

**CAPELLA EDUCATION COMPANY**  
**Consolidated Balance Sheets**  
(In thousands, except par value)

	As of March 31, 2008 (Unaudited)	As of December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,040	\$ 60,600
Marketable securities	113,813	83,167
Accounts receivable, net of allowance of \$1,686 at March 31, 2008 and \$951 at December 31, 2007	8,523	7,557
Prepaid expenses and other current assets	8,538	12,593
Deferred income taxes	1,877	1,896
Total current assets	150,791	165,813
Property and equipment, net	35,586	34,462
Total assets	\$ 186,377	\$ 200,275
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,989	\$ 6,089
Accrued liabilities	25,990	23,826
Deferred revenue	6,941	6,476
Total current liabilities	36,920	36,391
Deferred rent	1,247	1,167
Other liabilities	335	335
Deferred income taxes	5,210	5,508
Total liabilities	43,712	43,401
Shareholders' equity:		
Common stock, \$0.01 par value:		
Authorized shares — 100,000		
Issued and outstanding shares — 17,010 at March 31, 2008 and 17,363 at December 31, 2007	170	173
Additional paid-in capital	177,010	196,643
Accumulated other comprehensive income	134	195
Retained earnings (accumulated deficit)	(34,649)	(40,137)
Total shareholders' equity	142,665	156,874
Total liabilities and shareholders' equity	\$ 186,377	\$ 200,275

**CAPELLA EDUCATION COMPANY**  
**Consolidated Statements of Income**  
(In thousands, except per share amounts)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	
Revenues	\$ 65,251	\$ 52,824
Costs and expenses:		
Instructional costs and services	29,016	23,523
Marketing and promotional	21,393	18,320
General and administrative	7,730	5,981
Total costs and expenses	58,139	47,824
Operating income	7,112	5,000
Other income, net	1,389	1,092
Income before income taxes	8,501	6,092
Income tax expense	3,013	2,248
Net income	\$ 5,488	\$ 3,844
Net income per common share:		
Basic	\$ 0.32	\$ 0.24
Diluted	\$ 0.31	\$ 0.23
Weighted average number of common shares outstanding:		
Basic	17,316	16,015
Diluted	17,894	16,700

**CAPELLA EDUCATION COMPANY**  
**Unaudited Other Information**  
(In thousands, except enrollment amounts)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<u><b>2008</b></u>	<u><b>2007</b></u>
Depreciation and amortization	\$ 2,765	\$ 2,410
Net cash flow provided by operating activities	10,084	6,281
Capital expenditures	4,449	3,556

<b>Enrollment by Degree<sup>(a)</sup>:</b>	<b>March 31,</b>		<b>% Change</b>
	<u><b>2008</b></u>	<u><b>2007</b></u>	
PhD/Doctoral	8,908	7,865	13.3%
Master's	10,683	8,256	29.4%
Bachelor's	3,779	2,937	28.7%
Other	<u>126</u>	<u>93</u>	35.5%
Total	<u><u>23,496</u></u>	<u><u>19,151</u></u>	22.7%

- (a) Enrollment as of March 31, 2008 and 2007 is the enrollment as of the last day of classes for the quarter ended March 31, 2008 and 2007, respectively.