United States subject to applicable requirements. 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 U.S. Department of Veterans Affairs educational benefits by the state approving agencies. In 2013, we had such approval in Alabama, Arkansas, Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, Missouri, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, D.C., West

Virginia, and Wisconsin. In certain circumstances, state approving agencies may require an institution to obtain approval for a change in ownership and control.

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.

Recent or Pending Legislative and Regulatory Activity

Congress is considering legislation that would make further changes in the Higher Education Act and other education-related federal laws. Congressional activity may adversely affect enrollment in for-profit educational institutions. We cannot predict the impact, if any, of these recent or pending legislative changes on our long-term business model, although the uncertainty associated with Congressional activity has had a negative impact on the industry as a whole.

As discussed more fully above, the Department of Education is currently engaged in a negotiated rulemaking regarding gainful employment after its previous regulation was invalidated, along with the accompanying reporting and additional program approval requirements, by the U.S. District Court for the District of Columbia. The Department of Education is expected to release a notice of proposed rulemaking at some point in early 2014. The most recent proposal before the negotiated rulemaking committee, as discussed above, contained three metrics: annual debt-to-earnings metric, discretionary debt-to-earnings metric, and a program level cohort default rate metric. A program failing the program level cohort default rate or both the debt-to-earnings metrics would be deemed ineligible to receive Title IV funds for a period of three years, and programs previously deemed ineligible, voluntarily discontinued by an institution for failing or being in the warning zone, or within the same "family of CIP" codes as a currently or previously failing program would be required to receive prior approval by the Department of Education. It is not yet known, however, the final form that any proposal contained in the Department of Education's Notice of Proposed Rulemaking will take.

Congress

Congress historically has reauthorized the Higher Education Act ("HEA"), which is the law governing Title IV programs, approximately every five to six years, but undertook the most recent reauthorization through multiple pieces of legislation. On July 31, 2008, Congress reauthorized the HEA through September 30, 2013, by passing the HEOA, which then President Bush signed into law on August 14, 2008. HEOA provisions became effective upon enactment, unless otherwise specified in the law. 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 were effective July 1, 2010. Congress began Higher Education Act reauthorization hearings in 2013, and there is currently an automatic one year extension that continues the current authorization through September 30, 2014.

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 included 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 then-current market conditions. Congress extended ECASLA for an additional year, to June 30, 2010. In March 2010, Congress passed the Student Aid and Fiscal Responsibility Act of 2009, which eliminated the FFEL Program and required all institutions participating in Title IV programs to convert exclusively to the Direct Loan Program by July 1, 2010.

The Consumer Financial Protection Bureau submitted two reports to Congress in 2012 with specific recommendations for restructuring the student borrowing experience, including requiring institutions to certify that a student is not eligible for any further federal funds before a private loan may be issued to such student. On January 23, 2013, Senator Durbin introduced the Know Before You Owe Private Student Loan Act of 2013, which would require institutions to certify to a private loan lender a student's cost of attendance and estimated federal financial assistance before a loan may be issued to such student. The Act would also require institutions to counsel students about their loan options, including discussion of differences between federal loans and private loans. Private loan lenders would be required to provide students with quarterly account updates on the balance and interest accrued. On January 23, 2013, Senator Durbin also introduced the Fairness for Struggling Students Act of 2013, which would allow private student loans to be dischargeable in bankruptcy. Both proposals are still pending before Senate committees. We do not know what steps Congress may take in response to these actions and whether such actions (if any) will have an adverse effect on our business or results of operations.

On August 9, 2013, the Bipartisan Student Loan Certainty Act became law. Under the Act, all Stafford loans to undergraduates are pegged to the 10 year T-bill plus 2.05% with a cap at 8.25%. Stafford loans to post-graduate students will be at the T-bill rate plus 3.6% with the cap at 9.5%. Direct PLUS loans are set at the T-bill rate plus 4.6% with a cap at 10.5%. Direct consolidation loan rates will be a weighted average of the interest rates of the consolidated loans rounded to the nearest 1/8th of 1%. Interest rates would be reset every July 1 and effective for loans taken out from July 1st to June 30th of the next year. Those interest rates would be effective for the life of the loan.

Appropriations

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.

Senate Health, Education, Labor and Pensions (HELP) Committee

In 2010, the U.S. Congress increased its focus on proprietary education institutions, including regarding participation in Title IV programs and DOD oversight of tuition assistance for military service members. Since June 2010, the Senate HELP Committee has held hearings to examine the proprietary education sector. Other committees of the U.S. Congress have also held hearings into, among other things, the standards and procedures of accrediting agencies, credit hours and program length, the portion of federal student financial aid going to proprietary institutions, and the receipt of veterans and military education benefits by students enrolled at proprietary institutions. Strayer University has cooperated with these inquiries. A number of legislators have variously requested the Government Accountability Office (GAO) to review and make recommendations regarding, among other things, recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in Title IV programs, and the percentage of proprietary institutions' revenue coming from Title IV and other federal funding sources. The GAO released four reports on for-profit post-secondary education: first, a report in August 2010 (subsequently revised in November 2010) that concluded, based on a three-month undercover investigation, that employees at a non-random sample of 15 proprietary institutions (not including Strayer University) made deceptive statements to students about accreditation, graduation rates, job placement, program costs, and financial aid; second, a report in October 2010 critical of the Department of Education's efforts to enforce the ban on incentive payments; third, a report in October 2011 critical of the student experience and instructor performance at some for-profit online institutions; and fourth, a report in December 2011 comparing various student outcomes across proprietary, non-profit, and public institutions.

On July 30, 2012, the Senate HELP Committee released its final report on the for-profit sector of higher education entitled "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success." While acknowledging that for-profit institutions have a role to play in higher education, the report criticized the proprietary institution industry on many fronts. However, the report also concluded that Strayer University's "performance, measured by student withdrawal and default rates, is one of the best of any company examined, and it appears that students are faring well at this degree based for-profit college." S. Rept. 112-37. The report ultimately recommended several measures for reform which could change the participation of proprietary institutions in Title IV funding, including the following:

- Tie access to federal financial aid to minimum student outcome thresholds.
- Prohibit institutions from funding marketing, advertising and recruiting activities with federal financial aid dollars.
- Expand the reporting period for cohort default rates beyond three years.
- Require that for-profits receive 15% of revenues from non-federal sources.
- Extend the ban on incentive compensation to include all employees of institutions of higher education, and clarify that this ban extends to numeric threshold or quota-based termination policies.

The report was not adopted by the full Committee, and the minority Members released their own report criticizing the majority's investigation in many aspects, including that it did not include a review of all institutions of higher education.

On September 21, 2012, a group of senators wrote a letter to the Federal Trade Commission urging it to evaluate the marketing practices utilized by many proprietary institutions through the use of third-party lead generators. In addition, legislation was introduced in the Senate in April 2012, which remains pending in Committee, which would prevent institutions from using Title IV funds for marketing activities.

This increased congressional activity is expected to continue and may result in legislation, further rulemaking affecting participation in Title IV programs, and other governmental actions.

U.S. Department of Education

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. In October 2009, the Department of Education published final regulations to implement the HEOA's numerous new and revised requirements for higher education institutions. These regulations were effective July 1, 2010. On October 29, 2010, the Department of Education published final regulations regarding program integrity at higher education institutions (Program Integrity Regulations), most of which became effective July 1, 2011. On May 5, 2011, the Department of Education initiated a new negotiated rulemaking process on teacher preparation programs and federal student loans. The negotiations ended in April of 2012. The Department of Education has yet to issue a Notice of Proposed Rulemaking for public comment on these issues, which it must do prior to promulgating a final regulation.

In May of 2012, the Department of Education announced its intent to establish a negotiated rulemaking committee to prepare proposed regulations designed to prevent fraud and otherwise ensure proper use of Title IV, HEA program funds, especially in the context of current technologies. In particular, the Department of Education intends to propose regulations to address the use of debit cards and other banking mechanisms for disbursing Federal Student Aid funds, and to improve and streamline the campus-based Federal Student Aid programs. Public hearings were held in May 2012. On April 16, 2013, the Department of Education announced that it would add gainful employment, program integrity, Title IV cash management, and state authorization of distance education among others to this previously initiated negotiated rulemaking. In June of 2013, the Department announced that it would break out gainful employment, and establish a separate negotiated rulemaking committee for this purpose. The negotiated rulemaking committee dealing with gainful employment held several meetings in the third and fourth quarters of 2013, and the Department of Education is expected to issue a Notice of Proposed Rulemaking related to gainful employment in early 2014. A separate negotiated rulemaking involves implementation of the amendments to the campus safety and security reporting requirements in the HEA resulting from the enactment of the Violence Against Women Reauthorization Act of 2013.

State Licensure

Under the Program Integrity Regulations regarding state licensure, a proprietary institution is considered legally authorized by a state if the state has a process to review and appropriately act on complaints concerning the institution, including enforcing applicable state laws, and the institution complies with any applicable state approval or licensure requirements consistent with the Program Integrity Regulations. These requirements became effective July 1, 2011, and institutions were permitted to request a one-year extension of the effective date to July 1, 2012, and if necessary, an additional one-year extension to July 1, 2013.

If an institution offers post-secondary education through distance or correspondence education to students in a state in which it is not physically located or in which it is otherwise subject to state jurisdiction as determined by the state, the institution must meet any state requirements for it to be legally offering post-secondary distance or correspondence education in that state. On June 5, 2012, the Court of Appeals upheld a lower court's ruling vacating the state authorization of online programs requirement. On July 27, 2012, the Department of Education issued a Dear Colleague Letter cautioning education institutions to remain in compliance with all applicable state laws and regulations related to distance education. The Department of Education announced in April 2013 that distance education and state authorization will be considered as part of the current negotiated rulemaking, but thus far no action has been taken.

The final rule also amended the general provisions regarding student consumer information. Under this revision, the institution must make available for review to any enrolled or prospective student upon request, a copy of the documents describing the institution's accreditation and its state, federal, or tribal approval or licensing. The institution must also provide its students or prospective students with contact information for filing complaints with its accreditor and with its state approval or licensing entity and any other relevant state official or agency that would appropriately handle a student's complaint.

We are authorized to offer our programs by the applicable educational regulatory agencies in all states where our physical campuses and online delivery facilities are located, and these states have the applicable processes in place as required by the regulations.

Incentive Compensation

Institutions participating in the Title IV programs may not pay any commission, bonus, or other incentive payment based directly or indirectly on securing enrollments or financial aid to personnel engaged in recruitment or admissions or making decisions about awarding Title IV aid. Previously, there were 12 "safe harbors" relating to payment and compensation plans that institutions may practice without fear of violating the prohibition. The Program Integrity Regulations removed the safe harbors when they became effective on July 1, 2011.

The new regulations prohibit incentive compensation to employees engaged in any student recruitment or admission activity or in making decisions regarding the award of Title IV funds that is based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid. Merit-based adjustments to employee compensation may be made if they are not based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid. Profit-sharing payments may be made as long as they are not provided to any person who is engaged in student recruitment or admission activity or in making decisions regarding the award of Title IV funds. The regulations also obligate a third-party servicer to refer to the Office of Inspector General of the Department of Education any information indicating payment of any commission, bonus, or other incentive payment based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid to any person or entity engaged in any student recruitment or admission activity or in making decisions regarding the award of Title IV funds.

Misrepresentation

Under the Higher Education Act, the Department of Education may fine, suspend or terminate the participation in Title IV programs by an institution that engages in substantial misrepresentation of the nature of its educational program, its financial charges, or the employability of its graduates. The Program Integrity Regulations set forth the types of activities that constitute misrepresentation and describe the adverse actions that the Department of Education may take if it finds that an institution or a third party that provides educational programs, marketing, advertising, recruiting or admissions services to the institution engaged in substantial misrepresentation. The new rule specifies the types of statements that can subject the institution to liability for misrepresentation, the nature and form of misleading statements, and provides that an institution may not describe the eligible institution's participation in Title IV programs in a manner that suggests approval or endorsement by the U.S. Department of Education of the quality of its educational programs. On June 5, 2012, the U.S. Court of Appeals for the District of Columbia Circuit held that the Department of Education's expansion of the definition of misrepresentation to include "any statement that has the likelihood or tendency to deceive or confuse" was unsupported by law, and thus vacated that portion of the regulation.

Gainful Employment Reporting and Disclosure

Under the Higher Education Act, a proprietary institution offering programs of study other than a baccalaureate degree in liberal arts (for which there is a limited statutory exception) must prepare students for gainful employment in a recognized occupation. The Program Integrity Regulations established new annual reporting requirements that are applicable to these programs, and the first reports were due to the Department of Education on October 1, 2011, for the 2006-2007, 2007-2008, 2008-2009 and 2009-2010 federal financial aid award years. For each such program, Strayer University reported specific information regarding the program, the students enrolled in the program, and students who completed the program, including the amount the student received from private educational loans and institutional financing plans. In addition, the Program Integrity Regulations require institutions with gainful employment programs to disclose to prospective students certain information relating to those programs, including the occupations that the program prepares students to enter; the on-time graduation rate; tuition, fees, and costs; job placement rates, if applicable; and median loan debt of students who completed the program. Strayer University makes such disclosures on its website and in promotional materials. The June 30, 2012, U.S. District Court for the District of Columbia decision related to Gainful Employment vacated the reporting requirements, but the disclosure requirements remain in effect. The Department of Education required institutions to make the first disclosures by July 1, 2011, to update the disclosures for the 2011-2012 award year by January 31, 2013, and to update the disclosures for the 2012-2013 award year, using a newly developed template released by the Department of Education in November 2013 by January 31, 2014. We made our first disclosures in 2011, and completed timely updates of the disclosures for the 2011-2012 and 2012-2013 years.

New Programs

The Program Integrity Regulations established requirements intended to remain in place until the Department of Education implements performance-based standards for approving additional programs using gainful employment measures. These regulations required an institution to notify the Department of Education of new programs (defined in the regulations) that are subject to gainful employment requirements. Notification was to be made at least 90 days before the first day of class. The institution could proceed to offer the program, unless the Department of Education advised the institution that the additional educational program must be approved. This new program approval process was vacated by the U.S. District Court for the District of Columbia in its June 30, 2012 decision invalidating the gainful employment regulation. As such, institutions are following the rules on additional programs that immediately preceded the vacated gainful employment regulations.

Administration of Financial Aid

Several of the Program Integrity Regulations relate to the administration of financial aid, including the areas of the definition of online attendance, definition of credit hours, measuring satisfactory academic progress, return of federal funds when a student withdraws, verification and disbursement.

College Affordability and Transparency Lists

The Department of Education publishes on its website lists of the top 5% of institutions, in each of nine categories, with (1) the highest tuition and fees for the most recent academic year, (2) the highest "net price" for the most recent academic year, (3) the largest percentage increase in tuition and fees for the most recent three academic years, and (4) the largest percentage increase in net price for the most recent three academic years. An institution that is placed on a list for high percentage increases in either tuition and fees or in net price must submit a report to the Department of Education explaining the increases and the steps that it intends to take to reduce costs. The Department of Education will report annually to Congress on these institutions and will publish their reports on its web site. The Department of Education also posts lists of the top 10% of institutions in each of the nine categories with lowest tuition and fees or the lowest net price for the most recent academic year. Under HEOA, net price means average yearly price actually charged to first-time, full-time undergraduate students who receive student aid at a higher education institution after such aid is deducted.

Executive Order on Military and Veterans Benefits Programs

In April 2012, President Obama issued an Executive Order directing the Departments of Defense and Veterans Affairs, along with other Executive Branch agencies, to implement actions to establish "Principles of Excellence" to apply to educational institutions receiving funding from Federal military and veterans educational benefits programs, including benefits programs provided by the Post-9/11 GI Bill and the Tuition Assistance program. The Principles of Excellence relate broadly to information regarding tuition and fees, academic quality, marketing, and state authorization requirements.

Credit Hours

In 2009, the Department of Education's Office of Inspector General criticized three accreditors, including Middle States, for deficiency in their oversight of institutions' credit hour allocations. In June 2010, the House Education and Labor Committee held a hearing concerning accrediting agencies' standards for assessing institutions' credit hour policies. The Program Integrity Regulations define the term "credit hour" for the first time and require accrediting agencies to review the reliability and accuracy of an institution's credit hour assignments. If an accreditor does not comply with this requirement, its recognition by the Department of Education could be jeopardized. If an accreditor identifies systematic or significant noncompliance in one or more of an institution's programs, the accreditor must notify the Secretary of Education. If the Department of Education determines that an institution is out of compliance with the credit hour definition, the Department could impose liabilities or other sanctions.

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.

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 and related regulations subject Strayer University and all other higher education institutions that participate in the various Title IV programs to significant regulatory scrutiny.

The Higher Education Act mandates specific regulatory responsibilities for each of the following components of the higher education regulatory triad: (1) the federal government through the Department of Education; (2) the accrediting agencies recognized by the U.S. Secretary of Education (Secretary of Education) and (3) state education regulatory bodies. In addition, other federal agencies, such as the Consumer Financial Protection Bureau and Federal Trade Commission, and various state agencies and state Attorneys General enforce consumer protection laws applicable to post-secondary educational institutions.

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.

Title IV requirements are enforced by the Department of Education and in some instances by private plaintiffs. If we are found to be in noncompliance with 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. 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.

Regulatory changes by the Department of Education may have a material adverse effect on our business.

The Department of Education issued on October 28, 2010, final rules that address program integrity issues for post-secondary education institutions participating in Title IV programs, most of which took effect on July 1, 2011. On June 13, 2011, the Department of Education published final regulations on the metrics to determine whether an academic program prepares a student for gainful employment. Subsequent to the gainful employment metrics being invalidated by a federal court, the Department of Education established a negotiated rulemaking committee to consider the issue of gainful employment. The Committee did not achieve the required consensus. Although the Department of Education has not yet published a notice of proposed rulemaking, the Department has indicated that it expects to do so in early 2014. Although it is not yet known what will be included in the Department's Notice of Proposed Rulemaking, the most recent proposal by the Department put before the Committee included three metrics, as described herein. Failure of a program in any given year to meet the metrics would lead to heightened disclosure requirements and, if continuing, potential loss of eligibility to participate in Title IV programs. Although there is still uncertainty about the substance and timing of any final regulations related to debt metrics, compliance with the rules could affect how we conduct our business, and insufficient time or lack of sufficient guidance for compliance could have a material adverse effect on our business. Uncertainty surrounding the rules and interpretive guidance by the Department of Education may continue for some period of time and may adversely affect our business.

Congressional examination of for-profit post-secondary education could lead to legislation or other governmental action that may negatively affect the industry.

In 2010, the U.S. Congress increased its focus on for-profit education institutions, including regarding participation in Title IV programs and DOD oversight of tuition assistance for military service members attending for-profit colleges. Since June 2010, the Senate HELP Committee has held hearings to examine the proprietary education sector, and the final report of the majority Members of the Committee was critical of the industry as a whole. Further, the report recommended various reforms which would affect proprietary institutions' participation in Title IV programs. Other Committees of the U.S. Congress have also held hearings into, among other things, the standards and procedures of accrediting agencies, credit hours and program length, the portion of federal student financial aid going to proprietary institutions, and the receipt of veterans and military education benefits by students enrolled at proprietary institutions. Strayer University has cooperated with these inquiries. A number of legislators have variously requested the GAO to review and make recommendations regarding, among other things, recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in Title IV programs, and the percentage of proprietary institutions' revenue coming from Title IV and other federal funding sources. GAO released four reports on for-profit post-secondary education: first, a report in August 2010 (subsequently revised in November 2010) that concluded, based on a three-month undercover investigation, that employees at a non-random sample of 15 proprietary institutions (not including Strayer University) made deceptive statements to students about accreditation, graduation rates, job placement, program costs, and financial aid; second, a report in October 2010 critical of the Department of Education's efforts to enforce the ban on incentive payments; third, a report in October 2011 critical of the student experience and instructor performance at some for-profit online institutions; and fourth, a report in December 2011 comparing various student outcomes across proprietary, non-profit, and public institutions.

On July 30, 2012, the Senate HELP Committee released a report entitled “For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success.” While acknowledging that for-profit institutions have a role to play in higher education, the report criticized the proprietary institution industry on many fronts. However, the report also concluded that Strayer University's “performance, measured by student withdrawal rates, is one of the best of any company examined, and it appears that students are faring well at this degree based for-profit college.” S. Rept. 112-37. The report ultimately recommended several measures for reform which could change the participation of proprietary institutions in Title IV funding, including the following:

- Tie access to federal financial aid to minimum student outcome thresholds.
- Prohibit institutions from funding marketing, advertising and recruiting activities with federal financial aid dollars.
- Expand the reporting period for cohort default rates beyond three years.
- Require that for-profits receive 15% of revenues from non-federal sources.
- Extend the ban on incentive compensation to include all employees of institutions of higher education, and clarify that this ban extends to numeric threshold or quota-based termination policies.

The report was not adopted by the full Committee, and the minority Members released their own report criticizing the majority’s investigation in many aspects, including that it did not include a review of all institutions of higher education.

On September 21, 2012, a group of senators wrote a letter to the Federal Trade Commission urging it to evaluate the marketing practices utilized by many proprietary institutions through the use of third-party lead generators. In addition, legislation was introduced in the Senate in April 2012, which remains pending in Committee, which would prevent institutions from using Title IV funds for marketing activities.

This increased activity is expected to continue and may result in legislation, further rulemaking affecting participation in Title IV programs, and other governmental actions. In addition, concerns generated by Congressional activity may adversely affect enrollment in and revenues of for-profit educational institutions. Limitations on the amount of federal student financial aid for which our students are eligible under Title IV could materially and adversely affect our business.

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

The Higher Education Act (“HEA”), which is the law governing Title IV programs, is subject to periodic reauthorization. Congress completed the most recent reauthorization through multiple pieces of legislation and may reauthorize the HEA in a piecemeal manner in the future. 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. The HEA is currently operative through an automatic one-year extension, which continues the current authorization through September 30, 2014.

We are subject to compliance reviews, which, if they resulted in a material finding of non-compliance, could affect our ability to participate in Title IV programs.

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. In August 2010, the Secretary of Education announced plans to increase the number of program reviews by 50% to 300 in 2011. The Department of Education could limit, suspend, or terminate our participation in Title IV programs upon a material finding of non-compliance. The Department of Education last began such a program review of Strayer University's administration of Title IV programs in the third quarter of 2010. On December 22, 2011, the Department of Education notified Strayer University that its Program Participation Agreement was approved on a provisional basis because "the institution did not disburse Title IV funds timely to students in each payment period." On July 18, 2013, the University received its Final Program Review Determination from the Department, with no material adverse findings and no additional actions required.

If we fail to maintain our institutional accreditation or if our institutional accrediting body loses recognition by the Department of Education, we would lose our ability to participate in Title IV programs.

The loss of Strayer University's accreditation by Middle States or Middle States' loss of recognition by the Department of Education would 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. 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 or have other consequences.

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.

Each Strayer University campus 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 for students at the campus to participate in Title IV programs. The loss of state authorization 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.

Effective July 1, 2011, Department of Education regulations provide that a proprietary institution is considered legally authorized by a state if the state has a process to review and appropriately act on complaints concerning the institution, including enforcing applicable state laws, and the institution complies with any applicable state approval or licensure requirements consistent with the new rules. However, if a state in which Strayer has a physical campus fails to comply in the future with the provisions of the new rule or fails to provide the University with legal authorization, it could limit Strayer University's ability to operate in that state and have a material adverse effect on our operations.

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.

Each institution participating in Title IV programs must enter into a Program Participation Agreement with the Department of Education. Under the agreement, the institution agrees to follow the Department of Education's rules and regulations governing Title IV programs. On January 20, 2012, Strayer University executed a provisional Program Participation Agreement with the Department of Education allowing it to participate in Title IV programs until September 30, 2014. Under the provisional agreement, the only material additional condition that the University must comply with is obtaining Department of Education approval for substantial changes, including the addition of any new location, level of academic offering, or non-degree program.

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

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. 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. On December 22, 2011, the Department of Education notified Strayer University that its Program Participation Agreement was approved on a provisional basis because "the institution did not disburse Title IV funds timely to students in each payment period."

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. Institutions with a cohort default rate equal to or greater than 15%, but less than 25%, must delay for 30 days disbursements to first-year, first-time subsidized and unsubsidized Direct Loan borrowers. 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 is 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 (rather than next) federal fiscal year that follows that fiscal year. The two-year method of calculating rates remains in effect and is 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 two-year cohort default rates for the 2009, 2010, and 2011 federal fiscal years, the three most recent years for which this information is available, were 10.0%, 8.6%, and 10.5%, respectively. The average two-year cohort default rates for proprietary institutions nationally were 15.0%, 12.9%, and 13.6% for federal fiscal years 2009, 2010, and 2011, respectively. Strayer University's three-year cohort default rates for federal fiscal years 2009 and 2010, the only two years for which this information is currently available, were 13.9% and 15.2%, respectively. The average official three-year cohort default rates for proprietary institutions nationally were 22.7% and 21.8% for fiscal years 2009 and 2010, respectively.

Our school could lose its eligibility to participate in federal student financial aid programs or be provisionally certified with respect to such participation if the percentage of our revenues derived from those programs were too high.

A proprietary institution may lose its eligibility to participate in the federal student financial aid programs if it derives more than 90% of its revenues, on a cash basis, from these programs for two consecutive fiscal years. A proprietary institution of higher education that violates the 90/10 Rule for any fiscal year will be placed on provisional status for two fiscal years. Using the formula specified in the Higher Education Opportunity Act, we derived approximately 74% of our cash-basis revenues from these programs in 2012. Certain members of Congress have proposed to revise the 90/10 Rule to count DOD tuition assistance and veterans education benefits, along with Title IV revenue, toward the 90% limit and to reduce the limit to 85% of total revenue. If we were to violate the 90/10 Rule, the loss of eligibility to participate in the federal student financial aid programs would have a material adverse effect on our business.

Our failure to comply with the Department of Education's gainful employment regulations could result in heightened disclosure requirements and loss of Title IV eligibility.

To be eligible for Title IV funding, academic programs offered by proprietary institutions of higher education must prepare students for gainful employment in a recognized occupation. After the previously adopted gainful employment regulations were invalidated by a federal court, the Department of Education convened a negotiated rulemaking to propose new regulations related to gainful employment – which negotiations did not yield the required consensus. The Department is expected to issue a Notice of Proposed Rulemaking for public comment in early 2014. Although it is not yet known what metrics the Department will ultimately propose in its Notice expected in 2014, the last proposal put before the negotiated rulemaking committee by the Department of Education contained measurements of program cohort default rates, annual debt-to-earnings, and discretionary debt-to-earnings. Under this proposal a program would pass:

- If the program's cohort default rate is less than 30%; and
- If the program's graduates have an annual debt-to-earnings ratio that does not exceed 8%; or a discretionary debt-to-earnings ratio that does not exceed 20%.

In addition, a program that does not pass either of the debt-to-earnings metrics, and that has an annual debt-to-earnings ratio between 8% and 12%, or a discretionary debt-to-earnings ratio between 20% and 30%, would be considered to be in a warning zone. Under the annual and discretionary debt-to-earnings metrics, a program would become Title IV ineligible for three years if it fails to pass both metrics for two out of three consecutive years, or fails to pass at least one metric for four consecutive years. Under the program cohort default rate metric, a program would become Title IV ineligible for three years if the three-year default rate of three consecutive cohorts of students is greater than or equal to 30%. The regulations would provide a means by which an institution may challenge the Department of Education's calculation of any of the three debt metrics prior to loss of Title IV eligibility.

At this point, it is unknown what form any final regulation might take in relation to gainful employment and therefore the Company does not have adequate guidance or data to determine definitively the full financial or operational impact, if any, of potential new regulations going forward. Any gainful employment regulation may substantially increase our administrative burdens and could affect our student enrollment, persistence and retention. Further, although the regulations may provide opportunities for an institution to correct any potential deficiencies in a program prior to the loss of Title IV eligibility, the continuing eligibility of our academic programs may be affected by factors beyond management's control such as changes in our graduates' income levels, changes in student borrowing levels, increases in interest rates, changes in the percentage of former students who are current in the repayment of their student loans, and various other factors. Even if we were able to correct any deficiency in the gainful employment metrics in a timely manner, the disclosure requirements expected to be associated with a program's failure to meet the metrics may adversely affect student enrollments in that program and may adversely affect the reputation of our institution.

The University must still comply with certain gainful employment disclosure requirements, as originally promulgated and upheld by the District Court. Failure to comply with those requirements could result in sanctions or other liability, which could have a material adverse effect on our business.

Our failure to comply with the Department of Education's incentive compensation rules could result in sanctions and other liability.

If we pay a bonus, commission or other incentive payment in violation of applicable Department of Education rules or if the Department or other third parties interpret our compensation practices as such, we could be subject to sanctions or other liability, which could have a material adverse effect on our business.

Our failure to comply with the Department of Education's new misrepresentation rules could result in sanctions and other liability.

The Higher Education Act prohibits an institution that participates in Title IV programs from engaging in "substantial misrepresentation" of the nature of its educational program, its financial charges, or the employability of its graduates. The Department of Education's Program Integrity Regulations, which took effect July 1, 2011, interpret this provision to prohibit any statement on those topics, made by the institution or a third party that provides educational programs, marketing, advertising, recruiting, or admissions services to the institution, that has the likelihood or tendency to confuse. Although the U.S. Court of Appeals for the District of Columbia held on June 5, 2012, that the term "substantial misrepresentation" could not include true, nondeceitful statements that are merely confusing, the new misrepresentation rules are expansive. In the event of substantial misrepresentation, the Department of Education may revoke an institution's program participation agreement, limit the institution's participation in Title IV programs, deny applications from the institution such as to add new programs or locations, initiate proceedings to fine the institution or limit, suspend, or terminate its eligibility to participate in Title IV programs. If the Department of Education or other third parties interpret statements made by us or on our behalf to be in violation of the new regulations, we could be subject to sanctions and other liability, which could have a material adverse effect on our business.

Our failure to comply with the Department of Education's credit hour rule could result in sanctions and other liability.

In 2009, the Department of Education's Office of Inspector General criticized three accreditors, including Middle States, for deficiency in their oversight of institutions' credit hour allocations. In June 2010, the House Education and Labor Committee held a hearing concerning accrediting agencies' standards for assessing institutions' credit hour policies. The Program Integrity Regulations define the term "credit hour" for the first time and require accrediting agencies to review the reliability and accuracy of an institution's credit hour assignments. If an accreditor does not comply with this requirement, its recognition by the Department of Education could be jeopardized. If an accreditor identifies systematic or significant noncompliance in one or more of an institution's programs, the accreditor must notify the Secretary of Education. If the Department of Education determines that an institution is out of compliance with the credit hour definition, the Department could impose liabilities or other sanctions, which could have a material adverse effect on our business.

We are subject to sanctions if we fail to calculate accurately 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 required to post a letter of credit with the Department of Education or be subject to sanctions or other adverse actions by the Department of Education, which could have a material adverse effect on 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 HEOA contains new requirements pertinent to relationships between lenders and institutions. In 2009, the Department of Education promulgated regulations that address these relationships, and state legislators have also passed or may be considering legislation related to relationships between lenders and institutions. In addition, new procedures introduced and recommendations made by the Consumer Financial Protection Bureau create uncertainty about whether Congress will impose new burdens on private student lenders. These developments, as well as legislative and regulatory changes such as those relating to gainful employment and repayment rates creating uncertainty in the industry and general credit market conditions, may cause some lenders to decide not to provide certain loan products and may impose increased administrative and regulatory costs. Such actions could reduce demand for and/or availability of private education loans, decrease Strayer University's non-Title IV revenue and thereby increase Strayer University's 90/10 ratio and have a material adverse effect on our business.

We rely on one or more third parties to administer our participation in Title IV programs and failure to comply with applicable regulations by a third party or by us could cause us to lose our eligibility to participate in Title IV programs.

Until September 30, 2011, Global Financial Aid Services, Inc. assisted us with the administration of our participation in Title IV programs, and other third parties continue to assist us with other aspects of our participation in the Title IV programs. 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, including loss of eligibility to participate in Title IV programs. If any of the third-party servicers discontinue providing such services to us, we may not be able to replace them in a timely, cost-efficient, or effective manner, or at all, and we could lose our ability to comply with the requirements of the Title IV programs, which could adversely affect our enrollment, revenues and results of operations. Since September 30, 2011, we have directly administered Strayer University's participation in Title IV programs. If our financial aid personnel, processes, and quality assurance procedures fail to comply with applicable regulation, such failure could have a material adverse effect on Strayer University, including loss of eligibility to participate in Title IV programs.

Our business could be harmed if we experience a disruption in our ability to process student loans under the Federal Direct Loan Program.

We collected the majority of our fiscal year 2013 total consolidated net revenue from receipt of Title IV financial aid program funds, principally from federal student loans under the Federal Direct Loan Program. Any processing disruptions by the Department of Education may affect our students' ability to obtain student loans on a timely basis. If we experience a disruption in our ability to process student loans through the Federal Direct Loan Program, either because of administrative challenges on our part or the inability of the Department of Education to process the volume of direct loans on a timely basis, our business, financial condition, results of operations and cash flows could be adversely and materially affected.

Our business could be harmed if Congress makes changes to the availability of Title IV funds.

We collected the majority of our fiscal year 2013 total consolidated net revenue from receipt of Title IV financial aid program funds, principally from federal student loans under the Federal Direct Loan Program. Changes in the availability of these funds or a reduction in the amount of funds disbursed may have a material adverse effect on our enrollment, financial condition, results of operations and cash flows. Congress eliminated further federal direct subsidized loans for graduate and professional students as of July 1, 2012. On August 9, 2013, Congress passed legislation that ties interest rates on Title IV loans to the rate paid on U.S. Treasury bonds. Interest rates are set every July 1st for loans taken out from July 1st to June 30th of the following year. In April 2011, Congress eliminated year-round Pell Grant awards beginning with the 2011-2012 award year and in July 2012, Congress reduced eligibility for Pell Grants from 18 semesters to 12 semesters. To date these changes have not had a material impact on our business, but future changes in the availability of Title IV funds could impact students' ability to fund their education and thus may have a material adverse effect on our enrollment, financial condition, results of operations and cash flows.

Risks Related to Our Business

Our enrollment rate is uncertain, and we may not be able to assess our future enrollments effectively.

Our growth depends on a number of factors, including increased unemployment and the resulting lower confidence in job prospects, and many of the regulatory risks discussed above. In 2011, we revised our business model to acknowledge lower growth or reductions in enrollments. Our enrollment in 2014 is likely to be lower than our historical performance and will be affected by legislative uncertainty, regulatory activity, and market conditions. Until legislative, regulatory, and market uncertainty are resolved, it may be difficult to assess whether and to what extent there is an impact on our long-term growth prospects. In 2013, we closed physical locations to better align our resources with our current student enrollments. Although we may continue to invest in new campuses and to pursue our strategic goals in the future, there can be no assurance as to what our growth rate will be or as to the steps we may need to take if regulatory and legislative matters are not clarified or if market conditions do not stabilize.

Opening new campuses and adding new services are dependent on our forecast of the demand for adult-focused post-secondary education and on regulatory approvals.

Establishing new locations and adding new services require us to expend significant resources, including making human capital and financial capital investments, incurring marketing expenses and reallocating other resources. Since significant growth in enrollment in new campuses is required for them to become profitable, our willingness to add new campuses depends on our ability to predict growth in enrollment. The recent activity by the Department of Education and the U.S. Congress has introduced uncertainties into our business model and has slowed our pace of opening of new campuses, and we do not currently have plans to open new campuses in 2014. To open a new location, we are required to obtain appropriate federal, state, and accrediting agency approvals, which may be conditioned or delayed in a manner that could significantly affect our growth plans. We cannot assure investors that we will continue to open new campus locations or add new services in the future.

Our future success depends in part upon our ability to recruit and retain key personnel.

Our success to date has been, and our continuing success will be, substantially dependent upon our ability to attract and retain highly qualified executive officers, faculty and administrators and other key personnel. If we cease to employ any of these integral personnel or fail to manage a smooth transition to new personnel, our business could suffer.

Our success depends in part on our ability to update and expand the content of existing academic programs and develop new programs in a cost-effective manner and on a timely basis.

Our success depends in part on our ability to update and expand the content of our academic programs, develop new programs in a cost-effective manner and meet students' needs in a timely manner. Prospective employers of our graduates increasingly demand that their entry-level employees possess appropriate technological and other skills. The update and expansion of our existing programs and the development of new programs may not be received favorably by students, prospective employers or the online education market. If we cannot respond to changes in industry requirements, our business may be adversely affected. Even if we are able to develop acceptable new programs, we may not be able to introduce these new programs as quickly as students require due to regulatory constraints or as quickly as our competitors introduce competing new programs.

Our financial performance depends in part on our ability to continue to develop awareness of the academic programs we offer among working adult students.

The continued development of awareness of the academic programs we offer among working adult students is critical to the continued acceptance and growth of our programs. If we are unable to continue to develop awareness of the programs we offer, this could limit our enrollments and negatively impact our business. The following are some of the factors that could prevent us from successfully marketing our programs:

- the emergence of more successful competitors;
- customer dissatisfaction with our services and programs;
- performance problems with our online systems; and
- our failure to maintain or expand our brand or other factors related to our marketing.

Congressional and other governmental activities could damage the reputation of Strayer University and limit our ability to attract and retain students.

Since 2010, the U.S. Congress has increased its focus on proprietary educational institutions, including administration of Title IV programs, military assistance programs, and other federal programs. The Department of Education has indicated to Congress that it intends to increase its regulation of and attention to proprietary educational institutions. And the Government Accountability Office has released several reports of investigations into proprietary educational institutions. These and other governmental activities, including new regulations on program integrity and gainful employment, even if resulting in no adverse findings or actions against Strayer, singly or cumulatively could affect public perception of investor-funded higher education, damage the reputation of Strayer University, and limit our ability to attract and retain students.

We face strong competition in the post-secondary education market.

Post-secondary education in our market area is highly competitive. We compete with traditional public and private two-year and four-year colleges, other for-profit schools and alternatives to higher education, such as employment and military service. Public colleges may offer programs similar to those of Strayer University at a lower tuition level as a result of government subsidies, government and foundation grants, tax-deductible contributions and other financial sources not available to proprietary institutions. Some of our competitors in both the public and private sectors have substantially greater financial and other resources than we do. Congress, the Department of Education, and other agencies require increasing disclosure of information to consumers. While we believe that Strayer University provides valuable education to its students, we cannot predict the bases on which individual students and potential students will choose among the range of educational and other options available to them. This strong competition could adversely affect our business.

Strayer University relies on exclusive proprietary rights and intellectual property, and competitors may attempt to duplicate Strayer programs and methods.

Third parties may attempt to develop competing programs or duplicate or copy aspects of Strayer University's curriculum, online library, quality management and other proprietary content. Any such attempt, if successful, could adversely affect our business. In the ordinary course of its business, Strayer develops intellectual property of many kinds that is or will be the subject of copyright, trademark, service mark, patent, trade secret or other protections. Such intellectual property includes but is not limited to Strayer's courseware materials for classes taught online and business know-how and internal processes and procedures developed to respond to the requirements of its various education regulatory agencies.

Seasonal and other fluctuations in our operating results could adversely affect the trading price of our common stock.

Our business is subject to seasonal fluctuations, which cause our operating results to fluctuate from quarter to quarter. This fluctuation may result in volatility or have an adverse effect on the market price of our common stock. We experience, and expect to continue to experience, seasonal fluctuations in our revenue. Historically, our quarterly revenues and income have been lowest in the third quarter (July through September) because fewer students are enrolled during the summer months. We also incur significant expenses in the third quarter in preparing for our peak enrollment in the fourth quarter (October through December), including investing in online and campus infrastructure necessary to support increased usage. These investments result in fluctuations in our operating results which could result in volatility or have an adverse effect on the market price of our common stock. In addition, the online education market is a rapidly evolving market, and we may not be able to forecast accurately future enrollment growth and revenues.

Regulatory requirements may make it more difficult to acquire us.

A change in ownership resulting in a change of control of Strayer would trigger a requirement for recertification of Strayer University by the Department of Education for purposes of participation in federal student financial aid programs, a review of Strayer University's accreditation by Middle States and reauthorization of Strayer University by certain state licensing and other regulatory agencies. If we 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 our ability to offer certain educational programs, award certain degrees, diplomas or certificates, operate one or more of our locations, admit certain students or participate in Title IV programs, which in turn could have a material adverse effect on our business. These factors may discourage takeover attempts.

Capacity constraints or system disruptions to Strayer University's computer networks could damage the reputation of Strayer University and limit our ability to attract and retain students.

The performance and reliability of Strayer University's computer networks, especially the online educational platform, is critical to our reputation and ability to attract and retain students. Any system error or failure, or a sudden and significant increase in traffic, could result in the unavailability of Strayer University's computer networks. We cannot assure you that Strayer University, including its online educational platform, will be able to expand its program infrastructure on a timely basis sufficient to meet demand for its programs. Strayer University's computer systems and operations could be vulnerable to interruption or malfunction due to events beyond its control, including natural disasters and telecommunications failures. Any interruption to Strayer University's computer systems or operations could have a material adverse effect on our ability to attract and retain students.

Strayer University's computer networks may be vulnerable to security risks that could disrupt operations and require it to expend significant resources.

Strayer University's computer networks may be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in operations. As a result, Strayer University may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches.

The personal information that we collect may be vulnerable to breach, theft or loss that could adversely affect our reputation and operations.

Possession and use of personal information in our operations subject us to risks and costs that could harm our business. We collect, use and retain large amounts of personal information regarding our students and their families, including social security numbers, tax return information, personal and family financial data and credit card numbers. We also collect and maintain personal information of our employees in the ordinary course of our business. Some of this personal information is held and managed by certain of our vendors. Although we use security and business controls to limit access and use of personal information, a third party may be able to circumvent those security and business controls, which could result in a breach of student or employee privacy. In addition, errors in the storage, use or transmission of personal information could result in a breach of student or employee privacy. Possession and use of personal information in our operations also subjects us to legislative and regulatory burdens that could require notification of data breaches and restrict our use of personal information. We cannot assure you that a breach, loss or theft of personal information will not occur. A breach, theft or loss of personal information regarding our students and their families or our employees that is held by us or our vendors could have a material adverse effect on our reputation and results of operations and result in liability under state and federal privacy statutes and legal actions by state authorities and private litigants, and any of which could have a material adverse effect on our business.

Strayer University, with its online programs, operates in a highly competitive market with rapid technological changes and it may not compete successfully.

Online education is a highly fragmented and competitive market that is subject to rapid technological change. Competitors vary in size and organization from traditional colleges and universities, many of which have some form of online education programs, to for-profit schools, corporate universities and software companies providing online education and training software. We expect the online education and training market to be subject to rapid changes in technologies. Strayer University's success will depend on its ability to adapt to these changing technologies.

We may not be able to complete or integrate any future acquisitions successfully.

As part of our growth strategy, we expect to consider selective acquisitions. We cannot assure investors that we will be able to complete successfully any acquisitions on favorable terms, or that if we do, we will be able to integrate successfully the personnel, operations and technologies of any such acquisitions. Our failure to complete or integrate successfully future acquisitions could disrupt our business and materially and adversely affect our profitability and liquidity by distracting our management and employees and increasing our expenses. In addition, because an acquisition is considered a change in ownership and control of the acquired institution under applicable regulatory standards, we must seek approval from the Department of Education if the acquired institution participates in Title IV programs, and most applicable state agencies and accrediting agencies and possibly other regulatory bodies when we acquire an institution. If we were unable to obtain such approvals of an institution we acquired, depending on the size of that acquisition, that failure could have a material adverse effect on our business.

Item 1B. Unresolved Staff Comments

There are no SEC staff comments on our periodic SEC reports which are unresolved.

Item 2. Properties

Except for five campus facilities which we own, our campus and administrative facilities are leased. Our facilities are located predominantly in the Eastern United States, and our corporate headquarters is located in Herndon, Virginia. Our leases generally range from five to 10 years with one to two renewal options for extended terms. As of December 31, 2013, we leased 99 campus and administrative facilities consisting of approximately 1.8 million square feet. The facilities that we own consist of approximately 110,000 square feet.

As announced in October 2013, we closed approximately 20 physical locations predominantly in the Midwest. These locations, representing approximately 325,000 square feet of our 1.8 million square feet under lease, have remaining lease obligations ranging from two to eight years. We are evaluating various options to address unused facility space including sublets, both short-term and long-term, and lease buyouts.

We evaluate current utilization of our facilities and anticipated enrollment to determine facility needs. We do not anticipate any significant addition of campus or administrative space in 2014.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market under the symbol "STRA." The following table sets forth, for the periods indicated, the high, low, and closing sale prices of our common stock, as reported on the NASDAQ Stock Market.

	High	Low	Close	Cash Dividends Declared
2012				
First Quarter	$ 120.00	$ 92.51	$ 94.28	$ 1.00
Second Quarter	$ 109.50	$ 82.46	$ 109.02	$ 1.00
Third Quarter	$ 113.28	$ 62.53	$ 64.35	$ 1.00
Fourth Quarter	$ 69.16	$ 42.98	$ 56.17	$ 1.00
2013				
First Quarter	$ 64.70	$ 46.31	$ 48.38	$ --
Second Quarter	$ 58.55	$ 44.50	$ 48.83	$ --
Third Quarter	$ 52.85	$ 39.27	$ 41.52	$ --
Fourth Quarter	$ 49.99	$ 33.64	$ 34.47	$ --

As of January 31, 2014, there were 10,797,237 shares of common stock outstanding, and approximately 114 holders of record.

In 2012, we paid $47.3 million in dividends, or $1.00 per share each quarter. We did not pay a regular quarterly dividend in 2013. Whether to declare dividends and the amount of dividends to be paid in the future will be reviewed periodically by our Board of Directors in light of our earnings, cash flow, financial condition, capital needs, investment opportunities and regulatory considerations. There is no requirement or assurance that common dividends will be paid in the future.

Peer Group Performance Graph

The following performance graph compares the cumulative stockholder return on our common stock since December 31, 2008 with The NASDAQ Stock Market (U.S.) Index and a self-determined peer group consisting of Apollo Group, Inc. (APOL), Career Education Corporation (CECO), Corinthian Colleges, Inc. (COCO), DeVry, Inc. (DV), and ITT Educational Services, Inc. (ESI). At present, there is no comparative index for the education industry. This graph is not deemed to be "soliciting material" or to be filed with the SEC or subject to the SEC's proxy rules or to the liabilities of Section 18 of the Securities Exchange Act, and the graph shall not be deemed to be incorporated by reference into any of our prior or subsequent filings under the Securities Act or the Securities Exchange Act.

Comparison of 60 Month Cumulative Total Return*
Among Strayer Education, Inc.
The NASDAQ Stock Market (U.S.) Index and a Peer Group

Name	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Strayer Education, Inc.	100	99	71	45	26	16
NASDAQ Stock Market (U.S.)	100	144	168	165	191	265
Peer Group	100	99	70	51	24	35

*The comparison assumes $100 was invested on December 31, 2008 in our common stock, the NASDAQ Stock Market (U.S.) Index and the peer companies selected by us.

There were no sales by us of unregistered securities during the year ended December 31, 2013.

In November 2003, our Board of Directors authorized us to repurchase shares of common stock in open market purchases from time to time at the discretion of our management, depending on market conditions and other corporate considerations. Our Board of Directors amended the program on various dates, increasing the repurchase amount authorized and extending the expiration date. At December 31, 2013, approximately $70.0 million of our share repurchase authorization was remaining for repurchases through the end of 2014. All of our share repurchases were effected in compliance with Rule 10b-18 under the Exchange Act. Some repurchases have been made in accordance with a share repurchase plan adopted by us under Rule 10b5-1 under the Exchange Act. Our share repurchase program may be modified, suspended or terminated at any time by us without notice.

A summary of our share repurchases since the inception of the plan is as follows:

	Total number of shares repurchased	Average dollar price paid per share	Cost of share repurchases (millions)
2003	32,350	$ 99.57	$ 3.2
2004	346,444	106.13	36.8
2005	410,071	92.59	38.0
2006	349,066	100.39	35.0
2007	260,818	146.05	38.1
2008	603,382	180.86	109.1
2009	451,613	177.34	80.1
2010	687,340	168.06	115.5
2011	1,581,444	128.15	202.7
2012	484,841	51.56	25.0
2013	495,085	50.49	25.0
Total	5,702,454	$ 124.24	$ 708.5

We did not make any share repurchases during the three months ended December 31, 2013.

Item 6. Selected Financial Data

The following table sets forth, for the periods and at the dates indicated, selected consolidated financial and operating data. The financial information has been derived from our consolidated financial statements. The information set forth below is qualified by reference to and should be read in conjunction with our consolidated financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other information included elsewhere or incorporated by reference in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2009	2010	2011	2012	2013
	(Dollar and share amounts in thousands, except per share data)				
Income Statement Data:					
Revenues	$ 511,961	$ 636,732	$ 627,434	$ 561,979	$ 503,600
Costs and expenses:					
Instruction and educational support	218,551	269,557	292,003	300,098	310,446
Marketing	54,967	70,270	74,293	71,864	75,426
Admissions advisory	23,017	25,277	26,531	26,374	20,390
General and administration	43,072	55,857	55,464	50,056	64,637
Total costs and expenses	339,607	420,961	448,291	448,392	470,899
Income from operations	172,354	215,771	179,143	113,587	32,701
Investment and other income	1,408	1,228	152	4	2
Interest expense	–	–	3,773	4,616	5,419
Income before income taxes	173,762	216,999	175,522	108,975	27,284
Provision for income taxes	68,684	85,739	69,478	43,045	10,859
Net income	$ 105,078	$ 131,260	$ 106,044	$ 65,930	$ 16,425
Net income per share:					
Basic	$ 7.67	$ 9.78	$ 8.91	$ 5.79	$ 1.55
Diluted	$ 7.60	$ 9.70	$ 8.88	$ 5.76	$ 1.55
Weighted average shares outstanding:					
Basic	13,703	13,426	11,906	11,390	10,584
Diluted(a)	13,825	13,535	11,943	11,440	10,624
Other Data:					
Depreciation and amortization	$ 13,937	$ 17,309	$ 21,525	$ 23,973	$ 35,563
Stock-based compensation expense	$ 10,954	$ 11,987	$ 13,234	$ 5,464	$ 9,291
Capital expenditures	$ 30,431	$ 46,015	$ 29,991	$ 24,733	$ 8,726
Cash dividends per common share (paid)	$ 2.25	$ 3.25	$ 4.00	$ 4.00	$ –
Average enrollment(b)	47,142	56,002	53,901	49,323	43,969
Campuses(c)	71	84	92	97	100
Full-time employees(d)	1,811	2,099	2,140	2,019	1,485

	At December 31,				
	2009	2010	2011	2012	2013
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 116,516	$ 76,493	$ 57,137	$ 47,517	$ 94,760
Working capital(e)	105,735	62,205	17,484	46,631	82,182
Total assets	238,441	235,178	231,133	227,792	254,266
Long-term debt	–	–	90,000	121,875	118,750
Other long-term liabilities	11,745	12,644	21,656	21,905	51,456
Total liabilities	48,621	59,174	188,840	186,804	215,364
Total stockholders’ equity	189,820	176,004	42,293	40,988	38,902

(a) Diluted weighted average shares outstanding include common shares issued and outstanding, and the dilutive impact of restricted stock, restricted stock units, and outstanding stock options using the Treasury Stock Method.

(b) Reflects average student enrollment for the four academic terms for each year indicated.

(c) Reflects number of campuses offering classes during the fourth quarter of each year indicated. In October 2013, we announced that approximately 20 physical locations would be closed after classes were taught in the fall academic term. Following these closures, the University will have approximately 80 physical campuses.

(d) Reflects full-time employees including full-time faculty as of December 31 of each year.

(e) Working capital is calculated by subtracting current liabilities from current assets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with "Selected Historical Financial and Other Information," our consolidated financial statements and the notes thereto, the "Cautionary Notice Regarding Forward-Looking Statements," Item 1A entitled "Risk Factors" and the other information appearing elsewhere, or incorporated by reference, in this Annual Report on Form 10-K.

Background and Overview

We are an education services holding company that owns Strayer University. Strayer University is an institution of higher education which offers undergraduate and graduate degree programs at physical campuses, predominantly located in the Eastern United States, and online.

Set forth below are average enrollment, full-time tuition rates, revenues, income from operations, net income, and diluted net income per share for the last three years.

	Year Ended December 31,		
	2011	2012	2013
Average enrollment	53,901	49,323	43,969
% Change from prior year	(4%)	(8%)	(11%)
Full-time tuition (per course)	$ 1,590	$ 1,650	$ 1,700
% Change from prior year	5%	4%	3%
Revenues (in thousands)	$ 627,434	$ 561,979	$ 503,600
% Change from prior year	(1%)	(10%)	(10%)
Income from operations (in thousands)	$ 179,143	$ 113,587	$ 32,701
% Change from prior year	(17%)	(37%)	(71%)
Net income (in thousands)	$ 106,044	$ 65,930	$ 16,425
% Change from prior year	(19%)	(38%)	(75%)
Diluted net income per share	$ 8.88	$ 5.76	$ 1.55
% Change from prior year	(8%)	(35%)	(73%)

Strayer University derives approximately 96% of its revenue from tuition collected from its students. The academic year of the University is divided into four quarters, which approximately coincide with the four quarters of the calendar year. Students make payment arrangements for the tuition for each course at the time of enrollment. Tuition revenue is recognized in the quarter of instruction. If a student withdraws from a course prior to completion, the University refunds a portion of the tuition depending on when the withdrawal occurs. Tuition revenue is shown net of any refunds, withdrawals, corporate discounts, employee tuition discounts and scholarships. The University also derives revenue from other sources such as textbook-related income, application fees, technology fees, placement test fees, withdrawal fees, certificate revenue, and other income, which are all recognized when earned.

We record tuition receivable and unearned tuition for our students upon the start of the academic term. Because the University's academic quarters coincide with the calendar quarters, at the end of the fiscal quarter (and academic term), tuition receivable represents amounts due from students for educational services already provided and unearned tuition represents advance payments from students for academic services to be provided in the future. Based upon past experience and judgment, the University establishes an allowance for doubtful accounts with respect to accounts receivable. Any uncollected account more than one year past due is charged against the allowance. Accounts less than one year past due are reserved according to the length of time the balance has been outstanding. We also consider the likelihood of recovering balances that have previously been written off, based on our historical experience of recovering portions of these balances. Our estimates are subject to adjustment if future results are materially different than what we have experienced historically. Our bad debt expense as a percentage of revenues for the years ended December 31, 2011, 2012, and 2013, was 4.0%, 4.2% and 4.4%, respectively.

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

- Instruction and educational support expenses generally contain items of expense directly attributable to educational activities of the University. This expense category includes salaries and benefits of faculty and academic administrators, as well as administrative personnel who support and serve student interests. Instruction and educational support expenses also include costs of educational supplies and facilities, including rent for campus facilities, certain costs of establishing and maintaining computer laboratories and all other physical plant and occupancy costs, with the exception of costs attributable to the corporate offices. Bad debt expense incurred on delinquent student account balances is also included in instruction and educational support expenses.

- Marketing expenses include the costs of advertising and production of marketing materials and related personnel costs.

- Admissions advisory expenses include salaries, benefits and related costs of personnel engaged in admissions.

- General and administration expenses include salaries and benefits of management and employees engaged in accounting, human resources, legal, regulatory compliance, and other corporate functions, along with the occupancy and other related costs attributable to such functions.

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

Critical Accounting Policies and Estimates

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

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

Revenue recognition – Our educational programs are offered on a quarterly basis, and such periods coincide with our quarterly financial reporting periods. Approximately 96% of our revenues during the year ended December 31, 2013, consisted of tuition revenue. Tuition revenue is recognized in the quarter of instruction. Tuition revenue is shown net of any refunds, withdrawals, corporate discounts, scholarships and employee tuition discounts. At the start of each academic term, a liability (unearned tuition) is recorded for academic services to be provided and a tuition receivable is recorded for the portion of the tuition not paid upfront in cash. Any cash received prior to the start of an academic term is recorded as unearned tuition.

Our Graduation Fund is a program whereby eligible students may earn tuition credits at the end of their course of study if they successfully remain in the program. For our Graduation Fund, we estimate on a quarterly basis the value of awards earned that will be redeemed in a future period and adjust this estimate as necessary. This estimate is a function of the continuation rates of students with similar characteristics, and is subject to adjustment if student continuation rates vary significantly from prior experience. Our continuation rates have not varied materially from our estimates to date. If student continuation rates increase, we may increase our liability as students would be earning a greater benefit than previously estimated.

Tuition receivable – We record estimates for our allowance for doubtful accounts for tuition receivable from students primarily based on our historical collection rates by age of receivable (net of recoveries) and consideration of other relevant factors. We periodically assess our methodologies for estimating bad debts in consideration of actual experience. If the financial condition of our students were to deteriorate, resulting in evidence of impairment of their ability to make required payments for tuition payable to us, additional allowances or write-offs may be required. During 2012 and 2013, our bad debt expense was 4.2% and 4.4% of revenue, respectively.

Accrued lease and related costs – We estimate potential sublease income and vacancy periods for space that is not in use, adjusting our estimates when circumstances change. If we enter into subleases at rates that are substantially different that our current estimates, we will adjust our liability for lease and related costs.

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

Results of Operations

In 2013, we generated $503.6 million in revenue, a 10% decrease compared to 2012, primarily as a result of a decline in average enrollment of 11%. Income from operations was $32.7 million in 2013, a decrease of 71% compared to 2012. Income from operations in 2013 is net of $54.7 million in charges related to the Company’s previously announced restructuring. Net income in 2013 was $16.4 million compared to $65.9 million for the same period in 2012, a decrease of 75%. Net income for 2013 is net of approximately $33.0 million in after tax charges related to the restructuring. Diluted earnings per share was $1.55 compared to $5.76 for the same period in 2012, a decrease of 73%. Diluted earnings per share for the year is net of $3.10 per share in after tax charges related to the restructuring.

In October 2013, the Company implemented various restructuring initiatives to better align the Company's resources with its current student enrollments. These restructuring initiatives, which occurred primarily in the fourth quarter of 2013, include the closing of approximately 20 physical locations and reductions in the number of campus-based and corporate employees. The Company incurred the following charges associated with these activities in the fourth quarter of 2013, and recorded them in the following line items in the statement of operations below:

	Year Ended December 31, 2013		
($ in thousands)	Lease and Related Costs, Net	Severance and Other Employee Separation Costs	Total
Instruction & educational support	$30,612	$5,548	$36,160
Marketing	—	120	120
Admissions advisory	—	248	248
General & administration	17,180	982	18,162
Total charges	$47,792	$6,898	$54,690

The following details the changes in the Company's restructuring liability by type of cost during the year ended December 31, 2013:

($ in thousands)	Lease and Related Costs, Net	Severance and Other Employee Separation Costs	Total
Balance at December 31, 2012	$—	$—	$—
Restructuring and other charges (1)	47,792	6,898	54,690
Non-cash adjustments(2)	(5,139)	1,438	(3,701)
Payments	(103)	(6,120)	(6,223)
Balance at December 31, 2013(1)	$42,550	$2,216	$44,766

(1) The current portion of our restructuring liabilities was $10.4 million as of December 31, 2013, most of which are included in Accounts payable and accrued expenses, and the long-term portion is included in Other long-term liabilities in the Consolidated Balance Sheets. The gross obligation associated with restructuring liabilities as of December 31, 2013, is approximately $44.8 million, which principally represents non-cancelable leases that will be paid over the respective lease terms through 2022.

(2) A total of $48.5 million of non-cash charges were incurred in connection with the restructuring. Non-cash adjustments for lease and related costs include $10.9 million of accelerated depreciation, partially offset by the release of certain deferred rent and leasehold incentive liabilities of approximately $5.7 million. Non-cash adjustments for severance and other employee separation costs represent share-based compensation.

Key enrollment trends by quarter were as follows:

Academic Term	2012	2013	%	% Change

			Change	in new students
Winter	50,432	47,926	-5%	-5%
Spring	50,896	46,130	-9%	-14%
Summer	44,236	38,627	-13%	-17%
Fall	51,727	43,192	-17%	-23%
Average	49,323	43,969	-11%	-16%

Although we do not know for sure why our enrollment trends and that of the proprietary higher education sector generally have been negative, we believe that sustained levels of high unemployment, the resulting lower confidence in job prospects, competition, and the high cost of a college education are all contributing factors. The 16% decline in our new students in 2013 will have an adverse impact on 2014 enrollment since there will be fewer students from 2013 continuing their education in 2014. We believe it will take several quarters of new student growth in order to achieve overall enrollment growth.

We cannot predict future enrollments or whether new student enrollment will decline further, stabilize or increase in response to the economy or other factors. However, we have introduced a number of initiatives in response to these declining enrollment trends. Recognizing that affordability is an important factor in a prospective student's decision to seek a college degree, we reduced our undergraduate tuition for new students by 20% beginning in our 2014 winter academic term. As an extra incentive to encourage our students to continue their studies through to graduation, we introduced our Graduation Fund in mid-2013. Under this program, qualifying students receive one free course for every three courses taken. The free courses earned are redeemable in one's final academic year. In 2013, as described above, we undertook some restructuring initiatives, including the closing of approximately 20 physical locations. The revenue impact of these initiatives is not known since the University is making online classes available to these students. However, we estimate these actions will save us approximately $50 million in expenses per year beginning in 2014. This figure is based upon various assumptions about our ability to sublease or otherwise mitigate lease costs, which may be greater or less than expected. A description of factors that may affect the contract lease costs included in the expected savings is set forth in Note 3 of the Consolidated Financial Statements under the caption "Restructuring and Related Charges." We believe these measures and others that are embedded in our strategic priorities will allow us to continue to deliver high quality, affordable education which should result in continued growth for the University over the long-term.

The following table sets forth certain income statement data as a percentage of revenues for the periods indicated:

	Year Ended December 31,		
	2011	2012	2013
Revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Instruction and educational support	46.6	53.4	61.7
Marketing	11.8	12.8	15.0
Admissions advisory	4.2	4.7	4.0
General and administration	8.8	8.9	12.8
Total Costs and expenses	71.4	79.8	93.5
Income from operations	28.6	20.2	6.5
Investment income	–	–	–
Interest expense	0.6	0.8	1.1
Income before income taxes	28.0	19.4	5.4
Provision for income taxes	11.1	7.7	2.1
Net income	16.9%	11.7%	3.3%
Effective tax rate	39.6%	39.5%	39.8%

Year Ended December 31, 2013 Compared To Year Ended December 31, 2012

Enrollment. Average enrollment decreased 11% to 43,969 students for the year ended December 31, 2013 from 49,323 students for the same period in 2012.

Revenues. Revenues decreased 10% to $503.6 million in 2013 from $562.0 million in 2012 principally due to lower average enrollment. In late 2013, we introduced a new pricing structure for new undergraduate students which could significantly reduce their cost of tuition. A shift in enrollment toward students eligible for the lower tuition will result in lower revenue per student in the future.

Instruction and educational support expenses. Instruction and educational support expenses increased $10.3 million, or 3%, to $310.4 million in 2013 from $300.1 million in 2012. This increase is primarily attributable to lease abandonments, asset write-offs, and severance charges of $36.2 million associated with the restructuring, partially offset by lower overall personnel-related costs due to lower average enrollment. These expenses as a percentage of revenues increased to 61.7% in 2013 from 53.4% in 2012. We believe instruction and educational support expenses will decline in the aggregate in the future as a result of savings expected to be achieved as a result of the restructuring, which primarily will affect instruction and educational support expenses and general and administration expenses.

Marketing expenses. Marketing expenses increased $3.5 million, or 5%, to $75.4 million in 2013 from $71.9 million in 2012. This increase is primarily due to the full year impact in 2013 of new markets opened during 2012. These expenses as a percentage of revenues increased to 15.0% in 2013 from 12.8% in 2012, largely due to marketing expenses increasing while tuition revenues declined. Although we implemented restructuring initiatives in 2013, we expect to continue to invest in our marketing efforts such that marketing expense may increase as a percentage of revenue in 2014 as compared to 2013.

Admissions advisory expenses. Admissions advisory expenses decreased by $6.0 million, or 23%, to $20.4 million in 2013 from $26.4 million in 2012, primarily as a result of lower personnel costs from consolidating Global Online centers in the fourth quarter of 2012. Admissions advisory expenses as a percentage of revenues decreased to 4.0% in 2013 from 4.7% in 2012 due to these expenses declining at a higher rate than tuition revenues.

General and administration expenses. General and administration expenses increased $14.5 million, or 29%, to $64.6 million in 2013 from $50.1 million in 2012. The increase is primarily attributable to one-time lease abandonment, asset write-off, and severance charges of $18.2 million associated with the restructuring initiatives, partially offset by lower overall personnel-related costs. General and administration expenses as a percentage of revenues increased to 12.8% in 2013 compared to 8.9% in 2012 due to these expenses increasing while tuition revenues declined. We believe general and administration expenses will decline in the aggregate in the future as a result of savings expected to be achieved as a result of the restructuring, which primarily will affect instruction and educational support expenses and general and administration expenses.

Income from operations. Income from operations decreased $80.9 million, or 71%, to $32.7 million in 2013 from $113.6 million in 2012, primarily due to the $54.7 million incurred with the restructuring and due to the aforementioned factors.

Investment income. Investment income decreased from approximately $4,000 in 2012 to approximately $2,000 in 2013.

Interest expense. Interest expense increased $0.8 million, or 17%, to $5.4 million in 2013 compared to $4.6 million in 2012, primarily due to higher average debt outstanding in 2013.

Provision for income taxes. Income tax expense decreased $32.1 million, or 75%, to $10.9 million in 2013 from $43.0 million in 2012, primarily due to the decrease in income before taxes attributable to the factors discussed above. Our effective tax rate was 39.8% for 2013 as compared to 39.5% for 2012.

Net income. Net income decreased $49.5 million, or 75%, to $16.4 million in 2013 from $65.9 million in 2012 due to the factors discussed above.

Year Ended December 31, 2012 Compared To Year Ended December 31, 2011

Enrollment. Average enrollment decreased 8% to 49,323 students for the year ended December 31, 2012 from 53,901 students for the same period in 2011.

Revenues. Revenues decreased 10% to $562.0 million in 2012 from $627.4 million in 2011 principally due to lower average enrollment.

Instruction and educational support expenses. Instruction and educational support expenses increased $8.1 million, or 3%, to $300.1 million in 2012 from $292.0 million in 2011. This increase includes approximately $6.0 million of additional costs necessary to support our opening of eight new campuses during 2012, and approximately $2.4 million of one-time costs associated with the consolidation of certain non-campus functions. These expenses as a percentage of revenues increased to 53.4% in 2012 from 46.6% in 2011, largely due to instructional and academic staff costs growing while tuition revenues declined.

Marketing expenses. Marketing expenses decreased $2.4 million, or 3%, to $71.9 million in 2012 from $74.3 million in 2011. These expenses as a percentage of revenues increased to 12.8% in 2012 from 11.8% in 2011, largely due to marketing expenses decreasing at a lower rate than tuition revenue.

Admissions advisory expenses. Admissions advisory expenses decreased slightly by $0.1 million, or 1%, to $26.4 million in 2012 from $26.5 million in 2011. Admissions advisory expenses as a percentage of revenues increased to 4.7% in 2012 from 4.2% in 2011 as these expenses remained largely unchanged while tuition revenue declined.

General and administration expenses. General and administration expenses decreased $5.4 million, or 10%, to $50.1 million in 2012 from $55.5 million in 2011. The decrease is primarily attributable to lower stock-based compensation expense of $7.0 million related to certain awards with performance criteria that are unlikely to be met, partially offset by one-time charges including costs associated with the consolidation of certain administrative functions. General and administration expenses as a percentage of revenues remained largely unchanged at 8.9% in 2012 compared to 8.8% in 2011.

Income from operations. Income from operations decreased $65.5 million, or 37%, to $113.6 million in 2012 from $179.1 million in 2011, due to the aforementioned factors.

Investment income. Investment income decreased from $0.2 million to approximately $4,000 in 2012. This decrease was principally due to lower investment yields on existing cash balances.

Interest expense. Interest expense increased $0.8 million, or 22% to $4.6 million in 2012 compared to $3.8 million in 2011 primarily due to higher average borrowings in 2012.

Provision for income taxes. Income tax expense decreased $26.5 million, or 38%, to $43.0 million in 2012 from $69.5 million in 2011, primarily due to the decrease in income before taxes attributable to the factors discussed above. Our effective tax rate was 39.5% for 2012 as compared to 39.6% for 2011.

Net Income. Net income decreased $40.1 million, or 38%, to $65.9 million in 2012 from $106.0 million in 2011 due to the factors discussed above.

Seasonality

Our quarterly results of operations tend to vary significantly within a year because of student enrollment patterns. Enrollment is generally lowest in the third quarter, or summer term. In 2013, enrollment by term was as follows:

2013 Enrollment by Term

Term	Enrollment
Winter	47,926
Spring	46,130
Summer	38,627
Fall	43,192
Average	43,969

The following table sets forth our revenues on a quarterly basis for the years ended December 31, 2011, 2012 and 2013:

Quarterly Revenues
(dollars in thousands)

	2011		2012		2013	
Three Months Ended	Amount	Percent	Amount	Percent	Amount	Percent
March 31	$ 171,956	27%	$ 149,532	27%	$ 137,506	27%
June 30	163,789	26	146,254	26	131,980	26
September 30	135,865	22	124,260	22	110,031	22
December 31	155,824	25	141,933	25	124,083	25
Total for year	$ 627,434	100%	$ 561,979	100%	$ 503,600	100%

Costs generally are not affected by the seasonal factors as much as enrollment and revenue, and excluding one-time items, do not vary significantly on a quarterly basis.

Liquidity and Capital Resources

At December 31, 2013, we had cash and cash equivalents of $94.8 million compared to $47.5 million at December 31, 2012. At December 31, 2013, most of our cash was invested in bank overnight deposits.

On November 8, 2012, we entered into a second amended and restated revolving credit and term loan agreement which is secured by our assets and provides for a $100.0 million revolving credit facility and $125.0 million term loan facility with a maturity date of December 31, 2016. Proceeds from the new term loan were used to pay off $77.5 million outstanding under our existing term loan facility. The amended credit facility is used for general corporate purposes including share repurchases. The amended credit facility is guaranteed by the University and is secured by substantially all of the personal property and assets of the Company and the guarantor.

The term loan portion of the amended credit facility requires quarterly principal payments of $781,250 beginning in March 2013 through December 2014, and $1,562,500 beginning in March 2015. Any remaining principal is payable in full on December 31, 2016. Borrowings bear interest at LIBOR or a base rate plus a margin ranging from 2.00% to 2.50%, depending on our leverage ratio. For the term loan facility, we are party to interest rate swap arrangements that fix the interest rate on the entire term loan facility at an effective rate ranging from 2.85% to 3.35%, depending on the Company's leverage ratio. An unused commitment fee ranging from 0.30% to 0.40%, depending on our leverage ratio, accrues on unused amounts under the revolving portion of the amended credit facility. During the year ended December 31, 2012 and 2013, we paid cash interest of $3.8 million and $4.6 million, respectively. We had no outstanding balance under the prior revolving credit facility on the day of closing. At December 31, 2013, we had $121.9 million outstanding under the term loan and no balance outstanding under the revolving credit facility. We are obligated to repay $3.1 million of the term loan over the next four calendar quarters.

The amended credit facility contains customary covenants, representations, warranties, events of default and remedies upon default. In addition, we must satisfy certain financial maintenance covenants, including a total leverage ratio, a coverage ratio and a U.S. Department of Education financial responsibility composite score. We were in compliance with all applicable covenants related to the amended credit facility as of December 31, 2013.

Although our income from operations and net income was significantly lower in 2013 than in 2012, our net cash from operating activities increased in 2013 to $84.1 million, as compared to $82.1 million for the same period in 2012. The decrease in income from operations was largely the result of the restructuring initiatives described above, in which we incurred $54.7 million in charges in 2013, of which $48.5 million were non-cash. Our net cash flows from operating activities also increased due to a change in 2012 in the timing of student tuition payments by a third party, and the favorable timing of cash tax payments in 2013 compared to 2012. Capital expenditures were $8.7 million for the year ended December 31, 2013, compared to $24.7 million for the same period in 2012. Capital expenditures for the year ending December 31, 2014 are expected to be in the range of $10-12 million as we are not currently planning to open additional campuses in 2014.

For the year ended December 31, 2013, we invested $25.0 million to repurchase common shares in the open market. We did not pay a regular quarterly dividend in 2013 and do not intend to pay one in 2014.

In 2013, bad debt expense as a percentage of revenue was 4.4% compared to 4.2% for 2012. Days sales outstanding was 14 days at the end of the fourth quarter of 2013 compared to 15 days at the end of the fourth quarter of 2012.

We have available $100 million under our revolving credit facility. We believe that existing cash and cash equivalents, cash generated from operating activities, and if necessary, cash borrowed under the credit facility, will be sufficient to meet our requirements for at least the next 12 months. Currently, we maintain our cash in mostly FDIC-insured bank accounts. Excess cash is invested in money market funds, which is included in cash and cash equivalents at December 31, 2011, 2012 and 2013. We earned interest income of $152,000, $4,000 and $2,000 in each of the years ended December 31, 2011, 2012 and 2013, respectively.

Contractual Obligations

The table below sets forth our contractual commitments associated with operating leases, without taking into account subleases, and the repayment of debt as of December 31, 2013:

	Payments Due By Period (in thousands)				
	Total	Within 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	$ 217,112	$ 41,975	$ 74,228	$ 53,269	$ 47,640
Term loan	121,875	3,125	118,750	-	-
	$ 338,987	$ 45,100	$ 192,978	$ 53,269	$ 47,640

Impact of Inflation

Inflation has not had a significant impact on our historical operations.

Off-Balance Sheet Arrangements

As of December 31, 2013, we do not have any off-balance sheet arrangements as defined by Item 303(a)(4) of the Securities Exchange Commission Regulation S-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are subject to the impact of interest rate changes and may be subject to changes in the market values of our future investments. We invest our excess cash in bank overnight deposits, money market funds and marketable securities. We have not used derivative financial instruments in our investment portfolio. Earnings from investments in bank overnight deposits, money market mutual funds, and marketable securities may be adversely affected in the future should interest rates decline, although such a decline may reduce the interest rate payable on any borrowings under our revolving credit facility. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates. As of December 31, 2013, a 1% increase or decrease in interest rates would not have a material impact on our future earnings, fair values, or cash flows related to investments in cash equivalents or interest earning marketable securities.

Changing interest rates could also have a negative impact on the amount of interest expense we incur. On November 8, 2012, we entered into a second amended and restated revolving credit and term loan agreement providing for a $100 million revolving credit facility and a $125 million term loan facility. Borrowings under the $100 million revolving credit facility bear interest at LIBOR or a base rate plus a margin ranging from 2.00% to 2.50%, depending on our leverage ratio. Also on November 8, 2012, we entered into an additional interest rate swap arrangement for the $125 million term loan facility that fixes our interest rate on the term loan facility at an effective rate ranging from 2.85% to 3.35%, depending on our leverage ratio, for the duration of the term loan. Although an increase in LIBOR would not affect interest expense on the term loan, it would affect interest expense on any outstanding balance of the revolving credit facility and the fair value of the interest rate swap arrangement. For every 100 basis points increase in LIBOR, we would incur an incremental $1.0 million in interest expense per year assuming the entire $100 million revolving credit facility were utilized, but such an increase in LIBOR would not materially affect the value of our interest rate swap.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Strayer Education, Inc.	
Report of Independent Registered Public Accounting Firm	47
Consolidated Balance Sheets as of December 31, 2012 and 2013	48
Consolidated Statements of Income for each of the three years in the period ended December 31, 2013	49
Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2013	49
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2013	50
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2013	51
Notes to Consolidated Financial Statements	52 - 65

All other schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders
Strayer Education, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Strayer Education, Inc. and its subsidiaries (the "Company") at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
McLean, Virginia
February 26, 2014

47

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

	December 31, 2012	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,517	$ 94,760
Tuition receivable, net	23,262	15,842
Income taxes receivable	4,454	–
Other current assets	14,422	16,738
Total current assets	89,655	127,340
Property and equipment, net	121,520	94,421
Deferred income taxes	3,279	17,129
Goodwill	6,800	6,800
Other assets	6,538	8,576
Total assets	$ 227,792	$ 254,266
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 39,124	$ 38,527
Income taxes payable	–	2,569
Unearned tuition	494	656
Other current liabilities	281	281
Current portion of term loan	3,125	3,125
Total current liabilities	43,024	45,158
Term loan, less current portion	121,875	118,750
Other long-term liabilities	21,905	51,456
Total liabilities	186,804	215,364
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $.01; 20,000,000 shares authorized; 11,387,299 and 10,797,464 shares issued and outstanding at December 31, 2012 and 2013, respectively	114	108
Additional paid-in capital	299	7,137
Retained earnings	41,311	31,629
Accumulated other comprehensive income (loss)	(736)	28
Total stockholders' equity	40,988	38,902
Total liabilities and stockholders' equity	$ 227,792	$ 254,266

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

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

	For the Year Ended December 31, 2011	2012	2013
Revenues	$ 627,434	$ 561,979	$ 503,600
Costs and expenses:			
Instruction and educational support	292,003	300,098	310,446
Marketing	74,293	71,864	75,426
Admissions advisory	26,531	26,374	20,390
General and administration	55,464	50,056	64,637
Total costs and expenses	448,291	448,392	470,899
Income from operations	179,143	113,587	32,701
Investment income	152	4	2
Interest expense	3,773	4,616	5,419
Income before income taxes	175,522	108,975	27,284
Provision for income taxes	69,478	43,045	10,859
Net income	$ 106,044	$ 65,930	$ 16,425
Earnings per share:			
Basic	$ 8.91	$ 5.79	$ 1.55
Diluted	$ 8.88	$ 5.76	$ 1.55
Weighted average shares outstanding:			
Basic	11,906	11,390	10,584
Diluted	11,943	11,440	10,624

STRAYER EDUCATION, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	For the Year Ended December 31, 2011	2012	2013
Net income	$ 106,044	$ 65,930	$ 16,425
Other comprehensive income:			
Change in fair value of derivative instrument, net of income tax	(611)	(125)	764
Unrealized gain (loss) on investment, net of income tax	(40)	–	–
Comprehensive income	$ 105,393	$ 65,805	$ 17,189

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

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

	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2010	13,316,822	$ 133	$ 1,206	$ 174,625	$ 40	$ 176,004
Tax shortfall associated with stock-based compensation arrangements	–	–	(569)	–	–	(569)
Repurchase of common stock	(1,581,444)	(16)	(13,575)	(189,073)	–	(202,664)
Restricted stock grants, net of forfeitures	57,078	1	(1)	–	–	–
Stock-based compensation	–	–	13,234	–	–	13,234
Common stock dividends	–	–	–	(49,105)	–	(49,105)
Change in net unrealized gains and losses on marketable securities, net of income tax	–	–	–	–	(40)	(40)
Change in fair value of derivative instrument, net of income tax	–	–	–	–	(611)	(611)
Net income	–	–	–	106,044	–	106,044
Balance, December 31, 2011	11,792,456	118	295	42,491	(611)	42,293
Tax shortfall associated with stock-based compensation arrangements	–	–	(245)	–	–	(245)
Repurchase of common stock	(484,841)	(5)	(5,214)	(19,782)	–	(25,001)
Restricted stock grants, net of forfeitures	79,684	1	(1)	–	–	–
Stock-based compensation	–	–	5,464	–	–	5,464
Common stock dividends	–	–	–	(47,328)	–	(47,328)
Change in fair value of derivative instrument, net of income tax	–	–	–	–	(125)	(125)
Net income	–	–	–	65,930	–	65,930
Balance, December 31, 2012	11,387,299	114	299	41,311	(736)	40,988
Tax shortfall associated with stock-based compensation arrangements	–	–	(702)	(2,865)	–	(3,567)
	(495,085)	(5)	(1,752)	(23,242)	–	(24,999)

Repurchase of common stock						
Restricted stock forfeitures and cancellations, net of grants	(94,750)	(1)	1	–	–	–
Stock-based compensation	–	–	9,291	–	–	9,291
Change in fair value of derivative instrument, net of income tax	–	–	–	–	764	764
Net income	–	–	–	16,425	–	16,425
Balance, December 31, 2013	10,797,464	$ 108	$ 7,137	$ 31,629	$ 28	$ 38,902

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

STRAYER EDUCATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Year Ended December 31, 2011	2012	2013
Cash flows from operating activities:			
Net income	$ 106,044	$ 65,930	$ 16,425
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of gain on sale of assets	(281)	(281)	(281)
Amortization of deferred rent	1,177	323	(462)
Gain on sale of marketable securities	(66)	–	–
Amortization of deferred financing costs	663	795	780
Depreciation and amortization	21,525	23,973	35,563
Deferred income taxes	3,722	(38)	(23,435)
Stock-based compensation	13,234	5,464	9,291
Changes in assets and liabilities:			
Tuition receivable, net	(2,995)	1,744	4,024
Other current assets	(768)	(2,130)	2,434
Other assets	102	(135)	494
Accounts payable and accrued expenses	(3,360)	5,673	(116)
Income taxes payable and income taxes receivable	(1,279)	(4,306)	7,799
Unearned tuition	11,841	(14,870)	2,059
Other long-term liabilities	4,804	(80)	29,518
Net cash provided by operating activities	154,363	82,062	84,093
Cash flows from investing activities:			
Purchases of property and equipment	(29,991)	(24,733)	(8,726)
Purchases of marketable securities	(2)	–	–
Proceeds from the sale of marketable securities	12,388	–	–
Acquisition of assets	(7,000)	–	–
Net cash used in investing activities	(24,605)	(24,733)	(8,726)
Cash flows from financing activities:			
Repurchase of common stock	(202,664)	(25,001)	(24,999)
Payments on term loan	(2,500)	(20,000)	(3,125)
Proceeds from term loan	100,000	47,500	–
Payments on revolving credit facility	(100,000)	(83,000)	–
Proceeds from revolving credit facility	120,000	63,000	–
Common dividends paid	(49,105)	(47,328)	–
Payment of deferred financing costs	(2,459)	(2,120)	–
Net cash used in financing activities	(136,728)	(66,949)	(28,124)
Net (decrease) increase in cash and cash equivalents	(6,970)	(9,620)	47,243
Cash and cash equivalents – beginning of year	64,107	57,137	47,517
Cash and cash equivalents – end of year	$ 57,137	$ 47,517	$ 94,760
Non-cash transactions:			
Purchases of property and equipment included in accounts payable	$ 1,115	$ 529	$ 47

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

51

STRAYER EDUCATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

Strayer Education, Inc. (the "Company"), a Maryland corporation, conducts its operations through its wholly owned subsidiary, Strayer University (the "University"). The University is an accredited institution of higher education that provides undergraduate and graduate degrees in various fields of study through physical campuses, predominantly located in the Eastern United States, and online. With the Company's focus on the student, regardless of whether he or she chooses to take classes at a physical campus or online, it has only one reporting segment.

2. Significant Accounting Policies

Financial statement presentation

The consolidated financial statements include the accounts of the Company and its only subsidiary, the University. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Revenue Recognition

The Company's educational programs are offered on a quarterly basis and such periods coincide with the Company's quarterly financial reporting periods. Approximately 96% of the Company's revenues during the year ended December 31, 2013, consisted of tuition revenue. Tuition revenue is recognized in the quarter of instruction. Tuition revenue is shown net of any refunds, withdrawals, corporate discounts, scholarships and employee tuition discounts. At the start of each academic term, a liability (unearned tuition) is recorded for academic services to be provided and a tuition receivable is recorded for the portion of the tuition not paid upfront in cash. Any cash received prior to the start of an academic term is recorded as unearned tuition. The estimated value of scholarship awards which will be realized in the future is based on historical experience of students who are expected to realize scholarship awards earned as courses are successfully completed. Unearned tuition is recorded as a current or long-term liability in the consolidated balance sheets based on when the benefit is expected to be realized. Revenues also include textbook-related income, application fees, technology fees, placement test fees, withdrawal fees, certificate revenue, and other income, which are recognized when earned.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash maintained in mostly FDIC-insured bank accounts and cash invested in bank overnight deposits and money market mutual funds. The Company places its cash and temporary cash investments with various financial institutions. The Company considers all highly liquid instruments purchased with a maturity of three months or less at the date of purchase to be cash equivalents.

Concentration of Credit Risk

The Company places its cash and temporary cash investments in bank overnight deposits and money market mutual funds with various financial institutions. Cash and cash equivalent balances are in excess of the FDIC insurance limit. The Company has not experienced any losses on its cash and cash equivalents.

Tuition Receivable and Allowance for Doubtful Accounts

The Company records tuition receivable and unearned tuition for its students upon the start of the academic term. Therefore, at the end of the quarter (and academic term), tuition receivable represents amounts due from students for educational services already provided and unearned tuition represents advance payments from students for academic services to be provided in the future. Tuition receivables are not collateralized; however, credit risk is minimized as a result of the diverse nature of the University's student base. The University establishes an allowance for doubtful accounts primarily based upon historical collection rates by age of receivable (net of recoveries). The Company periodically assesses its methodologies for estimating bad debts in consideration of actual experience. The Company's tuition receivable and allowance for doubtful accounts were as follows:

	December 31,	
($ in thousands)	2012	2013
Tuition receivable	$ 29,858	$ 26,145
Allowance for doubtful accounts	(6,596)	(10,303)
Tuition receivable, net	$ 23,262	$ 15,842

Approximately $3.4 million of tuition receivable is included in "Other assets" in the accompanying Consolidated Balance Sheets as of December 31, 2013, 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 each of the past three years:

	Year Ended December 31,		
($ in thousands)	2011	2012	2013
Beginning allowance for doubtful accounts	$ 7,935	$ 7,279	$ 6,596
Additions charged to expense	24,877	23,728	22,225
Write-offs, net of recoveries	(25,533)	(24,411)	(18,518)
Ending allowance for doubtful accounts	$ 7,279	$ 6,596	$ 10,303

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. In accordance with the Property, Plant and Equipment Topic, ASC 360, the carrying values of the Company's assets are re-evaluated when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an impairment loss has occurred based on expected undiscounted future cash flows, then a loss is recognized using a fair-value based model. Through 2013, no such impairment loss had occurred. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives ranging from 3 to 40 years. Depreciation and amortization amounted to $21.5 million, $24.0 and $35.6 million for the years ended December 31, 2011, 2012, and 2013, respectively.

Construction in progress includes costs of computer software developed for internal use, and is accounted for in accordance with the Internal-Use Software Topic, ASC 350-40. Computer software development costs that are incurred in the preliminary project stage are expensed as incurred. During the development stage direct consulting costs, payroll and payroll-related costs for employees that are directly associated with the project are capitalized and will be amortized over the estimated useful life of the software once placed into operation. Purchases of property and equipment and changes in accounts payable for each of the three years in the period ended December 31, 2013 in the Consolidated Statements of Cash Flows have been adjusted to exclude non-cash purchases of property and equipment transactions during that period.

Fair Value

The Fair Value Measurement Topic, ASC 820-10 (“ASC 820-10”), establishes a framework for measuring fair value, establishes a fair value hierarchy based upon the observability of inputs used to measure fair value, and expands disclosures about fair value measurements. Assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. Under ASC 820-10, fair value of an investment is the price that would be received to sell an asset or to transfer a liability to an entity in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to assets and liabilities with readily available quoted prices in an active market and lowest priority to unobservable inputs which require a higher degree of judgment when measuring fair value, as follows:

- Level 1 assets or liabilities use quoted prices in active markets for identical assets or liabilities as of the measurement date;
- Level 2 assets or liabilities use observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities; and
- Level 3 assets or liabilities use unobservable inputs that are supported by little or no market activity.

The Company’s assets and liabilities that are subject to fair value measurement are categorized in one of the three levels above. Fair values are based on the inputs available at the measurement dates, and may rely on certain assumptions that may affect the valuation of fair value for certain assets or liabilities.

Goodwill and Indefinite-Lived Intangible Assets

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

Goodwill and the indefinite-lived intangible asset are assessed at least annually for impairment during the three-month period ending September 30, or more frequently if events occur or circumstances change between annual tests that would more likely than not reduce the fair value of the respective reporting unit below its carrying amount. Under Accounting Standards Update No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment , the Company is permitted, but not required, to first assess qualitative factors to determine whether it is necessary to perform the more thorough quantitative goodwill impairment test. Following its qualitative assessment, the Company determined it was not more likely than not that the fair value of its goodwill was less than the carrying amount and, accordingly, no impairment existed in 2013.

Long-Term Liabilities

Included in the Company’s long-term liabilities are the non-current portion of the Company’s borrowings under its term loan and revolving credit facility, liabilities related to the Company's operating leases, deferred payments related to an acquisition, fair value of the Company’s interest rate swap, and the non-current portion of unearned tuition. In conjunction with the opening of some campuses and other facilities, the Company was reimbursed by the lessors for improvements made to those leased properties. In accordance with the Operating Leases Subtopic, ASC 840-20 (“ASC 840-20”), these reimbursements were capitalized as leasehold improvements and a liability was established. The leasehold improvements and the liability are amortized on a straight-line basis over the corresponding lease terms, which generally range from five to ten years. In accordance with ASC 840-20, the Company records rent expense on a straight-line basis over the initial term of a lease. The cumulative difference between the rent payment and the straight-line rent expense is recorded as a liability. The Company also records the non-current portion of the gain related to the sale and lease back of a campus facility as a long-term liability. (See Note 10 below for more information.)

Accounting for Derivative Instruments and Hedging Activities

On the date that the Company enters into a derivative contract, it designates the derivative as a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a cash flow hedge). All derivatives are recognized in the balance sheet at their fair value.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded, net of income tax, in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable-rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively.

Authorized Stock

The Company has authorized 20,000,000 shares of common stock, par value $.01, of which 11,387,299 and 10,797,464 shares were issued and outstanding as of December 31, 2012 and 2013, respectively. The Company also has authorized 8,000,000 shares of preferred stock, none of which has been issued or outstanding since 2004. 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.

Advertising Costs

The Company expenses advertising costs in the quarter incurred, except for costs associated with the production of media commercials which are expensed when the commercial is first aired.

Stock-Based Compensation

As required by the Stock Compensation Topic, ASC 718, the Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors, including employee stock options, restricted stock, restricted stock units, and employee stock purchases related to the Company's Employee Stock Purchase Plan, based on estimated fair values. Stock-based compensation expense recognized in the Consolidated Statements of Income for each of the three years in the period ended December 31, 2013, is based on awards ultimately expected to vest and, therefore, has been adjusted for estimated forfeitures. The Company is required to estimate forfeitures at the time of grant and revise, if necessary, the estimate in subsequent periods if actual forfeitures differ from those estimates. The forfeiture rate used is based on historical experience. The Company also assesses the likelihood that performance criteria associated with performance-based awards will be met. If it is determined that it is more likely than not that performance criteria will not be achieved, the Company revises its estimate of the number of shares it believes will ultimately vest.

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, (2) the amount of compensation cost associated with the stock awards for future service not yet recognized by the Company, and (3) the amount of tax benefits that would be recorded in additional paid-in capital when the stock awards become deductible for income tax purposes. Stock options are not included in the computation of diluted earnings per share when the stock option exercise price of an individual grant exceeds the average market price for the period. During the year ended December 31, 2013, the Company had no issued and outstanding stock options that were included in the calculation.

Set forth below is a reconciliation of shares used to calculate basic and diluted earnings per share (in thousands):

	2011	2012	2013
Weighted average shares outstanding used to compute basic earnings per share	11,906	11,390	10,584
Incremental shares issuable upon the assumed exercise of stock options	8	–	–
Unvested restricted stock and restricted stock units	29	50	40
Shares used to compute diluted earnings per share	11,943	11,440	10,624

Income Taxes

The Company provides for deferred income taxes based on temporary differences between financial statement and income tax bases of assets and liabilities using enacted tax rates in effect in the year in which the differences are expected to reverse.

The Income Taxes Topic, ASC 740 (“ASC 740”), requires the company to determine whether uncertain tax positions should be recognized within the Company’s financial statements. The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expense. Uncertain tax positions are recognized when a tax position, based solely on its technical merits, is determined to be more likely than not to be sustained upon examination. Upon determination, uncertain tax positions are measured to determine the amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. A tax position is derecognized if it no longer meets the more likely than not threshold of being sustained.

The tax years 2012 and 2013 remain open for Federal tax examination and the tax years 2009–2012 remain open to examination by state and local taxing jurisdictions in which the Company is subject.

Use of Estimates

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

Comprehensive Income

Comprehensive income consists of net income and unrealized gains or losses on investments in marketable securities, and the change in the fair value of the Company’s interest rate swap, net of income taxes.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (“ASU 2013-02”), which provides guidance on disclosure requirements for items reclassified out of accumulated other comprehensive income. The standard requires entities to present (either on the face of the income statement or in the notes to the financial statements) the effects of amounts reclassified out of accumulated other comprehensive income on income statement line items. ASU 2013-02 was effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU 2013-02 on January 1, 2013, did not have a material impact the Company’s disclosures.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (“ASU 2013-11”). The standard provides that a liability related to an unrecognized tax benefit would be offset against a deferred tax asset instead of presented gross for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. ASU 2013-11 is effective for fiscal years beginning after December 15, 2013. The Company believes adoption of ASU 2013-11 will not have a material impact on the Company’s financial position or results from operations.

3. Restructuring and Related Charges

In October 2013, the Company implemented a restructuring to better align the Company's resources with its current student enrollments. This restructuring, which occurred primarily in the fourth quarter of 2013, included the closing of approximately 20 physical locations and reductions in the number of campus-based and corporate employees. The Company incurred the following charges associated with these activities in the fourth quarter of 2013, and recorded them in the following line items in the statement of operations below:

	Year Ended December 31, 2013		
($ in thousands)	Lease and Related Costs, Net	Severance and Other Employee Separation Costs	Total
Instruction & educational support	$30,612	$5,548	$36,160
Marketing	—	120	120
Admissions advisory	—	248	248
General & administration	17,180	982	18,162
Total charges	$47,792	$6,898	$54,690

The following details the changes in the Company's restructuring liability by type of cost during the year ended December 31, 2013:

($ in thousands)	Lease and Related Costs, Net	Severance and Other Employee Separation Costs	Total
Balance at December 31, 2012	$ —	$ —	$ —
Restructuring and other charges (1)	47,792	6,898	54,690
Non-cash adjustments(2)	(5,139)	1,438	(3,701)
Payments	(103)	(6,120)	(6,223)
Balance at December 31, 2013(1)	$ 42,550	$ 2,216	$ 44,766

(1) The current portion of restructuring liabilities was $10.4 million as of December 31, 2013, most of which are included in Accounts payable and accrued expenses, and the long-term portion is included in Other long-term liabilities in the Consolidated Balance Sheets. The gross obligation associated with restructuring liabilities as of December 31, 2013 is approximately $44.8 million, which principally represents non-cancelable leases that will be paid over the respective lease terms through 2022.

(2) A total of $48.5 million of non-cash charges were incurred in connection with the restructuring. Non-cash adjustments for lease and related costs include $10.9 million of accelerated depreciation, partially offset by the release of certain deferred rent and leasehold incentive liabilities of approximately $5.7 million. Non-cash adjustments for severance and other employee separation costs represents share-based compensation.

Lease and Related Costs, Net – During the fourth quarter of 2013, the University implemented a plan to close approximately 20 of its campus locations. The Company recorded approximately $36.0 million of aggregate charges representing the estimated fair value of future contractual operating lease obligations, which were recorded in the periods the Company ceased using the respective facilities. Lease obligations, some of which continue through 2022, are measured at fair value using a discounted cash flow approach encompassing significant unobservable inputs (Level 3). The estimation of future cash flows includes non-cancelable contractual lease costs over the remaining terms of the leases, partially offset by estimated future sublease rental income, which involves significant judgment. The Company's estimate of the amount and timing of sublease rental income considers subleases that have been executed and subleases expect to be executed, based on current commercial real estate market data and conditions, and other qualitative factors specific to the facilities. The estimates will be subject to adjustment as market conditions change or as new information becomes available, including the execution of additional sublease agreements.

Lease and related costs, net also includes $10.9 million of accelerated depreciation during 2013. This depreciation resulted from revising the useful lives of the fixed assets at the facilities discussed above through their closure dates. Prior to revising the estimated useful lives, a recoverability analysis was performed for the facilities' fixed assets and no material impairment charges were recorded during 2013.

Severance and Other Employee Separation Costs – The Company implemented workforce reductions in order to better align its human capital resources with the evolving needs of students. A total of $6.9 million in severance and other employee separation costs were recorded in the year ended December 31, 2013, of which approximately $6.1 million was paid in 2013. The majority of the remaining balance will be paid during the first three months of 2014.

4. Property and Equipment

The composition of property and equipment as of December 31, 2012 and 2013 is as follows (in thousands):

	2012	2013	Estimated useful life (years)
Land	$ 7,138	$ 7,138	–
Buildings and improvements	18,188	19,105	5-40
Furniture, equipment, and computer hardware and software	153,597	159,160	5-10
Leasehold improvements	38,362	39,299	3-10
Construction in progress	670	790	–
	217,955	225,492	
Accumulated depreciation and amortization	(96,435)	(131,071)	
	$ 121,520	$ 94,421	

Construction in progress includes costs associated with the construction of new campuses and the development of information technology applications. In 2012 and 2013, the Company recorded leasehold improvements of $1.1 million and $0.3 million, respectively, which were reimbursed by lessors as lease incentives. In 2012 and 2013, the Company wrote off $12.5 million and $0.8 million, respectively, in fixed assets that were fully depreciated and no longer in service.

5. Restricted Cash

As part of commencing operations in Pennsylvania in 2003, the Company was required to maintain a “minimum protective endowment” of at least $500,000 in an interest-bearing account. These funds are required as long as the Company operates its campuses in the state. The Company accounts for these funds as a long-term asset.

6. Acquisition

On December 27, 2011, the Company completed an acquisition (the “Acquisition”) of certain assets which support the operations of the Jack Welch Management Institute (“JWMI”), an online leadership education program that offers a differentiated executive MBA degree and executive certificates. Simultaneous with the Acquisition, the Company entered into a License and Participation Agreement with Mr. Welch. The Company paid $7.0 million in the acquisition. The Company received $2.8 million from Mr. Welch representing his economic interest in JWMI, and the Company will make deferred payments to the sellers through 2021 valued at $2.1 million as of December 31, 2013. These amounts are included in other long-term liabilities in the Company’s consolidated balance sheets. The Company will make additional payments to Mr. Welch as he provides services to the Company on behalf of JWMI under the License and Participation Agreement.

In connection with the Acquisition, the Company acquired course content valued at $0.8 million which is being amortized over its estimated useful life of five years. The Company has also recorded indefinite-lived intangible assets of $1.6 million, which are included in other assets in the Company’s consolidated balance sheets. The Acquisition resulted in recording $6.8 million of goodwill, representing the excess of the purchase price over the fair value assigned to the underlying assets acquired. At December 31, 2013, the carrying amount of goodwill and the other assets acquired approximated the values at the acquisition date.

JWMI’s operating results are included in the consolidated financial statements from the date of the Acquisition. The results of operations of JWMI would not have had a material impact on the Company’s reported financial results if the

Acquisition had been completed on January 1, 2011.

7. Term Loan and Revolving Credit Facility

On November 8, 2012, the Company entered into a Second Amended and Restated Revolving Credit and Term Loan Agreement (the "Amended Credit Facility"), providing for a $100.0 million revolving credit facility and $125.0 million term loan facility, with an option, subject to obtaining additional loan commitments and the satisfaction of certain conditions, to increase the commitments under the Credit Facility by up to $50.0 million in the future. Each of the revolving portions of the Amended Credit Facility, which includes a letter of credit subfacility of $50.0 million, and the term loan portion of the Amended Credit Facility matures on December 31, 2016, and amends and refinances the Company's original Credit Facility. The term loan portion of the Amended Credit Facility, also includes required quarterly amortization payments in the amount of $781,250 in the case of each payment made during calendar years 2013 and 2014, 0.625% of the aggregate original principal amount of the term loan facility, and $1,562,500 in the case of each payment made during calendar years 2015 and 2016, 1.25% of the aggregate original principal amount of the term loan facility. The Amended Credit Facility is guaranteed by the Company's subsidiary and is secured by substantially all of the personal property and assets of the Company and the guarantor.

Borrowings under the Amended Credit Facility bear interest at LIBOR or a base rate plus a margin ranging from 2.00% to 2.50%, depending on the Company's leverage ratio. For the $125.0 million term loan facility, the Company entered into an additional interest rate swap arrangement that fixes its interest rate on the entire term loan facility at an effective rate ranging from 2.85% to 3.35%, depending on the Company's leverage ratio. In addition, an unused commitment fee ranging from 0.30% to 0.40%, depending on the Company's leverage ratio, accrues on unused amounts under the revolving portion of the Amended Credit Facility. The Amended Credit Facility contains customary affirmative and negative covenants, representations, warranties, events of default and remedies upon default, including acceleration and rights to foreclose on the collateral securing the Amended Credit Facility. In addition, the Amended Credit Facility requires that the Company satisfy certain financial maintenance covenants, including:

- a total leverage ratio of not greater than 2.00:1.00;
- a coverage ratio of not less than 1.75:1.00; and
- a Department of Education financial responsibility composite score of not less than 1.5.

The Company was in compliance with all the terms of the Amended Credit Facility at December 31, 2013.

During the year ended December 31, 2013, the Company paid cash interest of $4.6 million, and the Company's average annual interest rate, including non-cash charges for the amortization of debt financing costs, was 4.4%.

As of December 31, 2013, the Company had $121.9 million outstanding under the term loan facility and no balance outstanding under the revolving credit facility.

Debt and short-term borrowings consist of the following as of December 31, 2013 (in thousands):

Term loan	$	121,875
Revolving credit facility		–
Total debt		121,875
Less: Current portion of long-term debt		3,125
Long-term debt	$	118,750

Aggregate debt maturities as of December 31, 2013 are as follows:

2014	$	3,125

2015		6,250
2016		112,500
	$	121,875

Interest Rate Swaps

The Company was party to an interest rate swap on the outstanding balance of the Company’s existing Credit Facility. On November 8, 2012, the Company entered into an additional interest rate swap arrangement in order to minimize the interest rate exposure on the entire balance of the term loan facility (the “Swaps”, inclusive of the existing swap). The Swaps effectively fix the variable interest rate on the associated term loan at a rate ranging from 2.85% to 3.35%, depending on the Company’s leverage ratio, rather than being subject to fluctuations in the LIBOR rate. The terms of the Swaps effectively match the term of the underlying term loan facility. The Swaps have been designated as a cash flow hedge and have been deemed effective in accordance with the Derivatives and Hedging Topic, ASC 815. The Company expects the Swaps to continue to be deemed effective for the duration of the Swaps. The fair value of the Swaps is included in other long-term liabilities in the Company’s consolidated balance sheets.

8. Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis consist of the following as of December 31, 2013 (in thousands):

	December 31, 2013	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market funds	$ 8,382	$ 8,382	$ –	$ –
Interest rate swaps	45	–	45	–
Total assets at fair value on a recurring basis	$ 8,427	$ 8,382	$ 45	$ –
Liabilities:				
Other liabilities:				
Deferred payments	$ 2,115	$ –	$ –	$ 2,115
Total liabilities at fair value on a recurring basis	$ 2,115	$ –	$ –	$ 2,115

Assets and liabilities measured at fair value on a recurring basis consist of the following as of December 31, 2012 (in thousands):

	December 31, 2012	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market funds	$ 1,380	$ 1,380	$ –	$ –
Total assets at fair value on a recurring basis	$ 1,380	$ 1,380	$ –	$ –
Liabilities:				
Other liabilities:				
Interest rate swaps	$ 1,211	$ –	$ 1, 211	$ –
Deferred payments	2,119	–	–	2,119
Total liabilities at fair value on a recurring basis	$ 3,330	$ –	$ 1, 211	$ 2,119

The Company measures the above items on a recurring basis at fair value as follows:

- Money market funds – Classified in Level 1 is excess cash the Company holds in both taxable and tax-exempt money market funds and are included in cash and cash equivalents in the accompanying Consolidated Balance Sheets. The Company records any net unrealized gains and losses for changes in fair value as a component of accumulated other comprehensive income in stockholders' equity. Realized gains and losses from the sale of marketable securities are based on the specific identification method. The Company's remaining cash and cash equivalents held at December 31, 2012 and 2013, approximate fair value and is not disclosed in the above tables because of the short-term nature of the financial instruments.

- Interest rate swaps – The Company has two interest rate swaps with a notional amount of $121.9 million as of December 31, 2013, used to minimize the interest rate exposure on a portion of the Company's variable rate debt. The interest rate swaps are used to fix the variable interest rate on the associated debt. The swaps are classified within Level 2 and are valued using readily available pricing sources which utilize market observable inputs including the current variable interest rate for similar types of instruments.

- Deferred payments – Classified within Level 3 as there is no liquid market for similarly priced instruments, and valued using a discounted cash flow model that encompassed significant unobservable inputs to estimate the operating results of the Acquisition. The assumptions used to prepare the discounted cash flows include estimates for interest rates, enrollment growth, retention rates and pricing strategies. These assumptions are subject to change as the underlying data sources evolve and the program matures.

At December 31, 2013, the carrying value of the Company's debt was $121.9 million. All of the Company's debt is variable interest rate debt and the carrying amount approximates fair value.

The Company did not change its valuation techniques associated with recurring fair value measurements from prior periods, and no assets or liabilities were transferred between levels of the fair value hierarchy during the years ended December 31, 2012 or 2013. Assets measured at fair value on a non-recurring basis as of December 31, 2012 and 2013, include $6.8 million of goodwill and $1.6 million of other indefinite-lived intangible assets resulting from the Acquisition. The deferred payment liability was established at the time of the Acquisition on December 27, 2011, and changes in the fair value of the Company's Level 3 liability that was outstanding throughout the year ended December 31, 2013 are as follows (in thousands):

	Deferred Payments
Balance at December 31, 2012	$ 2,119
Amounts earned	(311)
Adjustments to fair value	307
Transfers in or out of Level 3	—
Balance at December 31, 2013	$ 2,115

9. Stock Options, Restricted Stock and Restricted Stock Units

In April 2011, the Company's stockholders approved the Strayer Education, Inc. 2011 Equity Compensation Plan (the "Plan"), which replaced the Company's 1996 equity compensation plan (the "1996 Plan") and made 300,000 new shares available for issuance as equity compensation. In addition, shares previously available for issuance under the 1996 Plan were effectively carried over and are available for issuance under the Plan, for a total of approximately 350,000 shares that were made available for issuance as equity compensation under the Plan. The Plan provides for the granting of restricted stock, restricted stock units, stock options intended to qualify as incentive stock options, options that do not qualify as incentive stock options, and other forms of equity compensation and performance-based awards to employees, officers and directors of the Company, or to a consultant or advisor to the Company, at the discretion of the Board of Directors. Vesting provisions are at the discretion of the Board of Directors. Options may be granted at option prices based at or above the fair market value of the shares at the date of grant. The maximum term of the awards granted under the Plan is ten years.

In February 2013, the Company's Board of Directors approved grants of 165,712 shares of restricted stock to certain individuals. These shares, which vest over a three- to five-year period, were granted pursuant to the Plan. The Company's stock price closed at $62.28 on the date of these restricted stock grants. In March 2013, outstanding awards of 200,000 restricted shares were converted to restricted stock units. In May 2013, the Company's Board of Directors approved grants of 43,659 shares of restricted stock. These shares, which vest in their entirety four years from the date of grant, were granted pursuant to the Plan. The Company's Board of Directors also approved grants of 16,370 shares of restricted stock. These shares, which vest over a three-year period, were awarded to non-employee members of the Company's Board of Directors, as part of Company's annual director compensation program. The Company's stock price closed at $45.81 on the date these restricted stock grants were awarded.

Dividends paid on unvested restricted stock are reimbursed to the Company if the recipient forfeits his or her shares as a result of termination of employment prior to vesting in the award, unless waived by the Board of Directors.

Restricted Stock and Restricted Stock Units

The table below sets forth the restricted stock activity for the years ended December 31, 2011, 2012 and 2013:

	Number of shares	Weighted-average grant price
Balance, December 31, 2010	341,440	$ 204.89
Grants	74,868	130.96
Vested shares	(17,574)	131.31
Forfeitures	(17,790)	155.01
Balance, December 31, 2011	380,944	$ 194.26
Grants	82,741	111.44
Vested shares	(26,189)	195.58
Forfeitures	(3,057)	127.51
Balance, December 31, 2012	434,439	$ 178.88
Grants	225,741	57.90
Vested shares	(51,916)	164.22
Forfeitures	(120,491)	140.30
Balance, December 31, 2013	487,773	$ 131.51

Stock Options

The table below sets forth the stock option activity for the years ended December 31, 2011, 2012 and 2013 and other stock option information at December 31, 2013:

	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value(1) (in thousands)
Balance, December 31, 2010	100,000	$ 107.28	2.1	$ 4,494
Grants	–	–		
Exercises	–	–		
Forfeitures	–	–		
Balance, December 31, 2011	100,000	$ 107.28	1.1	$ –
Grants	–	–		
Exercises	–	–		
Forfeitures	–	–		
Balance, December 31, 2012	100,000	$ 107.28	0.1	$ –
Grants	100,000	51.95		
Exercises		–		
Forfeitures/Expirations	(100,000)	107.28		
Balance, December 31, 2013	100,000	$ 51.95	7.0	$ –
Exercisable, December 31, 2013	–	$ –	–	–

(1) The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the respective trading day and the exercise price, multiplied by the number of

in-the-money options) that would have been received by the option holder had all option been exercised on the respective trading day. The amount of intrinsic value will change based on the fair market value of the Company's common stock.

The number of shares exercisable as of December 31, 2011, 2012 and 2013 are as follows:

	Number of shares	Weighted-average exercise price
Exercisable, December 31, 2011	100,000	$ 107.28
Exercisable, December 31, 2012	100,000	$ 107.28
Exercisable, December 31, 2013	-	$ 51.95

Valuation and Expense Information under Stock Compensation Topic ASC 718

At December 31, 2013, total stock-based compensation cost which has not yet been recognized was $34.5 million for unvested restricted stock, restricted stock units, and stock option awards. This cost is expected to be recognized over the next 54 months on a weighted-average basis. Awards of approximately 351,000 shares of restricted stock and restricted stock units are subject to performance conditions. The accrual for stock-based compensation for performance awards is based on the Company's estimates that such performance criteria are probable of being achieved. Such a determination involves significant judgment surrounding the Company's ability to maintain regulatory compliance. If the performance targets are not reached during the vesting period, or it is determined it is more likely than not that the performance criteria will not be achieved, related compensation expense is adjusted. During 2012, the Company determined that it was more likely than not that certain performance criteria for 45,920 shares would not be met, and reduced stock-based compensation expense by approximately $7.0 million.

The following table sets forth the amount of stock-based compensation expense recorded in each of the expense line items (in thousands):

	2011	2012	2013
Instruction and educational support	$ 3,635	$ 3,273	$ 1,976
Marketing	65	–	–
Admissions advisory	–	–	–
General and administration	9,534	2,191	7,315
Stock-based compensation expense included in operating expense	13,234	5,464	9,291
Tax benefit	5,245	2,158	3,698
Stock-based compensation expense, net of tax	$ 7,989	$ 3,306	$ 5,593

The following table summarizes information regarding share-based payment arrangements for the years ended December 31, 2011, 2012 and 2013 (in thousands):

	For the year ended December 31,		
	2011	2012	2013
Proceeds from stock options exercised	$ –	$ –	$ –
Excess tax benefits (shortfall) related to share-based payment arrangements	$ (569)	$ (245)	$ (3,567)
Intrinsic value of stock options exercised(1)	$ –	$ –	$ –

(1) Intrinsic value of stock options exercised is estimated by taking the difference between the Company's closing stock price on the date of exercise and the exercise price, multiplied by the number of options exercised for each option holder and then aggregated.

10. Other Long-Term Liabilities

Other long-term liabilities consist of the following as of December 31, 2012 and 2013 (in thousands):

	2012	2013
Loss on facilities not in use	$–	$34,339
Deferred rent and other facility costs	11,650	8,258
Deferred payments (see Note 6)	4,919	4,915

Unearned tuition	–	1,897
Lease incentives	3,150	1,353
Deferred gain on sale of campus building	975	694
Fair value of interest rate swap (see Note 7)	1,211	–
	$21,905	$51,456

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

The Company records lease costs of campuses and non-campus facilities that are not currently in use. In accordance with ASC 840-20, the Company records rent expense on a straight-line basis over the initial term of a lease. The difference between the rent payment and the straight-line rent expense is recorded as a liability.

Unearned Tuition

The Company offers certain scholarship and awards programs to students who earn the awards while they successfully complete course requirements. The long-term liability for unearned tuition represents the estimated value of these awards which the Company expects will be realized after one year.

Lease Incentives

In conjunction with the opening of new campuses, the Company, in some instances, was reimbursed by the lessors for improvements made to the leased properties. In accordance with ASC 840-20, these improvements were capitalized as leasehold improvements and a liability was established for the reimbursements. The leasehold improvements and the liability are amortized on a straight-line basis over the corresponding lease terms, which generally range from five to 10 years.

Deferred Gain on Sale of Campus Building

In June 2007, the Company sold one of its campus buildings for $5.8 million. The Company is leasing back most of the campus building over a 10-year period. In conjunction with this sale and lease back transaction, the Company realized a gain of $2.8 million before tax, which is deferred and recognized over the 10-year lease term.

11. Other Employee Benefit Plans

The Company has a 401(k) plan covering all eligible employees of the Company. Effective January 1, 2014, participants may contribute up to $17,500 of their base compensation annually. Employee contributions are voluntary. Discretionary contributions were made by the Company matching 50% of employee deferrals up to a maximum of 3% of the employee's annual salary. The Company's contributions, which vest immediately, totaled $2.7 million, $2.9 million and $1.1 million for the years ended December 31, 2011, 2012, and 2013, respectively.

In May 1998, the Company adopted the Strayer Education, Inc. Employee Stock Purchase Plan ("ESPP"). Under the ESPP, eligible employees may purchase shares of the Company's common stock, subject to certain limitations, at 90% of its market value at the date of purchase. Purchases are limited to 10% of an employee's eligible compensation. The aggregate number of shares of common stock that may be made available for purchase by participating employees under the ESPP is 2,500,000 shares. Shares purchased in the open market for employees for the years ended December 31, 2011, 2012, and 2013 were as follows:

	Shares purchased	Average price per share
2011	6,636	$ 98.55
2012	6,549	$ 71.14
2013	8,911	$ 42.27

12. Stock Repurchase Plan

As announced on November 3, 2003, the Company's Board of Directors initially authorized the Company to repurchase up to an aggregate of $15 million in value of common stock through December 31, 2004 in open market purchases from time to time at the discretion of the Company's management depending on market conditions and other corporate considerations. The Company's Board of Directors amended the program on various dates, increasing the repurchase amount authorized and extending the expiration date. At December 31, 2013, approximately $70 million of the Company's share repurchase authorization was remaining for repurchases through December 31, 2014. All of the Company's share repurchases were effected in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. This stock repurchase plan may be modified, suspended or terminated at any time by the Company without notice.

A summary of the Company's stock repurchase activity for the years ended December 31, 2011, 2012, and 2013, all of which was part of a publicly announced plan, is set forth in the table below:

	Number of shares repurchased	Average price paid per share	Amount available for future repurchases (in millions)
2011	1,581,444	$ 128.15	$ 80.0
2012	484,841	$ 51.56	$ 95.0
2013	495,085	$ 50.49	$ 70.0

Repurchases of common stock are recorded as a reduction to additional paid-in capital. To the extent additional paid-in capital had been reduced to zero through stock repurchases, retained earnings was then reduced.

13. Commitments and Contingencies

The University participates in various federal student financial assistance programs which are subject to audit. Management believes that the potential effects of audit adjustments, if any, for the periods currently under audit will not have a material adverse effect, individually or in the aggregate, on the Company's consolidated financial position, results of operations or cash flows.

As of December 31, 2013, the Company had 99 long-term, non-cancelable operating leases for campuses and other administrative facilities. Rent expense was $42.2 million, $46.5 million and $82.2 million for the years ended December 31, 2011, 2012, and 2013, respectively. Rent expense for 2013 includes approximately $36.0 in charges related to the closure of approximately 20 locations. The rents on the Company's leases are subject to annual increases. The minimum rental commitments for the Company as of December 31, 2013 are as follows (in thousands):

	Minimum rental commitments
2014	$ 41,975
2015	39,740
2016	34,488
2017	29,114
2018	24,155
Thereafter	47,640
Total	$ 217,112

14. Income Taxes

The income tax provision for the years ended December 31, 2011, 2012 and 2013 is summarized below (in thousands):

	2011	2012	2013
Current:			
Federal	$ 53,344	$ 36,028	$ 26,390
State	12,081	8,333	4,582
Total current	65,425	44,361	30,972
Deferred:			
Federal	4,760	(608)	(18,387)
State	(707)	(708)	(1,726)
Total deferred	4,053	(1,316)	(20,113)
Total provision for income taxes	$ 69,478	$ 43,045	$ 10,859

The tax effects of the principal temporary differences that give rise to the Company's deferred tax assets are as follows as of December 31, 2012 and 2013 (in thousands):

	2012	2013
Tuition receivable	$ 4,215	$ 4,021
Employee-related liabilities	280	144
Other facility-related costs	826	3,684
Current net deferred tax asset	5,321	7,849

Property and equipment	(15,972)	(13,091)
Deferred leasing costs	3,475	3,082
Stock-based compensation	13,814	13,871
Other facility-related costs	1,484	13,696
Interest rate swap	474	(18)
Other	4	(411)
Long-term net deferred tax asset	3,279	17,129
Net deferred tax asset	$ 8,600	$ 24,978

The Company had $0.2 million of unrecognized tax benefits at December 31, 2013, all of which resulted from tax positions taken during the year ended December 31, 2013. A liability for uncertain tax positions of $2.2 million as of December 31, 2013, also for tax positions taken during the year ended December 31, 2013, is included in income taxes payable in the Consolidated Balance Sheets.

A reconciliation between the Company's statutory tax rate and the effective tax rate for the years ended December 31, 2011, 2012, and 2013 is as follows:

	2011	2012	2013
Statutory federal rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefits	4.3	4.3	4.6
Other	0.3	0.2	0.2
Effective tax rate	39.6%	39.5%	39.8%

Cash payments for income taxes were $67.0 million in 2011, $47.4 million in 2012 and $26.5 million in 2013.

15. Summarized Quarterly Financial Data (Unaudited)

Quarterly financial information for 2012 and 2013 is as follows (in thousands except per share data):

	Quarter			
2012	First	Second	Third	Fourth
Revenues	$ 149,532	$ 146,254	$ 124,260	$ 141,933
Income from operations	40,858	36,168	7,836	28,725
Net income	23,989	21,212	4,103	16,627
Net income per share:				
Basic	$ 2.10	$ 1.86	$ 0.36	$ 1.47
Diluted	$ 2.09	$ 1.85	$ 0.36	$ 1.47

	Quarter			
2013	First	Second	Third	Fourth
Revenues	$ 137,506	$ 131,980	$ 110,031	$ 124,083
Income (loss) from operations	29,919	26,257	6,621	(30,096)
Net income (loss)	17,231	15,002	3,149	(18,957)
Net income (loss) per share:				
Basic	$ 1.59	$ 1.43	$ 0.30	$ (1.80)
Diluted	$ 1.59	$ 1.42	$ 0.30	$ (1.80)

16. Litigation

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

17. Regulation

The Department of Education previously attempted to define "an eligible program of training to prepare students for gainful employment in a recognized occupation." After a federal court invalidated the Department's regulation, the Department established a negotiated rulemaking committee to consider the issue of gainful employment. The negotiations did not result in the required consensus, and the Department has indicated that it expects to issue a Notice of Proposed Rulemaking for public comment in early 2014.

Although it is not yet known what will be included in the Department's Notice of Proposed Rulemaking, the most recent proposal by the Department put before the Committee included three metrics, as described in more detail in

Part I, Item I, Regulation. The proposal included measurements of program cohort default rates ("pCDR"), annual debt-to-earnings, and discretionary debt-to-earnings. Under the proposal, a program would remain eligible for Title IV funding if it has a cohort default rate less than 30%, and the annual loan payment of a typical graduate of the program does not exceed 8% of the average or median annual earnings, or 20% of the average or median discretionary income. Under the annual and discretionary debt-to-earnings metrics, a program would become Title IV ineligible for three years if it fails either metric for two out of three years, or is in a warning zone for four consecutive years. Under the pCDR, a program would become Title IV ineligible for 3 years if the three-year default rate of three consecutive cohorts of students is greater than or equal to 30%.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2013. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company had in place, as of December 31, 2013, effective controls and procedures designed to ensure that information required to be disclosed by the Company (including consolidated subsidiaries) in the reports it files or submits under the Securities Exchange Act of 1934, as amended, and the rules thereunder, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Company's principal executive officer and principal financial officer, the Company's management assessed the effectiveness of the registrant's internal control over financial reporting as of December 31, 2013, based on the framework in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

66

Changes in Internal Controls over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer have evaluated any changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2013, and have concluded that there was no change during such quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth certain information with respect to the Company's directors, executive officers, and significant employees:

Name	Age	Position
Directors:		
Robert S. Silberman	56	Executive Chairman of the Board
Dr. John T. Casteen III	70	Presiding Independent Director
Dr. Charlotte F. Beason	66	Director
William E. Brock	83	Director
Robert R. Grusky	56	Director
Robert L. Johnson	67	Director
Karl McDonnell	47	Director, Chief Executive Officer
Todd A. Milano	61	Director
G. Thomas Waite, III	62	Director
J. David Wargo	60	Director
Executive Officers and Significant Employees:		
Dr. Michael Plater	57	President, Strayer University
Mark C. Brown	54	Executive Vice President and Chief Financial Officer
Kelly J. Bozarth	45	Executive Vice President and Chief Administrative Officer
Daniel W. Jackson	39	Senior Vice President and Treasurer

Directors

Mr. Robert S. Silberman was named Strayer's Executive Chairman of the Board in 2013. He was Chairman of the Board from February 2003 to 2013 and Chief Executive Officer from March 2001 to 2013. From 1995 to 2000, Mr. Silberman served in a variety of senior management positions at CalEnergy Company, Inc., including as President and Chief Operating Officer. From 1993 to 1995, Mr. Silberman was Assistant to the Chairman and Chief Executive Officer of International Paper Company. From 1989 to 1993, Mr. Silberman served in several senior positions in the

U.S. Department of Defense, including as Assistant Secretary of the Army. Mr. Silberman has been a Director of Strayer since March 2001. He serves on the Board of Directors of Covanta Holding Company and 21st Century Fox. He also serves on the Board of Visitors of The Johns Hopkins University School of Advanced International Studies. Mr. Silberman is a member of the Council on Foreign Relations. Mr. Silberman holds a bachelor's degree in history from Dartmouth College and a master's degree in international policy from The Johns Hopkins University.

Dr. John T. Casteen III is the President Emeritus and University Professor at the University of Virginia. He served as President of the University of Virginia from 1990 through 2010. He was President of the University of Connecticut from 1985 to 1990. From 1982 to 1985, Dr. Casteen served as the Secretary of Education for the Commonwealth of Virginia. Dr. Casteen is on the board of directors of Altria, Inc., and served on the board of directors of Wachovia Corporation until 2008. Dr. Casteen also is director of a number of charitable and privately-held business entities, including the Chesapeake Bay Foundation, ECHO 360, the Virginia Foundation for Community College Education, Virginia Intermont College, and the Woodrow Wilson International Center for Scholars. Dr. Casteen serves on the Board of Trustees of the Jamestown-Yorktown Foundation. He has chaired the boards of both the College Entrance Examination Board and the Association of American Universities. Dr. Casteen has been a member of the Board since 2011, and is Chair of the Nominating Committee of the Board. Dr. Casteen holds a bachelor's degree, master's degree and a Ph.D. in English from the University of Virginia.

Dr. Charlotte F. Beason is a consultant in education and health care administration, as she was from 2004 to 2005. She was Executive Director of the Kentucky Board of Nursing from 2005 to 2012. From 2000 to 2003, Dr. Beason was Chair and Vice Chair of the Commission on Collegiate Nursing Education (an autonomous agency accrediting baccalaureate and graduate programs in nursing); she is an evaluator for the Commission on Collegiate Nursing Education. From 1988 to 2004, Dr. Beason was with the Department of Veterans Affairs, first as Director of Health Professions Education Service and the Health Professional Scholarship Program, and then as Program Director, Office of Nursing Services. Dr. Beason has served on the Board since 1996 and is a member of the Nominating Committee of the Board. She is also Chairwoman of the Strayer University Board of Trustees. Dr. Beason holds a bachelor's degree in nursing from Berea College, a master's degree in psychiatric nursing from Boston University and a doctorate in clinical psychology and public practice from Harvard University.

Senator William E. Brock is the Founder and Chairman of the Brock Offices, a firm specializing in international trade, investment and human resources. From 1985 to 1987, Senator Brock served in the President's Cabinet as the U.S. Secretary of Labor, and from 1981 to 1985, as the U.S. Trade Representative. Senator Brock previously served as a Member of Congress and subsequently as U.S. Senator for the State of Tennessee. Senator Brock is a member of the Board of Directors of On Assignment, Inc., and ResCare, Inc., and is a Senior Counselor and Member of the Board of Trustees of the Center for Strategic and International Studies, where he chairs the International Policy Roundtable. In the past five years, Senator Brock has also served on the Board of Directors of Catalyst Health Solutions, Inc. Senator Brock has been a member of the Board since 2001 and is a member of the Compensation Committee of the Board. He holds a bachelor's degree in commerce from Washington and Lee University.

Mr. Robert R. Grusky is a member of Strayer Education, Inc. Board of Directors, on which he has served since 2001. He is the Founder and Managing Member of Hope Capital Management, LLC, an investment manager, since 2000. He co-founded New Mountain Capital, LLC, a private equity firm, in 2000 and was a Principal and Member from 2000 to 2005, and has been a Senior Advisor since then. From 1998 to 2000, Mr. Grusky served as President of RSL Investments Corporation. From 1985 to 1997, with the exception of 1990 to 1991 when he was on a leave of absence to serve as a White House Fellow and Assistant for Special Projects to the Secretary of Defense, Mr. Grusky served in a variety of capacities at Goldman, Sachs & Co., first in its Mergers & Acquisitions Department and then in its Principal Investment Area. He also serves on the Board of Directors of AutoNation, Inc. In the past five years, he has also served on the Board of Directors of AutoZone, Inc. He is a member of the Company's Audit Committee. He holds a bachelor's degree in history from Union College and a master's degree in business administration from Harvard University.

Mr. Robert L. Johnson is the Founder and Chairman of The RLJ Companies, an innovative business network that owns or holds interests in businesses operating in hotel real estate investment, private equity, consumer financial services, asset management, automobile dealerships, sports and entertainment, and video lottery terminal (VLT) gaming. Mr. Johnson is the founder of Black Entertainment Television (BET), a subsidiary of Viacom and the leading African-American operated media and entertainment company in the United States, and served as its Chief Executive Officer until January 2006. In 2002, Mr. Johnson became the first African-American majority owner of a major sports franchise, the Charlotte Bobcats of the NBA. From 1976 to 1979, he served as Vice President of Governmental Relations for the National Cable & Telecommunications Association (NCTA). Mr. Johnson also served as Press Secretary for the Honorable Walter E. Fauntroy, Congressional Delegate from the District of Columbia. He serves on the following boards: RLJ Lodging Trust; RLJ Entertainment, Inc.; KB Home; Lowe's Companies, Inc.; Think Finance, Inc.; The Business Council; and the Smithsonian Institution's National Museum of African American History and Culture. Mr. Johnson has served on the Board since 2003, and is a member of the Compensation Committee of the Board. He holds a bachelor's degree in social studies from the University of Illinois and a master's degree in public affairs from the Woodrow Wilson School of Public and International Affairs at Princeton University.

Mr. Karl McDonnell was named Strayer's Chief Executive Officer in May 2013. He was President and Chief Operating Officer from 2006 to 2013. Mr. McDonnell served as Chief Operating Officer of InteliStaf Healthcare, Inc., one of the nation's largest privately-held healthcare staffing firms. Prior to his tenure at InteliStaf, he served as Vice President of the Investment Banking Division at Goldman, Sachs & Co. Mr. McDonnell has held senior management positions with several Fortune 100 companies, including The Walt Disney Company. He has served on the Board since 2011 and from 2006 to 2013 was a member of the Strayer University Board of Trustees. Mr. McDonnell holds a bachelor's degree from Virginia Wesleyan College and a master's degree in business administration from Duke University.

Mr. Todd A. Milano is President Emeritus and Ambassador for Central Penn College, where he served as President and Chief Executive Officer from 1989 to 2012. Mr. Milano has served on the Board since 1996 and is a member of the Audit Committee of the Board and is also a member of the Strayer University Board of Trustees. Mr. Milano holds a bachelor's degree in industrial management from Purdue University.

Mr. G. Thomas Waite, III has been Treasurer and Chief Financial Officer of the Humane Society of the United States since 1997 and prior to that served as Controller beginning in 1993. In 1992, Mr. Waite was the Director of Commercial Management of The National Housing Partnership. Mr. Waite has served on the Board since 1996, is Chair of the Audit Committee of the Board and is a former member of the Strayer University Board of Trustees. Mr. Waite holds a bachelor's degree in commerce from the University of Virginia and is a Certified Public Accountant.

Mr. J. David Wargo has been President of Wargo and Company, Inc., an investment management company, since 1993. Mr. Wargo is a co-founder and was a Member of New Mountain Capital, LLC, from 2000 to 2008, and was a Senior Advisor there from 2008 until 2011. From 1989 to 1992, Mr. Wargo was a Managing Director and Senior Analyst of The Putnam Companies, a Boston-based investment management company. From 1985 to 1989, Mr. Wargo was a partner and held other positions at Marble Arch Partners. Mr. Wargo is also a Director of Liberty Global, Inc. and Discovery Communications, Inc. In the past five years, he also served on the board of Fun Technologies, Inc. Mr. Wargo has served on the Board since 2001 and is Chair of the Compensation Committee of the Board. Mr. Wargo holds a bachelor's degree in physics and a master's degree in nuclear engineering, both from the Massachusetts Institute of Technology. He also holds a master's degree in management science from the Sloan School of Management, which is the business school of the Massachusetts Institute of Technology.

Executive Officers and Significant Employees

Dr. Michael A. Plater is the University President. He joined Strayer University in March 2010 as the Provost and Chief Academic Officer. Prior to joining Strayer, Dr. Plater was the Dean of the College of Arts and Sciences at North Carolina A&T State University, where he managed a faculty and staff of approximately 400 people in 13 academic departments, and five affiliated academic programs. Previous to joining North Carolina A&T, Dr. Plater was at Brown University as the Associate Dean of the Graduate School. Before joining Brown, Dr. Plater taught "capstone" Business Policy/Strategic Management classes in the M.B.A. program and the introductory undergraduate management course at the University of Florida. Dr. Plater is also an ex officio member of the Strayer University Board of Trustees. He received a bachelor's degree in economics from Harvard University, a master's degree in business administration from the University of Pennsylvania, and a Ph.D. from the College of William and Mary.

Mr. Mark C. Brown is Executive Vice President and Chief Financial Officer, having joined Strayer in 2001. Mr. Brown was previously the Chief Financial Officer of the Kantar Group, the information and consultancy division of WPP Group, a multi-national communications services company. Prior to that, for nearly 12 years, Mr. Brown held a variety of management positions at PepsiCo, Inc., including Director of Corporate Planning for Pepsi Bottling Group and Business Unit Chief Financial Officer for Pepsi-Cola International. Mr. Brown is a Certified Public Accountant who started his career with PricewaterhouseCoopers, LLP. Mr. Brown holds a bachelor's degree in accounting from Duke University and a master's degree in business administration from Harvard University.

Ms. Kelly J. Bozarth is Executive Vice President and Chief Administrative Officer. She joined Strayer in 2008 and has served as Senior Vice President and Chief Business Officer of Strayer University and as Senior Vice President and Controller of the Company. Previously, Ms. Bozarth held senior management roles in finance and operations in the education sector for five years. Prior to that, she held a variety of senior management positions in finance and in operations with The Walt Disney Company over a 10 year period. Ms. Bozarth is also a member of the Strayer University Board of Trustees. Ms. Bozarth is a Certified Public Accountant who began her career at Deloitte and Touche. Ms. Bozarth holds a bachelor's degree in accounting from Missouri State University.

Mr. Daniel W. Jackson is Senior Vice President and Treasurer. Mr. Jackson has been with the company since 2003 and has served as Vice President of Finance, Regional Vice President of Operations, Director of Business Operations, Campus Director, Manager of Financial Analysis, and as an adjunct faculty member. Prior to joining Strayer, Mr. Jackson was an Equity Research Associate with Legg Mason Wood Walker, and Director of Operations for Fairmont Schools, Inc. Mr. Jackson holds a bachelor's degree in international affairs from the University of Colorado at Boulder, and a master's degree in business administration from Georgetown University.

Additional information responsive to this item is hereby incorporated by reference from the sections titled "Election of Directors," "Board Structure," "Code of Ethics" and "Section 16(a) Beneficial Ownership Reporting Compliance" contained in the Company's Proxy Statement, which will be filed no later than 120 days following December 31, 2013.

Item 11. Executive Compensation

The information required by this Item is hereby incorporated by reference from the sections entitled "Compensation Discussion and Analysis" and the related tables and narrative thereto, "Director Compensation" and the related tables thereto, "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" to be contained in the Company's Proxy Statement, which will be filed no later than 120 days following December 31, 2013.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is hereby incorporated by reference from the section entitled "Beneficial Ownership of Common Stock" to be contained in the Company's Proxy Statement, which will be filed no later than 120 days following December 31, 2013.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is hereby incorporated by reference from the sections entitled "Board Structure" and "Certain Transactions with Related Parties" to be contained in the Company's Proxy Statement, which will be filed no later than 120 days following December 31, 2013.

Item 14. Principal Accounting Fees and Services

The information required by this Item is hereby incorporated by reference from the section entitled “Proposal 2 – Ratification of Appointment of Independent Registered Public Accounting Firm” to be contained in the Company’s Proxy Statement, which will be filed no later than 120 days following December 31, 2013.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(A)(1) Financial Statements

All required financial statements of the registrant are set forth under Item 8 of this report on Form 10-K.

(A)(2) Financial Statement Schedule

The required financial statement schedule of the registrant is set forth under Item 8 of this report on Form 10-K.

(A)(3) Exhibits

The exhibits required to be filed as a part of this Annual Report on Form 10-K are listed in the Exhibit Index attached hereto and are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

STRAYER EDUCATION, INC.

By:	/s/ Karl McDonnell Karl McDonnell Chief Executive Officer

Date: February 26, 2014

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Karl McDonnell and Mark C. Brown, and each of them individually, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and his name, place and stead in any and all capacities, to sign the report and any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated.

SIGNATURES	TITLE	DATE
/s/ Robert S. Silberman (Robert S. Silberman)	Executive Chairman of the Board	February 26, 2014
/s/ Karl McDonnell (Karl McDonnell)	Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2014
/s/ Mark C. Brown (Mark C. Brown)	Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2014
/s/ Charlotte F. Beason (Charlotte F. Beason)	Director	February 26, 2014
/s/ William E. Brock (William E. Brock)	Director	February 26, 2014
/s/ John T. Casteen, III (John T. Casteen, III)	Director	February 26, 2014
/s/ Robert R. Grusky (Robert R. Grusky)	Director	February 26, 2014
/s/ Robert L. Johnson (Robert L. Johnson)	Director	February 26, 2014
/s/ Todd A. Milano (Todd A. Milano)	Director	February 26, 2014
/s/ G. Thomas Waite, III (G. Thomas Waite, III)	Director	February 26, 2014

/s/ J. David Wargo (J. David Wargo)	Director	February 26, 2014

73

Exhibit Index

Exhibit Number	Description
3.1	Amended Articles of Incorporation and Articles Supplementary of the Company (incorporated by reference to Exhibit 3.01 of the Company's Annual Report on Form 10-K (File No. 000-21039) filed with the Commission on March 28, 2002).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Commission on November 4, 2010).
4.1	Specimen Stock Certificate (incorporated by reference to Exhibit 4.01 of Amendment No. 3 to the Company's Registration Statement on Form S-1 (File No. 333-3967) filed with the Commission on July 16, 1996).
10.1	Second Amended and Restated Revolving Credit and Term Loan Agreement, dated as of November 8, 2012, among the Company, SunTrust Bank, as Administrative Agent, and the other lenders and agents party thereto (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on November 9, 2012).
10.2†	Employment Agreement, dated as of April 6, 2001, between Strayer Education, Inc. and Robert S. Silberman (incorporated by reference to Exhibit 10.03 of the Company's Annual Report on Form 10-K (File No. 000-21039) filed with the Commission on March 28, 2002).
10.3†	2011 Equity Compensation Plan (incorporated by reference to Exhibit A of the Company's Proxy Statement (File No. 000-21039) filed with the Commission on March 29, 2011).
10.4†	Form of Restricted Stock Award Agreement —Time Vesting — under the 2011 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 000-21039) filed with the Commission on February 14, 2013).
10.5†	Form of Restricted Stock Award Agreement — Performance Vesting — under the 2011 Equity Compensation Plan (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 000-21039) filed with the Commission on February 14, 2013).
10.6†	Form of Option Agreement under the 2011 Equity Compensation Plan (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K (File No. 000-21039) filed with the Commission on February 14, 2013).
10.7†	Form of Restricted Stock Award Agreement for Non-Employee Directors under the 2011 Equity Compensation Plan (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K (File No. 000-21039) filed with the Commission on February 14, 2013).
21.1*	Subsidiaries of Registrant.
23.1*	Consent of PricewaterhouseCoopers LLP.
24.1*	Power of Attorney (included in signature page hereto).

31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Act.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Act.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit Number	Description
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

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* Filed herewith.

† Denotes management contract or compensation plan or arrangement.