

Grand Canyon Education, Inc.  
Form 10-Q  
November 14, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2011**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-34211**

**GRAND CANYON EDUCATION, INC.**  
*(Exact name of registrant as specified in its charter)*

**DELAWARE**  
*(State or other jurisdiction of  
Incorporation or organization)*

**20-3356009**  
*(I.R.S. Employer  
Identification No.)*

**3300 W. Camelback Road  
Phoenix, Arizona 85017**  
*(Address, including zip code, of principal executive offices)*  
**(602) 639-7500**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting  
(Do not check if a smaller reporting company) company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The total number of shares of common stock outstanding as of November 1, 2011, was 44,331,047.



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**GRAND CANYON EDUCATION, INC.**  
**Consolidated Income Statements**  
**(Unaudited)**

(In thousands, except per share amounts)	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010 Restated</b>	<b>2011</b>	<b>2010 Restated</b>
<b>Net revenue</b>	\$ 108,909	\$ 98,946	\$ 313,736	\$ 285,594
<b>Costs and expenses:</b>				
Instructional costs and services	48,933	45,717	144,162	133,409
Selling and promotional, including \$151 and \$2,702 for the three months ended September 30, 2011 and 2010, respectively, and \$612 and \$7,694 for the nine months ended September 30, 2011 and 2010, respectively, to related parties	31,248	28,103	88,789	83,955
General and administrative	7,145	6,608	21,015	18,888
Lease termination fee	922		922	
Exit costs		27		232
<b>Total costs and expenses</b>	<b>88,248</b>	<b>80,455</b>	<b>254,888</b>	<b>236,484</b>
<b>Operating income</b>	<b>20,661</b>	<b>18,491</b>	<b>58,848</b>	<b>49,110</b>
Interest expense	(170)	(176)	(306)	(682)
Interest income	20	33	78	131
<b>Income before income taxes</b>	<b>20,511</b>	<b>18,348</b>	<b>58,620</b>	<b>48,559</b>
Income tax expense	7,643	7,606	23,398	19,603
<b>Net income</b>	<b>\$ 12,868</b>	<b>\$ 10,742</b>	<b>\$ 35,222</b>	<b>\$ 28,956</b>
<b>Net income per common share:</b>				
<b>Basic</b>	<b>\$ 0.29</b>	<b>\$ 0.23</b>	<b>\$ 0.79</b>	<b>\$ 0.63</b>
<b>Diluted</b>	<b>\$ 0.29</b>	<b>\$ 0.23</b>	<b>\$ 0.78</b>	<b>\$ 0.62</b>
<b>Shares used in computing net income per common share:</b>				
<b>Basic</b>	<b>44,302</b>	<b>45,746</b>	<b>44,845</b>	<b>45,715</b>
<b>Diluted</b>	<b>44,787</b>	<b>46,351</b>	<b>45,293</b>	<b>46,413</b>

*The accompanying notes are an integral part of these consolidated financial statements.*



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**GRAND CANYON EDUCATION, INC.**  
**Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010 Restated	2011	2010 Restated
<b>Net income</b>	\$ 12,868	\$ 10,742	\$ 35,222	\$ 28,956
<b>Other comprehensive income (loss), net of tax:</b>				
Unrealized losses on hedging derivatives	(54)	(66)	(53)	(420)
Unrealized losses on available for sale securities				(4)
Realized gains on available for sale securities				(19)
<b>Comprehensive income</b>	\$ 12,814	\$ 10,676	\$ 35,169	\$ 28,513

*The accompanying notes are an integral part of these consolidated financial statements.*

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**GRAND CANYON EDUCATION, INC.**  
**Consolidated Balance Sheets**

(In thousands, except par value)	September 30, 2011 (Unaudited)	December 31, 2010
<b>Current assets</b>		
Cash and cash equivalents	\$ 18,999	\$ 33,637
Restricted cash and cash equivalents	47,177	52,178
Accounts receivable, net of allowance for doubtful accounts of \$14,418 and \$30,112 at September 30, 2011 and December 31, 2010, respectively	16,333	17,983
Income taxes receivable	8,383	8,415
Deferred income taxes	6,788	16,078
Other current assets	9,104	4,834
<b>Total current assets</b>	<b>106,784</b>	<b>133,125</b>
Property and equipment, net	179,545	123,999
Restricted cash	555	760
Prepaid royalties	6,122	6,579
Goodwill	2,941	2,941
Deferred income taxes	1,912	2,800
Other assets	5,201	4,892
<b>Total assets</b>	<b>\$ 303,060</b>	<b>\$ 275,096</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 22,277	\$ 15,693
Accrued compensation and benefits	9,768	13,633
Accrued liabilities	9,134	9,477
Accrued litigation loss		5,200
Accrued exit costs		64
Income taxes payable	1,068	829
Student deposits	48,483	48,873
Deferred revenue	34,746	15,034
Due to related parties	464	10,346
Current portion of capital lease obligations	892	1,673
Current portion of notes payable	1,760	2,026
<b>Total current liabilities</b>	<b>128,592</b>	<b>122,848</b>
Capital lease obligations, less current portion	695	151
Other noncurrent liabilities	6,772	2,715
Notes payable, less current portion	20,329	21,881
<b>Total liabilities</b>	<b>156,388</b>	<b>147,595</b>
Commitments and contingencies		
<b>Stockholders equity</b>		



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Preferred stock, \$0.01 par value, 10,000 shares authorized; 0 shares issued and outstanding at September 30, 2011 and December 31, 2010			
Common stock, \$0.01 par value, 100,000 shares authorized; 45,938 and 45,811 shares issued and 44,331 and 45,761 shares outstanding at September 30, 2011 and December 31, 2010, respectively	459		458
Treasury stock, at cost, 1,607 and 50 shares of common stock at September 30, 2011 and December 31, 2010, respectively	(23,153)		(782)
Additional paid-in capital	83,821		77,449
Accumulated other comprehensive loss	(498)		(445)
Accumulated earnings	86,043		50,821
<b>Total stockholders equity</b>	146,672		127,501
<b>Total liabilities and stockholders equity</b>	\$ 303,060	\$	275,096

*The accompanying notes are an integral part of these consolidated financial statements.*

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**GRAND CANYON EDUCATION, INC.**  
**Consolidated Statement of Stockholders Equity**  
(In thousands)  
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Earnings		Accumulated Earnings	Total
	Shares	Par Value	Shares	Stated Value		Loss			
Balance at December 31, 2010	45,811	\$ 458	50	\$ (782)	\$ 77,449	\$ (445)	\$ 50,821	\$ 127,501	
Net income							35,222	35,222	
Unrealized loss on hedging derivative, net of taxes of \$41						(53)		(53)	
Common stock purchased for treasury			1,557	(22,371)				(22,371)	
Exercise of stock options	123	1			1,476			1,477	
Excess tax benefits from share-based compensation					99			99	
Share-based compensation	4				4,797			4,797	
Balance at September 30, 2011	45,938	\$ 459	1,607	\$ (23,153)	\$ 83,821	\$ (498)	\$ 86,043	\$ 146,672	

*The accompanying notes are an integral part of these consolidated financial statements.*

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**GRAND CANYON EDUCATION, INC.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

<b>(In thousands)</b>	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010 Restated</b>
<b>Cash flows provided by operating activities:</b>		
Net income	\$ 35,222	\$ 28,956
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	4,797	3,685
Excess tax benefits from share-based compensation		(675)
Amortization of debt issuance costs	42	48
Provision for bad debts	27,903	29,283
Depreciation and amortization	12,054	8,551
Lease termination fee	922	
Non-capitalizable system conversion costs		4,013
Litigation settlement	(5,200)	
Exit costs	(64)	(545)
Deferred income taxes	10,185	(9,461)
Other		(67)
Changes in assets and liabilities:		
Accounts receivable	(26,253)	(39,080)
Prepaid expenses and other	(4,577)	(4,260)
Due to/from related parties	(9,882)	3,584
Accounts payable	1,757	5,317
Accrued liabilities and employee related liabilities	(4,208)	5,949
Income taxes receivable/payable	348	(223)
Deferred rent	3,123	682
Deferred revenue	19,712	10,009
Student deposits	(390)	34,768
<b>Net cash provided by operating activities</b>	<b>65,491</b>	<b>80,534</b>
<b>Cash flows used in investing activities:</b>		
Capital expenditures	(61,515)	(39,595)
Change in restricted cash and cash equivalents	5,206	(52,603)
Proceeds from sale or maturity of investments		487
<b>Net cash used in investing activities</b>	<b>(56,309)</b>	<b>(91,711)</b>
<b>Cash flows used in financing activities:</b>		
Principal payments on notes payable and capital lease obligations	(2,856)	(2,209)
Debt issuance costs	(70)	
Repurchase of common shares	(22,371)	(782)
Excess tax benefits from share-based compensation		675
Net proceeds from exercise of stock options	1,477	1,393

<b>Net cash used in financing activities</b>	(23,820)	(923)
<b>Net decrease in cash and cash equivalents</b>	(14,638)	(12,100)
<b>Cash and cash equivalents, beginning of period</b>	33,637	62,571
<b>Cash and cash equivalents, end of period</b>	\$ 18,999	\$ 50,471
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 315	\$ 533
Cash paid for income taxes	\$ 12,790	\$ 29,528
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Purchases of property and equipment included in accounts payable	\$ 4,827	\$ 7,580
Purchases of equipment through capital lease obligations	\$ 801	\$ 625
Tax benefit of Spirit warrant intangible	\$ 194	\$ 160
Shortfall tax expense from share-based compensation	\$ 117	\$

*The accompanying notes are an integral part of these consolidated financial statements.*

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**GRAND CANYON EDUCATION, INC.**  
**Notes to Consolidated Financial Statements**  
(In thousands, except per share data)  
(Unaudited)

**1. Nature of Business**

Grand Canyon Education, Inc. ( together with its subsidiaries, the University ) is a regionally accredited provider of postsecondary education services focused on offering graduate and undergraduate degree programs in its core disciplines of education, business, healthcare, and liberal arts. The University offers courses online, at its approximately 110 acre traditional ground campus in Phoenix, Arizona and onsite at the facilities of employers. The University's wholly-owned subsidiaries are currently dormant subsidiaries. The University is accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools.

**2. Restatement of Consolidated Financial Statements**

On November 3, 2011, the University determined that there was an error in the methodology it used to estimate its allowance for doubtful accounts and that its financial statements for the three and nine months ended September 30, 2010 needed to be restated.

In recent periods, the University experienced a significant change in the composition of its receivable balances since its transition to the borrower-based financial aid model in the second quarter of 2010 in which the receivables due from former students had grown as a percentage of the total amount outstanding. However, the University's historical process for estimating the allowance for doubtful accounts did not consider the disaggregation of receivable balances by student based on enrollment status. As a result, the growth in the inactive student receivables was not evident when making the allowance estimate in prior periods. As the University's collection experience indicates that receivables from former students carry a higher risk, this disaggregated information should have been considered in determining the probability of loss within the University's receivables. If such information had been evaluated, management would have increased the allowance for doubtful accounts to reflect the increased risk profile of the receivables in prior periods. Accordingly, the Audit Committee of the Board of Directors together with management, determined that, because management should have taken the additional steps necessary to develop the disaggregated information for use in the analysis of reserve requirements and resulting allowance for doubtful accounts, the financial statements for the fiscal year ended December 31, 2010 and for the quarters ended June 30, 2010, September 30, 2010, March 31, 2011 and June 30, 2011 should be restated to correct the allowance for doubtful accounts.

The following table summarizes the unaudited quarterly results of operations as originally reported and as restated for the three and nine months ended September 30, 2010.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2010</b>		<b>September 30, 2010</b>	
	<b>As</b>		<b>As</b>	
	<b>Reported</b>	<b>As Restated</b>	<b>Reported</b>	<b>As Restated</b>
<b>Net revenue</b>	\$ 98,946	\$ 98,946	\$ 285,794	\$ 285,594
<b>Costs and expenses:</b>				
Instructional costs and services	42,070	45,717	120,472	133,409
Selling and promotional	28,103	28,103	83,955	83,955
General and administrative	6,608	6,608	18,888	18,888
Exit costs	27	27	232	232
<b>Total costs and expenses</b>	76,808	80,455	223,547	236,484
<b>Operating income</b>	22,138	18,491	62,247	49,110
Net interest expense	(143)	(143)	(551)	(551)
<b>Income before income taxes</b>	21,995	18,348	61,696	48,559

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Income tax expense	9,077	7,606	24,902	19,603
<b>Net income</b>	<b>\$ 12,918</b>	<b>\$ 10,742</b>	<b>\$ 36,794</b>	<b>\$ 28,956</b>
<b>Earnings per share:</b>				
<b>Basic income per share(1)</b>	<b>\$ 0.28</b>	<b>\$ 0.23</b>	<b>\$ 0.80</b>	<b>\$ 0.63</b>
<b>Diluted income per share(1)</b>	<b>\$ 0.28</b>	<b>\$ 0.23</b>	<b>\$ 0.79</b>	<b>\$ 0.62</b>
<b>Basic weighted average shares outstanding</b>	<b>45,746</b>	<b>45,746</b>	<b>45,715</b>	<b>45,715</b>
<b>Diluted weighted average shares outstanding</b>	<b>46,351</b>	<b>46,351</b>	<b>46,413</b>	<b>46,413</b>

(1) The sum of quarterly income per share may not equal annual income per share due to rounding. The following is a summary of the changes on the University's statement of cash flows.

	<b>Nine Months Ended September 30, 2010</b>	
	<b>As</b>	
	<b>Reported</b>	<b>As Restated</b>
Net income	\$ 36,794	\$ 28,956
Provision for bad debts	16,347	29,283
Deferred income taxes	(4,163)	(9,461)
Changes in accounts receivable	(39,280)	(39,080)
Net cash provided by operating activities	80,534	80,534

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**GRAND CANYON EDUCATION, INC.**  
**Notes to Consolidated Financial Statements**  
**(In thousands, except per share data)**  
**(Unaudited)**

**3. Summary of Significant Accounting Policies**

***Principles of Consolidation***

The consolidated financial statements include the accounts of Grand Canyon Education, Inc. and its wholly-owned subsidiaries. Intercompany transactions have been eliminated in consolidation.

***Unaudited Interim Financial Information***