LETTER TO SHAREHOLDERS

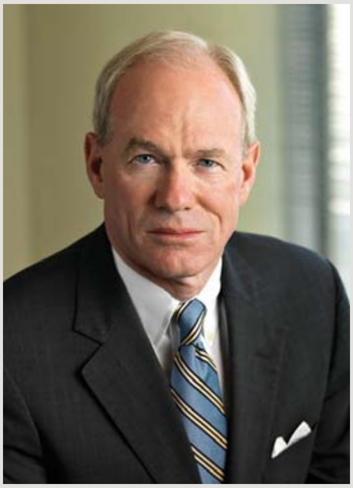
Robert S. Silberman
Chairman and Chief Executive Officer
Strayer Education, Inc.

Dear Fellow Shareholder:

In 2009 our Company's main asset, Strayer University, increased its student enrollment by 22%. This in turn led to an increase in our company's revenue, operating income, and earnings per share of 29%, 35%, and 39% respectively. Since 2001, the year present management assumed the stewardship of Strayer Education, our revenue, operating income, and earnings per share have grown at compounded rates of 24%, 23%, and 22% respectively. The graphs on the facing page illustrate our progress over the last nine years. These operating and financial results are admittedly quite positive, but as shareholders we must constantly remind ourselves that the ultimate value of Strayer Education will be based on nothing more than the academic effectiveness of Strayer University. To put it in simpler terms, to be a truly great company, we must first be a truly great university.

In this letter I would like to discuss with you our performance in 2009, both as a company and as a university, as well as share with you our plans for 2010. In order to frame that discussion, reprinted on page 9 of this annual report is an excerpt from my 2001 Letter to Shareholders, describing what Strayer Education actually does; how our business model generates both reported net income and owner's distributable cash flow; and finally, our strategy to increase the intrinsic value of your investment. This excerpt has been reprinted in our annual report each year since 2001. Shareholders who are new to Strayer, or those long term shareholders who wish to review our business model and strategy (neither of which has changed since 2001), may wish to read the excerpt on page 9 before reading this letter.

Under the able guidance of our company's President and Chief Operating Officer, Karl McDonnell, and our Senior Vice President for New Campuses, Kristin Jones, Strayer University opened 11 new campuses in 2009, increasing our total footprint to 71. All 11 campuses continued our geographic expansion into new markets, although four (Allentown, Pa., Miami, Fla., Augusta, Ga., and Huntsville, Ala.) were in states where we already had a presence. In 2009 we made a major investment in the Ohio market, opening five campuses, as well as opening one campus each in Charleston, W.Va., and Salt Lake City, Utah. Studying the map on pages 12-13, shareholders can see the visual evidence of the progress we have made toward our stated goal of becoming a nationwide university. As we expand, we have found that demand for our university programs is equally high in all geographic markets. Because of this rather uniform high demand for quality university level education, we feel we have an opportunity to earn significant returns on our owners' capital *wherever* we open new Strayer University campuses. While not quite a "Manifest Destiny," our success over the last nine years in moving outward from our Washington, D.C. base has certainly convinced us that as long as we maintain the proper focus on academic quality and student outcomes, there is not a metropolitan area in the country (of sufficient population) in which a Strayer University campus will not be a valuable addition to the educational community.



At Strayer University, we make it easier to keep that proper focus on academic quality by limiting our campus expansion to nearby geographies. This strategy ensures that our academic deans and administrators do not have to travel as far to keep track of our educational activities. With the exception of the Salt Lake City, Utah campus (the rationale for which I will come back to later in this letter), we have adhered to that limitation religiously over the last nine years, moving only incrementally from our Washington, D.C. base into the mid-atlantic and southeast regions. We are quite patient in the execution of our expansion strategy, and are unconcerned with the risk that someone else will get to markets before we do.

If building a great university were a race which went only to the swiftest, we would have already lost. Thankfully, it is not. We are, however, very concerned that the expansion of our University not exceed our ability to guarantee the rigor of the academic experience for each incremental student. That, I am afraid, would ultimately be a fatal error for any educational institution, and one which we do not intend to make.

For 15 years we have served students who do not live anywhere near one of our campuses through our Global Online unit. In 2009 we made a major investment in expanding that unit, opening a second operating center in Salt Lake City, Utah. All of our students are encouraged to take classes in the format they deem most conducive to achieve learning outcomes, either in a physical classroom or online. Our global online operations centers are designed to provide *administrative* support to these geographically remote students who can only take their classes online.

We decided to put a second center in Salt Lake City, as opposed to expanding our original center located near Strayer University's headquarters in Washington, D.C. for two reasons. First, we wanted some geographical diversity to mitigate operational risk. Second, an increasing percentage of our student inquiries are coming from the western half of the United States. Since our students (and prospective students) tend to contact the University at night, it will be easier to serve our west coast students from a location in a western time zone. These global online operations centers are approximately five times as large as one of our traditional campuses and have proportionately similar investment and financial return profiles. We had a strong first year at the Salt Lake online center, and believe it is on pace with both our hiring and revenue projections. Putting our second global online operations center in Salt Lake City drove our decision to site a physical Strayer University campus in that city as well, notwithstanding that it was clearly not a contiguous geography. The large number of senior administrative and academic personnel necessary to manage the global online operations center, combined with the fortuitous circumstance that our largest on-site corporate program is located in Salt Lake City, meant we had enough academic oversight in that market to safely open a campus.

Of course, investing all this financial capital to expand the University will create no real return to our owners if we are not at the same time maintaining and, indeed, enhancing our academic quality. In order to ensure academic quality, we must consistently focus on our student learning outcomes assessment process. As a university which prides itself on providing an open access admissions policy, it is critically important that we not *assume* our students are learning their academic material, but instead make them demonstrate it. It is also critically important that their means of demonstration reinforce the broader educational priorities and institutional outcomes which we require of our graduates. I will return to this theme in discussing our "Writing Across the Curriculum" initiative.

Under the able leadership of Dr. Sondra Stallard, Strayer University's President, our academic staff has begun an intensive review of the way we measure our students' comprehension of the material in each of our courses. The first courses which President Stallard's staff reviewed were two of our most important: Developmental English (English 090) and Developmental Math (Math 090). A little history is probably in order here. In 2004, as part of an internal study of why certain students academically fail out of Strayer University, we determined that insufficient preparation in English and Math skills was often the root cause. In 2005 we developed what were essentially high school level remedial courses in these two important subjects. In 2006 we developed an optional diagnostic test to help the University identify those students who needed to take these remedial courses. In 2007 we made the test mandatory for any enrolling student who was not transferring college level English and Math credits, or did not have sufficient SAT scores. Since 2008, incoming students who score below a certain level on the diagnostic test are *required* to enroll in English 090 and/or Math 090.

Approximately 4,000 students took our developmental courses in 2009. Of these, roughly 65% passed and then enrolled in college level classes. Our review of learning outcomes in English 090 was quite positive, particularly in the area of sentence structure, grammar, and writing mechanics. Students who took the English 090 class performed significantly better than their peers in subsequent academic classes. In the case of Math 090, we are not seeing as strong results. Even after students pass Math 090, their scores in upper level math, economics, finance, and business classes are suffering due to their inability to solve basic mathematical expressions, not to mention more advanced quadratic equations. The curriculum for Math 090 is being rewritten to place special emphasis on teaching both algebraic expressions and linear equations, and we expect to see progress in the future.

Another significant academic initiative we launched in 2009 was our “Writing Across the Curriculum” program. As I reported in last year’s Letter to Shareholders, we have determined that in order to meet our requirement that all Strayer University graduates be able to write clearly, we must insist on writing requirements throughout our course catalog, not just in our English classes. This is an area where the method of *assessing* the learning outcome is central to the *achievement* of the outcome itself. One influential group of educators states, “Writing is not simply a way for students to demonstrate what they know. It is a way to help them understand what they know. At its best, writing is learning.”[1] We know many adult learners are fearful of writing, unskilled in the mechanics of writing, and unsophisticated about how to find, analyze, synthesize, and use information to construct written communications required for their professions. By incorporating writing into every course throughout the student academic experience, we will ensure that Strayer University graduates learn the core competencies needed to express themselves effectively in written communications. We have designated a senior academic dean, reporting directly to the University Provost, to oversee our ”Writing Across the Curriculum” program, and have directed the Deans of the Schools of Business, Computer Science, and Arts and Sciences to review and revise their courses to incorporate meaningful writing assignments as part of their outcome assessment methodologies. In addition, we have invested in writing workshops and tutoring services at all of our physical campuses as well as through our online tutoring center. We will keep you apprised of our progress on this important initiative.

In 2009 we hired almost 100 new full time faculty, increasing our full time faculty population by approximately 33%. In order to maintain the quality of our academic teaching going forward, we intend to add approximately one full time faculty member, and one adjunct, for each additional 50 students we enroll. Our students take on average two courses per term, and our full time faculty members teach four courses per term, with our adjuncts teaching one course per term. This will keep our student to faculty ratio below 20 students per class. In 2009, we also successfully rolled out our new Criminal Justice bachelor’s degree, and were pleased to see that program grow to over 5% of our student body.

Two areas where we underperformed our expectations in 2009 were bad debt expense, and our cohort default rate. In 2009 our bad debt expense, measured as a percent of revenue, rose to 4.0% from 3.2% the year before. Our latest cohort default rate, measured for calendar year 2007, rose to 6.0% from 3.8% in 2006. While these numbers appear quite favorable on a relative basis to other institutions, both increases caught our attention quickly, because we have come to see those two metrics as important statistical proxies for our academic quality. However, after careful study we concluded that these results, while of concern, were largely caused by the negative economic conditions associated with the recession of 2008–2009.

At Strayer Education bad debt expense is incurred when we allow a student to enroll at Strayer University without payment, and that student subsequently drops out of the University before their tuition is fully paid. We allow campus deans and directors, largely at their discretion, to enroll that student without full payment because we use a rather traditional academic calendar, with only four 12 week terms, starting in October, January, April, and July. Therefore, a prospective student whose payment method (usually a government guaranteed Title IV loan) was not complete at the start of an academic term would have to wait three full months to start classes. In the past when we saw abrupt increases in our bad debt expense, we were worried that campus deans and directors were making too aggressive an attempt to enroll students, potentially damaging our culture and academic quality. Therefore, we

[1] National Commission on Writing in America’s Schools and Colleges

would limit the authority to make this credit decision until the proper balance was reestablished, and our culture as a university was protected.

However, in the first quarter of 2009, when we began to experience upward pressure on our bad debt expense, we saw that the number of our students who had been allowed to enroll without final tuition payment as a percentage of our total student population was *actually going down*, but that the amount of our past due tuition obligations which we subsequently recovered was going down faster. This reduction in subsequent collection of past due tuition payments made sense to us, as during an economic downturn all consumer credit payments suffer. Indeed, tuition owed to a school that one has dropped out of would likely be the lowest priority of one's debts. We therefore began taking a higher than historical reserve against our uncollected tuition receivables, leading to an even higher bad debt expense as a percentage of revenue in the second half of 2009. But, we were actually reassured by this data, as it meant that our higher bad debt expense was not being caused by a cultural problem with aggressive enrollment, which had been our concern with this metric in the past, but instead by the weakening economy.

It is important to note, however, that we do *not* lend to our students, and that our bad debt expense is *not* a loan loss reserve. I have never thought that our senior management team (myself included) would make particularly good bankers, and therefore prefer to leave that business to others. We believe that by the end of 2009 we had reached a peak of bad debt expense of approximately 4.5% of revenue, and that even if the economy and employment do not improve, we do not expect our bad debt expense to get significantly worse. Of course, when the economy does improve, we expect our bad debt expense to trend back down to its historical level.

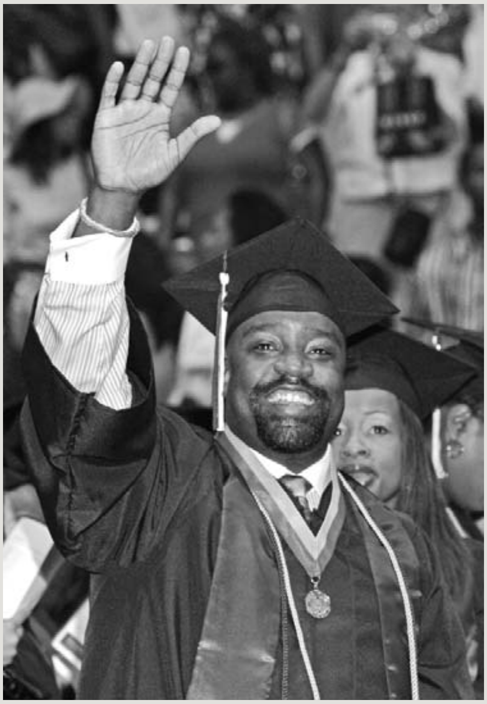
Cohort default rates are a different, but equally important financial metric. Approximately 75% of our students fund their tuition with bank loans which are guaranteed by the federal government under authority granted by Title IV of the Higher Education Act of 1965 (hence the term Title IV Loans). The student has the obligation to repay the bank, but if the student does not, the bank is mostly repaid by the federal government. There is no financial obligation on the part of the school which has received the tuition for the student's lack of repayment to the bank. The U.S. Government does however, for entirely appropriate purposes, track the rate at which students from individual universities default on their Title IV loans, and if that rate gets too high, the institution can be restricted, or even prohibited from receiving the proceeds of Title IV loans as tuition.

Strayer University has traditionally had among the lowest cohort default rates of all institutions. Even at the 6% reported for the 2007 cohort year it remains comparatively low, and well below any regulatory triggers. However, our rise in cohort default rates is of concern to us, less so for the cultural issues that I outlined with regard to bad debt expense, but more because high cohort default rates call into question the basic value proposition to the student of a university education. If the student's earning power after graduation is not enough to service the debt incurred in gaining the degree, particularly for a working adult student, one must question whether gaining the degree was worthwhile in the first place.

Similar to our bad debt expense, our latest cohort default rate was clearly negatively effected by the recession of 2008–2009. However, in my view that is not an excuse. We intend to increase our efforts to communicate with our students in a way which, combined with the rigor of our academics, keeps our cohort default rate under control, even in an extended economic downturn.

Describing the negative effects of the recession on two of our financial metrics certainly raises the question of how the macroeconomic environment effects our business, and whether we are a cyclical or a countercyclical business. I would argue that we are neither. However, to answer that question accurately, we must first take a closer look at how we provide value to all of our stakeholders (students, alumni, faculty, administrative staff, shareholders, and communities in which we operate) both as a company and as a university. In doing so, we will also address the fundamental question of corporate governance: for whom is the corporate enterprise operated?

When equity analysts and investment professionals ask about the cyclical nature of a business, they are normally asking which economic conditions make it easier for a business to attract customers and earn revenue. A business which is helped significantly by an expanding economy is known as cyclical, while one which prospers when the economy is stagnant or shrinking is called countercyclical. Therefore, to answer the question for a specific company one must identify who are the customers of the company, what is their motivation to access the product or service which the company provides, and whether that motivation is affected by the state of the macroeconomic environment in which the customer exists.



In the case of Strayer Education our product is a university level education, which we craft specifically to be relevant to a non-traditional, 25-50 year old working adult student. As the U.S. economy shifts inexorably away from a manufacturing based, industrial economy towards a knowledge based economy, the common factor of production which increases in utility across all parts of the economy is education. The statistical evidence for this is unassailable, and the logic is intuitively obvious. People with higher levels of education do better, period. Whether one measures general health, life expectancy, employment, lifetime income or any other personal metric, on average the higher the level of education, the higher the individual's score. This phenomenon is true for national economies as well, higher relative investment in education tends to produce higher levels of national income. Prosperity follows investments in human capital[2].

Strayer University's working adult students understand this phenomenon better than anyone, because they are living its effects. In spite of the demands of jobs, families, and other responsibilities, they have decided to return to college at an average age of 35 because they know instinctively that their ability to maintain and enhance their personal prosperity is diminishing without a college degree.

The underlying shift in the macro economy away from manufacturing and towards a knowledge base is occurring regardless of whether the economy is expanding or contracting. Therefore the motivation of our student body as a whole remains relatively constant throughout the economic cycle. The short term economic cycle does, however, have different effects on different individual prospective students. The 35 year old who has been considering going back to school and sees his or her co-worker laid off during a recession is probably more motivated to return to college. However, the laid off co-worker is less likely to become a Strayer University student. He or she has too many other more immediate demands (such as finding new employment) to be able to afford the time commitment, and tuition, necessary to be a successful Strayer University student. Still, the size of the market which we are attempting to address (the roughly 80 million working adults in the U.S. with a job, a high school degree, and no college degree) is so large that the different motivational impacts of a cyclically expanding or shrinking economy tend to balance themselves out. Hence our success in both expansions and recessions, and my belief that we are truly an acyclical business.

However, in thinking about our success as a business, it is important to recognize that merely giving out degrees to

[2] I borrowed this phrase from an op-ed piece by Michael Milken published in the Financial Times.

students will not increase either the student's, or society's, prosperity. There must be real academic achievement, based on rigorous standards, and measurable learning outcomes, for graduates to accrue real value from investments in education. All academic institutions must make sufficient financial investments, and also control their rate of enrollment growth, to ensure academic rigor and quality. This is particularly true for an institution, like Strayer University, whose capital structure is provided by (and whose ultimate governing authority resides with) a profit-seeking, publicly traded, company. Two of our most important stakeholders, our alumni and our faculty, would see first and suffer most from a diminution of our academic quality, which would lead to great harm to our reputation as a university. If that happened, our student demand would ultimately dry up as well.

To say that there is strong student demand for high quality education is not to say that the same demand would exist at *any* tuition price. In order to generate a return for students, the cost of education must be priced appropriately to its value. At Strayer University, we have only three tuition levels: full time undergraduate, part time undergraduate, and graduate. Our pricing is the same throughout our campus network, and for our online classes, and is generally around or slightly higher than what an in-state student would pay at a state university. If one were to enroll in a Strayer University bachelors program in 2010 with no previously earned college credit, the full four year degree would cost approximately $54,000. Most of our working adult students, however, enroll with around half of their credits already earned, either because they have earned an associate degree from a community college with which we have an articulation agreement, or because they were enrolled in another university at a younger age from which they dropped out. Therefore, the total tuition paid by our average Strayer University bachelors graduate is roughly $25,000 over a two and one half year period. That cost is not excessive because on average our graduates increase their annual income from approximately $30,000 per year to approximately $50,000 per year within three years of graduation.

We believe that the income disparity between individuals with and without a bachelors degree will only increase in the future, (not to mention the roughly four times higher unemployment rate that non-college graduates suffer versus college graduates) as our economy continues to shift towards a knowledge base. We therefore believe we command significant pricing power. However, we have long believed that the best way to use that pricing power is with a modest and predictable 5% annual tuition increase, keeping our tuition well within the positive value chain for our students.

Out of the revenue we collect as tuition we must also create value for our faculty and staff. A university is the ultimate human capital business. We have to invest considerable expense (roughly half of our total) to attract the kind of teaching professionals, academic Deans, and administrators necessary to provide the educational experience which will create true value for our students and alumni. Analogous to our tuition pricing, our full time professors earn roughly similar salaries to the average tenured professor at a state university, indeed many of them come from a state university, teaching for us first as adjuncts to prove their capabilities before competing for a full time position.

The elegance of this business model is that we can provide a badly needed service, at a cost and quality which creates real value for our students, paying salaries which create real value for our faculty and staff, and still generate sufficient financial returns to create real value for our owners. More importantly, we believe we can do this for *an extended period of time*. What makes this business particularly attractive is not the rate it can grow in any single year, but the number of years it can grow at any rate.

However, keeping the value chain which supports this business model in balance is not a simple task. Indeed there are countless opportunities to benefit one stakeholder at the expense of others. For instance, taking more advantage of our pricing power, or enrolling more students than we could effectively teach, would benefit our owners in the short term, but diminish the value for our students. Which brings me back to the question I posed at the outset of this section: for whom should the corporate enterprise be operated?

In my judgment, to be successful in the long term the enterprise must be run *for its customers*, on behalf of its owners. In our case, running the enterprise for our customers (i.e. our students and alumni) means an unwavering focus on academic quality and student outcomes. We are confident that all of our stakeholders, including our shareholders, will ultimately accrue real value from that focus.

It is worth remembering that we would not be able to create such value for all of our stakeholders were it not for the talent, skill, dedication, and supreme effort of our senior leadership team. As I have already mentioned in this letter, we shareholders are very fortunate to have Karl McDonnell as our President and Chief Operating Officer, and Dr. Sondra Stallard as our University President. They are ably supported by Mark Brown, our Executive Vice President and Chief Financial Officer, an executive who has been with me from the beginning of my tenure at Strayer Education. He was, to quote Dean Acheson, "present at the creation." Many of you have also had the pleasure of speaking with our Senior Vice President of Communications, Sonya Udler, who along with her myriad of other duties, handles our shareholder relations. This team, along with the rest of Strayer University's faculty and staff, makes what we are achieving seem easy. I can assure you, however, that it is most certainly not.

Indeed, we have a very ambitious agenda to execute in 2010. We intend to open 13 additional Strayer University campuses. Five will expand our footprint in current states: Florida, New Jersey, and Georgia. The remaining eight will be the vanguard of a major push towards the southwest; with one campus each in Mississippi, Arkansas, and Louisiana, and five campuses in the state of Texas.

In the academic area, our largest focus in 2010 will be on implementing the "Writing Across the Curriculum" initiative which I described earlier in this letter. We feel this initiative is critical to the success of our students, and is therefore critical to our success as a university. In 2010, our regular curricula reviews will cover our Education and Undergraduate Business departments. Most importantly, to support our growth in 2009 we will hire over 300 full time faculty and administrative staff, expanding our workforce by approximately 20%. When it comes to employment, we are basically a one company economic stimulus package, without the federal outlays.

During 2009 our company generated $141 million in after tax cash flow from operations. We invested $30 million of that cash to grow our business (new campuses, instructional equipment, better online technology, etc.) That left us with $111 million in owner's distributable operating cash flow (which I define as that cash generated from the operations of the business which is available to distribute to owners after *all necessary investments in the growth and maintenance of the business*). This cash flow compares quite favorably to our reported net income of $105 million, particularly after funding a nearly 30% increase in our physical plant, and shows that our company, executing this business model, continues to be a very efficient generator of cash. In addition to this distributable cash from operations, owners also benefited from an additional inflow of cash during the year of $9 million, which was made up of the proceeds from, and favorable tax treatment of, the exercise of certain executives' stock options.

We used the $120 million of generated cash along with $107 million of cash on our balance sheet at the beginning of the year as follows: we paid an annual common dividend of $2.00 per share ($32 million), and we repurchased 452,000 shares of our common stock at an average price of $177.00 per share ($80 million). This brought the cash, cash equivalents, and marketable securities on our balance sheet at year end to $117 million, with no debt. Given what the Board of Directors and I felt would be a rather predictable increase in cash flow generation as we execute our business plan in 2010, we increased our annual common dividend for 2010 by 50% to $3.00 per share, and authorized an additional $100 million of share repurchases.

On behalf of our Board of Directors, and our entire Strayer management team, I would like to sincerely thank you, once again, for the opportunity to have been the stewards of your financial capital for the last year. We have tried to use that financial capital to create lasting value. As is our custom, we have included in this annual report photos of a few of the more than 8,000 dedicated and hard working students who earned the right to be called Strayer University alumni in 2009. Over the last nine years, we have included pictures of our graduates in this annual report (including on the cover) because they are visual evidence of your financial capital at work. Habitual readers of this letter know that I always urge shareholders to attend one of our graduation ceremonies in person. In 2010 it will become even easier to do so, as we will hold six ceremonies, from March to December, from Baltimore to Atlanta. Please see our website, or call Sonya, for a complete listing of our commencement locations and dates.

I stated at the outset of this letter that for us to be a truly great company, we must first be a truly great university. Now I would be the first to admit that using a graduation ceremony to do diligence on a university is to be exposed to the worst kind of survivor bias. One only sees those students for whom the educational experience has been a success. More importantly, it is impossible to tell from the ceremony itself how rigorous were the academic standards of the university, and consequently how effective was the achievement of learning outcomes of its graduates. But even stipulating those weaknesses, I would still argue that attending one of Strayer University's commencement exercises is essential diligence on our company. As a shareholder, you receive each quarter cash dividends paid on your proportional share interest in Strayer Education. These cash dividends are denominated in U.S. dollars, are easily counted, and are tangible evidence of our success as a company. But in a larger sense, these cash dividends are merely reflections of, and are entirely derived from, the achievements of Strayer University's graduates. Our commencement ceremonies are the tangible evidence of our success as a university. The dividends that society receives from the improvement in the lives of our graduates are just as important to the long term return on your invested capital as the cash dividends you receive. We would not be able to pay the one, if we did not provide the other. Both dividends are inextricably related. They are, in fact, ultimately one and the same.

Very Truly Yours,

Robert S. Silberman
Chairman and Chief Executive Officer
Strayer Education, Inc.