

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

	As of June 30, 2008 (Unaudited)	As of December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,342	\$ 60,600
Marketable securities	98,932	83,167
Accounts receivable, net of allowance of \$2,011 at June 30, 2008 and \$951 at December 31, 2007	8,852	7,557
Prepaid expenses and other current assets	7,469	12,593
Deferred income taxes	1,889	1,896
	125,484	165,813
Total current assets		
Property and equipment, net	35,056	34,462
	\$ 160,540	\$ 200,275
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,764	\$ 6,089
Accrued liabilities	18,072	23,826
Deferred revenue	7,875	6,476
	30,711	36,391
Total current liabilities		
Deferred rent	1,239	1,167
Other liabilities	335	335
Deferred income taxes	4,436	5,508
	36,721	43,401
Total liabilities		
Shareholders' equity:		
Common stock, \$0.01 par value:		
Authorized shares — 100,000		
Issued and outstanding shares — 16,622 at June 30, 2008 and 17,363 at December 31, 2007	166	173
Additional paid-in capital	152,540	196,643
Accumulated other comprehensive income (loss)	(596)	195
Retained earnings (accumulated deficit)	(28,291)	(40,137)
	123,819	156,874
Total shareholders' equity		
Total liabilities and shareholders' equity	\$ 160,540	\$ 200,275

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(Unaudited)			
	(In thousands, except per share amounts)			
Revenues	\$ 66,049	\$ 53,918	\$ 131,300	\$ 106,742
Costs and expenses:				
Instructional costs and services	30,844	24,587	59,860	48,110
Marketing and promotional	19,573	16,850	40,966	35,170
General and administrative	<u>6,968</u>	<u>6,518</u>	<u>14,698</u>	<u>12,499</u>
Total costs and expenses	<u>57,385</u>	<u>47,955</u>	<u>115,524</u>	<u>95,779</u>
Operating income	8,664	5,963	15,776	10,963
Other income, net	<u>1,008</u>	<u>1,132</u>	<u>2,397</u>	<u>2,224</u>
Income before income taxes	9,672	7,095	18,173	13,187
Income tax expense	<u>3,314</u>	<u>2,312</u>	<u>6,327</u>	<u>4,560</u>
Net income	<u>\$ 6,358</u>	<u>\$ 4,783</u>	<u>\$ 11,846</u>	<u>\$ 8,627</u>
Net income per common share:				
Basic	<u>\$ 0.38</u>	<u>\$ 0.29</u>	<u>\$ 0.70</u>	<u>\$ 0.53</u>
Diluted	<u>\$ 0.37</u>	<u>\$ 0.28</u>	<u>\$ 0.67</u>	<u>\$ 0.51</u>
Weighted average number of common shares outstanding:				
Basic	<u>16,740</u>	<u>16,401</u>	<u>17,028</u>	<u>16,209</u>
Diluted	<u>17,303</u>	<u>17,213</u>	<u>17,599</u>	<u>16,957</u>

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

	Six Months Ended	
	June 30,	
	<u>2008</u>	<u>2007</u>
Depreciation and amortization	\$ 5,857	\$ 4,750
Net cash flow provided by operating activities	19,174	13,994
Capital expenditures	7,058	10,253

Enrollment by Degree^(a):	June 30,		% Change
	<u>2008</u>	<u>2007</u>	
	PhD/Doctoral	8,991	
Master's	10,710	8,668	23.6%
Bachelor's	3,914	3,126	25.2%
Other	<u>118</u>	<u>115</u>	2.6%
Total	<u><u>23,733</u></u>	<u><u>19,942</u></u>	19.0%

(a) Enrollment as of June 30, 2008 and 2007 is the enrollment as of the last day of classes for the quarter ended June 30, 2008 and 2007, respectively.

The following table provides a reconciliation of net income to EBITDA:

	Three Months Ended	
	June 30,	
	<u>2008</u>	<u>2007</u>
Net income	\$ 6,358	\$ 4,783
Other income, net	(1,008)	(1,132)
Income tax expense	3,314	2,312
Depreciation and amortization	<u>3,091</u>	<u>2,340</u>
EBITDA	<u><u>11,755</u></u>	<u><u>8,303</u></u>