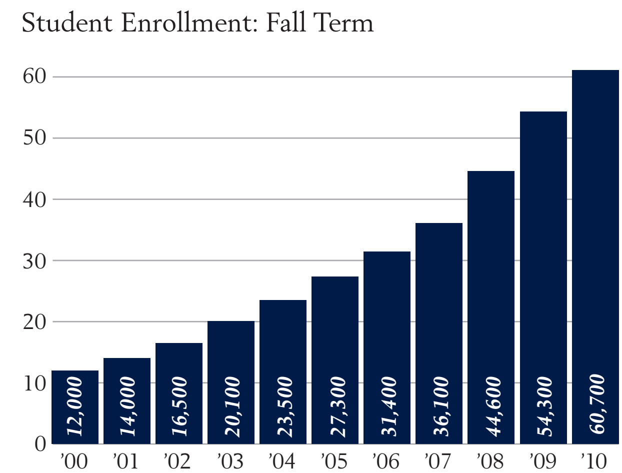
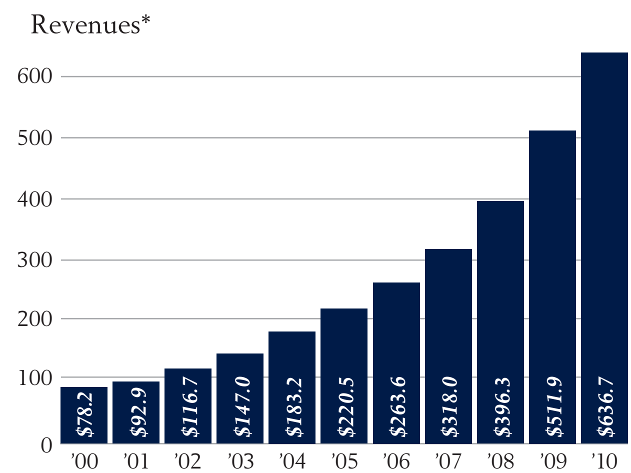
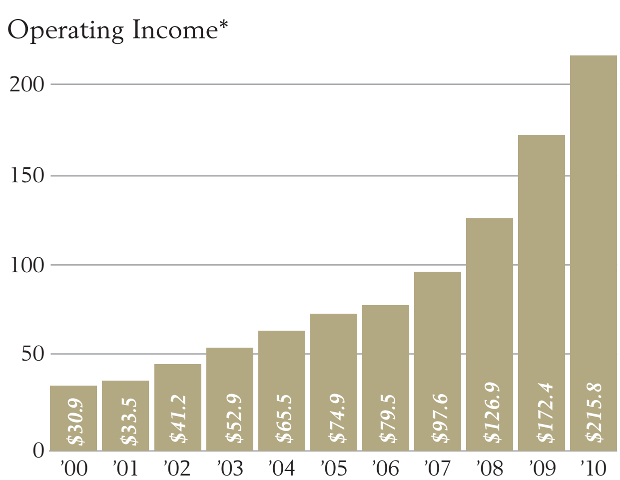
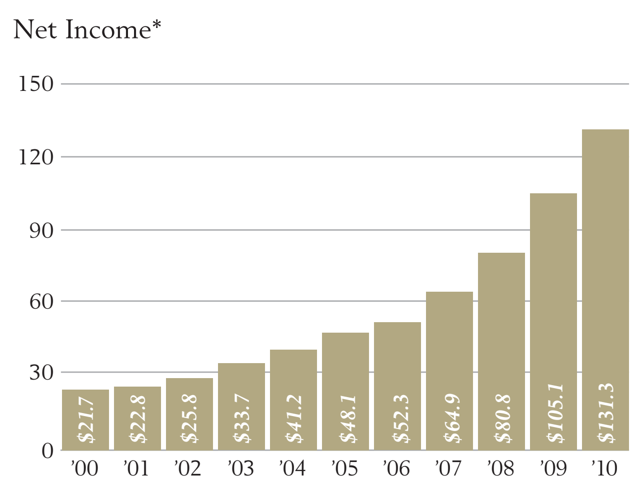
Strayer Education Inc. | 2010 ANNUAL REPORT

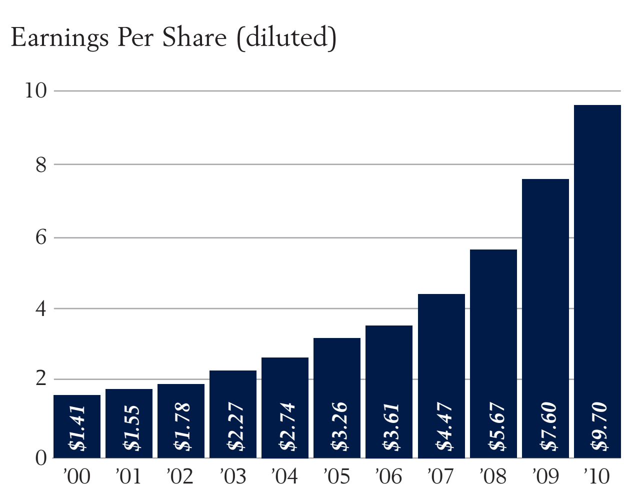
OUR RESULTS











*Dollar amounts are in millions

OUR HERITAGE

Reprinted from the Strayer Business College
1912 student catalog

This catalog was written with a view of setting before the men and women of this community some of the advantages of a business education, and of acquainting them with the superior facilities of this school for giving high-grade business training.

The courses have been designed and presented to meet the needs of the business office of today. The teachers are men and women who are specialists in their respective subjects. The school rooms have been chosen and equipped with special reference to light, comfort and sanitation, so as to make it an ideal place for study.

We ask that the public, in determining which school it shall attend, to consider the facts in connection with this school, as are outlined in this catalog and supplementary literature. It is twenty years old. It has grown steadily since the beginning. It attributes its growth to correct ideals, careful management and successful, enthusiastic, and rapidly increasing alumni.

While it is essential to its success that a school should give thorough instruction in the subjects that comprise its courses, yet the school that does only this, falls short of its full mission. The development of those traits of character which make for reliability in business and good citizenship are the peculiar province of the school as well as the home. This school, then, has nothing in common, can have nothing in common, with those so-called business schools offering cheap and superficial courses. Such courses, while inexpensive, and possibly of short duration, cannot result in anything but disappointment in the end.

This school, then, stands for high ideals, it courts investigation, welcomes comparison, and stands by its promises. It is a school to which you may attend with the knowledge that you will be in pleasant surroundings, will be accorded fair treatment, and will be given thorough and painstaking instruction.

Finally, in presenting this catalog, we want to thank a discerning public for its support, and assure it that we shall endeavor to continue to merit the bountiful confidence it has heretofore placed in us.

Strayer Business College
circa 1912

OUR BUSINESS MODEL

Reprinted from the Strayer Education, Inc.
2001 Letter to Shareholders

Strayer Education, Inc. is an education services holding company whose primary asset is Strayer University, a *119* year old institution of higher learning focused on educating working adults. In this letter, when I use the term “Strayer”, I am referring to the company, as opposed to the University. Strayer University, founded in 1892, offers associate, bachelor’s, and master’s level degree programs in Business Administration, Accounting, and Computer Information Systems. Strayer serves students at *89* campuses. In addition, Strayer serves students in all 50 states and more than 60 foreign countries worldwide on the Internet through Strayer University Online.

Strayer’s revenue comes from tuition payments and fees paid by, or on behalf of, Strayer University students. That revenue comes in essentially three forms. Roughly *70%* is paid through federally insured student loans by banks, approximately 20% is paid directly to Strayer by corporations or institutions on behalf of their employees who attend Strayer, and the remainder is paid by students through their own sources of credit.

Strayer’s expenses include salaries paid to the faculty at the University who perform the teaching duties, salaries paid to the administrative and admissions staff who manage the campuses and enroll the students, and salaries paid to the corporate staff who manage the company’s affairs. Expenses also include lease payments for the campus buildings we lease and depreciation for the campus buildings we own, as well as advertising and marketing costs which serve to attract prospective students to Strayer. Finally, our expenses include supplies; such as books, desks, chairs and computers necessary to support the educational process. Some of the furniture and electronic equipment is capitalized on our balance sheet and the expense is recorded as amortization over the period we expect the equipment to last, in accordance with generally accepted accounting principles.

The difference between the revenue we take in and the expenses we pay out is used to first pay taxes and is then added to the after-tax income generated by our financial assets (cash and marketable securities on our balance sheet) to make up our reported net income on a fully diluted basis.

Two of the attractive attributes of our business are that it generates significant after-tax free cash flow from operations, and that it has a high return on invested capital. The required capital expenditures to keep our existing assets functioning are roughly equal to our depreciation expenses. The investment capital required to fund our growth initiatives is not major. This investment capital includes traditional GAAP defined capitalized expenses, as well as increased spending which runs through our income statement. We are therefore in the enviable position of generating almost our entire net income as distributable free cash flow, even after investing in our growth. Some of this cash we do distribute back to our shareholders as dividends. The rest of the cash we intend to maintain as liquidity to either fund new opportunities, or ultimately return to our shareholders in a tax efficient manner. We understand that the redeployment of this cash is crucial to creating shareholder value.

As both shareholders and management, we are excited by this business model because we believe that the value of a college degree is rising with the transition to a knowledge economy, and that working adult students in search of an accredited college degree are underserved. We know that Strayer’s academic quality and convenience make it ideally suited to meet this growing demand. We have the right product, at the right time for a growing market. Our product, a quality college degree, is valued highly both by students and employers.

In 2001, we developed and committed to a new strategic plan, geared to expanding beyond our current regional focus to serve unmet nationwide demand for working adult post-secondary education. This plan consists of five elements:

— Maintaining enrollment in our mature campuses.

— Accelerating the addition of new campuses, particularly beyond our current geographic scope.

— Investing in our online university.

— Maintaining strong alliances and outreach to the major employers of our students.

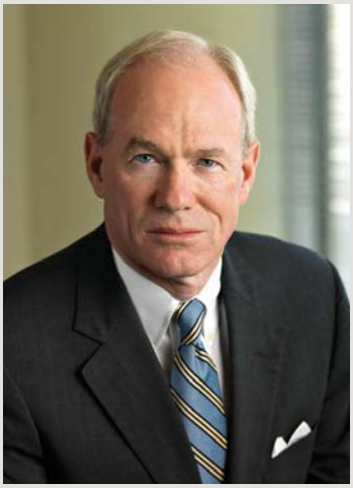
— Carefully screening opportunities to redeploy capital back into the business or return it to owners.

LETTER TO SHAREHOLDERS

Robert S. Silberman

Chairman and Chief Executive Officer

Strayer Education, Inc.



Dear Fellow Shareholder:

This is my tenth Letter to Shareholders. To place this letter in context, please see on the facing page an excerpt reprinted from my first Letter to Shareholders, written in 2001. The excerpt describes what our company does; how our business model generates both reported net income and owner's distributable cash flow; and our strategy to increase the intrinsic value of your investment in Strayer Education. We have reprinted this excerpt in each of our annual reports since 2001, as neither our business model nor strategy has changed appreciably over the last ten years.

2010 turned into a difficult year for Strayer Education. During the year important political and financial commentators (although interestingly none from academia) questioned many of the fundamental principles upon which our institution is based. Therefore, in this letter I wish to accomplish four objectives. First, I would like to report on our performance in 2010, both as a University and as a company. Second, at the ten year anniversary as stewards of your capital, I will review the assumptions which underpinned the strategy we adopted in 2001, and measure our progress against that strategy. Third, I will try to address, as objectively as I am able, the criticisms made over the past year about investor funded education in general, and our institution in particular. And finally, having addressed those criticisms, I would like to share with you our plans for 2011.

2010 Results

Ironically, Strayer Education's academic, operational, and financial results for 2010 provide no hint as to the slings and arrows of outrageous fortune which we experienced in the latter half of the year. Our operating asset, Strayer University, opened 13 new campuses in 2010, the most we have ever accomplished in any one year. These campuses expanded our footprint into four new states. We offered classes for the first time in Mississippi (Jackson); Arkansas (Little Rock); Louisiana (New Orleans); and Texas (Dallas, Austin, and Houston). We also opened campuses in New Jersey, Georgia, and Florida — all states in which Strayer University had already enjoyed a presence.

The successful opening of these 13 new campuses was the result of a major effort by all parts of our organization. Our team makes the process of establishing a new Strayer University campus appear easy. Watching it from the inside, I can assure you that it is not. The 13 new campuses we opened in 2010 brought our total to 84.

In order to ensure academic quality and integrity, our 84 campuses are each led by two separate and equal leaders: a campus dean who is responsible for all academic functions, and a campus director who is responsible for all operational functions. (Please see my 2004 Letter to Shareholders, available on our website "strayereducation.com", for a more expansive discussion of the reasoning behind, and the challenges created by, our rather unique bifurcated management structure.) These 84 campuses are organized into regions made up of one or more contiguous states, which also are jointly led by regional vice provosts for academic matters and regional vice presidents for operational matters.

Prior to 2010, all these regions reported directly to the two extremely capable and dedicated co-leaders of our institution; Dr. Sondra Stallard, President of Strayer University, and Karl McDonnell, who serves both as the President and Chief Operating Officer of Strayer Education, as well as the Vice Chairman of the Board of Trustees of Strayer University. However, the increased geographic scale resulting from our campus expansion in 2010 led us to create an additional layer of oversight during the year. We now have the University divided into three geographic areas, each co-led by a senior vice provost for academics and a senior vice president for operations. We believe that when we are ultimately a nationwide University, we will have as many as six geographic areas in our organization.

This additional organizational layer, which we have long contemplated, is a result of our view that the most effective means to ensure academic performance in a geographically disparate University is effective peer review and oversight. To further bolster our academic oversight we made a number of additional senior faculty appointments in 2010. Dr. Michael Plater, the former Dean of the College of Arts and Sciences at North Carolina A&T University joined us as Strayer University Provost. Dr. Plater had previously taught and held senior administrative positions at both Brown University and the University of Florida. We also established three additional senior vice provost positions to provide substantive expertise and oversight across the entire University for academic programs, faculty, and students. We were quite fortunate to fill these positions with Dr. Deborah Snyder (Senior Vice Provost – Academic Programs), Dr. Andrea Backman (Senior Vice Provost – Faculty), and Mariana Valdes-Fauli (Senior Vice Provost – Students), each of whom had held similar or relevant positions at the University of Michigan, the University of Virginia, and the University of Miami, respectively.

We need this increased academic infrastructure because we intend to constantly improve our academic performance at the same time that we are building a nationwide university. In fact, unlike many financial analysts, we believe that in order to maintain academic quality there is an inherent financial *diseconomy* of scale as our University expands. The biggest risk to the long term intrinsic value of our enterprise would be to underinvest in the increased human capital necessary to perform our academic mission as we grow.

We believe effective academic oversight must be based on a consistent and objective method of measuring learning outcomes, both for individual students, as well as for the educational institution as a whole. Strayer University's outcomes assessment process begins with our President and Board of Trustees establishing specific competencies which every Strayer University student must master in order to graduate. (Please see my 2007 Letter to Shareholders for a comprehensive listing of those competencies.) These institutional competencies are then broken down into specific degree, program, course, and eventually individual class learning outcomes.

Each of the almost 500 courses taught at Strayer University has (or shortly will have) a full time professor assigned as the Course Lead. This Course Lead is responsible for ensuring that the content of the course and its required learning outcomes are consistent with the University standards of academic rigor. The Course Lead also serves as a clearinghouse for best practices in teaching the course. So, while at Strayer University there may be 150 sections of a given course being taught in any one term at some 90 campuses and to a large online population, each of the professors teaching these sections is teaching from a common syllabus, and may refer questions to a single course expert. The standardization of the course allows for a more systematic evaluation of just how successfully our students achieve the required learning outcomes of the course. Standardization also helps us isolate relative causes of student underperformance; whether they be problems with student preparation, teaching capability, or curricula. Our Course Leads, in addition to reporting to a campus dean for administrative purposes, also report up through department heads, the relevant school dean, and the Senior Vice Provost of Academic Programs, to make sure we are consistently providing the academic standard to which we hold ourselves.

One of our major academic initiatives in 2010 was our Writing Across the Curriculum Program. Effective writing is one of the Strayer University required learning outcomes I mentioned previously. As part of our periodic review of our Arts and Sciences curricula in 2009, we determined that in order to ensure our students achieve the necessary writing competencies, we needed to include writing requirements in all of our academic courses, not just our English classes. To effect this outcome, in 2010 President Stallard appointed Dr. Gail Summerskill as the director of Strayer University's Writing Across the Curriculum Program. Dr. Summerskill, who held a similar position at the University of Kentucky, made great progress in 2010. By the end of the year, 95% of all Strayer University courses, *no matter what the course subject matter*, had specific writing assignments built into the required coursework and evaluation metrics. We will, of course, complete the remaining 5% of our catalog in 2011.

To support our faculty in this broader teaching responsibility, Dr. Summerskill instituted a faculty training program in 2010 to improve our instruction in student writing. This program includes both campus workshops as well as online material for faculty on subjects such as starting a writing assignment; writing in the third person point of view; how to use instructional feedback in revision; and compare and contrast essay writing. In 2010 we also invested heavily in both additional campus based and online tutoring in writing. This tutoring is offered to our students free of charge. We will continue to invest in other advances in writing instruction and evaluation, and keep you apprised of our progress in this important area.

As an open access institution for working adults, we understand that a key component of our success at Strayer University is great teaching. We are not a research university, and we are not limiting our student admissions to only the most academically elite 18 year olds. Therefore, in order to achieve our academic goals, we must provide higher value teaching than a traditional university provides. To this end we initiated development in 2010 of the Strayer University Center for Teaching and Learning. Its purpose is to provide our Strayer University professors, full time and adjunct, with a forum to share innovative and successful teaching practices, and engage with each other as a community of faculty. The Center will include a repository of teaching tools and resources that run from the most basic, such as effective ice breakers for the first night of classes, to more specific and advanced topics, such as how to best engage adult students using a Socratic case method. We intend to use this center as an ongoing professional development effort for our faculty. In short, we intend to be known as an institution of master teachers.

In 2010, we graduated over 8,300 Strayer University students, of which approximately one-third received graduate degrees, and two-thirds received either bachelor's or associate degrees. By far the greatest number of these graduates received degrees in business administration at 60%, followed by information systems at 15%.

These are, of course, just statistics. To give you a better feel for the fruits of your investment, allow me to briefly describe a cross section of our typical graduates from the class of 2010. Jessica O'Connor is a corporal in the U.S. Marine Corps and is the office manager for The Basic School at the Marine Corps Base Quantico in Virginia. She received a Bachelor of Science in Information Systems at our Woodbridge, Virginia campus. Claude Bacchia is a Territory Operations Manager with YUM! Brands, responsible for 56 KFC franchises in Pennsylvania and New Jersey. He earned his MBA at our Lower Bucks, Pennsylvania campus. David Dahn's family fled the civil war in Liberia in 1990. To help children in his homeland, David started Smile Liberia International, Inc, a nonprofit organization that provides scholarships and educational supplies to Liberian youth. David earned his bachelor's degree at our Irving, Texas campus. Rhonda Knockel is a staff accountant in the corporate headquarters of Global Safety Textiles and an active volunteer in her community. She earned a Bachelor of Science in Accounting at our Greenville, South Carolina campus, and graduated with a 4.0 grade point average. Flavio Amaya works on Capitol Hill as a legislative correspondent and Hispanic outreach coordinator for U.S. Representative John Shimkus of Illinois. Flavio is a double Strayer University alumnus, earning a Master of Science in Information Systems in 2010 after graduating from our Washington, D.C. campus with a bachelor's degree in 2006. Isabelle Briclot, the President and CEO of IMMB Data Solutions in Toronto, Canada, started college at McGill University in Montreal in 1995. She finished her bachelor's degree at Strayer University through our Global Online campus, while at the same time building a world class information technology and services consultancy. And finally, Mary Ozment earned her Master of Health Services Administration, taking classes both online and at our Charleston, West Virginia campus, while simultaneously serving as Chief Nursing Officer at the HealthSouth Regional Rehabilitation Hospital in Morgantown, West Virginia. Needless to say, as educators we stand in awe of the commitment and determination of our students.

The investments we made in academic quality, along with the successful opening of our 13 new campuses, led to an increase of 19% in Strayer University's 2010 average student enrollment to 56,000 students. This enrollment, combined with a 5% tuition increase, led to 24% growth in Strayer Education's revenue for 2010; 25% growth in Strayer Education's operating income; and 28% growth in Strayer Education's earnings per share to $9.70. In 2010 our company paid $86 million in Federal, state, and local taxes. We improved our bad debt expense in 2010, lowering it from 4.1% of revenue to 3.8%, while our published two-year cohort default rate for 2008 rose to 6.7% from 6.1% in 2007. Our cohort default rate was negatively effected by the downturn in the economy, but compared quite favorably to the average of all investor funded universities of 11.6% and, indeed, to the average of all universities of 7%. However, as I mentioned in last year's Letter to Shareholders, we will continue to monitor this metric carefully, as we feel it is an important indicator of the validity of our value proposition to students.

During 2010 our $131 million of net income translated into a healthy $163 million of cash flow from operations. We had an unusually large amount of capital expenditures in 2010, spending $46 million, or slightly more than 7% of revenue. Those capital expenditures consisted of roughly $15 million to open the 13 new campuses. We also spent a considerable amount on investments in classroom technologies and student support technologies at our 71 existing campuses. We finished the construction of our second Global Online Operation Center in Salt Lake City, Utah, as well as moving our original Global Online Operations Center in Washington, D.C. into a new, expanded location. Finally, we consolidated our headquarters operations from four different locations in the Washington, D.C. area into one new building, located near Washington-Dulles Airport. We expect our capital expenditures in 2011 to return towards a more normalized 5% of revenue.

In 2010, we used our $120 million of owner's distributable cash flow ($163 million of cash flow from operations, minus the $46 million we spent to expand or improve our University, plus an inflow of $3 million from the exercise of stock options), along with the $117 million of cash and marketable securities we held on our balance sheet at the beginning of the year, to return approximately $160 million to our owners during 2010. This return of capital to owners consisted of $44 million in common dividends and $116 million to repurchase 687,000 shares of our common stock, at an average price of $168. This in turn left us with approximately $77 million on our balance sheet at year end, and no debt. Our Board of Directors increased Strayer Education's annual common dividend for 2011 by 33% to $4 per share, and authorized an additional $250 million of share repurchases. We will, of course, monitor financial market conditions throughout the year to determine if our balance sheet is correctly structured to create the most enduring increase in owners' intrinsic value.

Ten Year Update

While a decade is less than one-tenth of the time that Strayer University has been in existence, it is certainly a long enough period to measure the success of any strategy. The strategy which we adopted in 2001 was based on five simple assumptions.

- The value of a college education was rising as a result of the transition from a manufacturing base to a knowledge base in our economy.

- Working adults in search of a regionally accredited university degree were not adequately served by the existing offerings from both traditional and non-traditional educational providers.

- While difficult to educate well in a traditional research university model, working adults could be served effectively in a specialized academic model, designed to accommodate their learning styles and the demands of their lives.

- This specialized academic model could provide a sufficient return on investment (even after paying all the taxes which non-profit institutions avoid) to attract the necessary financial capital to fund its existence and growth.

- Strayer University (located solely in the Washington, D.C. area at the time), with its over 100 year history and regional accreditation, was a platform well suited to become a nationwide university to serve this unmet demand.

Based on these assumptions, ten years ago we embarked on a strategy to build a nationwide university for working adults. We committed to doing so using the following guiding principles.

- Build a network of physical Strayer University campuses across the country;

- Expand that network patiently and deliberately into contiguous geographies to simplify the challenges of academic oversight and peer review;

- Recognize the inherent tension between academic performance and short term financial returns, and control that tension through a completely divided management structure;

- Promote all of our new campus leadership from within our organization, so as to ensure we foster and maintain the appropriate culture;

- Use the technology of online education to supplement our campus network and to reach students who live outside our campus network;

- Make investments in remedial education, student advising, and tutoring in order to maximize the ability of students to succeed academically, but be willing to give a failing grade to those students who do not achieve the learning outcomes necessary to earn a Strayer University degree.

Here then are the results of executing that strategy over the last ten years. From 2000 to 2010 we increased the number of our campuses fivefold, from 14 to 84. We hired over 2,000 additional faculty, and over 1,300 additional staff. We increased our average annual student enrollment from 10,600 to 56,000, and since 2000 we have graduated almost 50,000 students. In 2006, Strayer University voluntarily began a self-study process to gain early reaffirmation of its regional accreditation from the Middle States Commission on Higher Education. Through this in-depth peer review process, in June 2007 Strayer University earned early reaffirmation of its accreditation for ten years through the year 2017.

Over the last ten years, our revenue has grown at a compounded annual growth rate (CAGR) of 23%, from $78 million to $637 million; our earnings per share have increased at a 21% CAGR from $1.41 to $9.70; and our annual common dividend has increased at a 32% CAGR from $0.25 per share to $4.00 per share. During the ten year period we have paid over $380 million in Federal, state, and local taxes; we have returned over $665 million to owners through a combination of dividends and share repurchases; and we have increased our return on invested capital from 24% to 72%.

Mark Brown has been Strayer Education's very capable chief financial officer over this entire period. He and I are particularly proud of that last statistic — the increased return on owner's capital. It certainly shows that without the aid of Federal or state taxpayers, or wealthy donors, we can attract the private investment capital necessary to build this University. Our high return on owner's capital makes Mark and I feel fortunate, not just as financial managers of such an enterprise, but as shareholders ourselves.

As you can see from the map on pages 14-15, after ten years we are roughly one-third of the way through our nationwide campus expansion plan. Of course, for some period of time after we complete opening campuses, we expect that our student population will grow, as it takes some ten years for our campuses to reach their full capacity. We have no idea how long it will take to complete our expansion plans, since we are limited by the growth of our internal human capital to staff that expansion. In addition, as I will go into more detail later in this letter, in 2011 our campus growth is also limited for the first time by a level of regulatory uncertainty. Suffice it to say, however, that in reviewing the last ten years, we remain confident in the validity of our original assumptions. Indeed, our academic, operational, and financial results over that time period speak for themselves.

Public Policy and Financial Market Critiques

I did not mention the Department of Education's rulemaking efforts in last year's Letter to Shareholders. Forgive me if I rectify that omission in excruciating detail in this letter. The U.S. Federal Government supports post secondary education in this country by making grants and loans available to students under the auspices of the Higher Education Act of 1965. The grants, named after Senator Claiborne Pell and known as Pell Grants, are only available to students whose family income is below a certain level. They are, as the name suggests, an outright grant and do not need to be repaid. The loans are, since 2010, made directly by the Federal government to qualifying students of any income. They are made under authority of Title IV of the act, and are hence known as Title IV loans. (Previously, these loans could also be made by banks, with most of the principal repayment guaranteed by the Federal government, but the U.S. Congress and President Obama eliminated private bank participation in Title IV lending in 2010.)

In order for students to use Pell grants or Title IV loans to pay tuition to a university, that university must meet certain criteria set out in the Higher Education Act, or in U.S. Department of Education (the Department) regulations implementing the Act. For all universities, regardless of funding source, that criteria includes accreditation by an accrediting body recognized by the Department. In addition, for tax-paying universities like Strayer, whose funding capital comes from profit-seeking investors, much more stringent regulations apply. These regulations cover a number of different areas; including how the personnel of the university are paid (incentive compensation rules); the percentage of the university's revenue which may be provided by federally issued loans or grants to students (the 90/10 rule); the performance of the university's alumni in servicing their federally issued debt (Cohort Default Rate rules); and finally, an indirect definitional restriction specifying that a taxpaying, investor funded university must "prepare students for gainful employment in a recognized occupation."

Sometime in the latter half of 2009, reports began to surface about a Department effort to tighten the implementation of all these rules, and indeed to restrict the access of private market, taxpaying universities to tuition financed with federal assistance. I was not particularly concerned by these reports for several reasons. First, many of the individuals trumpeting these reports were not the most objective observers, and I assumed that their wish was father to the thought. Second, the Obama administration projected a supportive and positive attitude toward post-secondary education. President Obama himself made several speeches in 2009 extolling the rising importance of post-secondary education as a factor of production in a knowledge economy. He also spoke with concern about the fact that the United States had slipped from first to twelfth place among industrialized countries in the percentage of its adult population with college degrees. In addition, the President's appointment as Secretary of Education, Arne Duncan, had a reputation as an objective, results-oriented, educational reformer.

By far the most important reason why the possibility of a Department rulemaking effort in 2010 did not overly concern me was that I knew how we had built this University over the last ten years. As habitual readers of this letter know, the primary focus of our management team is to build a culture in our institution which combines the economic efficiency of the best run companies with the academic standards and learning outcomes of the best traditional universities. We do not aggressively market to our prospective students. We balance our commitment to increasing educational access with equal commitment to both academic rigor and student success. We have consistently achieved among the lowest alumni cohort default rates of any investor funded university, and indeed below the average of all universities. We have extensive partnerships with community colleges, and offer joint degrees with institutions like the University of Virginia. In short, we welcomed any increased scrutiny associated with a possible revamped Department rulemaking.

The Department's first attempt to issue new regulations regarding investor funded universities was not successful. Starting late in 2009 and continuing through the first quarter of 2010, the Department attempted what is known as a "negotiated rulemaking." Using this format, a federal agency invites parties affected by a rulemaking to negotiate its terms. In this case, the negotiated rulemaking had little chance of a positive outcome, as the Department appointed a number of negotiators who openly objected to the concept of investor funded education, along with two representatives of investor funded educational institutions. There was, as one can imagine, no meeting of the minds.

However, during the negotiated rulemaking the Department introduced a concept which would prove to be extremely consequential. The Department announced its intent to regulate 14 of what it described as "program integrity" issues. In the last of the 14 issues, the Department claimed that the term "gainful employment" in the Higher Education Act had never been adequately defined, and that the Department was going to define the term to mean that if the alumni of investor funded institutions (but not traditional not-for-profit institutions) did not repay their Federal loans at a certain rate (the repayment rate test), or if the expected salary for occupations for which the education prepared a graduate was not enough to service the average median debt of all graduates of the program, amortized over a ten year period (the debt to income ratio test), then the program would not qualify as preparing students for gainful employment in a recognized occupation.

After the negotiated rulemaking process unsurprisingly broke down without consensus, the Department reverted back to a more traditional rulemaking procedure, and in June 2010 published in the Federal Register 14 draft rules, with some modifications from the ones it had initially proposed in the negotiated rule making process. In October the Department published in final form the first 13 rules. But the 14th rule, since referred to by its shortened name "the gainful employment rule," was mind boggling in its complexity, and occasioned significant comments from all parties. Therefore, the Department delayed adoption of the gainful employment rule first until November 2010, then until January 2011, and since then until an undetermined date, rumored to be sometime in the second quarter of 2011.

The most controversial of the first 13 program integrity issues deals with incentive compensation. At Strayer University we have never paid bonuses to anyone engaged in admitting students to the University. Indeed, we have never paid bonuses to anyone at our campuses, preferring the more traditional form of straight salary for all employees except for our senior most officers (essentially direct reports to myself, to our corporate Chief Operating Officer, or to the President of our University.) We were therefore relatively sanguine about these 13 rules, and made only minor comments.

Similarly, our initial review of the 14th rule, the so called "gainful employment rule," led us to believe that we would comfortably pass both its repayment rate test and its debt to income ratio test. It is important to note that under the proposed gainful employment rule an institution must pass one or the other test, not necessarily both. For the repayment rate test, by the second quarter of 2010 we had already sought to identify the *lifetime* performance of our alumni in servicing their Title IV loans, not just the two year cohort default rates which the Department provides us on an annual basis. We felt lifetime loan performance results were important both to validate the value we were providing to our alumni, and also in order to review default rates that were normalized for changes in employment caused by the short term macro-economic cycle.

However, getting this data proved to be a difficult task. All the data on student loan performance is held by the Department in a database known as the NSLDS. The data available to us from NSLDS was limited to the last 15 years, and only gave visibility to the roughly 33% of our alumni's loans that were in their original issued form, and had not been consolidated by our alumni into other student loans. Nevertheless, this lack of visibility into the consolidated loans did not particularly concern me, as the loans we could see were listed by the Department as having a 55% repayment rate, and the highest level of compliance under the proposed gainful employment rule required only a 45% repayment rate. In addition, every lending specialist we spoke with assured us that consolidated loans historically performed at least as well or better than original loans.

We were therefore quite surprised when on Friday, August 13, at 5:00 p.m., the Department posted on its website data which purported to show the performance of various universities' alumni in paying down the principal on their student loans, and that the posted data showed Strayer University's alumni performance on repayment to be much worse than universities which had *significantly worse cohort default rates.*

My staff worked through that weekend and indeed for weeks afterward analyzing the Department's data and communicating with Department officials to understand the discrepancy. However, ultimately the Department's position was that the data was complicated, that we could not reconstruct it without access to the Department's database, that the gainful employment rule was only in draft form, that the released data was only illustrative in nature, and that, in short, they could not really help us. A frustrating response, indeed. We subsequently filed a formal request under the Freedom of Information Act for the explanatory data, and that request is winding its way through the bureaucracy.

We are still working to reconcile the Department's repayment rate data and to test various hypotheses about the discrepancy, but in many respects the dispute may not be ultimately relevant. This is because, as I mentioned earlier, the repayment rate is an alternative to the second gainful employment test, the debt to income ratio. For this second test, we have extensive survey data on our alumni's salaries, and we know the median debt level of our alumni by program, so we remain relatively comfortable with our ability to meet the debt to income ratio, and thus to pass the gainful employment rule as it is currently proposed. However, we are concerned that the rule is overly complicated, and that it relies on data which is both opaque to us and susceptible to manipulation. We therefore have filed official comments with the Department that the rule needs to be simplified, that it should rely on data which is available in real time to the regulated university, and that the rule should allow the university to make adjustments to its academic programs, tuition pricing, or student intake necessary to comply with whatever objective the Department is trying to achieve. Otherwise the rule defeats its own purpose.

To paraphrase Shakespeare's Hamlet, this year the challenges distracting us from our core academic mission "came not as single spies, but in battalions." At the same time that we were dealing with the Department's rulemaking process, in July Senator Tom Harkin, the Chairman of the United States Senate Committee on Health, Education, Labor, and Pensions began a series of hearings on investor funded education, including inviting very public critics of investor funded education to testify. Senator Harkin also directed the Government Accountability Office (GAO) to conduct a series of "undercover" investigations into investor funded educational institutions looking for examples of aggressive and dishonest marketing to prospective students. Finally, Senator Harkin requested from the largest investor funded educational institutions a far reaching, time consuming, exhaustive data submission covering all aspects of their operations.

Although Strayer University was neither asked to testify in any of the hearings, nor mentioned in the GAO report, we received and complied with Senator Harkin's very extensive data request. Importantly, many critics used both the GAO report and the Harkin hearings to question the validity of all investor funded educational institutions. As is our custom, we ignored the arguments made during the year by financial market participants as to why the price of our equity should rise or fall. I have never felt it was particularly useful as a chief executive officer to advocate for a specific price for the equity of the company, preferring instead to use the capital of the company on behalf of its owners to take advantage, when appropriate, of whatever price the equity market provides. However, to the degree that financial market participants attempt to affect public policy, it is important to answer that debate for public policy makers, be they legislators, legislative staff, or career or politically appointed executive branch officials. We therefore spent a great deal of time in the latter half of the year answering questions of Senators, Congressman, and senior Department officials in countless individual meetings.

In these meetings we attempted to answer the arguments against investor funded education, which generally are based on three concerns:

- The education is too expensive.

- The education is inadequate in providing necessary learning outcomes to its students.

- The institutions knowingly and aggressively convince students to enroll who have little chance of academic success.

We pointed out to the various policy makers with whom we spoke that the cost of an entire four year bachelor's degree from Strayer University for a student who brings no transfer credit is approximately $60,000. This is well within the average of state universities, whose tuition is, of course, offset by significant state funding provided by taxpayers. Strayer's tuition is also well below the average of private universities. We also pointed out that the rigor of our educational offerings is established, not just by our regional accreditor — the Middle States Commission on Higher Education, but more importantly, by the success of our graduates. And as to the last critique, we explained how our admission process is designed specifically to *not* enroll students who our academic staff feel are not capable of doing university level work. We pointed out that applicants to Strayer University who are not transfering college credit in English and mathematics are required to take diagnostic tests, and if they do not score high enough on those tests are required to take remedial classes and earn a passing grade before enrolling. We pointed out our lack of incentive compensation for admissions personnel, and the deliberately controlled growth of our University. In short, we spent much of the last half of 2010 providing public policy makers with those governing principles of our institution which I have shared with you for each of these last ten years in this letter.

2011 Plans

Despite all the sound and fury of 2010, we have ambitious plans for Strayer University in 2011. While our new student enrollment for the Fall 2010 and Winter 2011 academic terms were each down from the year before, we do not believe the fundamental realities propelling our institution have changed. We did decide in 2011 to limit our campus expansion plan to eight new campuses versus the 13 we opened in 2010. We had developed the human capital necessary to open more than eight campuses in 2011, but the regulatory uncertainty we experienced in the second half of 2010 led us to be more conservative in deploying that human capital.

Academically, we intend to fully implement our Writing Across the Curriculum Program in 2011. We also have a number of investments to make in a new effort to help those of our students who come to us with less collegiate preparation. We are working with our partner community colleges to look closely at and improve our remedial courses in mathematics and English. Related to that, we will make a major investment in 2011 in improving our student advising function. Academic research shows that a critical component of achieving learning outcomes for less prepared adult students is the degree to which the student is assisted *outside* the classroom. This assistance must consist of not just extensive tutoring (which we already provide at no cost to our students), but also access to academic professionals who can help students navigate both the choice of subjects and the time demands on their lives. We believe that like teaching, academic advising is a discipline which lends itself to study and best practices. In 2011 we are therefore establishing a University Center for Advising, to help our faculty improve in this important area. In 2011 our periodic academic curriculum review will focus on our undergraduate and graduate accounting programs.

To create truly lasting value for our shareholders, we know we must be good stewards of both our students and the U.S. taxpayer. The investment which society makes in education through the Title IV loan program demands a return denominated in the real learning outcomes of our students. As educators we, of course, cannot guarantee that our students will learn. We offer our students the *opportunity* to succeed, not the *guarantee* of success. Therefore, in order to provide university level education at the scale we intend, we must balance our commitment to providing access to education with our concern that students be truly able to benefit from that education.

Because we have grown confident over the last ten years that we can achieve that balance, we remain comfortable with our ability to succeed in what is an admittedly uncertain legislative and regulatory environment. Put simply, we will comply with whatever laws or regulations the U.S. Congress or the Department ultimately adopt. Strayer University has been educating working adult students for over 100 years, and we intend to do so for the next 100 years as well, long after the echoes of this current rather unpleasant public policy debate have faded. I have a firm belief that the politics of support for education in all its forms will eventually follow the results of actual academic learning outcomes. While there can be political and financial volatility in the short term, we are blessed as a nation with ultimately self correcting systems in both our political and financial markets. To paraphrase Warren Buffett's comments about another company, if we deserve to grow, we will grow.

As always, I look forward to seeing you at our 2011 Annual Meeting, to be held on April 26, at 8:30 a.m., at our new corporate headquarters located at 2303 Dulles Station Boulevard in Herndon, Virginia. Please let Sonya Udler, our senior vice president of communications, know if you are going to attend the annual meeting, and if you would like to visit a Strayer University campus at the same time. And, once again, I urge all shareholders to make the effort in 2011 to see one of Strayer University's commencement ceremonies. For me, the most memorable event of 2010 was sitting on a dais in the Georgia Dome, looking out over thousands of graduates and proud guests, while U.S. Representative John Lewis, hero of the civil rights movement and confidant of the Reverend Dr. Martin Luther King, Jr., gave the commencement address at our 2010 Atlanta graduation.

In 2011, to accommodate our growth, we will hold two additional graduation ceremonies, one in Philadelphia and one in Orlando. The complete schedule of our 2011 Commencement ceremonies is available on our website, as are the locations of our 84 (growing to 92) campuses. You are always welcome to test your investment thesis through personal diligence at any of these locations. The determination and efforts of our students in the classroom, and their sense of satisfaction and accomplishment at graduation, are far more eloquent testimony to our success as an institution than my admittedly less than objective writings. Besides, as the old joke goes, who you gonna believe, me or your lying eyes?

Finally, on behalf of our entire management team and Board of Directors, I would very much like to thank you, for the tenth time, for the opportunity to have been the stewards of your financial capital over the last year. I am quite certain that the price at which you can acquire or dispose of shares of our enterprise will fluctuate in the future. You can be quite certain, however, that our commitment to building a great nationwide university, and thereby creating an enduring increase in the intrinsic value of your investment, will not.

Sincerely,

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

OUR ALUMNI

Omondi John Opala

Network Consulting Engineer
Cisco Systems

- Bachelor of Science in Information Systems 2006
- Master of Science in Information Systems 2009

"I work in a customer-oriented, high-impact environment. My Strayer University degree helped me better serve my clients by understanding their problems, researching solutions and delivering high-quality, effective results. I'm also able to look further down the road at how their business might grow in the next five to 10 years and integrate that potential growth into today's solutions."

Capt. Richard Eason (Ret.)

Former Command Center Director
North American Aerospace Defense Command
U.S. Navy

- Master of Business Administration 2000

"I had high standards for business school and was impressed with Strayer University's reputation for offering challenging academics in an adult-focused environment. My master's degree prepared me for leadership positions in the Navy, and now that I've retired I feel armed with the business skills to make the next move in my career."

Phyllis Streit

Managing Director and Chief Financial Officer
Cumberland Advisors Inc.

- Bachelor of Science in Accounting 2009

"As a single parent of two sons, Strayer University's online program made it possible for me to earn a degree. That has had a huge impact on my career. It doesn't matter how much professional experience you have, employers want to see that you have a college education as well. My degree has given me an advantage in my current position, and it helped me set a positive example for my children."

Michael Logan

Human Resource Generalist
Boeing

- Master of Business Administration 2009

"When I first took a position with my previous employer, my supervisor suggested that I return to school to get a master's degree. Strayer University's professors make the learning come alive by asking students to apply coursework to real-world business scenarios. Now that I've graduated I feel well-prepared to join the ranks of senior management."

Curtis Roberts

Chief Enterprise Architect
National Environmental Satellite and Information Service
National Oceanic and Atmospheric Administration

- Bachelor of Science in Computer Information Systems 2005
- Master of Science in Information Systems 2007

"Doors immediately started to open for me after I earned my degrees from Strayer University. I was accepted into the National Institute of Standards and Technology's prestigious fellowship program where I had the opportunity to be briefed by members of Congress, chief science advisers and the ambassador from the European Union. It eventually led to landing my dream job with the NOAA."

OUR ALUMNI

Ronda Bowman

Global Training Manager
Hewlett-Packard

- Master of Business Administration 2006

"I loved that Strayer University gave me the choice of taking classes online or at a campus. I wanted to take some courses, like advanced math, in person. But since my job has busy travel periods, I needed an online option so I could log into class from anywhere in the world. That level of accessibility made it possible for me to earn a master's degree."

Wayne Ozmore

Commissioner
Virginia Department of Alcoholic Beverage Control

- Bachelor of Science in Computer Networking 2001

"Earning a degree was one of the toughest things I have ever had to do, but I knew I needed to leave my comfort zone in order to grow intellectually. Today, the hard work I invested at Strayer University a decade ago continues to pay off. I still use the theories and knowledge that I learned in the classroom to help solve issues that come up at work every day."

Laura Roman

Founder and General Manager
Romansel

- Master of Business Administration (2003)

"I moved to the United States from Ecuador to further my career and find better educational opportunities. Although I work in the architecture field, I wanted to earn an MBA so I could better understand the project management side of my job. Strayer University helped me gain the business tools to achieve top results with colleagues and clients."

Darryl A. Perkinson

Production Training Superintendant
Norfolk Naval Shipyard
Presidential Appointee
National Council on Federal Labor-Management Relations

- Master of Business Administration 2005

"As an appointee to one of President Obama's advisory councils, it's my job to understand and analyze all sides of an issue. I feel like my business courses at Strayer University prepared me to do exactly that. In class, we applied critical thinking skills to real-world scenarios. When I graduated, I was ready for any business or leadership challenge."

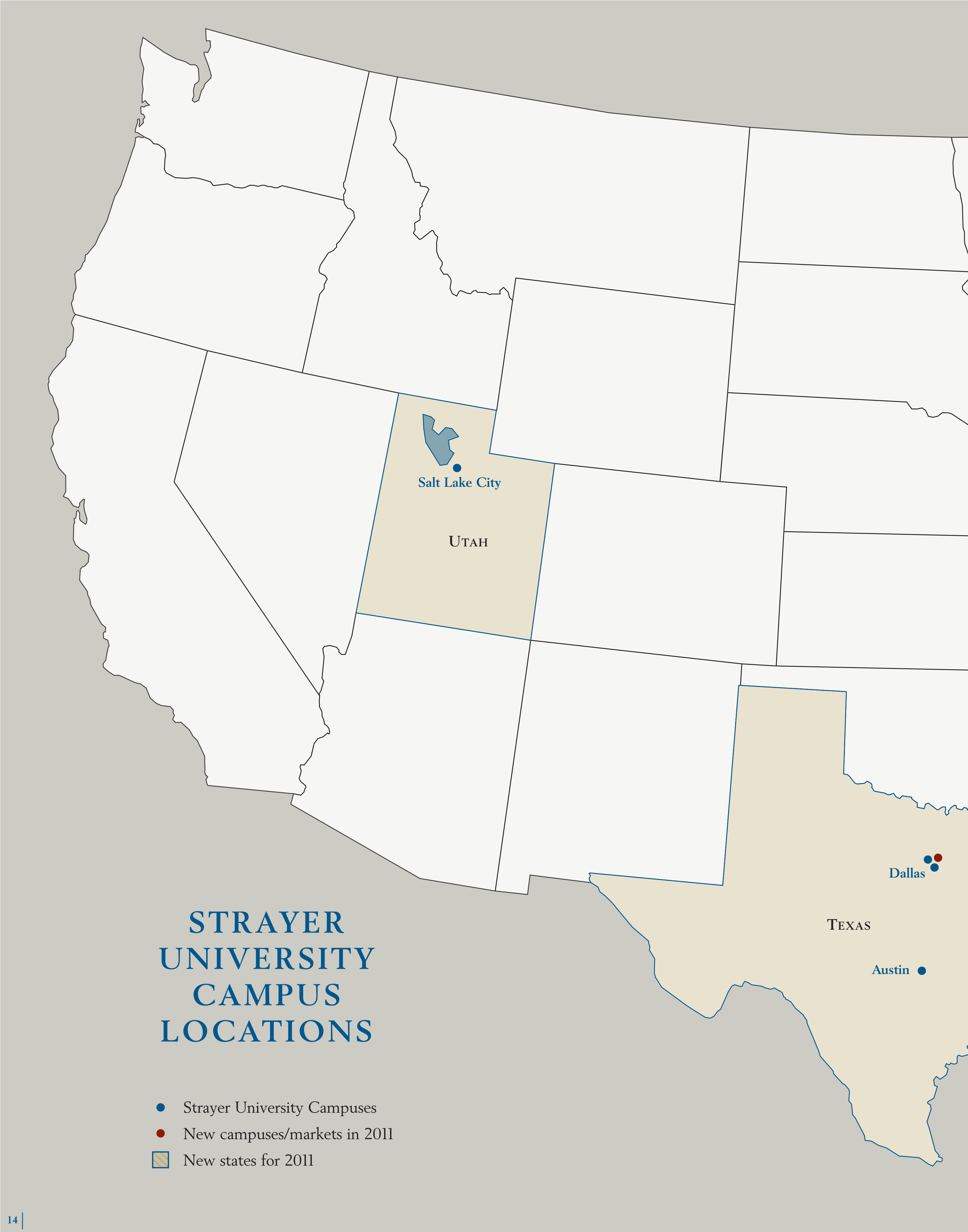
Rogette Harris

President, National Women's Political Caucus of Pennsylvania
Research Associate, Pennsylvania House of Representatives

- Master of Public Administration 2005
- Master of Business Administration 2007

"Strayer University offers a diverse community of adult students. Meeting and talking with my professors and classmates from different backgrounds enriched my learning experience. The faculty know how to challenge students to push themselves to the next level while still providing the flexibility that working adults need to succeed at college-level work."

STRAYER UNIVERSITY CAMPUS LOCATIONS



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CORPORATE INFORMATION

Executive Officers

Robert S. Silberman
Chairman and Chief Executive Officer

Karl McDonnell
President and Chief Operating Officer

Mark C. Brown
Executive Vice President and Chief Financial Officer

Viet Dinh
General Counsel

Sonya G. Udler
Senior Vice President, Corporate Communications

Strayer University Officers

Dr. Sondra F. Stallard
President, Strayer University

Dr. Michael Plater
Provost and Chief Academic Officer

Randi Reich Cosentino
Senior Vice Provost, Academic Administration

Corporate Offices
2303 Dulles Station Boulevard
Herndon, VA 20171

Web Sites
Strayer Education, Inc. **www.strayereducation.com**
Strayer University **www.strayer.edu**

Annual Meeting
The Annual Meeting of Shareholders will be held on Tuesday, April 26, 2011 at 8:30 a.m. at the Strayer Education Office located at 2303 Dulles Station Boulevard, Herndon, VA 20171.

Transfer Agent
American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

Stock Listing
Strayer Education, Inc.'s common stock is traded on The NASDAQ Stock Market® under the symbol "STRA"

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
1800 Tysons Boulevard
McLean, VA 22102

Investor Relations
Information may be obtained by contacting the Investor Relations Department at 703-561-1600

LEFT TO RIGHT: DR. SONDRA STALLARD, ROBERT SILBERMAN AND KARL MCDONNELL

Board of Directors

Robert S. Silberman
Chairman and Chief Executive Officer
Former President and COO, CalEnergy Company, Inc.
Former U.S. Assistant Secretary of the Army

Charlotte F. Beason, Ed.D.
Chairwoman, Strayer University Board of Trustees
Former Chairwoman, Commission on Collegiate Nursing Education

William E. Brock
Founder and Chairman, Brock Offices
Former U.S. Secretary of Labor
Former U.S. Special Trade Representative
Former U.S. Senator, State of Tennessee

David A. Coulter
Managing Director and Senior Advisor, Warburg Pincus, LLC
Former Chairman and CEO, BankAmerica Corporation
Former Vice Chairman, JP Morgan Chase & Co.

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Treasurer and CFO, Humane Society of the United States

J. David Wargo
President, Wargo and Company, Inc.
Principal, New Mountain Capital, LLC
Former Managing Director, The Putnam Companies


verizon Center
STRAYER

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