

**CAPELLA EDUCATION COMPANY**  
**Consolidated Balance Sheets**

	As of December 31,	
	2008	2007
	(In thousands, except par value)	
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 31,225	\$ 60,600
Marketable securities	92,372	83,167
Accounts receivable, net of allowance of \$1,419 in 2008 and \$951 in 2007	11,949	7,557
Prepaid expenses and other current assets	5,184	12,593
Deferred income taxes	3,477	1,896
Total current assets	144,207	165,813
Property and equipment, net	35,349	34,462
Total assets	\$ 179,556	\$ 200,275
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,227	\$ 6,089
Accrued liabilities	18,926	23,826
Income tax payable	150	—
Deferred revenue	9,495	6,476
Total current liabilities	30,798	36,391
Deferred rent	1,321	1,167
Other liabilities	531	335
Deferred income taxes	6,069	5,508
Total liabilities	38,719	43,401
Shareholders' equity:		
Common stock, \$0.01 par value:		
Authorized shares—100,000		
Issued and outstanding shares—16,666 in 2008 and 17,363 in 2007	166	173
Additional paid-in capital	151,445	196,643
Accumulated other comprehensive income	575	195
Retained earnings (accumulated deficit)	(11,349)	(40,137)
Total shareholders' equity	140,837	156,874
Total liabilities and shareholders' equity	\$ 179,556	\$ 200,275

**CAPELLA EDUCATION COMPANY**  
**Consolidated Statements of Income**

	<b>Three Months Ended</b>		<b>Year Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	(In thousands, except per share amounts)			
	(Unaudited)		(Unaudited)	
Revenues	\$ 75,756	\$ 63,964	\$ 272,295	\$ 226,236
Costs and expenses:				
Instructional costs and services	30,919	27,260	120,347	100,129
Marketing and promotional	20,939	17,026	82,733	69,779
General and administrative	7,508	7,014	29,113	26,378
Total costs and expenses	<u>59,366</u>	<u>51,300</u>	<u>232,193</u>	<u>196,286</u>
Operating income	16,390	12,664	40,102	29,950
Other income, net	825	1,426	4,061	4,903
Income before income taxes	17,215	14,090	44,163	34,853
Income tax expense	6,049	4,995	15,375	12,069
Net income	<u>\$ 11,166</u>	<u>\$ 9,095</u>	<u>\$ 28,788</u>	<u>\$ 22,784</u>
Net income per common share:				
Basic	<u>\$ 0.67</u>	<u>\$ 0.53</u>	<u>\$ 1.71</u>	<u>\$ 1.39</u>
Diluted	<u>\$ 0.66</u>	<u>\$ 0.51</u>	<u>\$ 1.66</u>	<u>\$ 1.33</u>
Weighted average number of common shares outstanding:				
Basic	<u>16,653</u>	<u>17,297</u>	<u>16,835</u>	<u>16,396</u>
Diluted	<u>17,010</u>	<u>17,976</u>	<u>17,322</u>	<u>17,141</u>

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

Enrollment by Degree <sup>(a)</sup> :	<u>December 31,</u>		<u>% Change</u>
	<u>2008</u>	<u>2007</u>	
PhD/Doctoral	9,723	8,573	13.4%
Master's	12,388	10,032	23.5%
Bachelor's	4,635	3,595	28.9%
Other	<u>137</u>	<u>116</u>	18.1%
Total	<u>26,883</u>	<u>22,316</u>	20.5%

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

The following table provides a reconciliation of cash flow from operations to free cash flow for the periods noted below:

	<u>Three Months Ended</u>		<u>Year Ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(Unaudited)		(Unaudited)	
Net cash flow provided by operating activities	\$ 12,691	\$ 9,434	\$ 44,836	\$ 37,179
Capital expenditures	<u>4,484</u>	<u>1,991</u>	<u>14,375</u>	<u>16,061</u>
Free Cash Flow	<u>\$ 8,207</u>	<u>\$ 7,443</u>	<u>\$ 30,461</u>	<u>\$ 21,118</u>