

## Capella Education (CPLA)

### Expecting a Good Q1

- **Thesis:** We believe that Capella's specialized offerings to graduate students, investments in new academic offerings, and the recent deployment of a new enterprise resource planning (ERP) system could enable Capella to generate revenue growth of at least twenty percent annually over the next two years. We think that Capella remains more immune to the gyrations of the economic cycle than its peers given the company's focus on two relatively acyclical industries, health care and education. This provides us comfort with the story over the next two years versus other publicly traded postsecondary companies, particularly if the US labor market rebounds more quickly than our highly pessimistic expectations. Given the company's valuation and near-term operating margin expansion, we think that Capella remains one of the best risk/reward opportunities in the education sector.
- **Scheduled to report Q1 2009 earnings on Thursday, April 30, before the market opens.** The dial in number is (866) 385-4179.
- **We expect Capella to report in-line or higher than consensus Q1 results.** We expect Q1 revenue of \$76.7M versus the consensus estimate of \$76.4M and management's guidance of \$75.7-76.7M. As well, we expect Q1 EPS of \$0.47 versus the consensus estimate of \$0.45. We have modeled Q1 operating margin of 15.3% versus the consensus estimate of 14.7% and management's guidance of 14.5-15.5%. We estimate that Capella could report enrollments of 27,960, representing a 19% yr/yr increase and a sequential increase of 1,077 students.
- **We think that the stock trades more on management commentary regarding changes in student trends due to the recession and less on Q1 financial results.** By this point in earnings season, investors are quite aware that lead flow and persistence remain strong among the market funded institutions, with stable or declining customer acquisition costs. We think that investors care about three things which could move the stock on Thursday. First, we believe that Capella investors want an update on the number of courses students are taking per quarter. Last quarter management commented that learners are taking slightly fewer courses per quarter. Investors could likely scrutinize the revenue per learners metric, which we expect to decline by 1% YoY. Secondly, we think that investors would like an update on whether Capella students have been impacted by changes in corporate tuition reimbursement policies by employers. Finally, we think that investors want management's take on the potential for regulatory changes by the new Obama administration.
- **Maintain \$68 target price, which reflects a ~14x EV/EBITDA multiple to our 2009 EBITDA estimate.** Our multiple reflects the company's strong revenue growth rate and operating leverage opportunities and is in-line with other education stocks with similar revenue and operating margin characteristics.

FYE DEC	2008A	2009E			2010E		
REV. (\$m)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$65.3A	\$76.7E		\$76.4	\$92.0E		\$92.2
Q2 Jun	66.0A	79.3E		78.4	95.1E		93.9
Q3 Sep	65.2A	79.6E		78.6	95.5E		94.7
Q4 Dec	75.8A	92.4E		91.2	110.9E		110.6
<b>Year*</b>	<b>\$272.3A</b>	<b>\$327.9E</b>		<b>\$325.8</b>	<b>\$393.5E</b>		<b>\$390.0</b>
Change		20.4%		19.7%	20.0%		19.7%
EPS**	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$0.31A	\$0.47E		\$0.45	\$0.60E		\$0.59
Q2 Jun	0.37A	0.49E		0.49	0.63E		0.62
Q3 Sep	0.34A	0.47E		0.46	0.60E		0.61
Q4 Dec	0.66A	0.83E		0.81	1.05E		1.04
<b>Year*</b>	<b>\$1.66A</b>	<b>\$2.26E</b>		<b>\$2.22</b>	<b>\$2.87E</b>		<b>\$2.83</b>
P/E	31.0x	22.8x		23.2x	17.9x		18.2x
Change		35.8%			27.2%		

\*Numbers may not add up due to rounding. \*\* EPS normalized for one-time expenses and tax benefits.

April 27, 2009

Price (as of close 4/24/09)

**\$51.50**

Rating

**BUY**

12- Month Price Target

**\$68.00**

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#### Company Information

52-Week Range	\$34.78 - 66.85
Shares Outstand.	17.0 million
Insider/Institutional	13.4% / NA
Public Float	14.4 million
Market Cap.	\$0.9 billion
ST / LT Debt	\$0 / 0 million
Debt/Capital	0.0%
ROE	26.1%
Cash & Inv/Share	\$7.27
Book Value/Share	\$8.28

#### Company Description

Based in Minneapolis, MN and founded in 1991, Capella Education provides online post-secondary education services through its subsidiary Capella University. The company offers degrees in health and human services, business management and technology, and education.



Source: Nasdaq.com

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Risks to attainment of our share price target include the loss of regional accreditation, the loss of access to Title IV funding, increasing competition, service disruption's of the company's technology infrastructure, regulatory changes by federal, state, and accreditation bodies, and financial misconduct of other for-profit universities which could tarnish Capella's brand.

**Exhibit 1: Multiples Analysis**

	Valuation @ Current Price of \$51.50			Valuation @ 12-Month Target Price of \$68.00		
	2008A	2009E	2010E	2008A	2009E	2010E
<b>Price</b>	<b>\$51.50</b>	<b>\$51.50</b>	<b>\$51.50</b>	<b>\$68.00</b>	<b>\$68.00</b>	<b>\$68.00</b>
Fully Diluted Shares 1Q09E	17.0	17.0	17.0	17.0	17.0	17.0
<b>Market Capitalization</b>	<b>\$876.0</b>	<b>\$876.0</b>	<b>\$876.0</b>	<b>\$1,156.7</b>	<b>\$1,156.7</b>	<b>\$1,156.7</b>
Less: Net Cash 1Q09E	(135.9)	(135.9)	(135.9)	(135.9)	(135.9)	(135.9)
• Net Cash / Share	(\$7.99)	(\$7.99)	(\$7.99)	(\$7.99)	(\$7.99)	(\$7.99)
<b>Enterprise Value</b>	<b>\$740.1</b>	<b>\$740.1</b>	<b>\$740.1</b>	<b>\$1,020.8</b>	<b>\$1,020.8</b>	<b>\$1,020.8</b>
• EV / Share	\$43.51	\$43.51	\$43.51	\$60.01	\$60.01	\$60.01
EBITDA	\$52.3	\$70.8	\$73.3	\$52.3	\$70.8	\$73.3
<b>EV / EBITDA</b>	<b>14.1x</b>	<b>10.5x</b>	<b>10.1x</b>	<b>19.5x</b>	<b>14.4x</b>	<b>13.9x</b>
<b>PEG Ratio (GAAP EPS)</b>	<b>-----</b>	<b>0.6x</b>	<b>0.7x</b>	<b>-----</b>	<b>0.8x</b>	<b>0.9x</b>
EPS, Normalized GAAP	\$1.66	\$2.26	\$2.87	\$1.66	\$2.26	\$2.87
• % Change	-----	35.8%	27.2%	-----	35.8%	27.2%
P/E Multiple (GAAP)	31.0x	22.8x	17.9x	40.9x	30.1x	23.7x
EPS, PF for Stock Options	\$1.82	\$2.44	\$3.13	\$1.82	\$2.44	\$3.13
• % Change	-----	34.3%	27.9%	-----	34.3%	27.9%
P/E Multiple (Pro Forma for Options)	28.3x	21.1x	16.5x	37.4x	27.8x	21.8x
Free Cash Flow	\$30.2	\$49.9	\$64.7	\$30.2	\$49.9	\$64.7
• Free Cash Flow / Share	\$1.78	\$2.93	\$3.81	\$1.78	\$2.93	\$3.81
EV / Free Cash Flow	24.5x	14.8x	11.4x	33.8x	20.5x	15.8x
Free Cash Flow Yield	3.5%	5.7%	7.4%	2.6%	4.3%	5.6%
Revenue	\$272.3	\$327.9	\$393.5	\$272.3	\$327.9	\$393.5
EV / Revenue	2.7x	2.3x	1.9x	3.7x	3.1x	2.6x
Operating Cash Flow	\$44.6	\$65.9	\$80.7	\$44.6	\$65.9	\$80.7
• Operating Cash Flow / Share	\$2.62	\$3.87	\$4.75	\$2.62	\$3.87	\$4.75
EV / Operating Cash Flow	16.6x	11.2x	9.2x	22.9x	15.5x	12.6x

Source: Wedbush and company filings

**Exhibit 2: CAPELLA EDUCATION Income Statement**

Expense Assumptions	2007A	2008A	2009E	2010E	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
<b>Expenses as a % of Revenue</b>																
• Instructional Costs and Services	44.3%	44.2%	42.5%	42.0%	44.5%	46.7%	45.3%	40.8%	41.5%	45.0%	44.0%	40.0%	41.0%	44.5%	43.5%	39.5%
• Marketing & Promotional	30.8%	30.4%	29.7%	29.2%	32.8%	29.6%	31.9%	27.6%	32.0%	29.3%	31.2%	27.0%	31.5%	28.8%	30.7%	26.5%
• General & Administrative	11.7%	10.7%	10.3%	10.1%	11.8%	10.5%	10.6%	9.9%	11.2%	10.3%	10.2%	9.8%	11.0%	10.0%	10.0%	9.5%
Effective Tax Rate	34.6%	34.8%	36.0%	36.0%	35.4%	34.3%	34.2%	35.1%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
<b>Expenses % Change Yr/Yr</b>																
• Instructional Costs and Services	19.7%	20.2%	15.9%	18.6%	23.4%	25.4%	19.4%	13.4%	9.7%	15.6%	18.4%	19.6%	18.6%	18.7%	18.6%	18.5%
• Marketing & Promotional	23.2%	18.6%	17.9%	18.0%	16.8%	16.2%	18.5%	23.0%	14.7%	18.6%	19.2%	19.2%	18.1%	18.0%	18.1%	17.8%
• General & Administrative	21.2%	10.4%	16.5%	17.1%	29.2%	6.9%	0.6%	7.0%	11.1%	17.2%	17.5%	20.6%	17.9%	16.5%	17.6%	16.3%
<b>Capella Education Normalized Income Statement (\$ in 000s except per share data)</b>					<b>2008A</b>	<b>2008A</b>	<b>2008A</b>	<b>2008A</b>	<b>2009E</b>	<b>2009E</b>	<b>2009E</b>	<b>2009E</b>	<b>2010E</b>	<b>2010E</b>	<b>2010E</b>	<b>2010E</b>
	2007A	2008A	2009E	2010E	Q1A Mar	Q2A Jun	Q3A Sep	Q4A Dec	Q1E Mar	Q2E Jun	Q3E Sep	Q4E Dec	Q1E Mar	Q2E Jun	Q3E Sep	Q4E Dec
<b>Revenue</b>	226,236	272,295	327,943	393,531	65,251	66,049	65,239	75,756	76,670	79,259	79,592	92,422	92,004	95,111	95,510	110,907
• % Change Yr/Yr	25.8%	20.4%	20.4%	20.0%	23.5%	22.5%	17.5%	18.4%	17.5%	20.0%	22.0%	22.0%	20.0%	20.0%	20.0%	20.0%
• % Change Sequentially	----	----	----	----	2.0%	1.2%	(1.2)%	16.1%	1.2%	3.4%	0.4%	16.1%	(0.5)%	3.4%	0.4%	16.1%
• Seasonality (% of annual revenue in a qtr)	----	----	----	----	24.0%	24.3%	24.0%	27.8%	23.4%	24.2%	24.3%	28.2%	23.4%	24.2%	24.3%	28.2%
<b>Instructional Costs and Services</b>	100,129	120,347	139,474	165,401	29,016	30,844	29,568	30,919	31,818	35,666	35,020	36,969	37,722	42,324	41,547	43,808
<b>Marketing &amp; Promotional</b>	69,779	82,733	97,544	115,085	21,393	19,573	20,828	20,939	24,534	23,223	24,833	24,954	28,981	27,392	29,322	29,390
<b>General &amp; Administrative</b>	26,378	29,113	33,926	39,719	7,730	6,968	6,907	7,508	8,587	8,164	8,118	9,057	10,120	9,511	9,551	10,536
<b>Total Operating Expenses</b>	196,286	232,193	270,944	320,204	58,139	57,385	57,303	59,366	64,939	67,053	67,971	70,980	76,823	79,227	80,419	87,335
• % Change Yr/Yr	21.1%	18.3%	16.7%	18.2%	21.6%	19.7%	16.5%	15.7%	11.7%	16.8%	18.6%	19.6%	18.3%	18.2%	18.3%	18.0%
<b>Operating Income</b>	29,950	40,102	56,999	73,327	7,112	8,664	7,936	16,390	11,730	12,206	11,620	21,442	15,181	15,883	15,091	27,172
• Operating Margin %	13.2%	14.7%	17.4%	18.6%	10.9%	13.1%	12.2%	21.6%	15.3%	15.4%	14.6%	23.2%	16.5%	16.7%	15.8%	24.5%
• BPS Change Yr/Yr	332 bp	149 bp	265 bp	125 bp	143 bp	208 bp	78 bp	184 bp	440 bp	228 bp	244 bp	156 bp	120 bp	130 bp	120 bp	130 bp
<b>Other Income, net</b>	4,903	4,061	3,000	3,000	1,389	1,008	839	825	750	750	750	750	750	750	750	750
<b>EBT</b>	34,853	44,163	59,999	76,327	8,501	9,672	8,775	17,215	12,480	12,956	12,370	22,192	15,931	16,633	15,841	27,922
<b>Income Taxes (Benefit)</b>	12,069	15,375	21,600	27,478	3,013	3,314	2,999	6,049	4,493	4,664	4,453	7,989	5,735	5,988	5,703	10,052
<b>Net Income, Normalized</b>	22,784	28,788	38,399	48,849	5,488	6,358	5,776	11,166	7,988	8,292	7,917	14,203	10,196	10,645	10,138	17,870
Shares Outstanding (Fully Diluted)	17,141	17,321	17,010	17,010	17,894	17,303	17,077	17,010	17,010	17,010	17,010	17,010	17,010	17,010	17,010	17,010
<b>Normalized IS to Pro Forma (which excludes stock option compensation)</b>					<b>2008A</b>	<b>2008A</b>	<b>2008A</b>	<b>2008A</b>	<b>2009E</b>	<b>2009E</b>	<b>2009E</b>	<b>2009E</b>	<b>2010E</b>	<b>2010E</b>	<b>2010E</b>	<b>2010E</b>
<b>Reconciliation</b>	2007A	2008A	2009E	2010E	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
<b>Stock Based Compensation</b>	3,392	4,197	4,952	6,752	1,042	1,379	838	938	1,088	1,188	1,288	1,388	1,538	1,638	1,738	1,838
<b>Pro Forma EBITDA</b>	43,114	56,540	75,719	80,079	10,919	13,135	11,966	20,520	16,110	16,786	16,400	26,422	20,411	21,313	20,721	33,002
• EBITDA Margin %	19.1%	20.8%	23.1%	20.3%	16.7%	19.9%	18.3%	27.1%	21.0%	21.2%	20.6%	28.6%	22.2%	22.4%	21.7%	29.8%
<b>Pro Forma Operating Profit</b>	33,342	44,299	61,951	80,079	8,154	10,043	8,774	17,328	12,818	13,394	12,908	22,830	16,719	17,521	16,829	29,010
• Operating Margin %	14.7%	16.3%	18.9%	20.3%	12.5%	15.2%	13.4%	22.9%	16.7%	16.9%	16.2%	24.7%	18.2%	18.4%	17.6%	26.2%
<b>Per Share Analysis</b>																
<b>Normalized GAAP EPS Fully Diluted (excludes preferred stock &amp; normalizes tax rate)</b>	\$1.33	\$1.66	\$2.26	\$2.87	\$0.31	\$0.37	\$0.34	\$0.66	\$0.47	\$0.49	\$0.47	\$0.83	\$0.60	\$0.63	\$0.60	\$1.05
• % Change Yr/Yr	25.2%	25.0%	35.8%	27.2%	33.2%	32.2%	17.7%	29.7%	53.1%	32.7%	37.6%	27.2%	27.6%	28.4%	28.1%	25.8%
<b>PF EPS Fully Diluted (excludes stock based compensation, preferred stock, &amp; normalizes tax rate)</b>	\$1.53	\$1.82	\$2.44	\$3.13	\$0.34	\$0.42	\$0.37	\$0.69	\$0.51	\$0.53	\$0.51	\$0.89	\$0.66	\$0.69	\$0.66	\$1.12
• % Change Yr/Yr	9.6%	19.2%	34.3%	27.9%	----	----	----	----	48.3%	26.8%	38.7%	28.2%	28.7%	29.2%	28.7%	26.2%
<b>GAAP EPS, Fully Diluted</b>	\$1.33	\$1.66	\$2.26	\$2.87	\$0.87	\$0.37	\$0.34	\$0.66	\$0.47	\$0.49	\$0.47	\$0.83	\$0.60	\$0.63	\$0.60	\$1.05
• % Change Yr/Yr	25.2%	25.0%	35.8%	27.2%	----	----	----	----	----	----	37.6%	27.2%	27.6%	28.4%	28.1%	25.8%

Source: Wedbush and company filings

**Exhibit 3: CAPELLA EDUCATION Enrollments**

Capella Education Enrollments	2007A	2008A	2009E	2010E	2008A	2008A	2008A	2008A	2009E	2009E	2009E	2009E	2010E	2010E	2010E	2010E
	2007A	2008A	2009E	2010E	Q1A Mar	Q2A Jun	Q3A Sep	Q4A Dec	Q1E Mar	Q2E Jun	Q3E Sep	Q4E Dec	Q1E Mar	Q2E Jun	Q3E Sep	Q4E Dec
PhD/Doctoral	8,542	9,723	----	----	8,908	8,991	9,023	9,723	----	----	----	----	----	----	----	----
Master's	10,032	12,388	----	----	10,683	10,710	11,095	12,388	----	----	----	----	----	----	----	----
Bachelor's	3,595	4,635	----	----	3,779	3,914	3,834	4,635	----	----	----	----	----	----	----	----
Other	147	137	----	----	126	118	111	137	----	----	----	----	----	----	----	----
<b>Enrollments</b>	22,316	26,883	32,797	39,521	23,496	23,733	24,063	26,883	27,960	28,598	29,116	32,797	33,692	34,461	35,085	39,521
• % Change Yr/Yr	24.1%	20.5%	22.0%	20.5%	22.7%	19.0%	18.7%	20.5%	19.0%	20.5%	21.0%	22.0%	20.5%	20.5%	20.5%	20.5%
• Qtr/Qtr Additions	----	----	----	----	1,180	237	330	2,820	1,077	638	518	3,681	895	769	624	4,436
<b>New Enrollments</b>	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----
<b>Revenue/Enrollments</b>	10,138	10,129	9,999	9,958	11,108	11,132	10,845	11,272	10,968	11,086	10,934	11,272	10,923	11,040	10,889	11,225
• % Change Yr/Yr	1.3%	(0.1)%	(1.3)%	(0.4)%	0.7%	2.9%	(1.0)%	(1.7)%	(1.3)%	(0.4)%	0.8%	0.0%	(0.4)%	(0.4)%	(0.4)%	(0.4)%
<b>Revenue (\$000s)</b>	226,236	272,295	327,943	393,531	65,251	66,049	65,239	75,756	76,670	79,259	79,592	92,422	92,004	95,111	95,510	110,907
• % Change Yr/Yr	25.8%	20.4%	20.4%	20.0%	23.5%	22.5%	17.5%	18.4%	17.5%	20.0%	22.0%	22.0%	20.0%	20.0%	20.0%	20.0%
<b>Operating Margin per Enrolled Student</b>																
Operating Margin per Enrolled Student	1,342	1,492	1,738	1,855	1,211	1,460	1,319	2,439	1,678	1,707	1,596	2,615	1,802	1,844	1,720	2,750
• % Change Yr/Yr	35.2%	11.1%	16.5%	6.8%	15.9%	22.1%	5.7%	7.4%	38.6%	16.9%	21.0%	7.2%	7.4%	8.0%	7.8%	5.2%

Source: Wedbush and company filings

**Exhibit 4: CAPELLA EDUCATION Cash Flow Statement**

Capella Education Cash Flow Statement (\$ in 000s except per share data)						2008A				2009E				2010E			
	2006A	2007A	2008A	2009E	2010E	Q1A Mar	Q2A Jun	Q3A Sep	Q4E Dec	Q1E Mar	Q2E Jun	Q3E Sep	Q4E Dec	Q1E Mar	Q2E Jun	Q3E Sep	Q4E Dec
<b>Operating Activities</b>																	
Net Income	13,411	22,784	28,788	38,399	48,849	5,488	6,358	5,776	11,166	7,988	8,292	7,917	14,203	10,196	10,645	10,138	17,870
Provision for Bad Debts	2,855	3,604	5,246	7,247	9,838	1,141	1,328	1,413	1,364	1,533	1,585	1,910	2,218	2,300	2,378	2,388	2,773
Depreciation & Amortization Expense	8,195	9,772	12,241	13,768	15,368	2,765	3,092	3,192	3,192	3,292	3,392	3,492	3,592	3,692	3,792	3,892	3,992
Amortization of Investment Discount/Premium	(366)	344	1,381	-	-	446	496	439	-	-	-	-	-	-	-	-	-
Asset Impairment	63	33	44	-	-	-	11	33	-	-	-	-	-	-	-	-	-
Gain on Disposal of Assets	-	-	(225)	-	-	(169)	(47)	(9)	-	-	-	-	-	-	-	-	-
Stock Compensation Expense	4,179	3,392	4,197	4,952	6,752	1,042	1,379	838	938	1,088	1,188	1,288	1,388	1,538	1,638	1,738	1,838
Noncash Equity Related Expense	169	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Excess Tax Benefits, Stock-Based Comp	(79)	(9,067)	(1,647)	-	-	(400)	(964)	(283)	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	2,926	2,955	(776)	-	-	(242)	(345)	(189)	-	-	-	-	-	-	-	-	-
Other	-	-	(1,600)	-	-	-	-	-	(1,600)	-	-	-	-	-	-	-	-
Changes in Working Capital	(2,452)	3,362	(3,023)	1,486	(69)	13	(2,218)	1,761	(2,579)	2,372	1,589	4,307	(6,782)	716	1,785	5,060	(7,631)
<b>Cash Flow from Operations</b>	<b>28,901</b>	<b>37,179</b>	<b>44,626</b>	<b>65,852</b>	<b>80,739</b>	<b>10,084</b>	<b>9,090</b>	<b>12,971</b>	<b>12,481</b>	<b>16,273</b>	<b>16,046</b>	<b>18,914</b>	<b>14,619</b>	<b>18,442</b>	<b>20,238</b>	<b>23,216</b>	<b>18,842</b>
* % Change Yr/Yr	(0.1)%	28.6%	20.0%	47.6%	22.6%	60.5%	17.9%	(5.7)%	32.3%	61.4%	76.5%	45.8%	17.1%	13.3%	26.1%	22.7%	28.9%
<b>FCF / Share</b>	<b>\$2.29</b>	<b>\$2.17</b>	<b>\$2.58</b>	<b>\$3.87</b>	<b>\$4.75</b>	<b>\$0.56</b>	<b>\$0.53</b>	<b>\$0.76</b>	<b>\$0.73</b>	<b>\$0.96</b>	<b>\$0.94</b>	<b>\$1.11</b>	<b>\$0.86</b>	<b>\$1.08</b>	<b>\$1.19</b>	<b>\$1.36</b>	<b>\$1.11</b>
* % Change Yr/Yr	(5.3)%	(5.2)%	18.8%	50.3%	22.6%	49.8%	17.2%	(2.7)%	39.8%	69.8%	79.6%	46.4%	17.1%	13.3%	26.1%	22.7%	28.9%
<b>Investing Activities</b>																	
Capital Expenditures	(15,354)	(16,061)	(14,391)	(16,000)	(16,000)	(4,449)	(2,609)	(2,833)	(4,500)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
<b>Free Cash Flow</b>	<b>13,547</b>	<b>21,118</b>	<b>30,235</b>	<b>49,852</b>	<b>64,739</b>	<b>5,635</b>	<b>6,481</b>	<b>10,138</b>	<b>7,981</b>	<b>12,273</b>	<b>12,046</b>	<b>14,914</b>	<b>10,619</b>	<b>14,442</b>	<b>16,238</b>	<b>19,216</b>	<b>14,842</b>
* % Change Yr/Yr	-----	-----	43.2%	64.9%	29.9%	106.8%	53.9%	2.1%	7.2%	117.8%	85.9%	47.1%	33.1%	17.7%	34.8%	28.8%	39.8%
* FCF Margin (FCF/Revenue)	7.5%	9.3%	11.1%	15.2%	16.5%	8.6%	9.8%	15.5%	10.5%	16.0%	15.2%	18.7%	11.5%	15.7%	17.1%	20.1%	13.4%
<b>FCF / Share</b>	<b>\$1.07</b>	<b>\$1.23</b>	<b>\$1.75</b>	<b>\$2.93</b>	<b>\$3.81</b>	<b>\$0.31</b>	<b>\$0.37</b>	<b>\$0.59</b>	<b>\$0.47</b>	<b>\$0.72</b>	<b>\$0.71</b>	<b>\$0.88</b>	<b>\$0.62</b>	<b>\$0.85</b>	<b>\$0.95</b>	<b>\$1.13</b>	<b>\$0.87</b>
* % Change Yr/Yr	-----	-----	n/m	67.9%	29.9%	93.0%	53.4%	5.3%	13.3%	129.1%	89.1%	47.7%	33.1%	17.7%	34.8%	28.8%	39.8%
Purchase of ST Investments	(181,980)	(248,275)	(74,707)	-	-	(69,030)	(3,225)	(2,452)	-	-	-	-	-	-	-	-	-
Sale of ST Investments	175,340	230,262	62,006	-	-	38,010	16,486	7,510	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Cash Flow from Investing</b>	<b>(21,994)</b>	<b>(34,074)</b>	<b>(27,092)</b>	<b>(16,000)</b>	<b>(16,000)</b>	<b>(35,469)</b>	<b>10,652</b>	<b>2,225</b>	<b>(4,500)</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>(4,000)</b>
<b>Financing Activities</b>																	
Debt Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Repayment	(2,666)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock Repurchase	-	-	(54,201)	-	-	(18,213)	(31,787)	(4,201)	-	-	-	-	-	-	-	-	-
Stock Issuance	76,848	25,938	2,681	-	-	-	2,021	660	-	-	-	-	-	-	-	-	-
Excess Tax Benefits, Stock-Based Comp	79	9,067	1,647	-	-	400	964	283	-	-	-	-	-	-	-	-	-
Change in Restricted Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(72,649)	-	-	-	-	638	(638)	-	-	-	-	-	-	-	-	-	-
<b>Cash Flow from Financing</b>	<b>1,612</b>	<b>35,004</b>	<b>(49,873)</b>	<b>-</b>	<b>-</b>	<b>(17,175)</b>	<b>(29,440)</b>	<b>(3,258)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Exchange Rate Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Increase in Cash</b>	<b>8,519</b>	<b>38,109</b>	<b>(32,339)</b>	<b>49,852</b>	<b>64,739</b>	<b>(42,560)</b>	<b>(9,698)</b>	<b>11,938</b>	<b>7,981</b>	<b>12,273</b>	<b>12,046</b>	<b>14,914</b>	<b>10,619</b>	<b>14,442</b>	<b>16,238</b>	<b>19,216</b>	<b>14,842</b>
Cash at Beginning of Year	13,972	22,491	60,600	28,261	78,113	60,600	18,040	8,342	20,280	28,261	40,534	52,580	67,494	78,113	92,555	108,793	128,009
<b>Cash and at End of Year</b>	<b>22,491</b>	<b>60,600</b>	<b>28,261</b>	<b>78,113</b>	<b>142,852</b>	<b>18,040</b>	<b>8,342</b>	<b>20,280</b>	<b>28,261</b>	<b>40,534</b>	<b>52,580</b>	<b>67,494</b>	<b>78,113</b>	<b>92,555</b>	<b>108,793</b>	<b>128,009</b>	<b>142,852</b>

Source: Wedbush and company filings

**Exhibit 5: CAPELLA EDUCATION Balance Sheet**

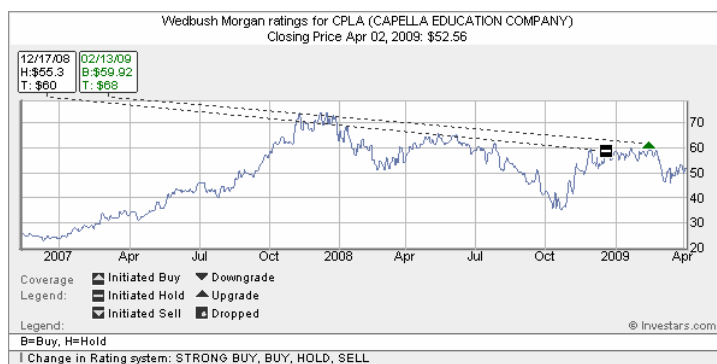
Capella Education Balance Sheet (\$ in 000s except per share data)	2004A	2005A	2006A	2007A	2008A				2009E				2010E
	Q4A	Q4A	Q4A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1E	Q2E	Q3E	Q4E	Q4E
		Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Dec
Cash & Cash Equivalents	49,980	72,133	87,661	143,767	131,853	107,274	113,816	123,597	135,870	147,916	162,830	173,449	238,188
Accounts Receivable, net	5,878	7,720	7,401	7,557	8,523	8,852	11,318	11,949	10,223	10,568	10,612	12,323	14,788
Prepaid Expenses and Other	3,056	4,758	3,703	12,593	8,538	7,469	8,267	5,184	5,184	5,184	5,184	5,184	5,184
Deferred Income Taxes	1,398	1,243	1,800	1,896	1,877	1,889	1,876	3,477	3,477	3,477	3,477	3,477	3,477
Other Current Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>60,312</b>	<b>85,854</b>	<b>100,565</b>	<b>165,813</b>	<b>150,791</b>	<b>125,484</b>	<b>135,277</b>	<b>144,207</b>	<b>154,754</b>	<b>167,145</b>	<b>182,104</b>	<b>194,433</b>	<b>261,637</b>
Restricted Cash	391	-	-	-	-	-	-	-	-	-	-	-	-
PP&E	12,126	19,559	28,749	34,462	35,586	35,056	34,105	35,349	36,057	36,665	37,173	37,581	38,213
Deferred Income Taxes	7,197	1,149	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>80,026</b>	<b>106,562</b>	<b>129,314</b>	<b>200,275</b>	<b>186,377</b>	<b>160,540</b>	<b>169,382</b>	<b>179,556</b>	<b>190,811</b>	<b>203,810</b>	<b>219,277</b>	<b>232,014</b>	<b>299,850</b>
<b>Liabilities</b>													
Accounts Payable	3,144	4,222	5,113	6,089	3,989	4,764	5,451	2,227	4,188	5,002	5,724	2,338	2,455
Accrued Liabilities	12,253	17,223	18,598	23,826	25,990	18,072	19,932	18,926	18,926	18,926	18,926	18,926	18,926
Income Taxes Payable	140	-	214	-	-	-	-	150	-	-	-	-	-
Deferred Revenue	6,526	8,044	7,488	6,476	6,941	7,875	10,900	9,495	8,329	9,450	13,080	11,394	13,673
Notes Payable	314	2,647	5	-	-	-	-	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>22,377</b>	<b>32,136</b>	<b>31,418</b>	<b>36,391</b>	<b>36,920</b>	<b>30,711</b>	<b>36,283</b>	<b>30,798</b>	<b>31,444</b>	<b>33,378</b>	<b>37,730</b>	<b>32,658</b>	<b>35,054</b>
Deferred Rent	-	2,366	1,813	1,167	1,247	1,239	1,262	1,321	1,321	1,321	1,321	1,321	1,321
Other LT Liabilities	-	-	-	335	335	335	335	531	531	531	531	531	531
Deferred Income Taxes	-	-	2,331	5,508	5,210	4,436	4,269	6,069	6,069	6,069	6,069	6,069	6,069
Long Term Debt	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	8	-	7	-	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>22,385</b>	<b>34,502</b>	<b>35,569</b>	<b>43,401</b>	<b>43,712</b>	<b>36,721</b>	<b>42,149</b>	<b>38,719</b>	<b>39,365</b>	<b>41,299</b>	<b>45,651</b>	<b>40,579</b>	<b>42,975</b>
Other	57,646	57,646	-	-	-	-	-	-	-	-	-	-	-
<b>Shareholder's Equity</b>	<b>(5)</b>	<b>14,414</b>	<b>93,745</b>	<b>156,874</b>	<b>142,665</b>	<b>123,819</b>	<b>127,233</b>	<b>140,837</b>	<b>151,446</b>	<b>162,511</b>	<b>173,626</b>	<b>191,435</b>	<b>256,875</b>
<b>Total Liabilities &amp; SE</b>	<b>80,026</b>	<b>106,562</b>	<b>129,314</b>	<b>200,275</b>	<b>186,377</b>	<b>160,540</b>	<b>169,382</b>	<b>179,556</b>	<b>190,811</b>	<b>203,810</b>	<b>219,277</b>	<b>232,014</b>	<b>299,850</b>

Source: Wedbush and company filings

## ANALYST CERTIFICATION

I, Ariel Sokol, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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**STRONG BUY** – The stock is expected to return at least 20% over the next 6-12 months.

**BUY** – The stock is expected to return at least 15% over the next 6-12 months.

**HOLD** – The stock is expected to return between -15% and +15% over the next 6-12 months.

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Additional information is available upon request by contacting Ellen Kang at (213) 688-4529 or [ellen.kang@wedbush.com](mailto:ellen.kang@wedbush.com).

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