FINAL TRANSCRIPT

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STRA - Strayer Education to Discuss Recent Data Released by the Department of Education in connection with the Department's gainful employment Notice of Proposed Rulemaking - Conference Call

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PRESENTATION

Operator

Good morning, everyone, and welcome to Strayer Education Incorporated's call to discuss recent data released by the Department of Education. This call is being recorded. Following today's call, we will offer the opportunity for questions and answers. At this time, for opening remarks and introductions, I would like to turn the call over to Strayer Education's Senior Vice President of Corporate Communications, Ms. Sonya Udler. Ms. Udler, please go ahead.

Sonya Udler - *Strayer Education, Inc. - VP of Corporate Communications*

With us today to discuss the recent data released by the Department of Education are Robert Silberman, Chairman and Chief Executive Officer for Strayer Education; Karl McDonnell, President and Chief Operating Officer; and Mark Brown, Executive Vice President and Chief Financial Officer.

For those of you that wish to listen to the conference via the Internet, please go to Strayer Education.com, where the call will be archived for 90 days. If you are unable to listen to the call in real-time, a replay will be available beginning today at 11 AM Eastern time through Monday, August 30. The replay is available at 888-203-1112, passcode 1104046. Following Strayer's remarks, we will open the call for questions and answers.

Please note that today's press release contains statements that are forward-looking and are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act. The statements are based on the Company's current expectations and are subject to a number of uncertainties and risks that the Company has identified in the press release and that could cause the Company's actual results to differ materially. Further information about these and other relevant uncertainties may be found in the Company's annual report on Form 10-K and its other filings with the Securities and Exchange Commission. And now I'd like to turn the call over to Rob. Rob, please go ahead.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Thank you, Sonya, and thank you, ladies and gentlemen, for joining us so early this morning.

As I'm sure you are all aware, late last Friday afternoon, the Department of Education released data to the public indicating that Strayer University would have a loan repayment rate for the purposes of the gainful employment calculation of approximately 25%. This is obviously quite a bit below the estimated numbers we had internally calculated. This morning, I would like to provide you with explicit detail on how we calculated our estimated numbers; our view of the possible sources of the difference between our number and the Department's; our communications with the Department over the weekend to attempt to resolve the difference; and our next steps. Basically, I want to tell you what we know, what we don't know, and what we're doing about it.

As I mentioned on our last earnings call, prior to the publication of the NPRM, we had already collected data from the Department's own database, the NSLDS, going back as far as they would provide it, which I believe was 15 years, on the performance of our student loans. We have exact data from that process on the defaults, the deferments, and the forbearances for all of our students' original outstanding loans.

However, as I also said on that earnings call, the Department would not make available to us data on those of our students' loans which had been consolidated. Therefore, our calculation of being comfortably above the 45% repayment rate was based on the actual performance of our students' original loans, for which we had the data, and an assumption that our students consolidated loans would perform no worse than our unconsolidated loans.

Now if you will turn to the slide on our website labeled Strayer basis of analysis, it's slide number one, you will see the exact data as we pulled it from the NSLDS, which incidentally, we had verified by an independent statistical consulting firm.

Column A, which you will see on this slide, totals $667 million, is the total amount of loans which entered repayment status during the applicable measurement period. Column B is the total amount of our loans which had not been consolidated or paid in full, roughly $232 million. Colin D is the amount of those original loans which were in repayment, i.e. not in default, forbearance or deferment, although some of the deferment loans should count, too, as a positive, due to the public service or education exclusions, but we ignored that in our calculation.

So if you take the $129 million in column D and you divide that by the $232 million in column B, that equals 56%.

Now, column C is the loans from the measurement period which the Department characterized as either paid in full or consolidated. This is the loan volume for which we can get no visibility into the loans' performance by the Department. For the purpose of estimating our overall repayment rate, we assumed that none of these loans had been paid off in full, that all have been consolidated and were performing no worse than our original nonconsolidated loans. This assumption is consistent with the public data which the largest lender to our students, Sallie Mae, provides in its 10-K, which shows that their loan loss reserve for consolidated loans is well below the rate for original loans. This assumption was also consistent, at least to me, with a commonsense assumption that since the monthly payments on consolidated loans is lower, they ought to perform better.

The other important point to take from this data is that approximately two-thirds of our students consolidated their loan balances during the 2005 to 2009 period.

Now when the Department released its data on Friday evening, we immediately put people on Mark and Karl's staff to work to try and understand the differences.

And if you will turn to slide II, you will see the comparison. This is the slide II repayment rate comparative view. The first thing to note is that the denominator in the Department of Education's number, which is that middle column, is off by roughly $130 million. That's the $537 million compared to our data, which we have confirmed for all of the loans that were issued in that timeframe, of $667 million.

But the second and more important note is that to go from our calculation for original nonconsolidated loans, which would be the first column on this slide II, to get to the Department's calculation of total loans, the only addition is the impact of the consolidated loans. And if you do that, and you look and you see in the third column, the implied performance of those consolidated loans would suggest that 98% of our students' consolidated loans were nonperformers. That makes no sense to us. And along with the missing $130 million made us quite concerned about the Department's data release.

So late Friday evening, I sent an e-mail to the Secretary of Education, which requested an immediate meeting to discuss these discrepancies. On Saturday at noon, my staff had a phone conversation with two Deputy Assistant Secretaries of the Department of Education, James -- Mark, how do you pronounce this guy's name?

Karl McDonnell - *Strayer Education, Inc. - President and COO*

Kvaal.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Kvaal, and David Bergeron to discuss these issues.

In that telephone meeting, we requested detailed backup data regarding the performance of our students' consolidated loans. Because until we see this data, they have us at a bit of a disadvantage.

We requested that data from the Department of Education. These two department officers said they would have to check with their counsel on the release of that data. They did indicate they would attempt to provide Strayer with backup for the denominator calculation, the $130 million discrepancy. We do not know when we might receive this data.

We do intend to file a FOIA request today for the data, as well as for the details of the computer program used to draw the data out of the database, because again, according to these two officers, the database itself is so complicated that the Department had to write a new program in a rarely used older computer language in order to try and extract any of the data. So all in, the complexity of that makes me somewhat concerned about the accuracy of the data, and we, obviously, want to see that in its original form.

Finally, in that meeting, the DOE officials confirmed to my staff that under their calculation of repayment rates, consolidated loans for which no principal was repaid during the measurement period would count as nonperforming loans even if the terms of the consolidated loan did not require a principal payment. We have confirmed this weekend that many of the large lenders to our students in this period offered loan consolidation products which had one- to five-year interest-only payments.

The DoE officials indicated, again, to my staff, that they believe many for-profit post-secondary education companies use loan consolidation as a default avoidance strategy and that the Department's repayment rate calculation is designed to penalize an institution when its students voluntarily and lawfully consolidate their loans if those students choose an interest-only period. I have to say we found that somewhat ironic, since Strayer University itself did not encourage any loan consolidation to its students, current or former. We actually have very little communication with our students on their loan repayment once they've exited the University and they have received a letter from us, which suffices for our exit counseling. And indeed, it is the Department of Education's own website which encourages loan consolidation.

Now the Department officers suggested that if we disagreed with their interpretation of the NPRM, we should submit official comments during the comment period, which we certainly intend to do.

So in conclusion, the Department data over the weekend appears to us to be inaccurate. I can't tell how inaccurate until we see the underlying data, and it's potentially based on an entirely arbitrary and, at least to me, nonsensical interpretation of its own draft regulation, at least in regard to consolidated loan treatment, for those loans which are current by their own terms.

We will continue to strive to uncover the data from the Department which will clarify these discrepancies, but I really can't tell you exactly when we will get it. We will certainly let you know as soon as we do.

And with that, operator, we'd be pleased to answer any questions. And ladies and gentlemen, we will, of course, stay on as long as there are questions. So there is no limitation, and feel free to ask away. Operator, please open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Paul Condra, BMO Capital Markets.

Jeff Silber - *BMO Capital Markets - Analyst*

Jeff Silber. I'm not going to ask you to speak for the broader data. First of all, thank you so much again for doing this. Really appreciate this.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

No problem.

Jeff Silber - *BMO Capital Markets - Analyst*

But is there any reason to believe that your students have a disproportionate amount of loans in consolidation relative to the rest of the industry? We didn't see these kind of discrepancies or at least this large from some of the other companies. Thanks.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Yes, I really don't know the answer to that, Jeff. Logically, we do have a large number of students who transfer into the University from community colleges and from other state universities for their third and fourth year. I don't know how that compares to other institutions.

And, in terms of loan consolidations, as I thought about this last night, I'm actually not surprised that those of our students who graduate with a business or finance degree wouldn't look at the benefits of consolidating loans, and particularly taking advantage of loan products which would match a payment schedule to an anticipated increase in earnings. So I'm not surprised by it, but I just don't know the answer with regard to other institutions.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay, makes sense. And, you didn't mention the median debt data that they released. I don't know if you had any time to look at that. Does that seem to square with your internal analysis?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Well the median debt data that I saw was for all borrowers. And if I understand the regulation correctly, the applicable median debt data or information relates only to program completers for the debt to income ratio. So their median debt data was lower than ours, but our calculation was done only for program completers -- graduates and program completers. So I don't really have any comment on their median debt data for all borrowers. I'm not sure it's relevant to their calculation.

Jeff Silber - *BMO Capital Markets - Analyst*

And did you disclose what your numbers were?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

We did on our last earnings call. For our Bachelor recipients over this time period, it's $21,000, Mark? And for our Masters recipients, it was $33,000.

Jeff Silber - *BMO Capital Markets - Analyst*

All right, great. I'll jump back in the queue. Thanks, again.

Operator

Bob Wetenhall, RBC.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Good morning, and this is just an incredibly helpful, informative data set around a complex issue. So like Jeff, appreciate it.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

No problem.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Obviously, you guys have -- it looks like a pretty legitimate numerical case here, particularly given the fact that it looks like you had mentioned there's $434 million of paid-in-full consolidated debt. So just to clarify on that, there was no transparency provided into that bucket of loans by the DoE, and you don't have any visibility on payment performance for that group?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

That is correct.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Got it. Has the DoE indicated in your conversation with Mr. Bergeron and Kvaal that they will provide that?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

They said they would check with their counsel.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Got it. How did your conversation, your telephonic meeting, end up in -- what are next steps and did they say they will get back to Strayer? Or (multiple speakers) the courtesy of a response?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

I was not on the call because I was on a plane coming back here. Karl and Mark, you were on the call. How did it end up?

Karl McDonnell - *Strayer Education, Inc. - President and COO*

We made some very specific requests to the Department, mostly around access to their information so that we could reconcile, first, the denominator issue that Rob described, where we are off $130 million; and also, the student by student performance of consolidated loans. The basic take-away was, as Rob said, they indicated that they would have to check with their counsel, and they could not commit to whether or not they could provide it and if they could, when they could provide it.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Okay. That's helpful. So they just kind of left you guys hanging. Just in terms of what we are looking at statistically, you said you had an external resource validate your data set in the approach you are using. Did they say the DoE's analysis is at all possible in terms of the implied performance of the consolidated loans, i.e., like 98% or defaulting?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Yes, we did not talk to that firm over the weekend. But what they looked at was -- they wouldn't have had an opinion on the likelihood of defaults or repayments. What we asked them to do is tick and tie our extraction of the data from the NSLDS and make sure that arithmetically we were doing it correctly. And I think the name of the firm is Analysis and Inference or something.

Karl McDonnell - *Strayer Education, Inc. - President and COO*

Yes, that's right.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

And one thing that we were able to do in terms of establishing the correctness of our $667 million is that those dollars -- the number of students that are that those dollars are based on is exactly the number of students which the Department itself has used in the CDR calculations for that period.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Got it. So it's consistent with the other data they are already providing an opinion on.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Correct. Correct.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Thanks very much. That's very helpful.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

You bet.

Operator

Amy Junker, Robert W. Baird.

Amy Junker - *Robert W. Baird & Company, Inc. - Analyst*

Hi, thanks, guys. Do you know -- don't consolidated loans potentially include debt from previous institutions?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

They do.

Amy Junker - *Robert W. Baird & Company, Inc. - Analyst*

They do. And so, hasn't the Department of Ed said that they weren't going to include loans from previous institutions? So have they talked -- one, I guess my question is, did they recognize that their data may be flawed, Mark and Karl, when you talked to them? And aside from just saying post the public comment, did they add any more color?

Karl McDonnell - *Strayer Education, Inc. - President and COO*

Amy, they impressed upon us the complexity of the data and how complicated it was to generate the computer program necessary to run this analysis. They did indicate to us that they believed that their program accounted for debt that may have been borrowed from another institution and would a portion, only the institution's applicable portion of that for a consolidated payment. So, they did recognize that there's multiple institutions potentially on a consolidated loan, but they indicated to us they feel their program will account for that.

Amy Junker - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then last question and I'll pass it over, but I just wanted to clarify the list that they put out, they listed several OPID numbers for Strayer. And I guess I was under the impression you only had one OPID number because you only put out one cohort default rate.

Can you help me understand that? And one in particular showed Strayer University, Burlington County College, which I guess I'm not familiar with even what that campus is. And I wondering if that could potentially be some sort of articulation agreement with a community college or something that they're listing there.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Well, actually, Amy, taking that in reverse order, we don't call it the Burlington County campus, but we do have a campus where a community college asked us to build it right in their -- on their campus. We call it the Willingboro campus because it's in Willingboro, New Jersey. But it's on the site of the Burlington County Community College.

And as I've said on previous calls, we have a number of these articulation agreements with community colleges. They run across a spectrum of cooperation. In this case, it's the highest possible because we're actually built on their site. And I think that may be where the Department had gotten that name. We never call it that, so I can only assume.

You are correct. We have only one OPID. I have no idea what the Department was using with all those different ones.

Amy Junker - *Robert W. Baird & Company, Inc. - Analyst*

Thanks. And sorry, if I could squeeze one other one in, just to the extent you can talk about this, I was under the impression the banks were kind of shying away from doing consolidated loans. And just wondering that even if this rule stays the way it is, could it potentially prove to be a non-issue as time goes on, as consolidated loans potentially become a smaller percentage of total loans?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

I believe that's correct unless the Department in its wisdom, in its direct loan programs, encourages consolidations and then counts that against universities.

Amy Junker - *Robert W. Baird & Company, Inc. - Analyst*

Great. Thanks, guys.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair & Company - Analyst*

Thanks. On the call a couple weeks ago, I guess the implication was, Rob, that you were comfortable not only with the repayment data compliance threshold, but with the debt to income threshold as well. Any updated thoughts on that now that you've had a couple more weeks to go through whatever data is out there?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Well, again, let me go back to exactly what we know, and then what we don't know but we make some reasoned judgment on. We know exactly what the median debt level is by student -- well, we know the debt level by students, so we know the median debt level for both the institution and by program. That's not an assumption. That's fact.

We have a very extensive alumni survey each year, and in that survey, we get approximately a 20% to 25% response rate, which I'm told is very statistically significant. And in that survey for 2009, again, by program, we have very solid salary data.

As I understand the rulemaking, what the Department suggests is they're going to take the median debt level and then extract actual salary data from either the Social Security Administration or the IRS, although it's not clear to me exactly which or how they are going to do that, and that that will be the basis of their calculation.

Assuming that our salary data received by survey reflects the underlying salary data that they are going to collect, then I remain quite confident. But, in general, I would say that the complexity of their regulation and the inability to even communicate how they are going to collect data is somewhat problematic. And so we will just have to wait and see on that.

Brandon Dobell - *William Blair & Company - Analyst*

Do you have any visibility on whether or not that 20% to 25% response rate would be sufficient? If you -- let's say they did not pull individual student record data for whatever reason. Would that amount of salary data or survey data be sufficient to I guess explain or justify that part of the compliance equation?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

You mean would it be sufficient to them, to the Department?

Brandon Dobell - *William Blair & Company - Analyst*

Yes.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

I don't know, Brandon.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. That makes sense. And then any further detail on what those salary data points would be as just a general point of reference relative to that $21,000 or $33,000 number you gave for the debt level?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Sure. We released that on the last call. It's $61,000 per year for the class of 2009 Bachelor's graduates, and I believe it was not appreciably higher, actually, for the Masters. It was in the high $60,000s for the Masters graduates.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Great. Thanks a lot.

Operator

Sara Gubins, Bank of America Merrill Lynch.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Hi, thanks. Do you have any more detail around the missing $130 million between your analysis and the DoE? Any idea what the DoE is missing there?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

No. But they're missing $130 million.

Sara Gubins - *BofA Merrill Lynch - Analyst*

But I mean you don't know if it's in consolidated loans or nonconsolidated loans or --?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

No idea. They have not made any of that data available.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay. And then I was wondering, I know that some schools have been talking to loan guarantors to try to get an external source of data around loans and repayment rates. And I was wondering if that might be a source for information around consolidation loans and what happens there?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

It could be a source. We are attempting to get that data from them as well.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay. Have they -- it might be too early-stage for you to know yet, but, have they been willing to provide it?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

I'm not sure that we've actually asked yet.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay. And then sort of a side question, but can you explain why Masters degree students take on so much more debt than Bachelors degree students even though tuition levels are higher for Bachelors degree students?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

They're not higher. They're higher for Masters degree students.

Sara Gubins - *BofA Merrill Lynch - Analyst*

The total amount that students are paying?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

The tuition is higher per credit hour for a Masters degree student.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Oh, I'm sorry. I'm thinking total cost of the program.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Because we do not allow any transfer credit in on the Masters level.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay. Okay. Thanks.

Operator

Kelly Flynn, Credit Suisse.

Kelly Flynn - *Credit Suisse - Analyst*

Thanks. So, I'm just trying to get kind of a summary of your perspective on how much of the discrepancy between the 25% and your 55% do you think may come from error on the Department's part, as opposed to a methodology difference related to the consolidation loans. (multiple speakers)

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Kelly, until I see the underlying data, I just don't know.

Kelly Flynn - *Credit Suisse - Analyst*

Okay. And then secondly, on the call, the Department of Ed call last week to go over the gainful employment details, they explicitly said that they are going to exclude basically consolidated loans on which no principal has been paid. I just want to make sure. You guys are aware that that's what they've stated, and that you're not implying that they've made an error in that methodology?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

I am aware that that's what they said on Wednesday. I guess I was aware Friday evening that's what they said on Wednesday. And to be honest, it never occurred to me that the Department would take a position that a loan that was in compliance with its own terms that they had approved would count against an institution when they did the repayment rate.

Kelly Flynn - *Credit Suisse - Analyst*

Okay. That makes sense. And just switching gears a little bit, Rob, I know I've asked you this before, but if you could just address on this call, it would be helpful. On your last call, I think you said that the lifetime default rates, as you calculate them, are I think in the mid-8's. But in your filings, you've also said that the three-year trial CDR for the '07 cohort is close to 13. I guess intuitively, we always thought cohort default rates go up over time, and what you are saying implies that they go down as the lifetime progresses. Can you just speak to how that works?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Well, the numbers you state are correct. The three-year rate which we published in our K was the Department's draft rate, which we have not had a chance to validate or verify. And as long as I've been here, every year that they've given us a draft two-year rate, there's been a reduction once we get down and compare student records, record by record. So I can't really speak to the 13%.

As to the logic of why a default rate would go down, because over time students pay their loans. Students that are in default in an early part of their professional career, it's not surprising to me that when you get to the end of it, that they will have gotten out of default and paid down -- paid off their loan.

Kelly Flynn - *Credit Suisse - Analyst*

Okay, great. And I also want to add my thanks for putting that release out on Saturday. That was extremely helpful in the face of a pretty scary situation.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

You're welcome, Kelly. Thanks.

Operator

(Operator Instructions). Corey Greendale, First Analysis.

Corey Greendale - *First Analysis Securities - Analyst*

Hi, good morning. And I'd like to add my thanks for doing this call. It's extremely helpful under the circumstances.

Just wondering beyond -- obviously this is a very complicated issue and takes a while for you to explain to us, and just wondering if you are or think you need to be reaching out to corporate partners, students, anyone like that, to ensure that they understand the issue and aren't looking at a printed number the Department put out that looks like it's surprisingly low given the -- what I think the perceptions are of Strayer as a high-quality institution?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

I'm not sure that any of our corporate partners or any of our students are even aware of this issue, to be honest. I had, on Friday morning, one of our monthly academic committee meetings, where we bring in regional leadership from around the country, and I asked specifically, are any of your professors or students asking about the Department's rulemaking as a topic of conversation, and the answer was no. So, I just -- I don't feel the need for that communication.

Certainly, if we do, we will be happy to communicate it, but the rate at which the Department calculates -- the number the Department comes up with for a sort of esoteric new calculation they call repayment rate, I just don't think has crossed the consciousness of most of the people we deal with.

Corey Greendale - *First Analysis Securities - Analyst*

Okay. And second question I had, I assume, in and talking to the Department in general, they are not giving any indication that they would be willing at some point even if they don't have it now to disclose, specific information on your graduates for -- [after] the debt to income measurement to try to uncover any similar issues there may be with the data before it would actually take effect on the school?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

I'm sorry, Corey, I didn't understand the question.

Corey Greendale - *First Analysis Securities - Analyst*

Sorry about that. Just wondering, in the discussion with Department, was there any sense -- did you ask or was there any sense that they might be willing to, at some point, disclose information specific to Strayer about the debt to income measures so that you can --

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Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

No -- yes.

Corey Greendale - *First Analysis Securities - Analyst*

-- discuss (multiple speakers) similar issues.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Our discussion on Saturday was solely about the repayment rate. We were fairly intently focused on understanding how they came up with that number. So I don't believe, guys, that we had any discussion about debt to income, did we?

Mark Brown - *Strayer Education, Inc. - SVP and CFO*

Correct. No.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Okay.

Corey Greendale - *First Analysis Securities - Analyst*

All right. Thanks very much.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

You bet, Corey.

Operator

Andrew Steinerman, JPMorgan.

Andrew Steinerman - *JPMorgan Securities Inc. - Analyst*

If you are able to, could you go over how consolidated loans are treated in the CDR calculation?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Mark, do you --?

Mark Brown - *Strayer Education, Inc. - SVP and CFO*

Yes, they are treated like any other loan, Andrew. So to the extent that there's a default on a consolidated loans during the measurement period, then it would count against the institution.

Andrew Steinerman - *JPMorgan Securities Inc. - Analyst*

Okay. And do you think Sallie Mae could be helpful at all if they did a lot of the consolidated loans in getting to the data that you're looking for, even before the Education Department gets back to you?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

We're going to be reaching out to anybody who is touching those loans, whether it's a guarantee agency or an originator and seeing what we can find out.

Andrew Steinerman - *JPMorgan Securities Inc. - Analyst*

Okay. (multiple speakers)

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

And again, some of this, for me, truly, is common sense. I just do not believe that a large subset of our student population would -- which had had the wherewithal and the intelligence to participate in a -- on their own, voluntarily, without any discussion from us -- because this is one of the comments made by the Department that I certainly took a amount of front at; that those students would have entered into that consolidated loan and then performed at a 98% default rate or nonperformance rate. That makes no sense to me. I do not believe that's accurate.

Andrew Steinerman - *JPMorgan Securities Inc. - Analyst*

Right. And Strayer doesn't encourage consolidation of loans, right? After the student is gone, that's their own (multiple speakers).

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Strayer University does not communicate with students after they graduate on their loans. We have an exit counseling, which basically makes sure they understand they have an obligation to pay their loans. And other than that, it's up to them.

Andrew Steinerman - *JPMorgan Securities Inc. - Analyst*

Makes total sense. Thank you.

Operator

(Operator Instructions). Jerry Herman, Stifel Nicolaus.

Jerry Herman - *Stifel Nicolaus - Analyst*

Rob, I know this is institutional-level analysis. Can you give any visibility on programs for you guys? I know you don't have a ton of different programs, but any visibility on the variance among the programs?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

There wasn't a lot of variability among our programs. But again, if you remember our data is based on that column D and column B. And we're making assumptions with regard to the consolidated loans, but I don't believe there's a reason to think that there's great variability among our programs for those loans either.

Jerry Herman - *Stifel Nicolaus - Analyst*

And then sort of with regard to column C, it is a big number. Is there any visibility into the disaggregation of paid-in-full versus consolidated?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

We do not have that visibility. And as I said, our assumption was four years after graduation, very few of those would be paid in full, so we just assumed zero.

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay. All right. And then this is going to sound like a very mundane question, but obviously we're all groping here. Confidence level in your internal numbers and systems given this huge disparity between what the outside is saying versus what your internal systems are saying? In particular, CDRs and program reviews and things of that nature? The programmer view being potentially triggered by concerns about validity of data? I know that's an ugly question, but --

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Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Well, I think you know me well enough, Jerry, that if I wasn't confident on something, I wouldn't say it. I am very confident with regard to the validity of our internal numbers on those loans for which we had data. I've given you the reasons for our assumption with regards to the other loans, the consolidated loans. We had our last program review two years ago with no findings. So, I don't think anybody, at least to date, has challenged Strayer University's ability to count.

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay, great. That's thoughtful. I appreciate that.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

You bet.

Jerry Herman - *Stifel Nicolaus - Analyst*

And then finally, just with regard to the denominator, their denominator is smaller than yours --

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Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

True.

Jerry Herman - *Stifel Nicolaus - Analyst*

-- which in theory works to your benefit. Can you comment on that, or do you have any thoughts on that?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

I told you, Jerry, I don't know why their denominator is different, and until we get the data, I can't comment on it.

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay. That's great. Appreciate it, guys. Thanks.

Operator

Trace Urdan, Signal Hill.

Trace Urdan - *Signal Hill Group LLC - Analyst*

Thanks. Rob, I'm wondering if you have any idea how common the negative amortization is among -- as a choice among students that consolidate their loans; and how, if you guys have any opinion about the significance of that particular anomaly in looking at the situation?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Well, there's a difference between negative amortization and no amortization. You could be current on an interest-only loan and not be negative amortization. I don't know how common negative amortization is, and in what cases a loan consolidation product would create negative amortization.

You know, with regard to the thinking process, as I said, our students are studying business and finance. I consider it actually a fairly strong learning outcome to see that a large number of them being offered a product at a lower interest rate and on a payment schedule that would more nearly match their earnings profile, that they would take advantage of that. But beyond that, since it's the first I've actually heard about it, I don't really have much of a comment.

Trace Urdan - *Signal Hill Group LLC - Analyst*

Okay. I just thought I would ask.

Operator

Bob Wetenhall, RBC.

Bob Wetenhall - *RBC Capital Markets - Analyst*

I just wanted to work through a little bit of math for a second, if you can indulge me.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

No problem.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Your visibility is predicated on the fact that $128 million of the $232 million loan pool is paid back or in repayment, correct?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Correct.

Bob Wetenhall - *RBC Capital Markets - Analyst*

To get to your 55%. And, in tandem with that, on the nontransparent piece, which is $434 million, if you're at 55%, that would be about $240 million, correct?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Mark?

Mark Brown - *Strayer Education, Inc. - SVP and CFO*

Yes, it sounds correct.

Bob Wetenhall - *RBC Capital Markets - Analyst*

I'm just trying to understand that the argument that Strayer is making this morning is that this $434 million debt slug has comparable repayment attributes. And I'm just saying on a consolidated basis, between the OOPB loans that have a principal balance --

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Mark Brown - *Strayer Education, Inc. - SVP and CFO*

Your math is correct. It would be about it would be about $230 million -- $240 million.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Great. So roughly $370 million in total loan repayment against $666 million. And then I'm just --

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Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Correct.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Great. Then, the follow-up to this is, is the DoE saying that Strayer is doing okay in the sense that the $128 million is getting repaid on the $232 million piece? But to get to a 25% consolidated total loan repayment, on the $434 million piece, you would have to get to like 9% or $39 million of loan repayment. So instead of having $367 million repaid on $666 million, is the DoE saying you are only getting $167 million on a $666 million?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

What the DoE is saying is in the second column of our slide II, that we have $135 million in repayment out of $537 million.

Bob Wetenhall - *RBC Capital Markets - Analyst*

What I'm asking is if I used your numbers of $666 million as opposed to the DoE at $537 million --

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Correct --

Bob Wetenhall - *RBC Capital Markets - Analyst*

-- on the notion that you have a better idea of what students have borrowed having gone to your University, their implication, then, just straight line on the math, is that only $39 million gets repaid on that $434 million.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Well their -- we've said their implication. And you can see it -- you don't even have to go to the $667 million. Just look at what they have added to the numbers that we know. And so, yes, we pointed out to them on Saturday that the implication of their numbers is that virtually none of our consolidated loans are in a repayment status, that none of them are current. So, yes, you are restating what I said.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Good. Okay. Just want to make sure I'm understanding the case. Thank you very much.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

You bet.

Operator

Suzi Stein, Morgan Stanley.

Suzi Stein - *Morgan Stanley - Analyst*

Hi. Thanks for doing the call. I'm just curious, what would it -- what would be the cause do you think of your consolidated loans being treated different from anyone else's? If you look across institutions, what you consider similar institutions, even if they are not for-profits, it seems that your numbers are quite low. I would think that the Department would be using the same methodology across all institutions. So why do you think it would be that they would be treating your consolidated loans differently?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

I didn't say that they are treating our consolidated loans differently, Suzi. (multiple speakers)

Suzi Stein - *Morgan Stanley - Analyst*

But I guess I'm just confused that there are other schools that use consolidated loans to a large degree. So I'm just curious as to why your numbers -- and maybe there's a reason. Possibly there's a mistake. But I'm just -- it just seems -- I guess I'm having a hard time reconciling why the numbers look so low versus other I guess similar institutions, even if they are not-for-profits. Is there any logic that you can see in that?

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Well, if you've been listening to the call, Suzi, the answer to that is no.

Suzi Stein - *Morgan Stanley - Analyst*

Right. Okay. I mean I'm, you know, I'm just curious if there was any explanation. All right. Thank you.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

If I have one, I'll give it to you.

Suzi Stein - *Morgan Stanley - Analyst*

Thank you.

Operator

That does conclude our question-and-answer session. At this time, I'd like to turn the conference over to Robert Silberman for any additional or closing comments.

Robert Silberman - *Strayer Education, Inc. - Chairman and CEO*

Well, thank you very much, everyone, as I said, for getting on early. We felt it was important to at least share our information and where we stood with regard to this as soon as possible. And, as I said, as we get more information from the Department and as we find out the source of this discrepancy, we will certainly let our ownership and the investment community know. And, please feel free to call us again if you had questions that didn't get answered. We will be around for as long as it takes. Thank you.

Operator

That does conclude today's conference call. Thank you for your participation.

Aug. 16. 2010 / 11:30AM, STRA - Strayer Education to Discuss Recent Data Released by the Department of Education in connection with the Department's gainful employment Notice of Proposed Rulemaking - Conference Call