TECHNICAL OLYMPIC USA INC
Form 10-K
March 11, 2005

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 10-K**

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2004**

**or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number: 001-32322**
**Technical Olympic USA, Inc.**
*(Exact Name of Registrant as Specified in Its Charter)*

| **Delaware** | **76-0460831** |
|---|---|
| *(State or Other Jurisdiction of Incorporation or Organization)* | *(I.R.S. Employer Identification No.)* |
| **4000 Hollywood Boulevard, Suite 500 North Hollywood, Florida** | **33021** |
| *(Address of Principal Executive Offices)* | *(Zip Code)* |

**Registrant s telephone number, including area code:**
**(954) 364-4000**
**Securities registered pursuant to Section 12(b) of the Act:**
**Common Stock, $.01 par value**
**9% Senior Notes due 2010 (CUSIP No. 878483 AC0)**
**9% Senior Notes due 2010 (CUSIP No. 878483 AG1)**
**10$^{3}$/8% Senior Subordinated Notes due 2012 (CUSIP No. 878483 AD8)**
**7$^{1}$/2% Senior Subordinated Notes due 2011 (CUSIP No. 878483 AJ5)**
**Securities registered pursuant to Section 12(g) of the Act:**
**None**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes þ No o

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $259.8 million as of June 30, 2004.

As of March 4, 2005, there were 44,856,437 shares of the Registrant s common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant s definitive proxy statement for its 2005 annual meeting of stockholders, which proxy statement will be filed no later than 120 days after the close of the Registrant s fiscal year ended December 31, 2004, are hereby incorporated by reference in Part III of this Annual Report on Form 10-K.

---

# PART I

## Item 1. *Business*

We design, build and market high quality detached single-family residences, town homes, and condominiums. We operate in markets characterized by strong population and income growth. Currently we conduct homebuilding operations in 15 metropolitan markets, located in four major geographic regions: Florida, the Mid-Atlantic, Texas, and the West.

For the year ended December 31, 2004, we delivered 7,221 homes, with an average sales price of $275,000, and generated approximately $2.1 billion in homebuilding revenues and $119.6 million in net income. Our unconsolidated joint ventures delivered an additional 116 homes, with an average sales price of $299,000. At December 31, 2004, our homebuilding operations had a backlog of 5,094 homes under contract, representing $1.6 billion in expected revenues, and our unconsolidated joint ventures had a backlog of 669 homes under contract.

We market our homes to a diverse group of homebuyers, including first-time homebuyers, move-up homebuyers, homebuyers who are relocating to a new city or state, buyers of second or vacation homes, active-adult homebuyers and homebuyers with grown children who want a smaller home ( empty-nesters ). Historically, we have marketed our homes under various brand names, including Engle Homes, Newmark Homes, Fedrick, Harris Estate Homes, D.S. Ware Homes, Masonry Homes, Trophy Homes, James Company, and Gilligan Homes.

As of December 31, 2004, we either owned or had options to acquire approximately 50,000 homesites (including unconsolidated joint ventures), and our consolidated operations were actively marketing in 227 communities, while our unconsolidated joint ventures were actively marketing in an additional 18 communities.

As part of our objective to provide homebuyers a seamless home purchasing experience, we have developed our complementary financial services business. As part of this business, we provide mortgage financing, closing and settlement services, and offer title, homeowners and other insurance products. Our mortgage financing operation s revenues consist primarily of origination and premium fee income, interest income and the gain on the sale of the mortgages. We sell substantially all of our mortgages and the related servicing rights to third party investors. Our mortgage financing services are used primarily by buyers of our homes, although we also offer these services to existing homeowners. By comparison, our closing services and our insurance agency operations are used by our homebuyers as well as a broad range of other clients purchasing or refinancing residential or commercial real estate.

## Business Strategies

### *Capitalize on Growth Potential in Our Current Markets*

We believe that a significant portion of our future growth will stem from our ability to increase our homes sales and capture additional market share within our current markets. Currently, we conduct homebuilding operations in 15 metropolitan markets, each of which is highly fragmented with other homebuilders. Our reputation as a high quality homebuilder combined with our financial resources gives us an advantage over many smaller homebuilders with whom we compete. Consequently, we have an opportunity to significantly strengthen our market position by expanding our product offerings and increasing the number of our active selling communities. Generally, our current markets have demonstrated solid income and population growth trends. As a result, we expect that strong demand for new housing in our current markets will also contribute to our growth. By leveraging our current operations, we believe that we will, over time, maximize our financial returns, strengthen our margins and increase our revenues and profitability.

***Expand Our Use of Joint Ventures and Option Contracts to Maximize our Return on Assets***

We have entered into, and expect to expand our use of, joint ventures that acquire and develop land for our homebuilding operations, and/or joint ventures that develop land and also build and market homes. We believe that these joint ventures help us acquire attractive land positions, mitigate and share the risk associated with land ownership and development, increase our return on assets and extend our capital resources. In addition, we seek to use option contracts to acquire land whenever feasible. Option contracts allow us to control significant homesite positions with minimal capital investment and substantially reduce the risks associated with land ownership and development. At December 31, 2004, we controlled approximately 50,000 homesites (including unconsolidated joint ventures) of which approximately 76% were controlled through various option contracts.

***Grow Our Financial Services Business***

Our financial services operations require minimal capital investment and are financially advantageous because of the cost savings resulting from using our affiliated mortgage financing operation and the earnings generated by the high volume of transactions completed by our title insurance and closing services operations. We believe that these financial services complement our homebuilding operations and provide homebuyers a seamless home purchasing experience. For the year ended December 31, 2004, approximately 12% of our homebuyers paid in cash and 58% of our non-cash homebuyers used the services of our mortgage business, while 96% of our homebuyers used our title and closing services and 14% used our insurance agencies to obtain insurance. We believe that we have an opportunity to grow our financial services business by:

- increasing the percentage of our homebuyers who use our financial services;
- marketing our financial services more actively to buyers of homes built by other homebuilders, including smaller homebuilders that do not provide their own financial services; and
- offering additional services that complement our existing financial services in all our markets.

***Selectively Expand Into New Markets***

We intend to supplement our primary growth strategy of expansion in our current markets with a disciplined, financial return oriented approach to entering new markets. We will focus on entering metropolitan areas that have favorable homebuilding characteristics, including availability of strong management with local market expertise as well as solid income and population growth trends, significant single-family home permit activity, a diversified economy and an adequate supply of obtainable homesites. We believe this long-term emphasis on geographic diversification across a range of growing markets with strong fundamentals will enable us to minimize our exposure to adverse economic conditions, seasonality and housing cycles in individual local markets. We will enter new markets through strategic acquisitions of other homebuilders and through initiating operations using our existing management expertise and resources.

**Homebuilding Operations**

***Markets***

We operate in 15 metropolitan markets located in four major geographic regions: Florida, the Mid-Atlantic, Texas, and the West.

| **Florida** | **Mid-Atlantic** | **Texas** | **West** |
|---|---|---|---|
| Jacksonville(1) | Baltimore/Southern Pennsylvania(1)(2) | Austin(4)(5) | Colorado(1) |
| Orlando(1) | Delaware(1)(3) | Dallas/Ft. Worth(4)(5) | Las Vegas(1)(6) |
| Southeast Florida(1) | Nashville (4)(5) | Houston(4)(5)(6) | Phoenix(1) |
| Southwest Florida(1) | Northern Virginia(1) | San Antonio(4) | |

(1) Using the Engle Homes brand name.

(2) Using the Masonry Homes brand name.

(3) Using the Gilligan Homes brand name.

(4) Using the Newmark Homes brand name.

(5) Using the Fedrick, Harris Estate Homes brand name.

(6) Using the Trophy Homes brand name.

For the year ended December 31, 2004, none of our metropolitan markets represented more than 16% of our total revenues. We select our target geographic markets based on, among other things, historical and projected population growth, projected job growth, regional economic conditions, availability of strong management with local expertise, land availability, single-family home permit activity and price, the local land development process, consumer tastes, competition, housing inventory and secondary home sales activity.

*Florida.* Our Florida region is comprised of four metropolitan markets: Jacksonville; Orlando; Southeast Florida, which is comprised of Miami-Dade, Broward, Palm Beach, Martin, St. Lucie, and Indian River Counties; and Southwest Florida, which is comprised of the Fort Myers/ Naples area. For the year ended December 31, 2004, we delivered 2,361 homes in Florida, generating revenue of $632.8 million, or 31.9% of our revenues from home sales.

*Mid-Atlantic.* Our Mid-Atlantic region is comprised of four metropolitan markets: Baltimore, Maryland/ Southern Pennsylvania; Nashville, Tennessee; Northern Virginia; and Delaware. We entered the Delaware market in September 2004 through our acquisition of certain assets of Gilligan Homes. We have continued to market our homes in Delaware under the Gilligan Homes brand name, but we anticipate that we will soon begin marketing our homes in that market under the Engle Homes brand name. For the year ended December 31, 2004, we delivered 562 homes in our Mid-Atlantic region generating revenue of $235.3 million, or 11.8% of our revenues from home sales.

*Texas.* Our Texas region is comprised of four metropolitan markets: Austin; Dallas/ Ft. Worth; Houston; and San Antonio. We build in both mini-master and master plan communities in Texas. To meet varying local demand in each of our Texas markets, a considerable number of our homes in the Texas market are built as speculative homes, which means we commence construction of the homes prior to having sold them. The number of speculative homes we build in any given community or market is influenced by local market factors, such as new employment opportunities, significant job relocations, housing demand, local market customs, the impact of local weather patterns on the construction process and the length of time we have operated in the market. For the year ended December 31, 2004, we delivered 1,827 homes in Texas, generating revenue of $459.9 million, or 23.2% of our revenues from home sales.

*West.* Our West region is comprised of three metropolitan markets: the Colorado Front Range, which is comprised of Denver, Boulder and Colorado Springs; Las Vegas, Nevada; and Phoenix, Arizona. A considerable number of our homes in the Colorado market are built as speculative homes due to local

market factors. For the year ended December 31, 2004, we delivered 2,471 homes in our West region generating revenue of $657.0 million, or 33.1% of our revenues from home sales.

***Product Mix***

We select our product mix in a particular geographic market based on the demographics of the market, demand for a particular product, margins and the economic strength of the market. We regularly review our product mix in each of our markets so that we can quickly respond to market changes and opportunities.

For the year ended December 31, 2004, we generated 37% of our revenues from home sales from homes in the $200,000 to $300,000 price range, 22% of our revenues from home sales from homes in the $300,000 to $400,000 price range, 29% of our revenues from home sales from homes in the under $200,000 price range, and 12% of our revenues from home sales from homes in the over $400,000 price range.

***Land and Homesites***

Land is a key raw material and one of our most valuable assets. We believe that by acquiring land and homesites in premier locations, we enhance our competitive standing and reduce our exposure to economic downturns. We believe that homes in premier locations continue to attract homebuyers in both strong and weak economic conditions. We consider that our disciplined acquisition strategy of balancing homesites and land we own and those we can acquire under option contracts provides us access to a substantial supply of quality homesites and land while conserving our invested capital and optimizing our returns.

*Types of Land and Homesites.* In our homebuilding operations, we generally acquire land or homesites that are entitled. Land is entitled when all requisite residential zoning has been obtained for it. Competition for attractive land in certain of our more active markets, however, leads us from time to time to acquire land that is not yet entitled and undertake to have the land entitled.

We also generally seek to acquire entitled land and homesites that have water and sewage systems, streets and other infrastructure in place (we refer to these properties as developed homesites ) because they are ready to have homes built on them. Before we can build a home on an entitled homesite that is not developed, the necessary infrastructure must be put in place. In certain markets, however, we believe that there are economic benefits to undertaking the development of some of the land that we may acquire, and in those cases, we will attempt to take advantage of those economic benefits by engaging in land development activities. In some of these cases, we seek to use special assessment districts to finance any necessary public infrastructure improvements and the costs of land development. These special assessment districts typically issue tax exempt bonds to finance these improvements and costs. These tax exempt bonds are typically secured by the property, are non-recourse to us and are repaid from assessments levied on the property.

We generally acquire homesites that are located adjacent to or near our other homesites in a community, which enables us to build and market our homes more cost efficiently than if the homesites were scattered throughout the community. Cost efficiencies arise from economies of scale, such as shared marketing expenses and project management.

*Land Acquisition Policies.* We have adopted strict land acquisition policies and procedures that cover all homesite acquisitions, including homesites acquired through option contracts. These policies and procedures impose strict standards for assessing all proposed land purchases with the goal of minimizing risk and maximizing our financial returns.

Initially, our experienced management teams in each of our divisions conduct extensive analysis on the local market to determine if we want to enter, or expand, our operations in that market. As part of this analysis, we consider a variety of factors, including:

- historical and projected population and employment rates for the surrounding area;
- demographic information such as age, education and economic status of the homebuyers in the area;
- suitability for development within two to four years of acquisition;
- desirability of location, including proximity to metropolitan area, local traffic corridors and amenities; and
- prices of comparable new and resale houses in the area.

We then evaluate and identify specific homesites in desirable locations that are consistent with our strategy for the particular market, including the type of home and anticipated sales price that we wish to offer in the community. In addition, we review:

- estimated costs of completed homesite development;
- current and anticipated competition in the area, including the type and anticipated sales price of homes offered by our competitors;
- opportunity to acquire additional homesites in the future, if desired; and
- results of financial analysis, such as projected profit margins and return on invested capital.

In addition, we conduct environmental due diligence, including on-site inspection and soil testing, and confirm that the land has, or is reasonably likely to obtain, the necessary zoning and other governmental entitlements required to develop and use the property for residential home construction.

Each land acquisition proposal, which contains specific information relating to the market, property and community, is then subject to review and approval by our Asset Committee. The Asset Committee is comprised of our senior corporate officers representing the land, finance, sales and marketing, product development, supply management, building technology, and legal departments of the Company.

*Land Supply.* We acquire the land and homesites we require for our homebuilding operations through a combination of purchases and option contracts. Under the option contracts, we have the right, but not the obligation, to buy homesites at predetermined prices on a predetermined takedown schedule anticipated to be commensurate with home starts. Homesite option contracts are generally nonrecourse, thereby limiting our financial exposure to non-refundable deposits, which are typically less than 20% of the underlying purchase price. This enables us to control significant homesite positions with a minimal capital investment and reduces the risks associated with land ownership and development. At December 31, 2004, we had approximately 33,000 homesites under option or similar contracts, representing approximately 74% of our total homesite supply, and we had approximately $132.8 million in cash deposits and $86.6 million in letters of credit under those option contracts. Additionally, our joint ventures owned or controlled approximately 5,000 homesites at December 31, 2004. At December 31, 2004, our investments in unconsolidated joint ventures was $71.6 million.

As of December 31, 2004, we had approximately 50,000 homesites which were either owned or controlled under option contracts and joint ventures in our homesite inventory. This represents supply for approximately 4.5 years of operations, based on our current projections for home sales. The table below shows our approximate homesite inventory by region and in total for the periods indicated:

| | At December 31, | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| Florida | 17,000 | 19,900 | 11,300 |
| Mid-Atlantic | 5,900 | 4,900 | 4,950 |
| Texas | 6,200 | 8,100 | 5,050 |
| West | 15,900 | 15,300 | 5,000 |
| Joint Ventures | 5,000 | | |
| Total(1) | 50,000 | 48,200 | 26,300 |

(1) Includes approximately 36,000, 35,800 and 16,500 homesites under option contracts by us and our joint ventures as of December 31, 2004, 2003, and 2002, respectively.

*Land Sales.* As part of our land inventory management strategy, we regularly review our land portfolio to determine whether to sell all or a portion of the homesites and land that we have purchased to capitalize on market opportunities. Our division managers are constantly reviewing the competitive landscape and characteristics of each of our local markets. As a result of these reviews, we will seek to sell land when we have changed our strategy for a certain property or market and/or we have determined that the potential profit realizable from a sale of property outweighs the economics of developing a community. Land sales are incidental to our homebuilding operations and may fluctuate significantly from period to period. Revenues from land sales for the year ended December 31, 2004 were $115.8 million, as compared to $38.2 million for the year ended December 31, 2003.

*Joint Ventures and Option Contracts.* We believe that using joint ventures in our homebuilding operations to acquire and develop land and/or to acquire and develop land and build and market homes helps us acquire attractive land positions, mitigate and share the risks associated with land ownership and development, increase our return on capital and extend our capital resources. Accordingly, we expanded our use of joint ventures during the year ended December 31, 2004, and we expect to further expand our use of joint ventures in the future. Our partners in these joint ventures generally are unrelated homebuilders, land sellers, financial investors, or other real estate entities. In joint ventures where the acquisition, development and/or construction of the property are being financed with debt, the borrowings are non-recourse to us, and we do not provide any financial guarantees; as a result, our financial exposure in these unconsolidated joint ventures is generally limited to our investment. In addition to joint ventures that acquire and develop land for our homebuilding operations, and/or joint ventures that develop land and also build and market homes, we have, on a selective basis, entered into joint ventures that acquire and develop land for sale to unrelated third party builders. At December 31, 2004, we had investments in unconsolidated joint ventures of $71.6 million. During the year ended December 31, 2004, our unconsolidated joint ventures had a total of 390 net sales orders, 116 homes delivered and 669 homes in backlog, having a sales value of $210.4 million.

In addition to using joint ventures, we also seek to use option contracts to acquire land whenever feasible. Option contracts generally require the payment of a cash deposit or the posting of a letter of credit for the right to acquire land or homesites during a specified period of time at a certain price. These option contracts are either with land sellers or financial investors who have acquired the land to enter into the option contract with us. The financial exposure for nonperformance on our part in these transactions is generally limited to our cash deposits and/or letters of credit.

Option contracts allow us to control significant homesite positions with minimal capital investment, allowing us to increase our return on capital and extend our capital resources. At December 31, 2004, we had deposits of $132.8 million and had issued



---

letters of credit of $86.6 million in connection with our option contracts, and we controlled 33,000 homesites through these contracts.

***Supply Management***

We use our purchasing power and a team-oriented sourcing methodology to achieve volume discounts and the best possible service from our suppliers, thereby reducing costs, ensuring timely deliveries and reducing the risk of supply shortages due to allocations of materials. Our team-oriented sourcing methodology involves the use of corporate, regional, and divisional teams of supply management personnel who are responsible for identifying which commodities should be purchased and used on a national, regional, or divisional level to optimize our spending power. We have negotiated price arrangements, which we believe are favorable, to purchase lumber, sheetrock, appliances, heating and air conditioning, counter tops, bathroom fixtures, roofing and insulation products, concrete, bricks, floor coverings and other housing equipment and materials. Our purchase contracts are with high quality national and regional suppliers and do not have any minimum purchase requirements.

Our supply management team uses our quality control and safety database to monitor and assess the effectiveness of our suppliers and subcontractors within our overall building processes. In addition, our design process includes input from our supply management team to develop product designs that take into account standard material sizes and quantities with the goal of creating product designs that eliminate unnecessary material and labor costs.

***Design***

To appeal to the tastes and preferences of local communities, we expend considerable effort in developing an appropriate design and marketing concept for each community, including determining the size, style and price range of the homes and, in certain projects, the layout of streets, individual homesites and overall community design. In addition, in certain markets, outside architects who are familiar with the local communities in which we build, assist us in preparing home designs and floor plans. The product line that we offer in a particular community depends upon many factors, including the housing generally available in the area, the needs of the particular market and our costs of homesites in the community. To improve the efficiency of our design process and make full use of our resources and expertise, we maintain a company-wide database of detailed information relating to the design and construction of our homes, including architectural plans previously or currently used in our other communities. We also use an accelerated product development process that involves gathering our architects, strategic suppliers and subcontractors, and divisional management teams together in intensive working sessions intended to allow us to develop and deploy new product designs faster than the industry norm. As discussed above, this cross-functional approach to product development and design also focuses on reducing costs and inefficiencies in the building process by ensuring that the design process takes into account supply management, building technology and sales and marketing issues.

***Design Centers***

We maintain design centers in most of our markets as part of our marketing process and to assist our homebuyers in selecting options and upgrades, which can result in additional revenues. The design centers heighten interest in our homes by allowing homebuyers to participate in the design process and introducing homebuyers to the various flooring, lighting, fixtures and hardware options available to them. In keeping with our regional approach, each region decides what type of design center is suitable for the local area. While the size and content of our design centers vary between markets, the focus of all of our design centers is on making the homebuyer s selection process less complicated and an enjoyable experience, while increasing our profitability.

***Construction***

Subcontractors perform substantially all of our construction work. Our construction superintendents monitor the construction of each home, coordinate the activities of subcontractors and suppliers, subject the work of subcontractors to quality and cost controls and monitor compliance with zoning and building codes. We typically retain subcontractors pursuant to a contract that obligates the subcontractor to complete construction at a fixed price in a workmanlike manner. In addition, under these contracts the subcontractor generally provides us with standard indemnifications and warranties. Typically, we work with the same subcontractors within each market, which provides us with a stable and reliable work force and better control over the costs and quality of the work performed. Although we compete with other homebuilders for qualified subcontractors, we have established long-standing relationships with many of our subcontractors and have not experienced any material difficulties in obtaining the services of desired subcontractors.

We typically complete the construction of a home within four to five months after the receipt of relevant permits. Construction time, however, depends on weather, availability of labor, materials, supplies and other factors. We do not maintain significant inventories of construction materials, except for materials related to work in progress for homes under construction. Generally, the construction materials used in our operations are readily available from numerous sources. We have established price arrangements or contracts, which we believe are favorable, with suppliers of certain of our building materials, but we are not under specific purchasing requirements. In recent years, we have not experienced significant delays in construction due to shortages of materials.

We have, and will continue to establish and maintain, information systems and other practices and procedures that allow us to effectively manage our subcontractors and the construction process. For example, we have implemented information systems that monitor homebuilding production, scheduling and budgeting. We also strongly encourage our subcontractors to participate in a peer review process using an independent quality control database designed to assist us in identifying and addressing quality control issues and operating inefficiencies. We believe that this program has and will continue to improve our efficiency and decrease our construction time.

***Marketing and Sales***

Historically, we have marketed our homes under various brand names, including Engle Homes, Newmark Homes, Fedrick, Harris Estate Homes, D.S. Ware Homes, Masonry Homes, Trophy Homes, James Company and Gilligan Homes. We are in the process of consolidating our brands to leverage our most successful brands and reduce the costs associated with maintaining multiple brands. In the future, we will be marketing our homes under the Engle Homes brand name in Florida, most of the Mid-Atlantic, and the West, and under the Newmark Homes brand name in Texas and in Nashville, Tennessee. We also market our homes targeted to first-time homebuyers under the Trophy Homes brand name. We believe our brands are widely recognized in the markets in which we operate for providing quality homes in desirable locations and enjoy a solid reputation among potential homebuyers.

We build and market different types of homes to meet the needs of different homebuyers and the needs of different markets. We employ a variety of marketing techniques to attract potential homebuyers through numerous avenues, including Internet web sites for our various homebuilding brands, advertising and other marketing programs. We advertise on television, in newspapers and other publications, through our own brochures and newsletters, on billboards and in brochures and newsletters produced and distributed by real estate and mortgage brokers. Some of our suppliers participate in our advertising and promotional materials, either through co-branding, cost-sharing or rebates.

We typically conduct home sales activities from sales offices located in furnished model homes in each community. We use commissioned sales personnel who assist prospective buyers by providing them with floor plans, price information, tours of model homes and information on the available options and other custom features. We provide our sales personnel with extensive training, and we keep them updated as to the availability of financing, construction schedules and marketing and advertising plans to facilitate

their marketing and sales activities. We supplement our in-house training program with training by outside marketing and sales consultants.

We market and sell homes through our own commissioned sales personnel and in cooperation with independent real estate brokers. Because approximately 55% of our sales (based on homes delivered) originate from independent real estate brokers, we sponsor a variety of programs and events, including breakfasts, contests and other events to provide the brokers with a level of familiarity with our communities, homes and financing options necessary to successfully market our homes. We also offer other incentives to brokers to actively market our homes.

Sales of our homes generally are made pursuant to a standard sales contract that is tailored to the requirements of each jurisdiction. Generally, our sales contracts require a deposit of a fixed amount or percentage, typically up to $5,000 or five to ten percent of the purchase price. The contract typically includes a financing contingency which permits the customer to cancel in the event mortgage financing cannot be obtained within a specified period, usually 30 days from the signing. The contract may include other contingencies, such as the prior sale of a buyer s existing home. We estimate that the average period between the execution of a sales contract for a home and closing is approximately nine months for presold homes.

***Customer Service and Quality Control***

Our operating divisions are responsible for both pre-delivery quality control inspections and responding to customers post-delivery needs. We believe that the prompt, courteous response to homebuyers needs reduces post-delivery repair costs, enhances our reputation for quality and service and ultimately leads to significant repeat and referral business. We conduct home orientations and pre-delivery inspections with homebuyers immediately before closing. In conjunction with these inspections, we create a list of unfinished construction items and address outstanding issues promptly.

An integral part of our customer service program includes post-delivery surveys. In most of our markets we contract independent third parties to conduct periodic post-delivery evaluations of the customer s satisfaction with their home, as well as the customer s experience with our sales personnel, construction department and title and mortgage services. Typically, we use a national customer satisfaction survey company to mail customer satisfaction surveys to homeowners within 60 days of their home closing. These surveys provide us with a direct link to the customer s perception of the entire buying experience as well as valuable feedback on the quality of the homes we deliver and the services we provide.

***Warranty Program***

For all homes we build, we provide our homebuyers with a one-year or two-year limited warranty of workmanship and materials, and an eight-year or ten-year limited warranty covering major structural defects. The extent of these warranties may differ in some or all of the states in which we operate. We currently have a homebuilder protective policy which covers warranty claims for structure and design defects related to homes sold by us during the policy period, subject to a significant self-insured retention per occurrence. We have, and are continuing to implement, a warranty administration program in conjunction with our homebuilder protective policy insurance carrier that we believe will allow us to more effectively manage and resolve our warranty claims. We subcontract homebuilding work to subcontractors who generally provide us with an indemnity and a certificate of insurance before receiving payments for their work and, therefore, claims relating to workmanship and materials are the primary responsibility of our subcontractors. However, there is no assurance that we will be able to enforce these contractual indemnities. After we deliver a home, we process all warranty requests through our customer service departments located in each of our markets. In most instances, a customer service manager inspects the warranty request within 48 hours of receipt. If a warranty repair is necessary, we manage and supervise the repair to ensure that the appropriate subcontractor takes prompt and appropriate corrective action. Additionally, we have developed a pro-active response and remediation protocol to address any warranty claim that may result in mold damage. We generally have not had any material litigation or claims

regarding warranties or latent defects with respect to construction of homes. Current claims and litigation are expected to be substantially covered by our reserves or insurance.

**Financial Services**

As part of our objective to provide homebuyers a seamless home purchasing experience, we have developed, and are expanding, our complementary financial services business. As part of this business, we provide mortgage financing, closing and settlement services, and offer title, homeowners and other insurance products. Our mortgage financing operation derives most of its revenues from buyers of our homes, although we also offer these services to existing homeowners. By comparison, our closing services and our insurance agency operations are used by our homebuyers and a broad range of other clients purchasing or refinancing residential or commercial real estate.

Our mortgage business provides a full selection of conventional, FHA-insured and VA-guaranteed mortgage products to our homebuyers. We are an approved Fannie Mae seller/servicer. We sell substantially all of our loans and the related servicing rights to third party investors. We conduct this business through our subsidiary, Preferred Home Mortgage Company, which has its headquarters in Tampa, Florida and has offices in each of our markets.

For the year ended December 31, 2004, approximately 12% of our homebuyers paid in cash and 58% of our non-cash homebuyers utilized the services of our mortgage business. During 2004, we closed approximately 4,883 loans totaling $873.9 million in principal amount.

Through our title services business, we, as agent, obtain competitively-priced title insurance for, and provide closing services to, our homebuyers as well as third party homebuyers. We conduct this business through our subsidiary, Universal Land Title, Inc. and its subsidiaries. Universal operates as a traditional title agency with its headquarters in West Palm Beach, Florida and has 27 additional offices.

Universal Land Title works with national underwriters and lenders to facilitate client service and coordinate closing at its offices. It is equipped to handle e-commerce applications, e-mail closing packages and digital document delivery. The principal sources of revenues generated by our title insurance business are fees paid to Universal Land Title for title insurance obtained for our homebuyers and other third party residential purchasers.

For the year ended December 31, 2004, approximately 96% of our homebuyers used Universal Land Title or its affiliates for their title insurance agency and closing services. We continue to expand our title services business to markets not currently served by Universal Land Title. Third party homebuyers (or non-company customers) accounted for 73% of our title services business revenue for the year ended December 31, 2004.

Alliance Insurance and Information Services, LLC, owned by Universal Land Title, is a full service insurance agency serving all of our markets. Alliance markets homeowners , flood and auto insurance directly to homebuyers and others in all of our markets and also markets life insurance in Florida. Interested homebuyers obtain free quotes and have the necessary paperwork delivered directly to the closing table for added convenience. For the year ended December 31, 2004, 14% of our homebuyers used Alliance for their insurance needs.

**Governmental Regulation**

We must comply with state and local laws and regulations relating to, among other things, zoning, treatment of waste, land development, required construction materials, density requirements, building design and elevation of homes, in connection with the construction of our homes. These include laws requiring use of construction materials that reduce the need for energy-consuming heating and cooling systems. In addition, we and our subcontractors are subject to laws and regulations relating to employee health and safety. These laws and regulations are subject to frequent change and often increase construction costs. In some cases, there are laws requiring commitments to provide roads and other infrastructure be in place prior to the commencement of new construction. These laws and regulations are

usually administered by individual counties and municipalities and may result in fees and assessments or building moratoriums. In addition, certain new development projects are subject to assessments for schools, parks, streets and highways and other public improvements, the costs of which can be substantial.

The residential homebuilding industry also is subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. The requirements, interpretation and/or enforcement of these environmental laws and regulations are subject to change. Environmental laws and conditions may result in delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict homebuilding activity in environmentally sensitive regions or areas. In recent years, several cities and counties in which we have developments have submitted to voters and/or approved slow growth or no growth initiatives and other ballot measures, which could impact the affordability and availability of homes and land within those localities.

Our title insurance agency subsidiaries must comply with applicable insurance laws and regulations. Our mortgage financing subsidiaries must comply with applicable real estate lending laws and regulations. In addition, to make it possible for purchasers of some of our homes to obtain FHA-insured or VA-guaranteed mortgages, we must construct those homes in compliance with regulations promulgated by those agencies.

The mortgage financing and title insurance subsidiaries are licensed in the states in which they do business and must comply with laws and regulations in those states regarding mortgage financing, homeowners insurance, and title insurance companies. These laws and regulations include provisions regarding capitalization, operating procedures, investments, forms of policies and premiums.

**Competition and Market Forces**

The development and sale of residential properties is a highly competitive business. We compete in each of our markets with numerous national, regional and local builders on the basis of a number of interrelated factors including location, price, reputation, amenities, design, quality and financing. Builders of new homes compete for homebuyers, and for desirable properties, raw materials and reliable, skilled subcontractors. We also compete with resales of existing homes, available rental housing and, to a lesser extent, resales of condominiums. We believe we generally compare favorably to other builders in the markets in which we operate, due primarily to:

- our experience within our geographic markets;
- the ability of our local managers to identify and quickly respond to local market conditions; and
- our reputation for service and quality.

The housing industry is cyclical and is affected by consumer confidence levels and prevailing economic conditions, including interest rate levels. A variety of other factors affect the housing industry and demand for new homes, including the availability of labor and materials and increases in the costs thereof, changes in costs associated with home ownership such as increases in property taxes, energy costs, changes in consumer preferences, demographic trends and the availability of and changes in mortgage financing programs.

We compete with other mortgage lenders, including national, regional and local mortgage bankers, mortgage brokers, banks, and other financial institutions, in the origination, sale and servicing of mortgage loans. Principal competitive factors include interest rates and other features of mortgage loan products available to the consumer. We compete with other insurance agencies, including national, regional and local insurance agencies, and attorneys in the sale of title insurance, homeowner insurance, and related insurance services. Principal competitive factors include the level of service available, technology, cost and other features of insurance products available to the consumer.

**Seasonality**

The homebuilding industry tends to be seasonal, as generally there are more homes sold in the spring and summer months when the weather is milder, although the rate of sales contracts for new homes is highly dependent on the number of active communities and the timing of new community openings. We operate primarily in the Southwest and Southeast, where weather conditions are more suitable to a year-round construction process than in other parts of the country. Because new home deliveries trail new home contracts by several months, we typically have the greatest percentage of home deliveries in the fall and winter.

**Backlog**

At December 31, 2004, our consolidated operations had 5,094 homes in backlog representing $1.6 billion in revenue, as compared to 3,128 homes in backlog representing $855.4 million in revenue as of December 31, 2003. In addition, our unconsolidated joint ventures had 669 homes in backlog at December 31, 2004, and none at December 31, 2003. Backlog represents home purchase contracts that have been executed and for which earnest money deposits have been received, but for which the sale has not yet closed. We do not record home sales as revenues until the closings occur. Historically, substantially all of the homes in our backlog at any given point in time have been closed in the following 12-month period. Although cancellations can disrupt anticipated home closings, we believe that cancellations have not had a material negative impact on our operations or liquidity during the last several years. We attempt to reduce the number of cancellations by reviewing each homebuyer s ability to obtain mortgage financing early in the sales process and by closely monitoring the mortgage approval process. Our cancellation rate for the fiscal year ended December 31, 2004 was approximately 16%.

**Employees**

At December 31, 2004, we employed 2,079 people. None of our employees are covered by collective bargaining agreements. We believe our relations with our employees are good.

## RISK FACTORS

### Risks Related to Our Business

***Economic downturns in the geographic areas in which we operate could adversely affect demand and prices for new homes in those areas and could have an adverse effect on our revenues and earnings.***

Although we operate in 15 major metropolitan markets, our operations are concentrated in the southwestern and southeastern United States. Adverse economic or other business conditions in these regions or in the particular markets in which we operate, all of which are outside of our control, could have an adverse effect on our revenues and earnings.

***We may not be able to acquire suitable land at reasonable prices, which could increase our costs and reduce our earnings and profit margins.***

We have experienced an increase in competition for available land and developed homesites in most of our markets as a result of the strength of the economy in many of these markets over the past few years and the availability of more capital to major homebuilders. Our ability to continue our development activities over the long-term depends upon our ability to locate and acquire suitable parcels of land or developed homesites to support our homebuilding operations. As competition for land increases, the cost of acquiring it may rise, and the availability of suitable parcels at acceptable prices may decline. If we are unable to acquire suitable land or developed homesites at reasonable prices, it could limit our ability to develop new projects or result in increased land costs that we may not be able to pass through to our customers. Consequently, it could reduce our earnings and profit margins.

***Our significant level of debt could adversely affect our financial condition and prevent us from fulfilling our debt service obligations.***

We currently have a significant amount of debt, and our ability to meet our debt service obligations will depend on our future performance. Numerous factors outside of our control, including changes in economic or other business conditions generally or in the markets or industry in which we do business, may adversely affect our operating results and cash flows, which in turn may affect our ability to meet our debt service obligations. As of December 31, 2004, on a consolidated basis, we had approximately $811.4 million aggregate principal amount of debt outstanding (including our senior notes, our senior subordinated notes, and our warehouse lines of credit, but excluding consolidated land bank obligations of $136.2 million), of which $810.0 million in aggregate principal amount matures in 2010 through 2015. As of December 31, 2004, we would have had the ability to borrow an additional $464.0 million under our revolving credit facility, subject to our satisfying the relevant borrowing conditions in that facility. In addition, subject to restrictions in our financing documents, we may incur additional debt.

If we are unable to meet our debt service obligations, we may need to restructure or refinance our debt, seek additional equity financing or sell assets. We may be unable to restructure or refinance our debt, obtain additional equity financing or sell assets on satisfactory terms or at all.

***Our debt instruments impose significant operating and financial restrictions, which may limit our ability to finance future operations or capital needs and pursue business opportunities, thereby limiting our growth.***

The indentures governing our outstanding notes and our revolving credit facility impose significant operating and financial restrictions on us. These restrictions limit our ability to, among other things:

- incur additional debt;
- pay dividends or make other restricted payments;
- create or permit certain liens, other than customary and ordinary liens;
- sell assets other than in the ordinary course of our business;

create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us;

engage in transactions with affiliates; and

consolidate or merge with or into other companies or sell all or substantially all of our assets.

These restrictions could limit our ability to finance our future operations or capital needs, make acquisitions or pursue available business opportunities. In addition, our revolving credit facility requires us to maintain specified financial ratios and satisfy certain financial covenants, the indentures governing our outstanding notes require us to maintain a specified minimum consolidated net worth, and our warehouse lines of credit require us to maintain the collateral value of our borrowing base. We may be required to take action to reduce our debt or to act in a manner contrary to our business objectives to meet these ratios and satisfy these covenants. A breach of any of the covenants in, or our inability to maintain the required financial ratios under, our revolving credit facility and warehouse lines of credit would prevent us from borrowing additional money under those facilities and could result in a default under those facilities and our other debt obligations. Our failure to maintain the specified minimum consolidated net worth under the indentures will require us to offer to purchase a portion of our outstanding notes. If we fail to purchase these notes, it would result in a default under the indentures and may result in a default under other debt facilities.

***We may not be successful in our effort to identify, complete, integrate or manage acquisitions, which could adversely affect our results of operations and future growth.***

A principal component of our strategy is to continue to grow profitably in a controlled manner, including, where appropriate, by acquiring other property developers or homebuilders. We may not be successful in implementing our acquisition strategy, and growth may not continue at historical levels or at all. The failure to identify or complete business acquisitions, or successfully integrate the businesses we acquire or otherwise realize the expected benefits of any acquisitions, could adversely affect our results of operations and future growth. Specifically, any delays or difficulties in converting our various information systems or implementing our internal policies and procedures could increase costs and otherwise affect our results of operations. Even if we overcome these challenges and risks, we may not realize the expected benefits of our acquisitions, if any.

***We may need additional financing to fund our operations or for the expansion of our business, and if we are unable to obtain sufficient financing or such financing is obtained on adverse terms, we may not be able to operate or expand our business as planned, which could adversely affect our results of operations and future growth.***

Our operations require significant amounts of cash. If our business does not achieve the levels of profitability or generate the amount of cash that we anticipate or if we expand through acquisitions or organic growth faster than anticipated, we may need to seek additional debt or equity financing to operate and expand our business. If we are unable to obtain sufficient financing to fund our operations or expansion, it could adversely affect our results of operations and future growth. We may be unable to obtain additional financing on satisfactory terms or at all. If we raise additional funds through the incurrence of debt, we will incur increased debt service costs and may become subject to additional restrictive financial and other covenants.

***In the event that tax liabilities arise in connection with the October 2003 restructuring, there can be no assurance that we will not be liable for such amounts.***

Prior to a restructuring transaction which occurred in October 2003, Technical Olympic, Inc., which we refer to as Technical Olympic, was the parent of our consolidated tax reporting group, and we were jointly and severally liable for any U.S. federal income tax owed by Technical Olympic or any other member of the consolidated group. As part of the restructuring, Technical Olympic was merged into TOI, LLC, a newly-formed limited liability company of which we are the sole member, and we became the

parent of our consolidated tax reporting group. Also, as part of the restructuring, Technical Olympic Services, Inc., which we refer to as TOSI, a newly-formed corporation wholly-owned by Technical Olympic S.A., assumed all liabilities of Technical Olympic. We do not believe that any material tax liabilities will arise by reason of the restructuring. However, there can be no assurance that material tax liabilities will not arise in connection with the restructuring, that we will not be held liable for such amounts or that we will be able to collect from TOSI any amounts for which they may have assumed liability. The assessment of material tax liabilities in connection with the restructuring could have an adverse effect on our financial condition and results of operations.

***Technical Olympic S.A., our majority stockholder, can cause us to take certain actions or preclude us from taking actions without the approval of the other stockholders and may have interests that could conflict with the interests of our other stockholders.***

Technical Olympic S.A. currently owns 73.38% of the voting power of our common stock. As a result, Technical Olympic S.A. has the ability to control the outcome of virtually all corporate actions requiring stockholder approval, including the election of a majority of our directors, the approval of any merger and other significant corporate actions. Technical Olympic S.A. may authorize actions or have interests that could conflict with those of our other stockholders.

**Risks Related to Our Industry**

***Changes in economic or other business conditions could adversely affect demand and prices for new homes, which could decrease our revenues.***

The homebuilding industry historically has been cyclical and is affected significantly by adverse changes in general and local economic conditions, such as:

- employment levels;
- population growth;
- consumer confidence and stability of income levels;
- availability of financing for land and homesite acquisitions, and the availability of construction and permanent mortgages;
- interest rates;
- inventory levels of both new and existing homes;
- supply of rental properties; and
- conditions in the housing resale market.

Adverse changes in one or more of these conditions, all of which are outside of our control, could reduce demand and/or prices for new homes in some or all of the markets in which we operate. A decline in demand or the prices we can obtain for our homes could decrease our revenues.

***We are subject to substantial risks with respect to the land and home inventories we maintain, and fluctuations in market conditions may affect our ability to sell our land and home inventories at expected prices, if at all, which would reduce our profit margins.***

As a homebuilder, we must constantly locate and acquire new tracts of land for development and developed homesites to support our homebuilding operations. There is a lag between the time we acquire land for development or developed homesites and the time that we can bring the communities to market and sell homes. Lag time varies on a project-by-project basis; however, historically, we have experienced a lag time of approximately one to two years. As a result, we face the risk that demand for housing may decline or costs of labor or materials may increase during this period and that we will not be able to dispose of developed properties or undeveloped land or homesites acquired

for development at expected

prices or profit margins or within anticipated time frames or at all. The market value of home inventories, undeveloped land and developed homesites can fluctuate significantly because of changing market conditions. In addition, inventory carrying costs (including interest on funds used to acquire land or build homes) can be significant and can adversely affect our performance. Because of these factors, we may be forced to sell homes or other property at a loss or for prices that generate lower profit margins than we anticipate. We may also be required to make material write-downs of the book value of our real estate assets in accordance with generally accepted accounting principles if values decline.

***Supply risks and shortages relating to labor and materials can harm our business by delaying construction and increasing costs.***

The homebuilding industry from time to time has experienced significant difficulties with respect to:

- shortages of qualified trades people and other labor;
- inadequately capitalized local subcontractors;
- shortages of materials; and
- volatile increases in the cost of certain materials, including lumber, framing and cement, which are significant components of home construction costs.

These difficulties can, and often do, cause unexpected short-term increases in construction costs and cause construction delays. In addition, to the extent our subcontractors incur increased costs associated with recent increases in insurance premiums and compliance with state and local regulations, these costs are passed on to us as homebuilders. We are generally unable to pass on any unexpected increases in construction costs to those customers who have already entered into sales contracts, as those contracts generally fix the price of the house at the time the contract is signed, which may be up to one year in advance of the delivery of the home. Furthermore, sustained increases in construction costs may, over time, erode our profit margins. We have historically been able to offset sustained increases in the costs of materials with increases in the prices of our homes and through operating efficiencies. However, in the future, pricing competition may restrict our ability to pass on any additional costs, and we may not be able to achieve sufficient operating efficiencies to maintain our current profit margins.

***Future increases in interest rates or a decrease in the availability of government-sponsored mortgage financing could prevent potential customers from purchasing our homes, which would adversely affect our revenues and profitability.***

Almost all of our customers finance their purchases through mortgage financing obtained from us or other sources. Increases in interest rates or decreases in the availability of mortgage funds provided by Fannie Mae, Freddie Mac, the Federal Housing Administration, or the Veteran s Administration could cause a decline in the market for new homes as potential homebuyers may not be able to obtain affordable financing. In particular, because the availability of mortgage financing is an important factor in marketing many of our homes, any limitations or restrictions on the availability of those types of financing could reduce our home sales and the lending volume at our mortgage subsidiary. Increased interest rates can also limit our ability to realize our backlog because our sales contracts typically provide our customers with a financing contingency. Financing contingencies allow customers to cancel their home purchase contracts in the event they cannot arrange for financing. Even if our potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their existing homes to potential buyers who need financing. Interest rates currently are at one of their lowest levels in decades, and any future increases in interest rates could adversely affect our revenues and profitability.

***The competitive conditions in the homebuilding industry could increase our costs, reduce our revenues, and otherwise adversely affect our results of operations.***

The homebuilding industry is highly competitive and fragmented. We compete in each of our markets with numerous national, regional and local builders. Some of these builders have greater financial

resources, more experience, more established market positions and better opportunities for land and homesite acquisitions than we do and have lower costs of capital, labor and material than us. Builders of new homes compete for homebuyers, as well as for desirable properties, raw materials and skilled subcontractors. The competitive conditions in the homebuilding industry could, among other things:

- increase our costs and reduce our revenues and/or profit margins;
- make it difficult for us to acquire suitable land or homesites at acceptable prices;
- require us to increase selling commissions and other incentives;
- result in delays in construction if we experience a delay in procuring materials or hiring laborers; and
- result in lower sales volumes.

We also compete with resales of existing homes, available rental housing and, to a lesser extent, condominium resales. An oversupply of attractively priced resale or rental homes in the markets in which we operate could adversely affect our ability to sell homes profitably.

Our financial services operations are also subject to competition from third party providers, many of which are substantially larger, may have a lower cost structure and may focus exclusively on providing such services.

***We are subject to product liability and warranty claims arising in the ordinary course of business that could adversely affect our results of operations.***

As a homebuilder, we are subject in the ordinary course of our business to product liability and home warranty claims. We provide our homebuyers with a one-year or two-year limited warranty covering workmanship and materials and an eight-year or ten-year limited warranty covering major structural defects. Claims arising under these warranties and general product liability claims are common in the homebuilding industry and can be costly. Although we maintain product liability insurance, the coverage offered by, and availability of, product liability insurance for construction defects is currently limited and, where coverage is available, it may be costly. We currently have a homebuilder protective policy which covers warranty claims for structure and design defects related to homes sold by us during the policy period, subject to a significant self-insured retention per occurrence. However, our product liability insurance and homebuilder protective policies contain limitations with respect to coverage, and there can be no assurance that these insurance rights will be adequate to cover all product liability and warranty claims for which we may be liable or that coverage will not be further restricted and become more costly. In addition, although we generally seek to require our subcontractors and design professionals to indemnify us for liabilities arising from their work, we may be unable to enforce any such contractual indemnities. Uninsured and unindemnified product liability and warranty claims, as well as the cost of product liability insurance and our homebuilder protective policy, could adversely affect our results of operations.

***We are subject to mold litigation and claims arising in the ordinary course of business that could adversely affect our results of operations.***

Recently, lawsuits have been filed against homebuilders and insurers asserting claims of property damages and personal injury caused by the presence of mold in residential dwellings. Some of these lawsuits have resulted in substantial monetary judgments or settlements. Many insurance carriers, including our insurance carriers to some extent, exclude coverage for claims arising from the presence of mold. Uninsured mold liability and claims could adversely affect our results of operations. Historically, we have had a low level of mold litigation and mold related claims and expenses related to any such litigation or claims have been immaterial to our net income. However, there can be no assurance that the amount of mold litigation and claims brought against us will not increase and adversely affect our net income in the future.

17 om 116 were full-time and 370 were part-time, and 474 non-faculty staff in information systems, financial aid, recruitment and admissions, payroll and human resources, corporate accounting and other administrative functions. Of the University's non-faculty staff, 365 were employed full-time and 109 were employed part-time. INTELLECTUAL

PROPERTY In the ordinary course of its business, Strayer develops many kinds of intellectual property that are or will be the subject of copyright, trademark, servicemark, patent, trade secret or other protections. Such intellectual property includes Strayer's courseware materials for classes taught via the internet or other distance-learning means and business know-how and internal processes and procedures developed to respond to the requirements of its operations and various education regulatory agencies. Strayer also claims a common law right to the mark "STRAYER" for educational services and has applied for federal registration of the mark. 32 PROPERTIES We have 20 campuses and five other properties, seven of which are owned and 18 of which are leased. The table set forth below lists each of our properties. CAMPUSES OTHER PROPERTIES -------- ---------------- Alexandria, VA Corporate Headquarters (Arlington, VA) Anne Arundel County, MD Jessup, MD Arlington, VA Newington, VA Chesapeake, VA Strayer ONLINE (Lorton, VA) Charlotte, NC (two campuses) Washington, D.C. Library/Annex Chesterfield, VA Fredericksburg, VA Henrico County (Glen Allen, VA) Loudoun (Ashburn, VA) Manassas, VA Montgomery County (Germantown, MD) Newport News, VA Owings Mills, MD Prince George's County, MD Raleigh-Durham, NC Takoma Park (Washington, D.C.) Washington, D.C. White Marsh (Baltimore, MD) Woodbridge, VA REGULATION REGULATORY ENVIRONMENT The 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 federal government through the U.S. Department of Education; (2) the institutional accrediting agencies recognized by the U.S. Secretary of Education and (3) state higher education regulatory bodies. The regulations, standards and policies of these regulatory agencies are subject to change. ACCREDITATION Strayer University has been institutionally accredited since 1981 by Middle States, a regional accrediting agency recognized by the U.S. Secretary of Education. Accreditation is a system for recognizing educational institutions and their programs for performance, integrity, educational quality, faculty, physical resources, administrative capability and financial stability that entitles them to 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 professional programs for accreditation and publicly designate those institutions that meet their criteria. Accredited schools are subject to periodic review by accrediting bodies to ensure that such schools maintain the performance, integrity and quality required for accreditation. Middle States is the same accrediting agency that grants institutional accreditation to other degree-granting public and private colleges and universities in its region (namely, Delaware, District of 33 Columbia, Maryland, New Jersey, New York, Pennsylvania, Puerto Rico and U.S. Virgin Islands). Accreditation by Middle States is an important attribute of Strayer University. Colleges and universities depend on accreditation in evaluating transfers of credit and applications to graduate schools. Employers rely on the accredited status of institutions when evaluating a candidate's credentials, and students and corporate and government sponsors under tuition reimbursement programs look to accreditation for assurance that an institution maintains quality educational standards. Moreover, institutional accreditation is necessary to qualify for eligibility for federal student financial assistance. Middle States reaffirmed our accreditation in 2000 for a ten-year period. The accrediting agencies that accredit higher education institutions in various regions of the United States have recently adopted a "Policy 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 the Middle States region, the host regional accreditors also will participate in the accreditation process of such expansion operations. STATE LICENSURE We are authorized to offer our programs, including those offered through Strayer ONLINE, by the applicable educational regulatory agencies in all states where our campuses and Strayer ONLINE facilities are located. We are dependent upon the authorization of each state where we are physically located to allow us to operate and to grant degrees or diplomas to students in those states. We are subject to extensive regulation in each of the four jurisdictions (the District of Columbia, Virginia, Maryland and North Carolina) in which we currently maintain campuses. State laws and regulations affect our operations and may limit our ability to introduce educational programs or establish new campuses. We are required by the Higher Education Act to maintain state licensure in each state where we maintain a campus that participates in Title IV programs. OTHER APPROVALS We are approved by appropriate authorities for

the education of veterans and members of the selective reserve and their dependents, as well as for the rehabilitation of handicapped veterans. In addition, we are authorized by the Immigration and Naturalization Service (the "INS") of the U.S. Department of Justice to admit international students for study in the United States subject to applicable guidelines. The INS, working with the Department of State, is in the process of instituting a mandatory electronic reporting system for schools that enroll international students. FINANCING STUDENT EDUCATION Students finance their Strayer University education in a variety of ways. A significant number of students utilize federal financial aid. 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. We also offer a variety of grants, loans (including loans under the SEL Program), scholarships and work-study programs as financing options for our students. In 2001, approximately 44% of Strayer University's students participated in one or more Title IV programs. A substantial portion (approximately 55% in 2001) of our revenues are derived from tuition financed under Title IV programs. Our financial aid programs are designed to assist eligible students whose financial resources are inadequate to meet the cost of education. 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 financial aid must maintain a satisfactory grade point average and progress in a timely manner toward completion of a program of study. 34 The 1998 amendments to the Higher Education Act that took effect on October 7, 2000 address an institution's return-of-funds policy with regard to Title IV programs. Under the new provision, the institution must first determine the amount of Title IV program funds that the student "earned." If the student withdraws during the first 60% of any period of enrollment or payment period, the amount of Title IV program funds that the student earned is equal to a pro rata portion of the funds for which the student would otherwise be eligible. If the student withdraws after the 60% point, then the student has earned 100% of the Title IV program funds. The institution must return to the appropriate Title IV programs, in a specified order and excluding the Federal Work-Study Program, the lesser of the unearned Title IV program funds or the institutional charges incurred by the student for the period multiplied by the percentage of unearned Title IV program funds. An institution must return required funds no later than 30 days after the date the institution determines a student withdrew. If such payments are not timely made, an institution is subject to adverse action, including the submission of a letter of credit equal to 25% of the refunds the institution should have made in its most recent fiscal year. Strayer believes that Strayer University's return-of-funds policy and practice is consistent with the current Higher Education Act. TITLE IV PROGRAMS Strayer University maintains eligibility for its students to participate in the following Title IV programs: o Federal Pell Grants. Grants under the Federal Pell Grant ("Pell") program are available to eligible students based on financial need and other factors. o Campus-Based Programs. The "campus-based" Title IV programs include the Federal Supplemental Educational Opportunity Grant program, the Federal Work-Study program and the Federal Perkins Loan ("Perkins") program. o Federal Family Education Loans. Pursuant to the Federal Family Education Loan Program (the "FFEL Program"), which includes the Federal Stafford Loan ("Stafford") program and the Federal Parent Loan for Undergraduate Students ("PLUS") program, students and their parents can obtain from lending institutions subsidized and unsubsidized student loans, which are guaranteed by the federal government. Students who demonstrate financial need may qualify for a subsidized Stafford loan, and the federal government will pay the interest on the loan while the student is in school and until the student's obligation to repay the loan begins. Unsubsidized Stafford loans are available to students who do not qualify for a subsidized Stafford loan or, in some cases, in addition to a subsidized Stafford loan. o Federal Direct Student Loans. Under the William D. Ford Federal Direct Loan Program (the "Direct Loan Program"), the Department of Education makes loans directly to students rather than guaranteeing loans made by lending institutions. Strayer University has not originated any loans under this program, but utilizes other Title IV loan programs. OTHER FINANCIAL AID PROGRAMS In addition to Strayer University's own student loan and scholarship programs, eligible students at Strayer University may participate in educational assistance programs administered by the U.S. Department of Veterans Affairs, the U.S. Department of Defense, the District of Columbia and private organizations. FINANCIAL AID REGULATION To be eligible to participate in Title IV programs, Strayer University must comply with specific standards and procedures set forth in the Higher Education Act and the regulations issued thereunder by the Department of Education. An institution must, among other things, be authorized by each state within which it is physically located to offer its educational programs

and maintain institutional accreditation by a recognized accrediting agency. The institution also must be certified by the 35 Department of Education to participate in Title IV programs, based on a determination that, among other things, the institution meets certain standards of administrative capability and financial responsibility. For purposes of the Title IV programs, Strayer University and all of its campuses are considered to be a single "institution of higher education" so that Department of Education requirements applicable to an "institution of higher education" are applied to all of Strayer University's campuses in the aggregate rather than on an individual basis. Strayer University and each of its campuses are currently certified to participate in Title IV programs. Congress reauthorizes the Higher Education Act approximately every five years with the next Congressional review scheduled to take place in 2003. In addition, Congress reviews and determines appropriations for Title IV programs on an annual basis. An elimination of certain Title IV programs, a reduction in federal funding levels of such programs, material changes in the requirements for participation in such programs or the substitution of materially different programs could reduce the ability of certain students to finance their education. This, in turn, could lead to lower enrollments at Strayer University or require Strayer University to increase its reliance upon alternative sources of student financial aid. Given the significant percentage of Strayer University's revenues that are derived indirectly from the Title IV programs, the loss of or a significant reduction in Title IV program funds available to Strayer University's students could have a material adverse effect on Strayer. In addition, the regulations applicable to Strayer University have been subject to frequent revisions. If Strayer University were not to continue to comply with such regulations, such non-compliance may affect the operations of the University and its ability to participate in Title IV programs. Certain elements of the regulations applicable to Strayer University are described below. INCREASED REGULATORY SCRUTINY The 1992 amendments to the Higher Education Act formalized, modified and strengthened the regulatory structure known as the "Program Integrity Triad," which consists of the Department of Education, recognized accrediting agencies and state higher education regulatory bodies. Congress intended this initiative to increase the regulatory scrutiny of post-secondary educational institutions. The 1998 amendments to the Higher Education Act preserve the Program Integrity Triad with some refinements. In addition to the Program Integrity Triad, other participants in Title IV programs, notably student loan guaranty agencies, also have enforcement authority. 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. PROVISIONAL CERTIFICATION In certain circumstances, including a change in ownership resulting in a change of control, the Department of Education may certify an institution's continuing eligibility to participate in Title IV programs on a provisional basis for no more than three years. 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 the institution's certification to participate in Title IV programs with the institution having fewer due process protections than if it were fully certified. 36 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 for any violation by the servicer of any Title IV provision. Strayer University has written contracts with three third-party servicers: Financial Aid Management for Education, Inc., Post-secondary Education Assistance Corporation and Weber and Associates, Inc. The servicers each perform activities related to Strayer University's participation in Title IV programs, such as certifying FFEL Program loan applications, preparing reports from Strayer University to the Department of Education, issuing payments for the Pell and campus-based programs and issuing and collecting Perkins loans. 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, provide the administrative

resources necessary to comply with Title IV requirements 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. 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, ability to borrow and financial viability); (2) primary reserve ratio (which measures the institution's financial viability and liquidity) and (3) net income ratio (which measures the institution's ability to operate at a profit or within its means). An institution's financial ratios must yield a composite score of at least 1.5 for the institution to be deemed financially responsible without the need for further federal oversight. Strayer University has applied the financial responsibility standards to its audited financial statements as of and for the year ended December 31, 2001 and calculated a composite score of 3.0, the highest score available. Strayer therefore 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 federally guaranteed student loans by its students exceed certain levels. For each federal fiscal year, a rate of student defaults (known as a "cohort default rate") is calculated for each institution by determining the rate at which borrowers who become subject to their repayment obligation in that federal fiscal year default by the end of the following federal fiscal year. The Department calculates a single cohort default rate for each federal fiscal year that includes all current or former student borrowers at the institution who commenced repayment on any FFEL Program or Direct Loan Program loan during that year. The Department issued new regulations effective July 1, 2001 regarding cohort default rates. Under these regulations, if the Department notifies an institution that its three most recent cohort default rates are each 25 percent or greater, the institution's participation in the FFEL Program, Direct Loan Program and Federal Pell Grant Program ends 30 days after the notification, unless the institution timely appeals that determination on specified grounds and according to specified procedures. An institution's participation in the FFEL Program and Direct Loan Program ends 30 days after notification that its most recent cohort default rate is greater than 40 percent, unless the institution timely appeals that determination on specified grounds and according to specified procedures. An institution whose participation ends under these 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. The new regulations also address cohort default rates for 37 institutions that have undergone a change in status, such as acquisition or merger of institutions and acquisition of another institution's branches or locations. If an institution's cohort default rate equals or exceeds 25% in any of the three most recent federal fiscal years, the institution may be placed on provisional certification status. 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. Strayer University's cohort default rates on FFEL Program loans for the 2000, 1999 and 1998 federal fiscal years, the three most recent years for which this information is available, were 4.7%, 5.6% and 12.1%, respectively. The average cohort default rates for for-profit institutions nationally were 9.4%, 9.3% and 11.4% in fiscal years 2000, 1999 and 1998, respectively. THE "90/10 RULE" Under what is commonly referred to as the "90/10 Rule," the Higher Education Act provides that for-profit institutions, such as Strayer University, are eligible to participate in Title IV programs only if they derive no more than 90% of their revenues from Title IV programs, as determined in accordance with a formula described in the regulations. A for-profit institution that violates the "90/10 Rule" loses its eligibility to participate in Title IV programs for at least one year. During 2001, Strayer University derived 55% of its revenues from tuition financed under Title IV programs. 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, nor contract with any entity that provides, 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. Congress is considering legislation, and the Department of Education recently published proposed regulations, to clarify the incentive payment rule. Failure to comply with the incentive payment rule could result in loss of ability to participate in Federal Student Financial Aid programs or financial penalties. Although there can be no assurance that the Department of Education would not find deficiencies in Strayer University's present or former employee compensation and third-party contractual arrangements, Strayer University believes that its employee compensation and third-party contractual arrangements comply with the incentive compensation provisions of the

Higher Education Act. DISTANCE LEARNING AND THE "50% RULES" Strayer University offers all of its existing degree and diploma programs through Strayer ONLINE, delivering instruction via internet-based telecommunications from Strayer's Distance Learning Center in Lorton, Virginia. Strayer ONLINE has been approved by the applicable regulatory agencies in all states where our campuses and Strayer ONLINE facilities are located. During the spring 2002 quarter, Strayer University had 4,970 students taking courses online, 3,772 of whom took classes solely through Strayer ONLINE. The Higher Education Act excludes from Title IV program participation institutions at which more than 50% of the institution's courses are offered by correspondence or at which 50% or more of the institution's students are enrolled in correspondence courses, except that the Secretary of Education is authorized to waive this limitation at his/her discretion in the case of institutions offering two- or four-year programs leading to an associate or bachelor degree. Department of Education regulations grant an automatic waiver for these degree-granting institutions if students enrolled in correspondence courses receive five percent or less of the total Title IV program funds received by all students enrolled at the institution. In addition, a student is not eligible for Title IV program funds for a correspondence course unless such course is at least one academic year in length or part of a program leading to an associate, bachelor or graduate degree. The Higher Education Act states that a 38 student enrolled in a course of instruction at an institution like Strayer University, where at least half of the programs lead to a degree that is offered in whole or in part through telecommunications and leads to a recognized certificate for a program of study of one year or longer, or a recognized associate, bachelor or graduate degree conferred by such institution, is not considered to be enrolled in a correspondence course, unless the total number of telecommunications and traditional correspondence courses offered by the institution equals or exceeds 50% of the total number of courses offered by the institution. For purposes of the 50% rules, a course must be considered as being offered once during an award year regardless of the number of times it is offered during that year, and a course that is offered both on campus and online must be considered two courses for the purpose of determining the total number of courses the institution provided during an award year. Strayer University's policy is to ensure that it remains in compliance with the 50% rules by monitoring its course offerings and ensuring that the number of courses offered through Strayer ONLINE will not equal or exceed one-half of the total number of courses offered by Strayer University, calculated as set forth above. Strayer University does not offer traditional correspondence courses. 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 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 the Office of Inspector General audit guide. 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 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 the participation of the University in Title IV programs. In addition, Strayer University's guaranty agencies could initiate proceedings to limit, suspend or terminate Strayer University's eligibility to provide guaranteed student loans in the event of certain regulatory violations. Although there are no such sanctions currently in force, and Strayer University does not believe any such sanctions or proceedings are presently contemplated, if such sanctions or proceedings were imposed against Strayer University and resulted in a substantial curtailment of the University's participation in Title IV programs, Strayer University would be materially and adversely affected. If Strayer University lost its eligibility to participate in Title IV programs, or if the amount of available federal student financial aid were reduced, the University would seek to arrange or provide alternative sources of revenue or financial aid for students. The SEL Program would provide one such alternative, but there can be no assurance that the SEL Program could provide loans sufficient to make up for the loss of Title IV program funds. 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 might not be as favorable as those for Title IV program funds. Strayer University may be required to guarantee all or part of such alternative assistance or might incur other

additional costs in connection with securing alternative sources of financial aid. Accordingly, the loss of eligibility of Strayer University to participate in Title IV programs 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. 39 RESTRICTIONS ON ADDING LOCATIONS AND EDUCATIONAL PROGRAMS State requirements and accrediting agency standards may in certain instances limit the ability of Strayer University to establish additional locations and programs. District of Columbia regulations require institutions to submit an application for an amended license in order to add a new program or location. The Virginia State Council of Higher Education requires institutions to obtain approval prior to offering new educational programs at existing sites or instruction for degree credit at a new site located more than 25 miles or 30 minutes' travel time from an existing location. Maryland law and regulations require institutions to obtain the approval of the Maryland Higher Education Commission in order to offer an instructional program not specified in its certificate of approval or to offer more than one-third of the credit-bearing coursework leading toward a certificate or degree at a location not specified in its certificate of approval. Middle States requires institutions that it accredits to notify it in advance of implementing new programs or locations, and upon notification may undertake a review of the institution's accreditation. Based on its current understanding of how these standards will be applied, the University does not believe that these standards will have a material adverse effect on Strayer University or its expansion plans. The Higher Education Act requires for-profit institutions of higher education to be in full operation for two years before qualifying to participate in Title IV programs. However, the applicable regulations permit an institution that is already qualified to participate in Title IV programs to establish additional locations that are exempt from the two-year rule. Such additional locations may immediately qualify 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 unpaid Title IV liabilities, and the acquiring institution does not agree 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 avoid incurring the two-year delay in participation in Title IV programs. The loss of state authorization or accreditation by 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 in that state or at that location. The 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. If the institution participates in Title IV programs under provisional certification, as the University currently does as a result of its 2001 recapitalization and change of ownership (see "--Change in Ownership Resulting in a Change of Control"), and in certain other circumstances, the institution must obtain Department of Education approval for the new location before providing Title IV assistance to students at that location. Otherwise, once it reports the location to the Department of Education, the institution may disburse Title IV program funds to eligible students at that location if the location is licensed and accredited. Institutions are responsible for knowing whether they need approval, and institutions that add locations and disburse Title IV program funds without having obtained any necessary Department of Education approval may be subject to administrative repayments and other sanctions. Strayer does not believe that the Department of Education's regulations will create significant obstacles to Strayer University's plans to add new campuses. Generally, if an institution eligible to participate in Title IV programs adds an educational program after it has been designated as an eligible institution, the institution must apply to the Department of Education to have the additional program designated as eligible. However, a degree-granting institution such as Strayer is not obligated to obtain Department of Education approval of additional programs that lead to an associate, bachelor, professional or graduate degree at a level already awarded. Similarly, an institution is not required to obtain advance approval for new programs that prepare students for gainful employment in the same or related recognized occupation as an educational program that has previously been designated as an eligible program at that 40 institution and meets certain minimum-length requirements. In the event that an institution erroneously determines that an educational program is eligible for Title IV funds without the Department of Education's express approval, the institution may be liable for repayment of Title IV aid received by the institution in connection with that program. Strayer does not believe that the Department of Education's regulations will create significant obstacles to Strayer University's plans to add new

programs. CHANGE IN OWNERSHIP RESULTING IN 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. The D.C. Education Licensure Commission requires an institution licensed by it to report a change in ownership in advance, preferably 90 days, and may require the institution to apply to amend its license. The applicable laws and regulations of Maryland do not specifically address reporting of changes in ownership. The State Council of Higher Education for Virginia requires notice 30 days in advance of a change in ownership and the filing of an application for approval of the change within 30 days after the change. The Board of Governors of North Carolina may require the filing of notice of a change in ownership and an application for approval of the change. 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 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. 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 ten 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. Under INS regulations, if a school that is approved to admit foreign students changes ownership, approval will be automatically withdrawn 60 days after the change of ownership unless the school files a new petition for school approval within 60 days after that change of ownership. If, after conducting 41 a review, the INS district director finds that the school's approval should not be continued, the district director must institute proceedings to withdraw the school's approval. Strayer University currently has INS approval to admit foreign students for U.S. study, subject to applicable regulations. Pursuant to federal law providing benefits for veterans and reservists, the University is approved for education of veterans and members of the selective reserve and their dependents by the state approving agency in the District of Columbia, Maryland, North Carolina and Virginia. In certain circumstances, state approving agencies may require an institution to obtain approval for a change in ownership and control. In order to complete the change of ownership associated with Strayer's self-tender offer to repurchase common shares and its issuance of its Series A Preferred Stock to the selling stockholders New Mountain Partners, L.P. (a private equity fund managed by New Mountain Capital, LLC) and DB Capital Investors, L.P. (an affiliate of DB Capital Partners, Inc., the merchant banking arm of Deutsche Bank AG) in March 2001, Strayer University was required to make a number of submissions to educational regulatory bodies, including, among others: (1) filing a "substantive change" report with Middle States; (2) filing an application for approval to participate in federal student financial aid programs with the Department of Education; (3) filings with the D.C. Education Licensure Commission, the Maryland Higher Education Commission and the Virginia State Council of Higher

Education; and (4) filings with the INS and approving agencies for veterans benefits in the District of Columbia, Maryland and Virginia. All of the applicable agencies approved the transaction, which closed in May 2001. As is customary for institutions undergoing a change of ownership resulting in a change of control, the Department of Education recertified the University on a provisional basis through June 30, 2004. 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 or diplomas, 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. This offering will not represent a change in control. 42 MANAGEMENT DIRECTORS AND EXECUTIVE OFFICERS The following table sets forth certain information with respect to our directors and executive officers. NAME AGE POSITION ---- --- -------- DIRECTORS: Steven B. Klinsky ............... 46 Non-executive Chairman of the Board Robert S. Silberman ............. 44 Chief Executive Officer, President and Director Charles Ayres ................... 42 Director Dr. Charlotte F. Beason ......... 54 Director William E. Brock ................ 71 Director David A. Coulter ................ 54 Director Gary Gensler .................... 44 Director Robert R. Grusky ................ 45 Director Todd A. Milano .................. 49 Director G. Thomas Waite, III ............ 50 Director J. David Wargo .................. 48 Director EXECUTIVE OFFICERS: Scott W. Steffey ................ 41 Executive Vice President and Chief Operating Officer Mark C. Brown ................... 43 Senior Vice President and Chief Financial Officer Steven A. McArthur .............. 44 Senior Vice President and General Counsel Kevin P. O'Reagan ............... 42 Vice President and Chief Technology Officer Lysa Hlavinka ................... 35 Vice President, Marketing Robert E. Farmer ................ 63 Vice President, Human Resources, Administration and Training Sonya Udler ..................... 34 Vice President, Corporate Communications DIRECTORS Mr. Steven B. Klinsky is the Founder and has been the Managing Member and Chief Executive Officer of New Mountain Capital, LLC since January 2000. From 1987 to June 1999, Mr. Klinsky was a general partner of Forstmann Little & Co., a private equity firm. Mr. Klinsky has been non-executive Chairman of the Board since March 2001. He also serves on the Board of Directors of Surgis, Inc. Mr. Robert S. Silberman has been President and Chief Executive Officer since March 2001. Mr. Silberman was Executive in Residence at New Mountain Capital, LLC from August 2000 to March 2001. From 1995 to 2000, Mr. Silberman served as President and Chief Operating Officer (and in certain other capacities) of CalEnergy Company, Inc. 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 and is a member of the Board's Executive Committee. He also serves on the Board of Directors of Surgis, Inc. Mr. Charles Ayres has been a Managing Director of DB Capital Partners, Inc. (the private equity arm of Deutsche Bank AG) and Head of DB Capital Partners U.S. since 1999. From 1991 to 1999, Mr. Ayres served as a Managing Partner at McCown DeLeeuw & Co. Mr. Ayres currently serves on the Board of Directors of Jet Industries, Inc., New Roads, Inc., Prestige Brands International, Inc. and the Kinetics Group, Inc. 43 Dr. Charlotte F. Beason has been Vice Chair of the Commission on Collegiate Nursing Education (an autonomous agency accrediting baccalaureate and graduate programs in nursing) and Program Director, Nursing Strategic Healthcare Group, at the U.S. Department of Veterans Affairs since 1996. Mr. William E. Brock is the Founder and has been Chairman of BRIDGES Learning Systems, Inc., an education services company, since 1996. From 1988 to 1995, Mr. Brock was the founder and Chairman of the Brock Group, a firm specializing in international trade, investment and human resources. From 1985 to 1987, Mr. Brock served as the Secretary of Labor. From 1981 to 1985, Mr. Brock served as the Special Trade Representative. Mr. Brock served as a Senator from the State of Tennessee from 1971 to 1981. Mr. Brock is also a Director of On Assignment, Inc., HealthExtras, Inc. and Federal Medical, Inc. Mr. David A. Coulter has been Vice Chairman, J.P. Morgan Chase & Co. from December 2000 to the present. Mr. Coulter was Vice Chairman of The Chase Manhattan Corporation from July 2000 to December 2000. Prior to joining Chase, Mr. Coulter led the west coast operations of the Beacon Group, a private investment and strategic advisory firm, and prior to that Mr. Coulter served as the Chairman and Chief Executive Officer of the BankAmerica Corporation. Mr. Coulter currently serves on the Board of

Directors of PG&E Corporation and MasterCard International, and he is a Trustee of Carnegie Mellon University. Mr. Gary Gensler served as Under Secretary of the U.S. Department of the Treasury from 1999 to 2001, and before that as Assistant Secretary of the Treasury from 1997 to 1999. From 1988 to 1997, Mr. Gensler was a partner of The Goldman Sachs Group, L.P., an international investment banking firm where he served in various capacities including co-head of finance, responsible for controllers and treasury worldwide. Mr. Gensler is a co-author of "The Great Mutual Fund Trap." He serves as a Trustee of the Baltimore Museum of Art, the Bryn Mawr School and The Enterprise Foundation. Mr. Robert R. Grusky has been a Member of New Mountain Capital, LLC since January 2000. Since 2000, Mr. Grusky has also been the managing member of the limited liability company that is the general partner of Hope Capital Partners, L.P., an investment partnership that invests primarily in public equities. From 1998 to 2000, Mr. Grusky served as President of RSL Investments Corporation. From 1985 to 1997, with the exception of 1990-1991 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, including Vice President at Goldman, Sachs & Co., first in its Merger & Acquisitions Department and then in its Principal Investment Area. He is also on the Board of Directors of Surgis, Inc. and a member of the Board of Trustees of Hackley School and the Multiple Myeloma Research Foundation. Mr. Todd A. Milano has been President and Chief Executive Officer of Central Pennsylvania College since 1989. Mr. G. Thomas Waite, III has been treasurer and Chief Financial Officer of the Humane Society of the United States since 1993. In 1992, Mr. Waite was the Director of Commercial Management of The National Housing Partnership. Mr. J. David Wargo has been a Member of New Mountain Capital, LLC since January 2000. Since 1993, Mr. Wargo has also been the President of Wargo and Company, Inc., an investment management company. 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 On Command Corporation and OPENTV Corporation. EXECUTIVE OFFICERS Scott W. Steffey joined Strayer in March 2001 after serving as an Executive in Residence at New Mountain Capital, LLC from March 2000 to March 2001. Prior to that, Mr. Steffey served for four years as Vice Chancellor of the State University of New York, the largest public post-secondary higher education system in the world. He is also the founder of the Charter Schools Institute, an organization 44 that establishes competitive K-12 schools in New York State dedicated to providing improved educational opportunities for economically disadvantaged students. Previously, Mr. Steffey held senior management positions at NYNEX Corporation and American Express Company. Mark C. Brown joined Strayer in August 2001 as its Senior Vice President and Chief Financial Officer. Mr. Brown was most recently the Chief Financial Officer of the Kantar Group, the information and consultancy division of WPP Group, the 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 CPA who started his career with PricewaterhouseCoopers. Steven A. McArthur joined Strayer in May 2001 as its Senior Vice President and General Counsel. Mr. McArthur is responsible for oversight of all legal matters for Strayer and coordinating with other responsible officers on various regulatory, administrative, employee benefit, real estate, leasing and insurance matters. Mr. McArthur previously served as Senior Vice President and General Counsel to MidAmerican Energy Holdings Company, a Fortune 500 diversified holding company, and a number of its public company subsidiaries. Mr. McArthur has over 17 years' experience advising various public companies in the areas of regulatory compliance, mergers and acquisitions, financings and related legal matters. Kevin P. O'Reagan has been active in the technology field for the past 18 years and joined Strayer in May 2001 as its Vice President and Chief Technology Officer. Mr. O'Reagan started his career with Andersen Consulting and later joined Prudential Mortgage as the Director of Technology. He most recently was the Chief Technology Officer of the RIA Group of the Thompson Corporation. Mr. O'Reagan has also developed and taught courses at the post-graduate level as an adjunct faculty member at The Johns Hopkins University in its Information Technology Program. Lysa Hlavinka has been working in the for-profit education field for the past 11 years and joined Strayer in May 2001 as Vice President, Marketing. Ms. Hlavinka started her career as an account executive at an advertising agency and joined the University of Phoenix in 1990. As that company grew, Ms. Hlavinka held positions as Marketing Manager, Director of Administrative Services, and, most recently, National Director of Advertising. While at the University of Phoenix, she taught marketing and public relations courses as an adjunct faculty member. Robert E. Farmer is Vice President of Human Resources, Administration and Training of the University, a position to which he was appointed in 2001.

Previously, Mr. Farmer was the University's Director of Operations (in 2000) and Director of Human Resources for the University, a position he held since 1995. Mr. Farmer was the Campus Coordinator of the University's Arlington campus from 1992 until 1995, and he was the Director of Admissions at that campus from 1990 to 1992. Mr. Farmer is a certified Professional in Human Resources (PHR). Sonya Udler joined Strayer as its Vice President, Corporate Communications in July 2002, bringing over 14 years of public relations and marketing communications experience to Strayer. For the two years prior to joining Strayer, she served as a public relations and media strategies consultant. She previously served as Senior Vice President at Young & Associates Inc., a public relations agency, where she developed communications strategies and media programs for Bell Atlantic, Siemens, Verizon and other leading technology companies. 45 SELLING STOCKHOLDERS The following table sets forth information with respect to the beneficial ownership by the selling stockholders of our common stock as of June 30, 2002 and as adjusted to reflect the sale of 2,000,000 shares of common stock offered by the selling stockholders. Except as otherwise indicated below, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them. SHARES OF COMMON SHARES OF SHARES OF COMMON STOCK BENEFICIALLY COMMON STOCK BENEFICIALLY OWNED PRIOR TO THE STOCK BEING OWNED AFTER THE OFFERING(1) OFFERED OFFERING(2) ---------------------- ------------- ----------------------- NAME OF BENEFICIAL OWNER NUMBER PERCENT NUMBER NUMBER PERCENT ----------------------- ----------- --------- ------------- ----------- ---------- New Mountain Partners, L.P. (3)(4)(5) .......... 5,328,836 37.3% 1,700,000 3,628,836 25.4% DB Capital Partners, Inc. (5)(6)(7)(8) ......... 1,621,385 11.3% 300,000 1,321,385 9.2% ---------- (1) Based on 8,352,412 shares of common stock outstanding as of June 30, 2002 and includes 5,950,221 shares of common stock issuable upon conversion of the Series A Preferred Stock as of June 30, 2002. (2) Based on 10,352,412 shares of common stock outstanding as of June 30, 2002 and includes 3,950,221 shares of common stock issuable upon conversion of the Series A Preferred Stock as of June 30, 2002, after giving effect to this offering. (3) Based on a Schedule 13D filed with the SEC dated May 15, 2001. Includes 767,000 shares owned by Ron K. and Beverly Bailey and their affiliated foundations, which New Mountain has the option to purchase under a currently exercisable option at $30.00 per share. Includes 4,561,836 shares issuable upon conversion of the Series A Preferred Stock owned by New Mountain. (4) New Mountain's address is 712 Fifth Avenue, 23rd Floor, New York, NY 10019. New Mountain Investments, L.P. ("NMI") is New Mountain's general partner and New Mountain GP, LLC ("NM") is NMI's general partner. Steven B. Klinsky, the Chairman of the Board of Directors of Strayer, is the sole member of NM. Robert R. Grusky and J. David Wargo, directors of Strayer, are limited partners of NMI. Mr. Klinsky, Mr. Grusky and Mr. Wargo disclaim beneficial ownership of the shares owned by New Mountain, except to the extent of their pecuniary interests therein. (5) See "Description of Capital Stock -- Other Terms of Series A Preferred Stock -- Corporate Governance" for a description of the selling stockholders' rights, as holders of the Series A Preferred Stock, to elect members of our Board of Directors. Due to the voting agreement contained in the shareholders' agreement between New Mountain and DB Capital, New Mountain and DB Capital may be deemed to beneficially own each other's shares. (6) Based on a Schedule 13D filed with the SEC dated May 15, 2001. Includes 233,000 shares owned by Ron K. and Beverly Bailey and their affiliated foundations, which DB Capital Investors, L.P. has the option to purchase under a currently exercisable option at $30.00 per share. Includes 1,388,385 shares issuable upon conversion of the Series A Preferred Stock owned by DB Capital Investors, L.P. (7) DB Capital's address is 31 West 52nd Street, 26th Floor, New York, NY 10019. Charles Ayres, a director of Strayer, disclaims beneficial ownership of the shares owned by DB Capital, except to the extent of his pecuniary interest therein. (8) Assumes no exercise of the underwriters' over-allotment option. DB Capital has granted the underwriters an option to purchase 300,000 shares of common stock issuable upon conversion of its Series A Preferred Stock to cover the underwriters' over-allotment option. Assuming such option is exercised in full, DB Capital would beneficially own 1,021,385 shares, or approximately 7.1% of our common stock, after completion of this offering. 46 DESCRIPTION OF CAPITAL STOCK Our authorized capital stock consists of (1) 20,000,000 shares of common stock, par value $0.01 per share, of which 8,352,412 shares were issued and outstanding as of June 30, 2002, and (2) 8,000,000 shares of preferred stock, par value $0.01 per share. Of these preferred shares, 6,000,000 have been designated as Series A Preferred Stock, of which 5,950,221 shares were issued and outstanding or accrued as of June 30, 2002. COMMON STOCK Each holder of common stock is entitled to one vote per share on all matters to be voted upon by the stockholders. Stockholders do not have cumulative voting rights in the election of directors. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may

be declared from time to time by the Board of Directors out of funds legally available for that purpose. Strayer presently intends to pay regular cash dividends on its common stock. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of Strayer, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. PREFERRED STOCK In May 2001, Strayer underwent a $150 million recapitalization and change of control transaction in which it issued 5,769,231 shares of its Series A Preferred Stock to the selling stockholders. Strayer used the $150 million, together with approximately $36.4 million of its cash and marketable securities, to repurchase 7,175,000 shares of outstanding common stock from its then chief executive officer and majority stockholder at $25.00 per share. The Series A Preferred Stock has an effective dividend yield of 5.43% and is convertible into common stock at a price of $26.00 per share, subject to adjustment under certain circumstances. In addition, the Series A Preferred Stock has the following material terms: AUTHORIZED A total of 6,000,000 shares of Series A Preferred Stock, par value $.01 per share, have been authorized. Strayer issued 5,769,231 shares of Series A Preferred Stock in the May 2001 recapitalization and through June 30, 2002 has accrued an additional 180,990 shares of Series A Preferred Stock as dividends in kind. RANKING The shares of Series A Preferred Stock rank, as to dividends, redemption payments and rights upon liquidation, dissolution or winding up, senior to the shares of common stock and on a parity with each other. DIVIDENDS The holders of shares of Series A Preferred Stock are entitled to receive dividends prior to any amounts being paid on the shares of common stock when, as and if declared by the Board of Directors out of funds legally available therefor. Dividends on the Series A Preferred Stock are payable as follows: o From the original issuance date of the Series A Preferred Stock until May 15, 2006, dividends accrue at an annual rate of 7.0% of the sum of the liquidation amount, which is $26.00 per share (subject to adjustment), plus any accumulated and unpaid dividends, with 3.5% payable in cash when the dividend is declared and the remaining 3.5% accumulating and compounding quarterly until the Series A Preferred Stock either converts, is redeemed or a liquidation event occurs. 47 o Beginning on May 16, 2006, dividends will accrue at an annual rate of 3.0% of the sum of the liquidation amount plus any accumulated and unpaid dividends, all of which will be payable in cash on a quarterly basis when the dividend is declared. In addition, when and if the Board of Directors declares regular quarterly dividends on the common stock up to $0.065 per share, holders of Series A Preferred Stock are not entitled to participate in the common stock dividend. However, the Series A Preferred Stock will participate on an as-converted basis in any dividends on the common stock in excess of the regular quarterly dividends of $0.065 per share. CONVERSION AT THE OPTION OF THE HOLDER The shares of Series A Preferred Stock are initially convertible, in whole or in part, at the option of the holder, into shares of common stock at a conversion rate of one share of common stock for each share of Series A Preferred Stock, subject to adjustment for certain events, including stock splits, stock dividends and dilutive issuances of capital stock. LIQUIDATION RIGHTS Upon any liquidation, dissolution or winding up of Strayer, the holders of Series A Preferred Stock are entitled to a liquidation preference, prior to any amounts being paid on the common stock, in an amount equal to the greater of (1) the sum of $26.00 per share of Series A Preferred Stock plus accumulated and unpaid dividends to the payment date (in each case, as adjusted for stock dividends, stock combinations, or similar events) and (2) the product of (a) the price of the common stock calculated as the average of the daily closing prices for the common stock for five consecutive trading days selected by the Board of Directors out of the 20 trading days preceding the date of the liquidation, dissolution or winding up and (b) the number of shares of common stock which the holders of Series A Preferred Stock would have been entitled to receive if they had converted their shares. CHANGE OF CONTROL Upon any change of control of Strayer, the holders of Series A Preferred Stock are entitled, in each holder's sole discretion, to elect to receive the liquidation amount per share plus accumulated and unpaid dividends to the payment date. If no election is made, the holders will retain their shares of Series A Preferred Stock. Our charter prohibits us from entering into most change of control transactions unless the transaction provides that the holders of Series A Preferred Stock have the right to convert such shares into the same kind and amount of securities, cash and other property that such holder would have received if the Series A Preferred Stock had been converted into common stock immediately prior to the proposed transaction. If the consideration to be received by the holders of common stock in a proposed transaction is less than the adjusted conversion price for the Series A Preferred Stock in effect at the time of the transaction, then the holders of Series A Preferred Stock would be entitled, immediately prior to the proposed transaction, to convert such Series A Preferred Stock into common stock at a per share conversion price equal to 99% of the consideration to be received in the proposed transaction by the

holders of common stock. VOTING RIGHTS Each holder of Series A Preferred Stock is entitled to the number of votes per share equal to the number of whole shares of common stock into which all of the holder's shares of Series A Preferred Stock are convertible with respect to all matters submitted for stockholder approval. Except as provided by law or by the express terms of the Series A Preferred Stock, holders of Series A Preferred Stock vote together with holders of the common stock as a single class. For so long as there are any shares of Series A Preferred Stock outstanding, the approval of the holders of at least a majority of the Series A Preferred Stock will be required to take certain actions including: 48 o Any reclassification of the Series A Preferred Stock or any amendment, alteration or repeal of any provision of our charter or bylaws that adversely affects the dividend or liquidation preferences, voting powers or other rights of the holders of the Series A Preferred Stock; o The authorization, creation or issuance of additional equity securities ranking senior to or on par with the Series A Preferred Stock with respect to liquidation or distributions, or any security convertible into, or which provides a right to acquire, a senior or pari passu security; o Any issuance of shares of common stock at a per share price equal to or less than $26.00, subject to certain adjustments, or securities convertible into or exchangeable for common stock at a per share conversion or exchange price equal to or less than $26.00; and o The declaration, payment or making of any dividend or distribution on the common stock other than our regular quarterly dividend of $0.065 per share of common stock subject to nominal increases consistent with past practices. REDEMPTION AT STRAYER'S OPTION The Series A Preferred Stock may not be redeemed at our option until May 15, 2004. From and after the third year until the fifth year that the Series A Preferred Stock is outstanding, so long as the common stock is listed on the New York Stock Exchange or the Nasdaq National Market, Strayer may redeem shares of the Series A Preferred Stock, in whole or in part, within 45 days of any period in which the closing price of the common stock for at least 20 consecutive trading days equals or exceeds 200% of the conversion price, which is initially $26.00 per share; provided that the 20-day period may not begin before May 15, 2004. After May 15, 2006, Strayer may redeem the Series A Preferred Stock, in whole or in part, at the discretion of the majority of the members of the Board of Directors who are not elected by the holders of the Series A Preferred Stock. In either case, the redemption price of each share of Series A Preferred Stock is equal to the liquidation amount, plus accumulated and unpaid dividends to the redemption date. The decision to redeem the Series A Preferred Stock is to be made in the discretion of the directors not elected by the holders of the Series A Preferred Stock. REDEMPTION AT THE OPTION OF THE HOLDER The holders of the Series A Preferred Stock have the right to require Strayer to redeem their shares only: o After the tenth anniversary of the original issuance of the shares (May 15, 2011); o Upon a change of control of Strayer; or o In the event Strayer sells all or substantially all of its assets. Upon the occurrence of any of these events, a holder of Series A Preferred Stock may require us to redeem all or a part of that holder's shares of Series A Preferred Stock, at a purchase price in cash equal to the liquidation amount, as adjusted, of each share to be redeemed plus accumulated and unpaid dividends to the redemption date. REGISTRATION RIGHTS DEMAND REGISTRATION Strayer has agreed, pursuant to a Registration Rights Agreement dated as of May 15, 2001 with the selling stockholders, that if it is not eligible to use the short-form registration statement, Form S-3 (as it currently is), it will register the resale of the securities held by the selling stockholders upon their request, as follows: o Strayer will not register the resale of securities more than two times; o Strayer will not register the resale of securities more than once during any six-month period; and 49 o The aggregate offering price of the resale of securities must be at least $10 million. However, if it is eligible to use the short-form registration statement, Form S-3, the selling stockholders will also have the right to request registration on that form two times during any one year for a "shelf" registration permitted by Rule 415 under the Securities Act. A majority of the holders of the securities originally issued to the selling stockholders is required to request the "shelf" registration. If Strayer's Board of Directors determines that filing a requested registration statement would result in a disclosure of information that would materially and adversely affect any proposed or pending material transaction, Strayer may delay the registration. No postponement may exceed 90 days and all postponements shall not exceed 120 days in the aggregate in any 12-month period. Strayer may register securities for its own account or for the account of other stockholders in a registration requested by the selling stockholders, so long as the inclusion of additional securities does not reduce the amount of securities that may be sold by the selling stockholders. Securities registrable under the Registration Rights Agreement include the Series A Preferred Stock, the common stock and other securities, if any, issuable upon conversion of the Series A Preferred Stock, the common stock, if any, purchased by the selling stockholders in accordance with the option granted to them by our former chief executive officer and majority stockholder, and any securities issued to the selling stockholders in accordance with their preemptive rights.

PIGGY-BACK REGISTRATION Strayer has granted the selling stockholders unlimited piggy-back registration rights. Piggy-back registration means the rights of the holders of the registration rights to include their shares in a registration filed by Strayer for its own account or in a registration Strayer has filed upon the request of other stockholders. EXPENSES Strayer will bear all the expenses of the registration, other than any fees and disbursements of the underwriters that are customarily borne by selling stockholders and all underwriting discounts, commissions and transfer taxes relating to the securities sold by the selling stockholders. INDEMNIFICATION Strayer has agreed to indemnify the selling stockholders against any losses, including fees and other expenses, which may arise out of an untrue statement or an omission of a material fact in any registration statement, other than untrue statements or omissions of material facts made in or omitted from the registration statement made in reliance on written information furnished by the selling stockholders to Strayer for use in the registration statement. Each selling stockholder, severally and not jointly, has agreed to indemnify Strayer against any losses that may arise out of any untrue statement or omissions of material facts made in or omitted from the registration statement in reliance on written information furnished by the selling stockholders to Strayer for use in the registration statement. The amounts owed by the selling stockholders under this indemnification obligation shall not exceed the proceeds the selling stockholders received from the sale of securities under the registration statement. TRANSFERABILITY OF REGISTRATION RIGHTS The selling stockholders may freely transfer the registration rights to any of their affiliates. The selling stockholders may also transfer the registration rights to any other person to whom the selling stockholders or their affiliates transfer shares of Series A Preferred Stock or the common stock into which the Series A Preferred Stock converts having an aggregate purchase price or liquidation amount of at least $10 million. 50 OTHER TERMS OF SERIES A PREFERRED STOCK CORPORATE GOVERNANCE Pursuant to the terms of the Series A Preferred Stock, the holders of the Series A Preferred Stock are initially entitled to elect one-half of the members of Strayer's Board of Directors. The percentage of Strayer's Board of Directors that the holders of the Series A Preferred Stock may elect decreases as the number of shares of Series A Preferred Stock outstanding decreases in the following manner: % OF SERIES A PREFERRED STOCK % OR NUMBER OF ORIGINALLY ISSUED STILL OUTSTANDING DIRECTORS ---------------------------------- ------------------- 90% and above ..................... 50% 50% to 89.9% ..................... 40% 25% to 49.9% ..................... 25% 10% to 24.9% ..................... At least one member 0% to 9.9% ....................... none So long as at least 10% of the Series A Preferred Stock originally issued remains outstanding, each committee of the Board of Directors, the board of directors of any subsidiary of Strayer and each committee of any such subsidiary's board of directors shall include a proportionate number of directors nominated by the holders of the Series A Preferred Stock. Pursuant to the terms of the Series A Preferred Stock, Strayer's Board of Directors consists of six members elected by the preferred stockholders, including Steven B. Klinsky, Charles Ayres, David A. Coulter, Gary Gensler, Robert R. Grusky and J. David Wargo. Following the completion of this offering, approximately 65% of the Series A Preferred Stock originally issued will remain outstanding (assuming no exercise of the underwriters' over-allotment option). Accordingly, the percentage of members of the Board of Directors that the holders of the Series A Preferred Stock are entitled to elect will be reduced to 40%. As a result, in connection with this offering, Strayer has been informed that the selling stockholders expect to agree that following the completion of this offering, Charles Ayres, a designee of DB Capital, will resign from the Board of Directors, and that New Mountain will then have the right to elect all of the members of Strayer's Board of Directors that the holders of the Series A Preferred Stock are entitled to elect. In addition, in the event that Strayer fails to pay the redemption price for the Series A Preferred Stock in connection with a proper redemption request in an amount at least equal to $30 million, the holders of the Series A Preferred Stock will be able to elect a majority of Strayer's Board of Directors until the redemption price is paid. Any significant changes in Strayer's ownership and control could require Department of Education or other regulatory agency approval. In addition to any other Board of Directors or stockholder action that may be required, the approval of a majority of the directors elected by the holders of the Series A Preferred Stock will be required in order for Strayer to take certain actions, including: o Any authorization or issuance, reclassification, repurchase, redemption or other acquisition of any of our equity securities or any rights, warrants, options or other securities exercisable for or convertible into any equity securities; o Any issuance or incurrence of indebtedness that would result in Strayer having in excess of an aggregate of $25 million of indebtedness outstanding; o Any liquidation, dissolution, winding up or reorganization of Strayer; o Any transaction or series of related transactions involving a change of control or the sale of all or substantially all of Strayer's equity or assets, or any acquisition, disposition or other business combination involving consideration in excess of $20 million; 51 o Any amendment to

Strayer's charter or bylaws; and o The removal or replacement of, or the establishment of the level or form of compensation payable to, Strayer's chief executive officer, chief operating officer or chief financial officer. PREEMPTIVE RIGHTS So long as the selling stockholders own Series A Preferred Stock and/or shares of common stock representing (on an as-converted basis) at least 50% of the shares of the Series A Preferred Stock originally issued to the selling stockholders, the selling stockholders have the right to purchase their pro rata portion of new equity securities that Strayer issues, other than certain exempt issuances. OPTIONS As of June 30, 2002, there were 980,000 shares of our common stock issuable upon exercise of outstanding stock options, of which 265,000 are exercisable and 715,000 are currently not exercisable, and 569,405 shares of our common stock reserved for future issuance under our existing stock option plan. The outstanding options have a weighted average life of six years and a weighted average exercise price of $37.22 per share. AUTHORIZED BUT UNISSUED CAPITAL STOCK The requirements of Nasdaq, which will apply so long as our common stock remains traded on Nasdaq, require stockholder approval of certain issuances of stock equal to or exceeding 20% of then-outstanding voting power or then-outstanding number of shares of common stock. These additional shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions. One of the effects of the existence of unissued and unreserved common stock or preferred stock may be to enable our board of directors to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of our company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive the stockholders of opportunities to sell their shares of common stock at prices higher than prevailing market prices. CERTAIN CHARTER AND BYLAW PROVISIONS Stockholders' rights and related matters are governed by Maryland law and Strayer's charter and its bylaws. Certain provisions of Strayer's charter and bylaws, which are summarized below, may make it more difficult to change the composition of Strayer's Board of Directors and may discourage or make more difficult any attempt by a person or group to obtain control of Strayer. VOTING REQUIREMENTS Strayer's charter may not be amended without the affirmative vote of a majority of the votes entitled to be cast generally in the election of directors, voting as a single voting group. Strayer's bylaws may be amended either by the affirmative vote of a majority of all votes entitled to be cast generally in the election of directors, voting as a single group, or by an affirmative vote of a majority of Strayer's directors then holding office, unless the stockholders prescribe that any such bylaw may not be amended or repealed by the Board of Directors. SPECIAL MEETINGS Under Strayer's bylaws, special meetings of the stockholders may be called by stockholders only if such stockholders hold outstanding shares representing at least 25% of all votes entitled to be cast on any issue proposed to be considered at any such special meeting. 52 LIMITATION OF LIABILITY Under Maryland law, a corporation formed in Maryland is permitted to limit, by provision in its charter, the liability of directors and officers so that no director or officer shall be liable to the corporation or to any stockholder for money damages except to the extent that: o it is proved that the director or officer actually received an improper benefit or profit in money, property or services, for the amount of the benefit or profit in money, property or services actually received; or o a judgment or other final adjudication adverse to the director or officer is entered in a proceeding based on a finding in the proceeding that the director's or officer's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. Strayer's charter has incorporated the provisions of this law limiting the liability of directors and officers. Strayer's bylaws require it to indemnify: o any present or former director or officer who has been successful, on the merits or otherwise, in the defense of a proceeding to which he was made a party by reason of his service in that capacity, against reasonable expenses incurred by him in connection with the proceeding; and o any present or former director or officer against any claim or liability unless it is established that: o his act or omission was committed in bad faith or was the result of active or deliberate dishonesty; o he actually received an improper personal benefit in money, property or services; or o in the case of a criminal proceeding, he had reasonable cause to believe that his act or omission was unlawful. In addition, Strayer's bylaws require it to pay or reimburse, in advance of final disposition of a proceeding, reasonable expenses incurred by a present or former director or officer made a party to a proceeding by reason of his service as a director or officer provided that Strayer shall have received: o a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by Strayer as authorized by the bylaws; and o a written understanding by or on his behalf to repay the amount paid or reimbursed by Strayer if it shall ultimately be determined that the standard of conduct was not met. Strayer's bylaws also: o provide that any indemnification or payment or reimbursement of the expenses permitted by the bylaws shall

be furnished in accordance with the procedures provided for indemnification and payment of expenses under Section 2-418 of the Maryland General Corporation Law for directors of Maryland corporations; and o permit Strayer to provide directors, officers and stockholders such other and further indemnification or payment or reimbursement of expenses as may be permitted under Section 2-418 of the Maryland General Corporation Law for directors of Maryland corporations. CORPORATE ANTI-TAKEOVER PROVISIONS Strayer has elected to include provisions in its charter exempting it from the application of the Maryland business combination statute and control share acquisition statute. TRANSFER AGENT AND REGISTRAR The transfer agent and registrar for the common stock is American Stock Transfer & Trust Company. LISTING Strayer's common stock is traded on the Nasdaq National Market under the symbol "STRA." 53 UNDERWRITING Under the terms and subject to the conditions contained in an underwriting agreement dated , 2002, the selling stockholders have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston Corporation, J.P. Morgan Securities Inc., Banc of America Securities LLC and Legg Mason Wood Walker, Incorporated are acting as representatives, the following respective numbers of shares of common stock: NUMBER UNDERWRITER OF SHARES ---------- ---------- Credit Suisse First Boston Corporation ......... J.P. Morgan Securities Inc. .................... Banc of America Securities LLC ................. Legg Mason Wood Walker, Incorporated ........... --------- Total ........................................ 2,000,000 ========= The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that, if an underwriter defaults, the purchase commitments of the non-defaulting underwriters may be increased or the offering may be terminated. DB Capital has granted to the underwriters a 30-day option to purchase on a pro rata basis up to 300,000 additional shares at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock. The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/dealers. After the public offering the representatives may change the public offering price and concession and discount to broker/dealers. The following table summarizes the compensation the selling stockholders will pay and the estimated expenses we will pay: PER SHARE TOTAL -------------------------------- ------------------------------- WITHOUT WITH WITHOUT WITH OVER-ALLOTMENT OVER-ALLOTMENT OVER-ALLOTMENT OVER-ALLOTMENT ---------------- --------------- --------------- -------------- Underwriting discounts and commissions paid by the selling stockholders ........ $ $ $ $ Expenses payable by us .................. $ $ $ $ We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston Corporation, for a period of 90 days after the date of this prospectus, except that such restrictions shall not apply to (1) our ability to grant employee or director stock options pursuant to the terms of a plan in effect on the date of this prospectus, (2) the issuance of common stock pursuant to the exercise of such options or upon conversion of our outstanding preferred stock or (3) the issuance of common stock pursuant to our existing employee stock purchase or dividend reinvestment plans. Subject to certain exceptions, our executive officers and directors and the selling stockholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or 54 exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston Corporation, for a period of 90 days after the date of this prospectus. We and the selling stockholders have agreed to indemnify the underwriters against some liabilities under the Securities Act, or to contribute to payments which the underwriters may be required to make in that respect. J.P. Morgan Securities Inc., one of the underwriters, may be deemed to be our affiliate. The offering therefore is being conducted in accordance with the applicable provisions of Rule 2720 of the National Association of Securities Dealers, Inc. Conduct Rules. David A. Coulter, a director of Strayer, is a Vice Chairman of J.P. Morgan Chase & Co.

J.P. Morgan Chase & Co. is the parent of one of the underwriters, J.P. Morgan Securities Inc. Bank of America, N.A., an affiliate of Banc of America Securities LLC, is the lender under one of our undrawn credit facilities. Banc of America Securities LLC and the other underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of business. Our common stock is traded on the Nasdaq National Market under the symbol "STRA." In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty bids and passive market-making in accordance with Regulation M under the Exchange Act. o Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. o Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market. o Syndicate-covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option -- a naked short position -- the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. o Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate-covering transaction to cover syndicate short positions. o In passive market-making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made. 55 These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time. A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters or selling group members, if any, participating in this offering. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations. NOTICE TO CANADIAN RESIDENTS RESALE RESTRICTIONS The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we and the selling stockholders prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of the common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock. REPRESENTATIONS OF PURCHASERS By purchasing common stock in Canada and accepting a purchase confirmation, a purchaser is representing to us and the selling stockholders and the dealer from whom the purchase confirmation is received that: o the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws; o where required by law, that the purchaser is purchasing as principal and not as agent; and o the purchaser has reviewed the text above under "Resale Restrictions." RIGHTS OF ACTION -- ONTARIO PURCHASERS ONLY Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the common stock, for rescission against us and the selling stockholders in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for

damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the common stock. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the common stock. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us or the selling stockholders. In no case will the amount recoverable in any action exceed the price at which the common stock were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we and the selling stockholders will have no liability. In the case of an action for damages, we and the selling stockholders will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the common stock as a result of the 56 misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions. ENFORCEMENT OF LEGAL RIGHTS All of our directors and officers, as well as the experts named herein and the selling stockholders, may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada. TAXATION AND ELIGIBILITY FOR INVESTMENT Canadian purchasers of common stock should consult their own legal advisors with respect to the tax consequence of an investment in the common stock in their particular circumstances and about the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation. LEGAL MATTERS The validity of the issuance of the shares of common stock to be sold in the offering will be passed upon for us by our special Maryland counsel, Venable, Baetjer and Howard, LLP, Baltimore, Maryland. Certain legal matters in connection with the offering will be passed upon for us by Willkie Farr & Gallagher, New York, New York. The underwriters are represented by Mayer, Brown, Rowe & Maw, Chicago, Illinois. EXPERTS The consolidated financial statements of Strayer Education, Inc. as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001 included in and incorporated by reference in this registration statement on Form S-3 have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting. WHERE YOU CAN FIND MORE INFORMATION We file reports, proxy statements and other information with the SEC which you can read at the SEC's website at http://www.sec.gov or on our website at www.strayereducation.com. You can also read these documents at the SEC's public reference room, Room 1024, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549. Please call the SEC toll free at 1-800-SEC-0330 for information about its public reference room. We have filed a registration statement with the SEC on Form S-3 under the Securities Act. This prospectus does not contain all of the information in the registration statement. We have omitted certain parts of the registration statement as permitted by the rules and regulations of the SEC. You may inspect and copy the registration statement, including exhibits, at the SEC's website and public reference facilities. Our statements in this prospectus about the contents of any contract or other document are not necessarily complete. You should refer to the copy of each contract or other document we have filed as an exhibit to the registration statement for complete information. 57 INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE The SEC allows us to "incorporate by reference" information into this prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus, except for any information that is superseded by information that is included directly in this document or in a more recent incorporated document. This prospectus incorporates by reference the documents listed below that we have previously filed with the SEC. The documents contain important information about us and our financial condition. o Our Annual Report on Form 10-K for the fiscal year ended December 31, 2001 filed on March 28, 2002. o Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 filed on May 8, 2002. o Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed on August 5, 2002. o Our Current Reports on Form 8-K, dated February 15, 2002, March 12, 2002, March 18, 2002, May 3, 2002, May 23, 2002, August 5, 2002 and August 22, 2002. o The description of our common stock contained in our Registration Statement on Form 8-A filed on July 18, 1996. We incorporate by reference any future filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this prospectus and the date all of the securities offered

hereby are sold (other than Current Reports on Form 8-K containing only Regulation FD disclosure furnished under Item 9 of Form 8-K and exhibits relating to such disclosures, unless otherwise specifically stated in such Current Report on Form 8-K). You can obtain any of the documents incorporated by reference in this prospectus from us, or from the SEC through the SEC's website as described above. Documents incorporated by reference are available from us without charge, excluding any exhibits to those documents, unless the exhibit is specifically incorporated by reference in this prospectus. You can obtain documents incorporated by reference in this prospectus by requesting them from us in writing or by telephone as described above. 58 STRAYER EDUCATION, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA) DECEMBER 31, JUNE 30, 2001 2002 ------------- ------------ (UNAUDITED) ASSETS Current Assets: Cash and cash equivalents .......................................... $ 57,659 $ 47,155 Short-term investments -- restricted ............................... 1,046 1,050 Marketable securities available for sale, at fair value (short-term bond fund) .......................................... -- 5,972 Tuition receivable, net of allowances for doubtful accounts ......... 19,012 17,508 Other current assets ............................................... 879 1,866 --------- --------- Total current assets ............................................. 78,596 73,551 Student loans receivable, net of allowances for losses ............... 8,392 8,586 Property and equipment, net .......................................... 23,100 36,019 Other assets ........................................................ 400 371 --------- --------- Total assets ..................................................... $ 110,488 $ 118,527 ========= ========= LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) Current Liabilities: Accounts payable .................................................... $ 1,882 $ 1,640 Accrued expenses .................................................... 562 860 Income taxes payable ............................................... 1,247 18 Dividends payable ................................................... 1,855 1,855 Unearned tuition ................................................... 23,204 21,204 --------- --------- Total current liabilities ........................................ 28,750 25,577 --------- --------- Deferred lease incentives ........................................... 763 929 --------- --------- Total liabilities ................................................ 29,513 26,506 --------- --------- Mandatorily redeemable convertible Series A preferred stock, par value $.01; 6,000,000 shares authorized; 5,845,676 and 5,950,221 shares issued and outstanding at December 31, 2001 and June 30, 2002, respectively .................................... 148,347 149,762 Stockholders' equity (deficit): Common Stock -- Par value $.01; 20,000,000 shares authorized; 8,352,412 shares issued and outstanding at December 31, 2001 and June 30, 2002 ............................... 83 83 Additional paid-in capital ......................................... 1,759 1,759 Retained earnings (accumulated deficit) ............................. (69,214) (59,555) Accumulated other comprehensive income (loss) ...................... -- (28) --------- --------- Total stockholders' equity (deficit) ............................. (67,372) (57,741) --------- --------- Total liabilities and stockholders' equity (deficit) .............. $ 110,488 $ 118,527 ========= ========= The accompanying notes are an integral part of these consolidated financial statements. F-2 STRAYER EDUCATION, INC. UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) FOR THE SIX MONTHS ENDED JUNE 30, -------------------------- 2001 2002 ------------ ------------ Revenues ........................................... $ 47,470 $ 59,521 -------- -------- Costs and Expenses: Instruction and educational support ................ 16,062 19,998 Selling and promotion ............................. 4,837 7,493 General and administration ......................... 5,850 8,503 -------- -------- 26,749 35,994 -------- -------- Income from operations ............................. 20,721 23,527 Investment and other income ......................... 2,859 758 -------- -------- Income before income taxes .......................... 23,580 24,285 Provision for income taxes .......................... 9,195 9,472 -------- -------- Net income ........................................ 14,385 14,813 Preferred stock dividends and accretion ............. 955 4,041 -------- -------- Net income available to common stockholders ......... $ 13,430 $ 10,772 ======== ======== Basic net income per share .......................... $ 0.98 $ 1.29 ======== ======== Diluted net income per share ........................ $ 0.95 $ 1.03 ======== ======== The accompanying notes are an integral part of these consolidated financial statements. F-3 STRAYER EDUCATION, INC. UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (AMOUNTS IN THOUSANDS) FOR THE SIX MONTHS ENDED JUNE 30, ---------------------- 2001 2002 ---------- ---------- Net income ........................................... $14,385 $14,813 Other comprehensive income: Unrealized loss on investments ....................... -- (28) Reclassification adjustment for realized gains included in net income ...................................... (403) -- ------- ------- Comprehensive income .................................. $13,982 $14,785 ======= ======= The accompanying notes are an integral part of these consolidated financial statements. F-4 STRAYER EDUCATION, INC. UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (AMOUNTS IN THOUSANDS) FOR THE SIX MONTHS ENDED JUNE 30, ---------------------------- 2001 2002 -------------

------------ Cash flow from operating activities: Net income .................................................... $ 14,385 $ 14,813 Adjustments to reconcile net income to net cash provided by operating activities: Depreciation and amortization ................................ 1,242 1,712 Gain on sale of marketable securities ......................... (887) -- Amortization of deferred lease incentives .................... -- (84) Changes in assets and liabilities: Short-term investments - restricted ........................... (24) (4) Tuition receivable, net ...................................... 2,020 1,504 Other current assets ......................................... 186 (987) Other assets ................................................. (92) 29 Accounts payable ............................................. (273) (242) Accrued expenses ............................................. (510) 298 Income taxes payable ......................................... 1,321 (1,229) Unearned tuition ............................................. (1,721) (2,000) Student loans originated ...................................... (3,165) (3,946) Collections on student loans receivable ......................... 2,711 3,752 ---------- ---------- Net cash provided by operating activities ................... 15,193 13,616 ---------- ---------- Cash flows from investing activities: Purchases of property and equipment ............................ (4,298) (14,631) Investment in short-term bond fund ............................ -- (6,000) Maturities of and proceeds from marketable securities ........... 45,739 -- ---------- ---------- Net cash provided by (used in) investing activities .......... 41,441 (20,631) ---------- ---------- Cash flows from financing activities: Deferred lease incentives ...................................... -- 250 Exercise of stock options ...................................... 1,390 -- Repurchase of common stock ..................................... (179,375) -- Common dividends paid .......................................... (1,996) (1,086) Preferred dividends paid ....................................... -- (2,624) Issuance of convertible Series A preferred stock ............... 150,000 -- Payments of costs of tender offer and issuance of preferred stock .............................................. (5,707) (29) ---------- ---------- Net cash used in financing activities ....................... (35,688) (3,489) ---------- ---------- Net increase (decrease) in cash and cash equivalents ......... 20,946 (10,504) Cash and cash equivalents - beginning of period ................. 25,190 57,659 ---------- ---------- Cash and cash equivalents - end of period ....................... $ 46,136 $ 47,155 ========== ========== The accompanying notes are an integral part of these consolidated financial statements. F-5 STRAYER EDUCATION, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS INFORMATION AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2002 IS UNAUDITED 1. BASIS OF PRESENTATION The financial statements are presented on a consolidated basis. The accompanying financial statements include the accounts of Strayer Education, Inc. (the Company), Strayer University, Inc. (the University) and Education Loan Processing, Inc. (ELP), collectively referred to herein as the "Company" or "Companies." The results of operations for the six months ended June 30, 2002 are not necessarily indicative of the results to be expected for the full fiscal year. All information as of June 30, 2002, and for the six months ended June 30, 2001 and 2002 is unaudited but, in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the condensed consolidated financial position, results of operations and cash flows of the Companies. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001. Certain prior period amounts have been reclassified between accounts payable and accrued expenses on the consolidated balance sheet to conform with June 30, 2002 presentation. 2. NATURE OF OPERATIONS The Company, a Maryland corporation, conducts its operations through its subsidiaries. The University is an accredited institution of higher education that provides undergraduate and graduate degrees in various fields of study through its twenty campuses in Maryland, Washington, D.C., Virginia and (beginning July 1, 2002) North Carolina. ELP provides student loans for the University's students. For purposes of the consolidated balance sheets, all of ELP's assets and liabilities have been classified as current assets and liabilities with the exception of student loans receivable, which have been classified as non-current consistent with industry practice. 3. INCOME PER SHARE Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted average common and potentially dilutive common equivalent shares outstanding, determined as follows: FOR THE SIX MONTHS ENDED JUNE 30, ------------------ (IN THOUSANDS) 2001 2002 -------- -------- Weighted average shares outstanding used to compute basic earnings per share ......................................... 13,636 8,352 Incremental shares issuable upon the assumed conversion of preferred stock ........................................... 1,472 5,924 Incremental shares issuable upon the assumed exercise of stock options ................................................. 110 172 ------ ----- Shares used to compute diluted earnings per share ............ 15,218

14,448 ====== ====== For additional information regarding total potential share issuance, see "Management's Discussion and Analysis of Financial Condition and Results of Operations." F-6 Set forth below is a reconciliation of net income used to compute earnings per share: FOR THE SIX MONTHS ENDED JUNE 30, ---------------------- (IN THOUSANDS) 2001 2002 ---------- ---------- Net income available to common stockholders used to compute basic earnings per share ............................ $13,430 $10,772 Plus: Impact of assumed preferred stock conversion: Preferred stock dividends and accretion ..................... 955 4,041 ------- ------- Net income used to compute diluted earnings per share ......... $14,385 $14,813 ======= ======= 4. CREDIT FACILITY The Company maintains a credit facility from a bank in the amount of $10.0 million. Interest on any borrowings under the facility will accrue at an annual rate not to exceed 0.75% above the London Interbank Offered Rate. There is no outstanding balance on this credit facility as of June 30, 2002. 5. STOCKHOLDERS' EQUITY Common Stock A total of 20,000,000 shares of common stock, par value $0.01, have been authorized. As of December 31, 2001 and June 30, 2002, the Company had 8,352,412 shares of common stock issued and outstanding. For the three months ended June 30, 2002, the Company declared a quarterly cash dividend of $0.065 per common share. The dividend was paid on July 23, 2002 to common stockholders of record on July 9, 2002. Preferred Stock/Mandatorily Redeemable Convertible Series A Preferred Stock A total of 8,000,000 shares of preferred stock, par value $0.01, have been authorized. Of these preferred shares, 6,000,000 have been designated as Series A Preferred Stock, including shares reserved for the payment of pay-in-kind dividends on outstanding shares of Series A Preferred Stock. The following table reflects all Series A Preferred Stock activity from December 31, 2001 to June 30, 2002: MANDATORILY REDEEMABLE CONVERTIBLE SERIES A PREFERRED STOCK ------------------ $ AMOUNT (IN THOUSANDS) Balance, December 31, 2001 ............... $148,347 Dividends -- paid-in-kind shares ......... 2,765 Accretion of carrying value .............. (1,350) -------- Balance, June 30, 2002 ................... $149,762 ======== On January 1, 2002 the Company issued 51,819 shares of Series A Preferred Stock that had been recorded as paid-in-kind dividends payable as of December 31, 2001. On April 1, 2002 the Company issued 52,726 shares of Series A Preferred Stock that had been recorded as paid-in-kind dividends payable as of March 31, 2002. The number of shares of Series A Preferred Stock outstanding as of June 30, 2002 was 5,950,221. A total of 53,648 paid-in-kind preferred shares, recorded as accrued dividends as of June 30, 2002, were issued on July 1, 2002. The Series A Preferred Stock dividends and accretion are recorded based on an effective yield of 5.43% applied to the carrying value of the Series A Preferred Stock. This stock is convertible into common shares at a price of $26.00 per share on a one-for-one basis. To the extent the Company's common stock trades above $52.00 per share for 20 consecutive trading days at any time after May 15, 2004, the Company may cause conversion of the Series A Preferred Stock. For a more detailed description of the terms of the Series A Preferred Stock, see the description thereof contained in the Note 6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001. F-7 Stock Options In July 1996, the Company's stockholders approved 1,500,000 shares of common stock for grants under the Company's 1996 Stock Option Plan. This Plan was amended by the stockholders at the May 2001 Annual Stockholders' Meeting to increase the shares authorized for issuance thereunder by 1,000,000 (as amended, the "Plan") to 2,500,000. The Plan provides for the grant of options intended to qualify as incentive stock options, and also provides for the grant of non-qualifying options to employees and directors of the Company. Options may be granted to eligible employees or directors of the Company at the discretion of the Board of Directors, at option prices based at or above the fair market value of the shares at the date of grant. Vesting provisions are at the discretion of the Board of Directors. The maximum term of the options was 5 years before the amendment and 7 years after the amendment. The table below sets forth the stock option activity for the six months ended June 30, 2002: WEIGHTED-AVERAGE NUMBER OF SHARES EXERCISE PRICE ----------------- ---------------- Balance, December 31, 2001 ......... 930,000 $ 36.43 Grants ............................ 50,000 51.83 Exercises ......................... -- -- Forfeitures ....................... -- -- ------- -------- Balance, June 30, 2002 ............. 980,000 $ 37.22 ======= ======== In the second quarter of 2002, 50,000 stock options were in total granted to three new employees and one new member of the Board of Directors. These options vest over 3 to 4 years with exercise prices ranging from $49.33 to $61.81. All options granted in 2002 expire in 2009. Of the 980,000 total stock options that have been issued and are outstanding, 265,000 are exercisable as of June 30, 2002. A total of 569,405 shares remain authorized but unissued under the Plan. The Company accounts for the fair value of its stock options granted to employees and directors in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the Plan since the exercise price of the options was equal to the fair value of the underlying common stock on the date of grant. Had compensation expense been

determined based on the fair value of the options at the grant dates consistent with that method of accounting under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," the Company's net income and net income per share for the six months ended June 30, 2002 would have been decreased as indicated in the pro forma section below (in thousands): FOR THE SIX MONTHS ENDED JUNE 30, ------------------------- 2001 2002 ----------- ------------ As Reported: Net income available to all shareholders ............ $14,385 $14,813 Net income available to common shareholders ......... $13,430 $10,772 Net income per common share -Basic ................. $ 0.98 $ 1.29 Net income per common share-Diluted ................ $ 0.95 $ 1.03 Proforma: Net income available to all shareholders ............ $13,877 $13,594 Net income available to common shareholders ......... $12,922 $ 9,553 Net income per common share-Basic .................. $ 0.94 $ 1.14 Net income per common share-Diluted ................ $ 0.91 $ 0.94 For the purposes of the above presentation, the fair value of each option granted in 2001 was estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions: dividend yield of .7%; expected volatility of 47%; risk-free interest rate of 4.75% and an F-8 expected term of 5.3 years. The weighted average fair value for the 2001 grants was $16.68. The fair value of each option granted in 2002 was estimated using the Black-Scholes option-pricing model using the following assumptions: dividend yield of .7%; expected volatility of 43%; risk-free interest rate of 4.81%; and an expected term of 5.9 years. The weighted average fair value for the 2002 grants was $23.65. 6. INVESTMENTS IN MARKETABLE SECURITIES In the second quarter of 2002, as part of its cash management activities, the Company began investing in a no load, short-term corporate bond fund. These marketable securities are considered "available for sale," and as such, are stated at fair value. The net unrealized gains and losses are reported as a component of accumulated comprehensive income (loss) in stockholders' equity (deficit). 7. RECENT ACCOUNTING PRONOUNCEMENTS In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). FAS 144 supersedes FASB Statement No. 121 "Accounting for Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of". FAS 144 addresses the financial accounting and reporting for long-lived assets and their impairment and disposal. The statement is effective for fiscal years beginning after December 15, 2001. The Company has long-lived assets in the form of buildings that it owns and uses to conduct classes for its students. FAS 144 was adopted on January 1, 2002 with no material effect on the consolidated financial statements. 8. LEASE AGREEMENTS During the first quarter of 2002, the Company executed lease agreements for three North Carolina campuses. The lease for the campus in South Charlotte commenced on May 15, 2002 with a lease-term of approximately 60 months and annual lease payments averaging $143,000 per year. The lease for the campus in Raleigh-Durham commenced on May 20, 2002 with a lease term of 60 months and annual lease payments averaging $166,000 per year. The lease for the campus in North Charlotte commenced on June 15, 2002 with a lease term of approximately 100 months and annual lease payments averaging $199,000 per year. 9. DEFERRED LEASE INCENTIVES In conjunction with the opening of the Company's new corporate headquarters in Arlington, VA in 2002, the Company was reimbursed by the lessor for improvements made to the leased property in the amount of $250,000 in the three months ended June 30, 2002. The Company also recorded $763,000 in lease incentives for two new campuses in 2001. In accordance with Financial Accounting Standards Board Technical Bulletin No. 88-1, these costs were capitalized as leasehold improvements and the reimbursements were recorded as deferred lease incentives. The leasehold improvements and the deferred lease incentives are being amortized on a straight-line basis over the corresponding lease terms, which range from 5 to 10 years. F-9 REPORT OF INDEPENDENT ACCOUNTANTS The Board of Directors and Stockholders Strayer Education, Inc. In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Strayer Education, Inc. and its subsidiaries (the "Company") as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe

that our audits provide a reasonable basis for our opinion. /s/ PricewaterhouseCoopers LLP Washington, D.C. February 1, 2002 F-10 STRAYER EDUCATION, INC. CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE DATA) DECEMBER 31, ------------------------ 2000 2001 ---------- ------------ ASSETS Current assets: Cash and cash equivalents ........................................ $ 25,190 $ 57,659 Marketable securities available for sale, at fair value ........... 5,918 -- Short-term investments--restricted ............................... 1,008 1,046 Tuition receivable, net of allowances for doubtful accounts of $489 and $457 in 2000 and 2001, respectively......................... 15,264 19,012 Other current assets ............................................ 757 879 -------- --------- Total current assets ........................................ 48,137 78,596 Student loans receivable, net of allowances for losses ............. 7,288 8,392 Property and equipment, net ....................................... 19,469 23,100 Marketable securities available for sale, at fair value ............ 43,982 -- Other assets ..................................................... 263 400 -------- --------- Total assets ............................................... $119,139 $ 110,488 ======== ========= LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) Current liabilities: Accounts payable ................................................ $ 769 $ 792 Accrued expenses ................................................ 1,325 1,652 Income taxes payable ............................................. 323 1,247 Dividends payable ................................................ 995 1,855 Unearned tuition ................................................. 17,983 23,204 -------- --------- Total current liabilities .................................. 21,395 28,750 Long-term liabilities ............................................ -- 763 -------- --------- Total liabilities .......................................... 21,395 29,513 -------- --------- Commitments and contingencies Mandatorily redeemable convertible preferred stock, par value $.01; liquidation preference $151,988 (excluding accrued dividends); 6,000,000 shares authorized; 5,845,676 Series A shares issued and outstanding in 2001 .............................................. -- 148,347 Stockholders' equity (deficit): Common stock, par value $.01; 20,000,000 shares authorized; 15,303,166 and 8,352,412 shares issued and outstanding in 2000 and 2001, respectively ........................................ 153 83 Additional paid-in capital ....................................... 33,119 1,759 Retained earnings (accumulated deficit) ........................... 64,069 (69,214) Accumulated other comprehensive income ........................... 403 -- -------- --------- Total stockholders' equity (deficit) ......................... 97,744 (67,372) -------- --------- Total liabilities and stockholders' equity (deficit) ......... $119,139 $ 110,488 ======== ========= The accompanying notes are an integral part of these consolidated financial statements. F-11 STRAYER EDUCATION, INC. CONSOLIDATED STATEMENTS OF INCOME (IN THOUSANDS, EXCEPT PER SHARE DATA) FOR THE YEAR ENDED DECEMBER 31, ---------------------------------------- 1999 2000 2001 ------------ ------------ ------------ Revenues ............................................ $ 69,776 $ 78,214 $ 92,876 -------- -------- -------- Costs and expenses: Instruction and educational support ................. 25,082 28,187 33,699 Selling and promotion .............................. 7,765 8,480 12,576 General and administration ......................... 9,405 10,620 13,094 -------- -------- -------- 42,252 47,287 59,369 -------- -------- -------- Income from operations ............................. 27,524 30,927 33,507 Investment and other income .......................... 4,302 4,756 3,791 -------- -------- -------- Income before income taxes .......................... 31,826 35,683 37,298 Provision for income taxes .......................... 12,500 13,974 14,489 -------- -------- -------- Net income .......................................... 19,326 21,709 22,809 Preferred stock dividends and accretion ............. -- -- 5,010 -------- -------- -------- Net income available to common stockholders ......... $ 19,326 $ 21,709 $ 17,799 ======== ======== ======== Net income per share: Basic ............................................. $ 1.25 $ 1.42 $ 1.62 Diluted ........................................... $ 1.23 $ 1.41 $ 1.55 Weighted average shares outstanding Basic ............................................. 15,506 15,324 10,970 Diluted ........................................... 15,711 15,451 14,737 STRAYER EDUCATION, INC. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (IN THOUSANDS) FOR THE YEAR ENDED DECEMBER 31, ---------------------------------- 1999 2000 2001 ---------- ---------- ---------- Net income .................................................... $19,326 $21,709 $22,809 Other comprehensive income (loss): Unrealized gains (losses) on investments, net of taxes ......... (204) (136) -- Reclassification adjustment for realized gains included in net income, net of taxes .................................... -- -- (403) ------- ------- ------- Comprehensive income ........................................... $19,122 $21,573 $22,406 ======= ======= ======= The accompanying notes are an integral part of these consolidated financial statements. F-12 STRAYER EDUCATION, INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (IN THOUSANDS, EXCEPT SHARE DATA) RETAINED ACCUMULATED COMMON STOCK ADDITIONAL EARNINGS OTHER ------------------------- PAID-IN (ACCUMULATED COMPREHENSIVE SHARES AMOUNT CAPITAL DEFICIT) INCOME TOTAL ------------- ---------- ------------ ------------- ------------- ------------ Balance, December 31, 1998 ....... 15,774,477 $158 $ 50,470 $ 30,274 $ 743 $ 81,645 Exercise of stock options ....... 133,203 1 903 -- -- 904

Repurchase of common stock ........................ (630,429) (6) (17,723) -- -- (17,729) Dividends ($0.24 per share)...... -- -- -- (3,406) -- (3,406) Tax benefit from exercise of stock options ................ -- -- 525 -- -- 525 Net unrealized losses on marketable securities ......... -- -- -- -- (204) (204) Net income ..................... -- -- -- 19,326 -- 19,326 --------- ------ --------- --------- ------ --------- Balance, December 31, 1999 ....... 15,277,251 153 34,175 46,194 539 81,061 Exercise of stock options ....... 88,615 1 590 -- -- 591 Repurchase of common stock ........................ (62,700) (1) (2,028) -- -- (2,029) Dividends ($0.25 per share)...... -- -- -- (3,834) -- (3,834) Tax benefit from exercise of stock options ................ -- -- 382 -- -- 382 Net unrealized losses on marketable securities ......... -- -- -- -- (136) (136) Net income ..................... -- -- -- 21,709 -- 21,709 --------- ------ --------- --------- ------ --------- Balance, December 31, 2000 ....... 15,303,166 153 33,119 64,069 403 97,744 Exercise of stock options ....... 224,246 2 1,493 -- -- 1,495 Repurchase of common stock including transaction costs of $3,671................ (7,175,000) (72) (34,528) (148,446) -- (183,046) Preferred stock dividends and accretion ................ -- -- -- (5,010) -- (5,010) Common stock dividends ($0.26 annually per share)..... -- -- -- (2,636) -- (2,636) Tax benefit from exercise of stock options ................ -- -- 1,675 -- -- 1,675 Reclassification adjustment for realized gains included in net income ................ -- -- -- -- (403) (403) Net income ..................... -- -- -- 22,809 -- 22,809 --------- ------ --------- --------- ------ --------- Balance, December 31, 2001 ....... 8,352,412 $ 83 $ 1,759 $ (69,214) $ -- $ (67,372) ========= ====== ========= ========= ====== ========= The accompanying notes are an integral part of these consolidated financial statements. F-13 STRAYER EDUCATION, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS) FOR THE YEAR ENDED DECEMBER 31, ---------------------------------------- 1999 2000 2001 ----------- ----------- ------------ Cash flows from operating activities: Net income .................................................. $ 19,326 $ 21,709 $ 22,809 Adjustments to reconcile net income to net cash provided by operating activities: Depreciation and amortization ............................... 1,894 2,063 2,643 Provision for student loan losses ........................... 216 172 196 Deferred income taxes ....................................... (248) (147) 144 Gain on sale of marketable securities ....................... -- -- (887) Changes in assets and liabilities: Short-term investments--restricted .......................... (37) (49) (38) Tuition receivable, net ..................................... (3,185) (267) (3,748) Income taxes ................................................ 599 906 2,600 Other current assets ........................................ (114) 42 (145) Other assets ................................................ (97) 56 -- Accounts payable ............................................ 17 279 23 Accrued expenses ............................................ (520) 902 327 Unearned tuition ............................................ 2,098 2,612 5,221 Student loans originated or acquired .......................... (5,124) (5,499) (7,313) Collections on student loans receivable ....................... 3,996 4,475 6,013 --------- --------- ---------- Net cash provided by operating activities .................. 18,821 27,254 27,845 --------- --------- ---------- Cash flows from investing activities: Purchases of property and equipment ........................... (4,851) (4,388) (6,274) Purchases of marketable securities ............................ (9,298) (14,157) -- Maturities of marketable securities ........................... 9,030 9,462 50,126 --------- --------- ---------- Net cash provided by (used in) investing activities ......... (5,119) (9,083) 43,852 --------- --------- ---------- Cash flows from financing activities: Common dividends paid ......................................... (3,278) (3,756) (3,088) Preferred dividends paid ...................................... -- -- (1,976) Lease incentives .............................................. -- -- 763 Proceeds from exercise of stock options ........................ 904 591 1,495 Repurchase of common stock .................................... (17,729) (2,029) (183,046) Issuance of preferred stock, net .............................. -- -- 146,624 --------- --------- --------- Net cash used in financing activities ...................... (20,103) (5,194) (39,228) Net increase (decrease) in cash and cash requirements ............................................ (6,401) 12,977 32,469 Cash and cash equivalents--beginning of year ................... 18,614 12,213 25,190 --------- --------- --------- Cash and cash equivalents--end of year ......................... $ 12,213 $ 25,190 $ 57,659 ========= ========= ========== The accompanying notes are an integral part of these consolidated financial statements. F-14 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 1. ORGANIZATION AND NATURE OF OPERATIONS Strayer Education, Inc. (the "Company"), a Maryland corporation, conducts its operations through its subsidiaries, Strayer University, Inc. (the "University") and Education Loan Processing, Inc. ("ELP"). The University is an accredited institution of higher education that provides undergraduate and graduate degrees in various fields of study through its seventeen campuses in the District of Columbia, Maryland and Virginia. The Company has also been approved to offer its programs in North Carolina and plans to open three campuses in that state in 2002. In May 2001, the Company underwent a $150 million recapitalization and change of control transaction in which it issued 5,769,231 shares of its Series A Convertible Mandatorily Redeemable Preferred Stock of the Company to an investor group consisting of New Mountain Partners L.P. and DB Capital Investors, L.P. (collectively, the "Investors"). The Series A Convertible Mandatorily Redeemable

Preferred Stock has an effective dividend yield of 5.43% and is convertible into common stock at a price of $26.00 per share, subject to adjustment under certain circumstances. (See Note 6 below.) The Company used the $150 million, together with approximately $36.4 million of its cash and marketable securities, to repurchase 7,175,000 shares of outstanding common stock of the Company from the Company's then CEO and majority stockholder at $25.00 per share. PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of the Company and its subsidiaries, the University, ELP, and Professional Education, Inc. (which is currently an inactive subsidiary). All inter-company accounts and transactions have been eliminated in the consolidated financial statements. CASH AND CASH EQUIVALENTS Cash and cash equivalents consist of operating cash and cash invested in money market mutual funds and bank CDs. The Company places its cash and temporary cash investments with high quality credit 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. INVESTMENTS The Company's investments in marketable securities are considered "available-for-sale" and, as such are stated at fair value. The net unrealized gains and losses are reported as a component of accumulated comprehensive income in stockholders' equity (deficit). Realized gains or losses from the sale of marketable securities are based on the specific identification method. TUITION REVENUES Tuition income is deferred at the time of registration and is recognized as income, net of any refunds or withdrawals, throughout each respective quarter session. Advance registrations for the next quarter are shown as unearned tuition. STUDENT LOANS RECEIVABLE Student loans receivable are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest income from student loans is recognized using the interest method. Provisions for estimated losses on student loans are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of principal and interest in F-15 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) the existing loan portfolio, based upon historical trends, economic conditions and other information. ELP's charge-off policy is based on a loan-by-loan review; however, any loan with payments more than 120 days past due is written off against the allowance. ELP's student loans receivable have been classified as non-current assets, consistent with industry practice. All of ELP's other assets and liabilities have been classified as current assets and current liabilities for consolidation purposes. CONCENTRATION OF CREDIT RISK The Company places its cash and temporary cash investments in money market mutual funds and bank CD's with high credit quality institutions. At times cash and cash equivalent balances may be in excess of the FDIC insurance limit. The Company has not experienced any losses on its cash and cash equivalents. Tuition receivables are not collateralized; however, credit risk is minimized as a result of the diverse nature of the University's student base in the District of Columbia, Maryland, and Virginia. The University establishes an allowance for doubtful tuition accounts based upon historical trends and other information. Student loans are receivable from the University's students. The Company performs credit evaluations and requires cosigners in some instances to minimize credit risk. PROPERTY AND EQUIPMENT Property and equipment are stated at cost. Depreciation 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 $1,894,000, $2,063,000 and $2,643,000 for the years ended December 31, 1999, 2000, and 2001, respectively. 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. NET INCOME PER SHARE Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the periods. Diluted earnings per share is computed by dividing net income by the weighted average common and potentially dilutive common equivalent shares outstanding, determined as follows (in thousands): 1999 2000 2001 -------- -------- --------- Weighted average shares outstanding used to compute basic earnings per share. ........................................ 15,506 15,324 10,970 Incremental shares issuable upon the assumed conversion of preferred stock ............................................ -- -- 3,661 Incremental shares issuable upon the assumed exercise of stock options .................................................... 205 127 106 ------ ------ ------ Shares used to compute diluted earnings per share ............ 15,711 15,451 14,737 ====== ====== ====== Incremental shares issuable upon the assumed exercise of outstanding stock options is computed using the average market price during the related periods. F-16 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 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 uncollectible accounts and student loans receivable, accrued expenses, and the provision for income taxes. Actual results could differ from those estimates. COMPREHENSIVE INCOME Comprehensive income consists of net income and unrealized gains (losses) on investments in marketable securities, net of income taxes. RECLASSIFICATION Certain amounts for the year ended December 31, 1999 have been reclassified to operating activities on the consolidated statements of cash flows to conform with the December 31, 2000 and 2001 presentations. RECENT ACCOUNTING PRONOUNCEMENTS In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("FAS 141"). FAS 141 supersedes Accounting Principles Board Opinion No. 16 Business Combinations. FAS 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001, establishes specific criteria for the recognition of intangible assets separately from goodwill, and requires unallocated negative goodwill to be written off immediately as an extraordinary gain (instead of being deferred and amortized). In July 2001, the Financial Accounting Standards Board issued Statement of Financial Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). FAS 142 supersedes Accounting Principles Board Opinion No. 17, "Intangible Assets." FAS 142 addresses the accounting for goodwill and intangible assets subsequent to their acquisition. Goodwill and indefinite lived intangible assets can no longer be amortized, must be tested for impairment at least annually at the reporting unit level, and the amortization period of intangible assets with finite lives will no longer be limited to forty years. FAS 142 is effective for fiscal years beginning after December 15, 2001. The Company has not made any acquisitions after June 30, 2001 and the Company does not have goodwill or intangible assets. The adoption of FAS 141 and FAS 142 will not have any effect on the consolidated financial statements. 2. INVESTMENTS SHORT-TERM INVESTMENTS -- RESTRICTED The U.S. Department of Education requires Title IV Program loan funds collected in excess of amounts due for tuition to be kept in a cash or cash equivalent account until such amounts are required to be remitted to students. These funds are invested in short-term U.S. Treasury Notes. MARKETABLE SECURITIES The Company liquidated all of its investments in marketable securities and holds no investments as of December 31, 2001. The cost and fair value for each class of investments as of December 31, 2000 are as follows (in thousands): F-17 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 2000 --------------------------------------------------- GROSS GROSS UNREALIZED UNREALIZED FAIR COST GAINS LOSSES VALUE ---------- ------------ ------------ ---------- Certificates of deposit and money market funds ................................ $20,580 $ -- $ -- $20,580 Fixed income investments ............... 20,591 183 124 20,650 Equity securities. ..................... 8,068 651 49 8,670 ------- ---- ---- ------- Total ................................ $49,239 $834 $173 $49,900 ======= ==== ==== ======= 3. PROPERTY AND EQUIPMENT The composition of property and equipment as of December 31, 2000 and 2001 is as follows (in thousands): ESTIMATED USEFUL 2000 2001 LIFE (YEARS) ----------- ----------- ---------------- Land ............................................ $ 2,772 $ 2,772 -- Buildings ........................................ 5,414 9,988 40 Furniture and equipment ........................... 13,921 14,229 5-7 Leasehold improvements ............................ 5,702 5,479 3-10 Vehicles ......................................... 22 22 5 Construction in progress .......................... 1,436 14 -- -------- -------- 29,267 32,504 Accumulated depreciation and amortization ......... (9,798) (9,404) -------- -------- $ 19,469 $ 23,100 ======== ======== During 2001, fully depreciated assets of approximately $3 million were written off. In addition, $763,000 in leasehold improvements, paid by lessors as lease incentives, were capitalized during 2001. 4. STUDENT LOANS RECEIVABLE The loans receivable under the Strayer Education Loan Program as of December 31, 2000 and 2001 are as follows (in thousands): 2000 2001 --------- --------- Student loans receivable outstanding, including accrued interest .......... $7,753 $8,928 Allowance for loan losses. ............................................... (465) (536) ------ ------ Student loans receivable, net ............................................ $7,288 $8,392 ====== ====== The interest rate on these student loans is generally 7.5%. The Company believes the carrying value of the student loans approximates their fair value. The loans require a minimum monthly payment based on a percentage of the outstanding monthly balance, plus interest, while the student is in attendance. Upon the student's graduation or withdrawal, the loans become due in equal monthly installments based on a fixed payment plan. F-18 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 5. STOCK OPTION PLAN In July 1996, the Company set aside 1,500,000 shares of common stock for grants under the Company's 1996 Stock Option Plan, which was amended at the May 2001 Annual Shareholders' Meeting to increase the shares authorized for issuance thereunder by 1,000,000 (as amended, "the Plan"). The Plan provides for the grant of options intended to qualify as incentive stock options, and also provides

for the grant of non-qualifying options to directors and employees and directors of the Company. Options may be granted to eligible employees of the Company at the discretion of the Board of Directors, at option prices based on the fair market value of the shares at the date of grant. Vesting provisions are at the discretion of the Board of Directors. The maximum term of the options was 5 years before the amendment and 7 years after the amendment. Stock option activity for the years ended December 31, 1999, 2000 and 2001 are as follows: NUMBER OF WEIGHTED-AVERAGE SHARES EXERCISE PRICE ------------ ---------------- Balance, December 31, 1998 ......... 443,762 $ 6.67 Grants ........................... 2,759 6.67 Exercises ........................ (133,203) 6.67 Forfeitures ...................... -- -- -------- ------- Balance, December 31, 1999 ......... 313,318 6.67 Grants ........................... -- -- Exercises ........................ (88,615) 6.67 Forfeitures ...................... -- -- -------- ------- Balance, December 31, 2000 ......... 224,703 6.67 Grants ........................... 930,000 36.43 Exercises ........................ (224,246) 6.67 Forfeitures ...................... (457) 6.67 -------- ------- Balance, December 31, 2001 ......... 930,000 $ 36.43 ======== ======= The number of shares exercisable as of December 31, 1999, 2000 and 2001 are as follows: NUMBER OF WEIGHTED-AVERAGE SHARES EXERCISE PRICE ---------- ---------------- Exercisable, December 31, 1999 ......... 313,318 $6.67 Exercisable, December 31, 2000 ......... 224,703 $6.67 Exercisable, December 31, 2001 ......... -- $ -- During 2001, new options were granted to thirteen key executives and directors in conjunction with the recapitalization that took place in May 2001 and the retention of a new senior management team. The weighted average exercise price per share of all options as of December 31, 2001 was $36.43. The options vest over 3 to 4 years with exercise prices ranging from $33.69 to $47.44. All options granted in 2001 expire in 2008 and have a weighted-average contractual life of 6.3 years as of December 31, 2001. The Company accounts for the fair value of its stock options granted to employees and directors in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the Plan, since the exercise price of the options was equal to the fair value of the underlying common stock on the date F-19 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) of grant. Had compensation expense been determined based on the fair value of the options at the grant dates consistent with that method of accounting under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," the Company's net income and net income per share for the years ended December 31, 1999, 2000, and 2001 would have been decreased as indicated in the pro forma section below (in thousands): 1999 2000 2001 ----------- ----------- ----------- As reported: Net income ......................................... $19,326 $21,709 $22,809 Net income available to common stockholders ......... $19,326 $21,709 $17,799 Net income per common share -- Basic ................ $ 1.25 $ 1.42 $ 1.62 Net income per common share -- Diluted. ............. $ 1.23 $ 1.41 $ 1.55 Pro forma: Net income ......................................... $19,283 $21,530 $21,269 Net income available to common stockholders ......... $19,283 $21,530 $16,259 Net income per common share -- Basic ................ $ 1.24 $ 1.40 $ 1.48 Net income per common share -- Diluted. ............. $ 1.23 $ 1.39 $ 1.44 The fair value of each option granted in 1999 was estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions: dividend yield of 1.0%; expected volatility of 47%; risk-free interest rate of 5.25%; expected term of 2.1 years. The weighted average fair value at date of grant was $25.55 per share. There were no new options granted in 2000. The fair value of each option granted in 2001 was estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions: dividend yield of .7%; expected volatility of 47%; risk-free interest rate of 4.75% and an expected term of 5.31 years. The weighted average fair value at the date of grant was $16.68. 6. PREFERRED STOCK/SERIES A MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK In May 2001, the Company underwent a $150 million recapitalization and change of control transaction in which it issued 5,769,231 shares of its Series A Convertible Mandatorily Redeemable Preferred Stock (the "Series A Preferred Stock") of the Company to an investor group consisting of New Mountain Partners L.P. and DB Capital Investors, L.P. (collectively, the "Investors"). The Series A Preferred Stock has an effective dividend yield of 5.43% and is convertible into common stock at a price of $26.00 per share, subject to adjustment under certain circumstances. The Company used the $150 million, together with approximately $36.4 million of its cash and marketable securities, to repurchase 7,175,000 shares of outstanding common stock of the Company from the Company's then CEO and majority stockholder at $25.00 per share. The Series A Preferred Stock has the following material terms: Authorized A total of 8,000,000 shares of preferred stock, par value $.01, have been authorized. Of these preferred shares, 6,000,000 have been designated as Series A Preferred Stock, including shares to be reserved for the payment of dividends on the outstanding shares of Series A Preferred Stock. The original issuance

of Series A Preferred Stock and all quarterly preferred stock dividends thereon through December 31, 2001 are reflected in the following table: F-20 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) SERIES A MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK ----------------------------- AMOUNT SHARES (IN THOUSANDS) ------------ --------------- Balance, December 31, 2000 ........... -- -- Issuance of shares .................. 5,769,231 $150,000 Issuance costs ....................... (3,375) Dividend-paid in kind shares ......... 76,445 1,988 Accretion of carrying value .......... (266) -------- Balance, December 31, 2001 ........... 5,845,676 $148,347 ========= ======== Series A Preferred Stock dividends and accretion are recorded based on an effective yield of 5.43% applied to the carrying value of the Series A Preferred Stock. Ranking The shares of Series A Preferred Stock rank, as to dividends and rights upon liquidation, dissolution, or winding up, senior to the common Stock and on a parity with each other. Dividends The holders of shares of Series A Preferred Stock are entitled to receive dividends prior to any amounts being paid on the common stock when, as, and if declared by the Board of Directors out of funds legally available therefore. Dividends on the Series A Preferred Stock are payable as follows: o From the original issuance date of the Series A Preferred Stock until May 15, 2006, dividends accrue at an annual rate of 7.0% of the sum of the liquidation amount, which is $26.00 per share, as adjusted, plus any accumulated and unpaid dividends, with 3.5% of the original investment amount payable in cash when the dividend is declared and the rest issued in additional shares and compounding quarterly until the Series A Preferred Stock either converts, is redeemed, or a liquidation event occurs. o Beginning on May 16, 2006, dividends accrue at an annual rate of 3.0% of the sum of the Liquidation Amount plus any accumulated and unpaid dividends, all of which are payable in cash when the dividend is declared. In addition, when and if the Board of Directors declares regular quarterly dividends on the common stock up to $0.065 per share, holders of Series A Preferred Stock are not entitled to participate in the common stock dividend. However, the Series A Preferred Stock will participate on an as-converted basis in any dividends on the common stock in excess of the regular quarterly dividends of $0.065 per share. Conversion at the Option of the Holder The shares of Series A Preferred Stock are initially convertible, in whole or in part, at the option of the holder thereof, into shares of common stock at a conversion rate of one share of common stock for each share of Series A Preferred Stock, subject to adjustment for certain events, including stock splits, stock dividends, and dilutive issuances of capital stock. Liquidation Rights Upon any liquidation, dissolution, or winding up of the Company, the holders of Series A Preferred Stock are entitled to a liquidation preference, prior to any amounts being paid on the F-21 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) common stock, in an amount equal to the greater of (1) the sum of $26.00 per share of Series A Preferred Stock plus compounded, accumulated but unpaid dividends (in each case, as adjusted for stock dividends, stock combinations, or similar events) and (2) the product of (a) the price of the common stock calculated as the average of the daily closing prices for 5 consecutive trading days selected by the Board of Directors out of the 20 trading days preceding the date of the liquidation, dissolution, or winding up and (b) the number of shares of common stock to which the holders of Series A Preferred Stock would have been entitled if they had converted their shares. Change of Control Upon any change of control of the Company, the holders of Series A Preferred Stock are entitled in each holder's sole discretion to elect to receive the liquidation amount per share plus accumulated and unpaid dividends. If no election is made, the holders retain their Series A Preferred Stock. Voting Rights Each holder of Series A Preferred Stock is entitled to the number of votes equal to the number of whole shares of common stock into which all of the holder's Series A Preferred Stock is convertible, with respect to all matters submitted for Stockholder approval. Except as provided by law or by the express terms of the Series A Preferred Stock, holders vote together with holders of the common stock as a single class. For so long as there are any shares of Series A Preferred Stock outstanding, the approval of the holders of at least a majority of the Series A Preferred Stock shall be required to take certain actions including: o Any reclassification of the Series A Preferred Stock or any amendment, alteration, or repeal of any provision of our charter or bylaws that adversely affects the holders of the Series A Preferred Stock; o The authorization, creation, or issuance of additional equity securities ranking senior to or on a par with the Series A Preferred Stock on liquidation or distributions or any security convertible into, or which provides a right to acquire, a senior or pari passu security; o Any issuance of shares of common stock at a per share price less than $26.00, subject to certain adjustments, including securities convertible into common stock at a per share conversion price less than $26.00; and o The declaration, payment, or making of any dividend or distribution on the common stock other than our regular quarterly dividend of $0.065 per share of common stock. Redemption at the Company's Option The Series A Preferred Stock may not be redeemed at the option of the Company prior to May 15, 2004. From and after the third

year until the fifth year that the Series A Preferred Stock is outstanding, so long as the common stock is listed on the New York Stock Exchange or the NASDAQ National Market, the Company may redeem it, in whole or in part, within 45 days of any period in which the closing price of the common stock for at least 20 consecutive trading days equals or exceeds 200% of the conversion price, which is initially $26.00 per share; provided that the 20 day period may not begin before May 15, 2004. After May 15, 2006, the Company may redeem the Series A Preferred Stock in whole or in part at its discretion. In either case, the redemption price of each share of Series A Preferred Stock is equal to the liquidation amount, plus accumulated and unpaid dividends. The decision of whether to redeem is to be made in the discretion of the directors not elected by the Investors. F-22 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) Redemption at the Option of the Holder The holders of the Series A Preferred Stock may request that it be redeemed only: o After the tenth anniversary of its issuance (May 15, 2011); o Upon a change of control of the Company; or o In the event the Company sells all or substantially all of its assets. Upon the occurrence of any of these events, a holder of Series A Preferred Stock may require the Company to redeem all or a part of that holder's shares of Series A Preferred Stock, at a purchase price equal to the liquidation amount, as adjusted, plus accumulated and unpaid dividends. REGISTRATION RIGHTS Demand Registration The Company has agreed that if it is not eligible to use the short-form registration statement, Form S-3, it will register the resale of the securities held by the Investors upon their request, as follows: o The Company will not register the resale of securities more than two times; o The Company will not register the resale of securities more than once during any six month period; and o The aggregate offering price of the resale of securities must be at least $10 million. However, if the Company is eligible to use the short-form registration statement, Form S-3, the Investors shall also have the right to request registration on that form two times during any one year for a "shelf" registration permitted by Rule 415 under the Securities Act. A majority of the holders of the securities originally issued to the Investors is required to request the "shelf" registration. If the Company's Board of Directors determines that a requested registration statement would result in a disclosure of information that would materially and adversely affect any proposed or pending material transaction, the Company may delay the registration. No postponement may exceed 90 days and all postponements shall not exceed 120 days in the aggregate in any 12-month period. The Company may register securities for its own account or for the account of other stockholders in a registration requested by the Investors, so long as the inclusion of additional securities does not reduce the amount of securities that may be sold by the Investors. Securities registrable under the Registration Rights Agreement include the Series A Preferred Stock, the common stock and other securities, if any, issuable on conversion of the Series A Preferred Stock, the common stock, if any, purchased by the Investors in accordance with the options granted them by our former CEO and majority stockholder, and any securities issued to the Investors in accordance with their preemptive rights. Piggy-back Registration Piggy-back registration means the rights of the holders of the registration rights to include their shares in a registration filed by the Company for its own account or in a registration the Company has filed upon the request of other stockholders. The Company has granted the Investors unlimited piggy-back registration rights. F-23 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) Expenses The Company will bear all the expenses of the registration, other than any fees and disbursements of the underwriters that are customarily borne by selling Stockholders and all underwriting discounts, commissions, and transfer taxes relating to the securities sold by the Investors. Indemnification The Company has agreed to indemnify the Investors against any losses, including fees and expenses, which may arise out of an untrue statement or an omission of a material fact in any registration statement, other than untrue statements that were provided in writing by the Investors or omissions of material facts from statements provided in writing by the Investors for inclusion in the registration statement. Each Investor, severally and not jointly, has agreed to indemnify the Company and any underwriters participating in the registration statement against any losses that may arise out of any untrue statement that was provided in writing by that Investor or omissions of material facts from statements provided in writing by that Investor for inclusion in the registration statement. The amounts owed by the Investors under this indemnification obligation shall not exceed the proceeds the Investors received from the sale of securities under the registration statement. Transferability of Registration Rights The Investors may freely transfer the registration rights to any of their affiliates. The Investors may also transfer the registration rights to any other person to whom the Investors or their affiliates transfer shares of Series A Preferred Stock or the common stock into which the Series A Preferred Stock converts having any aggregate purchase price or liquidation amount of at least $10 million. OTHER TERMS OF SERIES A PREFERRED STOCK Corporate

Governance Pursuant to the terms of the Series A Preferred Stock, the holders of the Series A Preferred Stock are initially entitled to elect one-half of the Company's Board of Directors. The percentage of the Company's Board of Directors that the holders of the Series A Preferred Stock may elect decreases as the number of shares of Series A Preferred Stock outstanding decreases in the following manner: % OF SERIES A PREFERRED STOCK ORIGINALLY ISSUED STILL % OR NUMBER OF OUTSTANDING DIRECTORS ------------------------- ------------------ 90% and Above 50% 50% to 89.9% 40% 25% to 49.9% 25% 10% to 24.9% At Least 1 member 0% to 9.9% none In addition, in the event that the Company fails to pay the redemption price for the Series A Preferred Stock in connection with a proper redemption request in an amount at least equal to $30 million, the holders of the Series A Preferred Stock will be able to elect a majority of the Company's Board of Directors until the redemption price is paid. Any significant changes in the Company's ownership and control could require U.S. Department of Education or other regulatory agency approval. F-24 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) In addition to any other Board of Directors or stockholder action that may be required, the approval of a majority of the directors elected by the holders of the Series A Preferred Stock will be required in order for the Company to take certain actions, including: o Any authorization or issuance, reclassification, repurchase, redemption, or other acquisition of any of our equity securities or any other securities exercisable for or convertible into any equity securities; o Any issuance or incurrence of indebtedness that would result in the Company having in excess of an aggregate of $25 million of indebtedness outstanding; o Any liquidation, dissolution, winding up, or reorganization of the Company; o Any transaction or series of related transactions involving a change of control or the sale of all or substantially all of the Company's equity or assets, or any acquisition, disposition, or other business combination involving consideration in excess of $20 million; o Any amendment to the Company's charter or bylaws; and o The removal or replacement of, or the establishment of the level or form of compensation payable to, the Company's chief executive officer, chief operating officer or chief financial officer. Preemptive Rights The holders of the Series A Preferred Stock have the right to purchase their pro rata portion of new equity securities the Company issues, other than certain exempt issuances. 7. LONG-TERM LIABILITY In conjunction with the opening of new campuses in Chesapeake, VA and Newport News, VA during 2001, the Company was reimbursed by the lessors for improvements made to the leased properties in the amount of $763,000. In accordance with Financial Accounting Standards Board Technical Bulletin No. 88-1, these reimbursements were capitalized as leasehold improvements and a long-term liability established. The leasehold improvements and the long-term liability will be amortized on a straight-line basis over the corresponding lease terms, which range from 5 to 10 years. 8. OTHER EMPLOYEE BENEFIT PLANS The Company has a 401(k) profit sharing trust covering all eligible employees of the Company. Participants may defer a percentage of their salaries or make contributions up to 10% of their base compensation. Employee contributions are voluntary. Discretionary contributions were made by the Company in the fourth quarter of each year, and were $186,000, $195,000 and $205,000 for the years ended December 31, 1999, 2000 and 2001, 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 percent of its market value at the date of purchase. Purchases are limited to 10 percent 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. During 1999, 2000 and 2001, 11,962, 10,297 and 6,540 shares, respectively, were purchased in the open market for employees, at average prices of $26.13, $23.93 and $42.44 per share, respectively. F-25 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 9. 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 on the Company's financial position, results of operations or cash flows. As of December 31, 2001 the Company had long-term operating leases for fourteen of its campuses and other administrative locations. Rent expense was $4,227,000, $4,770,000 and $5,533,000 for the years ended December 31, 1999, 2000 and 2001, respectively. Prior to the purchase of three of these campuses in February 2002, the Washington D.C. campus and three of the Virginia campuses were leased from entities affiliated with the Company's former CEO and majority stockholder. Rent paid to these entities was $2,040,000, $1,836,600 and $1,946,000 for the years ended December 31, 1999, 2000 and 2001, respectively. During 1999, the Company acquired its Takoma Park Campus for $1,024,000 and in February 2002, the Company acquired the Washington D.C.,

Manassas, VA and Woodbridge, VA campuses for an aggregate of $12,000,000 from entities affiliated with the Company's former CEO and majority stockholder. Accordingly, only one lease remains outstanding with affiliates of the Company's former CEO and majority stockholder. This lease involved total payments of $320,000 in 2001 and expires in 2006. The rents on the Company's leases are subject to annual increases based on a stipulated price index. The minimum rental commitments for the Company as of December 31, 2001, excluding commitments related to the three campuses purchased from the Company's former CEO and majority stockholder in February 2002, are as follows (in thousands): TOTAL AMOUNT PAYABLE TOTAL TO RELATED PARTIES --------- -------------------- 2002 .............. $ 4,780 $ 338 2003 .............. 4,339 348 2004 .............. 3,324 358 2005 .............. 3,000 369 2006 .............. 2,241 156 Thereafter ......... 9,849 -- ------- ------ $27,533 $1,569 ======= ====== In addition, the Company has a credit facility from a bank in the amount of $10.0 million. Interest on any borrowings under the facility will accrue at an annual rate not to exceed 0.75% above the London Interbank Offered Rate. The Company does not pay a fee for this facility. There have been no borrowings by the Company under the credit facility. On October 2, 1998, the Board of Directors authorized the Company to repurchase up to five percent of its outstanding common stock at market prices, not to exceed a total cost of $24 million. The timing of stock purchases are made at the discretion of management. The Company repurchased 630,429 shares and 62,700 shares during the years ended December 31, 1999 and 2000, respectively. During the year 2000, the Board authorized an additional stock repurchase program in an amount of up to $40,000,000. The Company suspended the repurchase plan from February to September of the year 2000 and again in December of 2000. No shares were repurchased during 2001. No share repurchase plan is currently authorized by the Board of Directors. F-26 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 10. INCOME TAXES The income tax provision for the years ended December 31, 1999, 2000 and 2001 is summarized below (in thousands). 1999 2000 2001 ---------- ---------- ---------- Current: Federal ................ $10,453 $11,637 $12,123 State .................. 2,295 2,484 2,222 ------- ------- ------- 12,748 14,121 14,345 ======= ======= ======= Deferred: Federal ................ (203) (132) 129 State .................. (45) (15) 15 ------- ------- ------- (248) (147) 144 ------- ------- ------- $12,500 $13,974 $14,489 ======= ======= ======= The tax effects of the principal temporary differences that give rise to the Company's deferred tax assets (liabilities) are as follows as of December 31, 2000 and 2001 (in thousands): 2000 2001 --------- ------- Tuition receivable and student loans ............... $ 372 $387 Property and equipment. ........................... 283 140 Accrued vacation payable .......................... 50 34 Unrealized gains on marketable securities .......... (258) -- ------ ---- Net deferred tax asset ............................ $ 447 $561 ====== ==== A reconciliation between the Company's statutory tax rate and the effective tax rate for the years ended December 31, 1999, 2000, and 2001 is as follows: 1999 2000 2001 --------- --------- ------- Statutory federal rate. ............................ 35% 35% 35% State income taxes, net of federal benefits .......... 5% 5% 4% Effect of prior year accruals ....................... (1%) (1%) 0% -- -- -- Effective tax rate .................................. 39% 39% 39% == == == Cash payments for income taxes were $12,674,000 in 1999, $13,628,000 in 2000 and $11,649,000 in 2001. F-27 STRAYER EDUCATION, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 11. SUMMARIZED QUARTERLY FINANCIAL DATA (UNAUDITED) Quarterly financial information for 2000 and 2001 is as follows (in thousands except per share data): QUARTER --------------------------------------------------- 2000 FIRST SECOND THIRD FOURTH ---- ----------- ----------- ------------ ------------ Total revenues ................ $21,128 $20,325 $14,691 $22,070 Income from operations ......... 10,423 8,432 2,192 9,880 Net income .................... 6,810 5,878 2,126 6,895 Net income per share: Basic ...................... $ 0.45 $ 0.38 $ 0.14 $ 0.45 Diluted .................... $ 0.44 $ 0.38 $ 0.14 $ 0.45 QUARTER --------------------------------------------------- 2001 FIRST SECOND THIRD FOURTH ---- ----------- ----------- ------------ ------------ Total revenues ................ $23,644 $23,826 $18,222 $27,184 Income from operations ......... 11,459 9,262 2,744 10,042 Net income .................... 8,137 6,248 2,008 6,416 Net income available to common stockholders ................ 8,137 5,293 11 4,358 Net income per share: Basic ...................... $ 0.53 $ 0.45 $ 0.00 $ 0.52 Diluted .................... $ 0.53 $ 0.42 $ 0.14 $ 0.45 F-28 PART II INFORMATION NOT REQUIRED IN PROSPECTUS ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION. The following table sets forth the fees and expenses payable by the registrant in connection with this offering, other than underwriting discounts and commissions. All the amounts shown are estimates, except the SEC registration fee: SEC registration fee .................... $ 11,933 ------ Printing fees .......................... $ * ------ Legal fees and expenses ................. $ * ------ Accounting fees and expenses ............ $ * ------ Miscellaneous fees and expenses ......... $ * ------ Total ................................. $ * ------ * Estimated expenses to be provided by amendment. ITEM 15. INDEMNIFICATION

OF DIRECTORS AND OFFICERS. Strayer's charter provides that, to the fullest extent that limitations on the liability of directors and officers are permitted by the Maryland General Corporation Law, no director or officer of Strayer shall have any liability to Strayer or its stockholders for monetary damages. The Maryland General Corporation Law provides that a corporation's charter may include a provision which restricts or limits the liability of its directors or officers to the corporation or its stockholders for money damages except: (1) to the extent that it is proved that the person actually received an improper benefit or profit in money, property or services for the amount of the benefit or profit in money, property or services actually received, or (2) to the extent that a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding in the proceeding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. Strayer's charter and bylaws provide that it shall indemnify and advance expenses to its currently acting and former directors and officers to the fullest extent permitted by the Maryland General Corporation Law and that Strayer shall indemnify and advance expenses to its officers to the same extent as its directors and to such further extent as is consistent with law. Strayer's charter and bylaws provide that it will indemnify its directors and officers and may indemnify employees or agents of Strayer to the fullest extent permitted by law against liabilities and expenses incurred in connection with litigation in which they may be involved because of their offices with Strayer. In addition, Strayer's charter provides that its directors and officers will not be liable to stockholders for money damages, except in limited instances. However, nothing in Strayer's charter or bylaws protects or indemnifies a director, officer, employee or agent against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. To the extent that a director has been successful in defense of any proceeding, the Maryland General Corporation Law provides that he shall be indemnified against reasonable expenses incurred in connection therewith. The form of underwriting agreement, filed as Exhibit 1.1 hereto, contains provisions by which the underwriters agree to indemnify the registrant and each officer, director and controlling person of the registrant against certain liabilities. II-1 ITEM 16. EXHIBIT INDEX. EXHIBIT NUMBER DESCRIPTION OF EXHIBITS ------ ------------------------------------------------------------------------------ 1.1* Underwriting Agreement 4.1 Amended Articles of Incorporation of Strayer Education, Inc. (incorporated by reference to Strayer Education, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 000-21039)) 5.1* Opinion of Venable, Baetjer and Howard, LLP 23.1+ Consent of PricewaterhouseCoopers LLP 24.1+ Power of Attorney (included on the signature pages) ---------------- * To be filed by amendment. + Filed herewith. ITEM 17. UNDERTAKINGS. The undersigned registrant hereby undertakes: o For purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. o Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. o For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective. o For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. II-2 SIGNATURES Pursuant to the requirements of the Securities

Act, the registrant certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Arlington, State of Virginia, on the 8th day of October, 2002. STRAYER EDUCATION, INC. By: /s/ Robert S. Silberman ------------------------------- Name: Robert S. Silberman Title: Chief Executive Officer POWER OF ATTORNEY The undersigned officers and directors of Strayer Education, Inc. hereby severally constitute and appoint Robert S. Silberman, Steven A. McArthur and Mark C. Brown, and each of them (with full power to each of them to act alone), attorneys-in-fact for the undersigned, in any and all capacities, with the power of substitution, to sign any amendments to this Registration Statement (including post-effective amendments) and any subsequent registration statement for the same offering which may be filed under Rule 462(b) under the Securities Act of 1933, as amended, and to file the same with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all interests and purposes as he or she might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue thereof. Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons on behalf of Strayer Education, Inc. in the capacities indicated on the 8th day of October, 2002. SIGNATURE TITLE --------- ----- /s/ Steven B. Klinsky Chairman of the Board ------------------------------------ Steven B. Klinsky /s/ Robert S. Silberman Chief Executive Officer, President and Director ------------------------------------ (Principal Executive Officer) Robert S. Silberman /s/ Mark C. Brown Senior Vice President and Chief Financial ------------------------------------ Officer (Principal Financial and Accounting Mark C. Brown Officer) /s/ Charles Ayres Director ------------------------------------ Charles Ayres II-3 SIGNATURE TITLE --------- ----- /s/ Dr. Charlotte F. Beason Director ------------------------------------ Dr. Charlotte F. Beason /s/ William E. Brock Director ------------------------------------ William E. Brock /s/ David A. Coulter Director ------------------------------------ David A. Coulter /s/ Gary Gensler Director ------------------------------------ Gary Gensler /s/ Robert R. Grusky Director ------------------------------------ Robert R. Grusky /s/ Todd A. Milano Director ------------------------------------ Todd A. Milano /s/ G. Thomas Waite, III Director ------------------------------------ G. Thomas Waite, III /s/ J. David Wargo Director ------------------------------------ J. David Wargo II-4