CONFIDENTIALITY, NON-COMPETITION AGREEMENT

 This Confidentiality, Non-Competition, and Inventions Agreement

("Agreement") is entered into this 20th day of June 2006 between Reed Watson

("Employee") and Capella Education Company.

 A. Capella Education Company and its subsidiaries (including Capella

University, Inc.) are collectively referred to as "Capella" in this Agreement.

 B. Capella desires to employ Employee as Senior Vice President of

Marketing, and Employee desires to be employed in that capacity.

 C. As an employee of Capella, Employee would have access to Confidential

Information (a term which is defined below).

 D. Capella provides, develops, sells, and markets on-line educational

products and services. Much of the work of Capella is done through the Internet,

which is global in coverage and can be accessed by people throughout the world.

 E. As a condition of Employee's employment by Capella, Employee and Capella

enter into this Agreement, the terms of which Employee acknowledges are

reasonable and necessary for the protection of the legitimate interests of

Capella.

AGREEMENT

 In consideration of Capella's employing Employee, the parties agree as

follows:

 1. DEFINITIONS. For the purposes of this Agreement, the following terms

have the following meanings:

 a. "Capella Confidential Information" means information proprietary to

Capella and not generally known (including trade secret information) about

Capella's business, customers, learners, products, services, personnel, pricing, sales strategy, marketing efforts, technology, methods, processes, research, development, finances, systems, software, techniques, accounting, purchasing, business strategies, and plans. All information disclosed to Employee or to which Employee obtains access during Employee's Capella employment, whether originated by Employee or by others, shall be presumed to be Capella

Confidential Information if it is treated by Capella as being Capella

Confidential Information or if Employee has a reasonable basis to believe it to

be Capella Confidential Information.

 b. "Inventions" means discoveries, improvements, ideas, concepts,

processes, formulas, methods, analyses, software, and works of authorship

(whether or not reduced to writing or put into practice, and whether or not

copyrighted, copyrightable, patented, or patentable) that (1) relate directly to

the business of Capella; (2) relate to Capella's actual or demonstrably

anticipated research or development; (3) result from any work performed by

Employee for Capella; (4) for which equipment, supplies, facilities, or trade

secret information of Capella is used; (5) are developed, created, conceived or

reduced

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to practice using any time for which Employee is compensated by Capella; or (6)

are developed, created, conceived, or reduced to practice during the period in

which Employee is employed by Capella or within one year after the termination

of that employment for any reason.

 c. "Non-Assigned Inventions" means as any invention for which no

equipment, supplies, facility or trade secret information of Capella was used

and which was developed entirely on Employee's own time, and (1) which does not

relate (a) directly to the business of Capella or (b) to Capella's actual or

demonstrably anticipated research and development, or (2) which does not result

from any work performed for Capella.

 d. "Competitor" means any person, corporation, not-for-profit

organization, or other entity that provides, develops, sells, or markets on-line

credit-granting educational products or services in any country in which Capella

did business or had customers or learners at any time the last 12 months of my

Capella employment. In the case of a not-for-profit organization that provides,

develops, sells, or markets on-line credit-granting educational products or

services within or from a distinct, separate division or unit of the

organization (the "On-Line Unit") and also provides, develops, sells, or markets

credit-granting educational products or services through other means within

other distinct, separate divisions or units, the term "Competitor" shall be

limited to the On-Line Unit, and shall not apply to the organization as a whole.

 2. CONFIDENTIAL INFORMATION. Except as required in Employee's duties of

Capella employment or as authorized in writing by the Chief Executive Officer or

his designee, Employee shall not, either during the Employee's employment by

Capella or at any time thereafter, use or disclose to any person any Capella

Confidential Information for any purpose. Employee shall follow all procedures

and policies adopted by Capella from time to time regarding the treatment and

protection of Capella Confidential Information as well as the confidential

information of learners or of others.

 3. RESTRICTIONS ON COMPETITION. For a period of 12 months after the

Employee's Capella employment ends for any reason, Employee shall:

 a. inform any prospective new employer, prior to accepting employment,

of the existence of this Agreement and provide such employer a copy of this

Agreement;

 b. not, directly or indirectly, as employee, consultant, contractor or

otherwise, perform services for any Competitor; and

 c. not directly or indirectly solicit or attempt to solicit any

employee or independent contractor of Capella to cease working for Capella.

 4. INVENTIONS.

 a. With respect to Inventions developed, made, created, authored,

conceived, or reduced to practice by Employee, in whole or in part, either by

Employee or in connection with others, during Employee's employment by Capella

(regardless of whether

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during normal working hours or whether at Capella premises) or within one year

after the termination of that employment for any reason, Employee shall:

 (i) keep complete and accurate records of such Inventions, which

records shall be Capella property (except for records related solely to

Non-Assigned Inventions, which records must be kept but are not Capella

property);

 (ii) comply with all of Capella's policies and guidelines related

to inventions and copyrights, as they may be revised from time to time;

 (iii) promptly disclose in writing such Inventions to Capella;

 (iv) assign (and Employee hereby does assign) to Capella all of

Employee's rights to such Inventions (except for Non-Assigned Inventions) and to

letters patent and copyrights granted upon such Inventions (except for

Non-Assigned Inventions) in all countries; and

 (v) execute such documents and do such other acts as may be

necessary in the opinion of Capella to establish and preserve its property

rights and to obtain and maintain letters patent and copyrights in favor of

Capella.

If for any reason any such assignment is invalid or ineffective for any reason,

then Employee hereby grants Capella a perpetual, royalty-free, non-exclusive,

worldwide license fully to exploit any intellectual property or proprietary

rights in such Invention and any copyrights or patents (or other intellectual

property or proprietary registrations or applications) resulting therefrom.

 b. Capella shall compensate employees for assigning their rights in

inventions that Capella seeks to protect under patent laws in an amount not to

exceed $100 per invention (evenly allocated among all inventors).

 c. If Capella in good faith believes that any Invention constitutes a

Non-Assigned Invention, then Capella shall inform Employee of that fact within

thirty (30) days of receiving a disclosure under subparagraph a(iii) of this

Paragraph 4 (unless the parties agree on a different period of time on a

case-by-case basis). If Capella does not so notify Employee and Employee

nonetheless in good faith believes that such Invention constitutes a

Non-Assigned Invention, then Employee shall inform Capella within thirty (30)

days of the end of the period set forth in the preceding sentence, setting forth

reasons for such belief. If within thirty (30) days of Capella's receipt thereof

Capella informs Employee that it disagrees, then the parties shall attempt in

good faith to resolve their disagreement. Employee shall bear the burden of

proving that such Invention constitutes a Non-Assigned Invention.

 d. Unless proven otherwise, any Invention shall be presumed to have

been conceived during Employee's employment with Capella if within one (1) year

after termination of such employment such Invention is disclosed to others, is

completed, or has a patent application filed thereon.

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 e. When developing a Capella course and/or content for a Capella

course, (i) Employee shall abide by all of the terms, conditions and policies of

Capella related to course and content development; (ii) Employee shall abide by

the terms of any separate agreement between Employee and Capella related to the

course or content development; and (iii) if Employee chooses to include or refer

to any materials for which Employee owns the copyright, then Employee hereby

grants, and agrees to grant, to Capella a royalty-free, perpetual, irrevocable,

nonexclusive, and fully sublicensable right to use, reproduce, adapt, publish,

translate, create derivative works of, distribute, perform, and display such

materials (in whole or in part) worldwide and/or to incorporate them in other

works in any form, media, or technology now known or later developed, solely in

connection with providing the course (as the course may be changed from time to

time).

 f. Except to the degree that such materials are created in connection

with the development of course design or content, Capella does not claim the

copyrights to scholarly books or articles written by faculty members that relate

to the faculty member's area of subject matter expertise and that do not relate

to methods of course delivery or distance learning proprietary to Capella.

 5. RETURN OF PROPERTY. Upon termination of employment with Capella,

Employee shall deliver promptly to Capella all records, manuals, books, forms,

documents, letters, memoranda, data, tables, photographs, video tapes, audio

tapes, computer disks and other computer storage media, and copies thereof, that

are the property of Capella, or that relate in any way to the business,

products, services, personnel, customers, learners, practices, or techniques of

Capella, and all other property of Capella (such as, for example, computers,

cellular telephones, pagers, credit cards, and keys), whether or not containing

Confidential Information, that are in Employee' possession or under his control.

 6. REASONABLENESS OF RESTRICTIONS. Employee acknowledges and agrees that

the terms of this Agreement are reasonable and necessary for the protection of

Capella's Confidential Information and business and to prevent damage or loss to

Capella as a result of any action of Employee. Employee specifically

acknowledges and agrees that because of the world-wide coverage and

accessibility of the Internet, it is not possible to limit further the

geographic scope of the restrictions described in Paragraph 3 above in a manner

that would still provide reasonable protection for the legitimate interests of

Capella.

 7. REMEDIES FOR BREACH. Employee hereby acknowledges and agrees that any

breach by Employee of the provisions of this Agreement may cause Capella

irreparable harm for which there is no adequate remedy at law. Therefore,

Capella shall be entitled, in addition to any other remedies available, to

injunctive or other equitable relief to require specific performance or to

prevent a breach of the provisions of this Agreement. Any delay by Capella in

asserting a right under this Agreement or any failure by Capella to assert a

right under this Agreement will not constitute a waiver by Capella of any right

hereunder, and Capella may subsequently assert any or all of its rights under

this Agreement as if the delay or failure to assert rights had not occurred.

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 8. NO EMPLOYMENT RIGHTS. This Agreement does not require Capella to employ

Employee for any particular length of time and does not restrict the ability of

Capella to terminate the employment relationship. Except as provided in a

separate written agreement signed by the Capella Chief Executive Officer or his

designee, Employee's Capella employment is at-will.

 9. PARTIAL INVALIDITY. In the event that any portion of this Agreement is

held to be invalid or unenforceable for any reason, that invalidity or

unenforceability shall not affect the other portions of this Agreement and the

remaining terms and conditions, or portions thereof, shall remain in full force

and effect. A court of competent jurisdiction may so modify the objectionable

provision as to make it valid, reasonable, and enforceable. It is the intention

of the parties that the restrictions imposed by this Agreement be enforced to

the maximum permissible extent.

 10. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and shall

be enforceable by the parties hereto and their respective successors and

assigns.

 11. GOVERNING LAW. This Agreement and any disputes arising out of it shall

be governed by the laws of the State of Minnesota without regard for the

conflicts of law principles of any state.

 12. FORUM SELECTION. Any disputes arising out of or related to this

Agreement shall be litigated only in Minnesota state courts or in the United

States District Court for the District of Minnesota, and Capella and Employee

hereby consent to the exercise of personal jurisdiction over them for that

purpose by Minnesota state courts and the United States District Court for the

District of Minnesota. Neither employee nor Capella shall commence litigation

against the other arising out of or related to this Agreement in any court

outside the state of Minnesota.

 EMPLOYEE

 /s/

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 Its 6/27/2006