

CAPELLA EDUCATION COMPANY REPORTS THIRD QUARTER 2008 RESULTS

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

	<u>As of September 30, 2008</u>	<u>As of December 31, 2007</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,280	\$ 60,600
Marketable securities	93,536	83,167
Accounts receivable, net of allowance of \$1,854 at September 30, 2008 and \$951 at December 31, 2007	11,318	7,557
Prepaid expenses and other current assets	8,267	12,593
Deferred income taxes	1,876	1,896
Total current assets	<u>135,277</u>	<u>165,813</u>
Property and equipment, net.....	34,105	34,462
Total assets	<u>\$ 169,382</u>	<u>\$ 200,275</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 5,451	\$ 6,089
Accrued liabilities.....	19,932	23,826
Deferred revenue	10,900	6,476
Total current liabilities	<u>36,283</u>	<u>36,391</u>
Deferred rent	1,262	1,167
Other liabilities.....	335	335
Deferred income taxes.....	4,269	5,508
Total liabilities	<u>42,149</u>	<u>43,401</u>
Shareholders' equity:		
Common stock, \$0.01 par value:		
Authorized shares — 100,000		
Issued and outstanding shares — 16,581 at September 30, 2008 and 17,363 at December 31, 2007.....	166	173
Additional paid-in capital	150,121	196,643
Accumulated other comprehensive income (loss)	(539)	195
Retained earnings (accumulated deficit).....	(22,515)	(40,137)
Total shareholders' equity	<u>127,233</u>	<u>156,874</u>
Total liabilities and shareholders' equity	<u>\$ 169,382</u>	<u>\$ 200,275</u>

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(Unaudited)			
	(In thousands, except per share amounts)			
Revenues	\$ 65,239	\$ 55,530	\$ 196,539	\$ 162,272
Costs and expenses:				
Instructional costs and services	29,568	24,759	89,428	72,869
Marketing and promotional	20,828	17,583	61,794	52,753
General and administrative	<u>6,907</u>	<u>6,865</u>	<u>21,605</u>	<u>19,364</u>
Total costs and expenses	<u>57,303</u>	<u>49,207</u>	<u>172,827</u>	<u>144,986</u>
Operating income	7,936	6,323	23,712	17,286
Other income, net	<u>839</u>	<u>1,253</u>	<u>3,236</u>	<u>3,477</u>
Income before income taxes	8,775	7,576	26,948	20,763
Income tax expense	<u>2,999</u>	<u>2,514</u>	<u>9,326</u>	<u>7,074</u>
Net income	<u>\$ 5,776</u>	<u>\$ 5,062</u>	<u>\$ 17,622</u>	<u>\$ 13,689</u>
Net income per common share:				
Basic	<u>\$ 0.35</u>	<u>\$ 0.30</u>	<u>\$ 1.04</u>	<u>\$ 0.83</u>
Diluted	<u>\$ 0.34</u>	<u>\$ 0.29</u>	<u>\$ 1.01</u>	<u>\$ 0.80</u>
Weighted average number of common shares outstanding:				
Basic	<u>16,626</u>	<u>16,810</u>	<u>16,893</u>	<u>16,411</u>
Diluted	<u>17,077</u>	<u>17,611</u>	<u>17,424</u>	<u>17,177</u>

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

	<u>September 30,</u>		<u>% Change</u>
	<u>2008</u>	<u>2007</u>	
Enrollment by Degree ^(a) :			
PhD/Doctoral	9,023	8,037	12.3%
Master's	11,095	9,105	21.9%
Bachelor's	3,834	3,027	26.7%
Other	<u>111</u>	<u>99</u>	12.1%
Total	<u>24,063</u>	<u>20,268</u>	18.7%

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

	<u>Nine Months Ended</u>	
	<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>
Depreciation and amortization	\$ 9,049	\$ 7,277
Net cash flow provided by operating activities	32,145	27,744
Capital expenditures	9,891	14,070