Grand Canyon Education, Inc.
Form 10-Q
April 29, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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	**20-3356009**
(State or other jurisdiction of Incorporation or organization)	**(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 x 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 x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The total number of shares of common stock outstanding as of April 24, 2015, was 47,075,172.

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GRAND CANYON EDUCATION, INC.

FORM 10-Q

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GRAND CANYON EDUCATION, INC.

Consolidated Income Statements

(Unaudited)

(In thousands, except per share data)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net revenue	$ 194,127	$ 167,432
Costs and expenses:		
Instructional costs and services	78,687	70,678
Admissions advisory and related, including $505 and $805 to related parties for the three months ended March 31, 2015 and 2014, respectively	28,333	26,261
Advertising	20,031	16,712
Marketing and promotional	1,694	1,791
General and administrative	9,396	8,554
Total costs and expenses	138,141	123,996
Operating income	55,986	43,436
Interest expense	(375)	(523)
Interest and other income	257	137
Income before income taxes	55,868	43,050
Income tax expense	21,689	16,762
Net income	$ 34,179	$ 26,288
Earnings per share:		
Basic income per share	$ 0.75	$ 0.58
Diluted income per share	$ 0.72	$ 0.56
Basic weighted average shares outstanding	45,789	45,205
Diluted weighted average shares outstanding	47,201	46,841

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 March 31, 2015	2014
Net income	$ 34,179	$ 26,288
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on available-for-sale securities, net of taxes of $3 and $10 for March 31, 2015 and 2014, respectively	5	(16)
Unrealized losses on hedging derivatives, net of taxes of $153 and $17 for March 31, 2015 and 2014, respectively	(239)	(26)
Comprehensive income	$ 33,945	$ 26,246

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)	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS:		
Current assets		
Cash and cash equivalents	$ 86,156	$ 65,238
Restricted cash, cash equivalents and investments	57,875	67,840
Investments	101,015	100,784
Accounts receivable, net	6,689	7,605
Deferred income taxes	6,106	6,149
Other current assets	20,240	19,429
Total current assets	278,081	267,045
Property and equipment, net	527,729	478,170
Prepaid royalties	3,577	3,650
Goodwill	2,941	2,941
Other assets	3,242	3,907
Total assets	$ 815,570	$ 755,713
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current liabilities		
Accounts payable	$ 34,316	$ 22,715
Accrued compensation and benefits	18,216	23,995
Accrued liabilities	14,804	13,533
Income taxes payable	15,544	4,906
Student deposits	58,949	69,584
Deferred revenue	53,407	36,868
Due to related parties	420	403
Current portion of capital lease obligations	92	91
Current portion of notes payable	6,618	6,616
Total current liabilities	202,366	178,711
Capital lease obligations, less current portion	383	406
Other noncurrent liabilities	4,245	4,513
Deferred income taxes, noncurrent	17,166	15,974
Notes payable, less current portion	78,221	79,877
Total liabilities	302,381	279,481
Commitments and contingencies		
Stockholders equity		

Preferred stock, $0.01 par value, 10,000 shares authorized; 0 shares issued and outstanding at March 31, 2015 and December 31, 2014				
Common stock, $0.01 par value, 100,000 shares authorized; 50,164 and 49,746 shares issued and 47,068 and 46,744 shares outstanding at March 31, 2015 and December 31, 2014, respectively		502		497
Treasury stock, at cost, 3,096 and 3,002 shares of common stock at March 31, 2015 and December 31, 2014, respectively		(57,948)		(53,770)
Additional paid-in capital		165,734		158,549
Accumulated other comprehensive loss		(269)		(35)
Retained earnings		405,170		370,991
Total stockholders equity		513,189		476,232
Total liabilities and stockholders equity	$	815,570	$	755,713

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 Shares	Common Stock Par Value	Treasury Stock Shares	Treasury Stock Cost	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2014	49,746	$ 497	3,002	$ (53,770)	$ 158,549	$ (35)	$ 370,991	$ 476,232
Comprehensive income						(234)	34,179	33,945
Restricted shares forfeited			3					
Exercise of stock options	105	2			1,733			1,735
Excess tax benefits					2,870			2,870
Share-based compensation	313	3	91	(4,178)	2,582			(1,593)
Balance at March 31, 2015	50,164	$ 502	3,096	$ (57,948)	$ 165,734	$ (269)	$ 405,170	$ 513,189

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)

(In thousands)	**Three Months Ended March 31, 2015**	**Three Months Ended March 31, 2014**
Cash flows provided by operating activities:		
Net income	$ 34,179	$ 26,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	2,603	2,204
Excess tax benefits from share-based compensation	(2,816)	(6,419)
Provision for bad debts	3,968	3,795
Depreciation and amortization	8,154	6,929
Deferred income taxes	1,001	1,150
Prepaid royalty impairment		966
Other		121
Changes in assets and liabilities:		
Restricted cash, cash equivalents and investments	9,965	13,534
Accounts receivable	(3,052)	(3,962)
Prepaid expenses and other	(283)	957
Due to/from related parties	17	62
Accounts payable	(165)	(1,702)
Accrued liabilities and employee related liabilities	(4,526)	(6,419)
Income taxes receivable/payable	13,508	15,104
Deferred rent	(268)	(260)
Deferred revenue	16,539	13,884
Student deposits	(10,635)	(12,561)
Net cash provided by operating activities	68,189	53,671
Cash flows used in investing activities:		
Capital expenditures	(45,737)	(27,214)
Purchases of investments	(10,710)	(62,711)
Proceeds from sale or maturity of investments	10,479	13,665
Net cash used in investing activities	(45,968)	(76,260)
Cash flows (used in) provided by financing activities:		
Principal payments on notes payable and capital lease obligations	(1,676)	(1,672)
Repurchase of common shares including shares withheld in lieu of income taxes	(4,178)	(4,243)
Excess tax benefits from share-based compensation	2,816	6,419
Net proceeds from exercise of stock options	1,735	5,390

Net cash (used in) provided by financing activities	(1,303)	5,894
Net increase (decrease) in cash and cash equivalents	20,918	(16,695)
Cash and cash equivalents, beginning of period	65,238	55,824
Cash and cash equivalents, end of period	$ 86,156	$ 39,129
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 386	$ 535
Cash paid for income taxes	$ 6,800	$ 372
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment included in accounts payable	$ 17,611	$ 5,438
Tax benefit of Spirit warrant intangible	$ 65	$ 65
Shortfall tax expense from share-based compensation	$ 11	$ 9

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 comprehensive regionally accredited university that offers over 160 graduate and undergraduate degree programs across eight colleges both online and on ground at our 200+ acre campus in Phoenix, Arizona, and at facilities we lease and at facilities owned by third party employers. Our undergraduate programs are designed to be innovative and to meet the future needs of employers, while providing students with the needed critical thinking and effective communication skills developed through a Christian, liberal arts foundation. The University is accredited by The Higher Learning Commission. The University s wholly-owned subsidiaries are primarily used to facilitate expansion of the University campus.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the University and its wholly-owned subsidiaries. Intercompany transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying unaudited interim consolidated financial statements of the University have been prepared in accordance with U.S. generally accepted accounting principles and pursuant to the rules and regulations of the United States Securities and Exchange Commission and the instructions to Form 10-Q and Article 10, consistent in all material respects with those applied in its financial statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2014. They do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Such interim financial information is unaudited but reflects all adjustments that in the opinion of management are necessary for the fair presentation of the interim periods presented. Interim results are not necessarily indicative of results for a full year. These consolidated financial statements should be read in conjunction with the University s audited financial statements and footnotes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2014 from which the December 31, 2014 balance sheet information was derived.

Restricted Cash, Cash Equivalents and Investments

A significant portion of the University s revenue is received from students who participate in government financial aid and assistance programs. Restricted cash, cash equivalents and investments primarily represent amounts received from the federal and state governments under various student aid grant and loan programs, such as Title IV. The University receives these funds subsequent to the completion of the authorization and disbursement process and holds them for the benefit of the student. The U.S. Department of Education (Department of Education) requires Title IV funds collected in advance of student billings to be restricted until the course begins. The University records all of these amounts as a current asset in restricted cash, cash equivalents and investments. The majority of these funds remains as restricted for an average of 60 to 90 days from the date of receipt.

Investments

The University considers its investments in municipal bond, mutual funds and municipal securities as available-for-sale securities. Available-for-sale securities are carried at fair value, determined using Level 2 of the hierarchy of valuation inputs, with the use of inputs other than quoted prices that are observable for the assets, with unrealized gains and losses, net of tax, reported as a separate component of other comprehensive income. Unrealized losses considered to be other-than-temporary are recognized currently in earnings. Amortization of premiums, accretion of discounts, interest and dividend income and realized gains and losses are included in interest and other income.

GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

Note Receivable

The University purchased a note receivable from a financial institution at fair market value in the fourth quarter of 2012 for $27,000. The note bore interest at 11%, which represented the 6% rate of the loan plus the 5% default rate. The principal and most of the interest due on the note was paid in March 2013 resulting in the full return on investment of the note receivable and an additional gain in interest income and other income of $2,187 on the loan. However, the borrower has disputed certain amounts remaining due under the note agreement, including default interest in the amount of $432, a late payment penalty in the amount of $1,392, and a statutory trustee s fee in the amount of $139. The funds disputed by the borrower, plus interest thereon, were deposited into an escrow account with the clerk of the Maricopa County Superior Court pending resolution of the disputed issues. In the third quarter of 2013, the court ruled in favor of the University with respect to the late penalty and default interest accrued thereon. Accordingly, the University recorded interest and other income of $1,459 for the year ended December 31, 2013. The court ordered the late penalty funds and interest thereon to be released to the University on October 28, 2013 unless prior to said date, borrower filed with the court a formal notice of appeal and simultaneously deposited an additional $344 into escrow with the clerk of the court representing continued interest accruing on the late penalty pending an appeal. On October 28, 2013 borrower deposited with the clerk of the court the required cash bond in the amount of $344 and filed its formal notice of appeal. On January 29, 2015, the court ruled in favor of the University with respect to the remaining default interest and interest thereon. The University is waiting for the formal written decision from the Arizona Court of Appeals.

Derivatives and Hedging

Derivative financial instruments are recorded on the balance sheet as assets or liabilities and re-measured at fair value at each reporting date. For derivatives designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Derivative financial instruments enable the University to manage its exposure to interest rate risk. The University does not engage in any derivative instrument trading activity. Credit risk associated with the University s derivatives is limited to the risk that a derivative counterparty will not perform in accordance with the terms of the contract. Exposure to counterparty credit risk is considered low because these agreements have been entered into with institutions with strong credit ratings, and they are expected to perform fully under the terms of the agreements.

On June 30, 2009 and February 27, 2013, respectively, the University entered into an interest rate swap and an interest rate corridor to manage its 30 Day LIBOR interest exposure related to its variable rate debt. The fair values of the interest rate corridor instrument as of March 31, 2015 and December 31, 2014 were $937 and $1,332, respectively, which are included in other assets. The interest rate swap was terminated upon its expiration date in April 2014. The fair values of each derivative instrument were determined using a hypothetical derivative transaction and Level 2 of the hierarchy of valuation inputs. These derivative instruments were originally designated as cash flow hedges of variable rate debt obligations. The adjustment of ($392) and ($43) for the three months ended March 31, 2015 and 2014, respectively, for the effective portion of the gain/(loss) on the derivatives are included as a component of other comprehensive income (loss), net of taxes.

The interest rate corridor instrument reduces variable interest rate risk starting March 1, 2013 through December 20, 2019 with a notional amount of $85,000 as of March 31, 2015. The corridor instrument s terms permits the University to hedge its interest rate risk at several thresholds; the University pays variable interest monthly based on the 30 Day LIBOR rates until that index reaches 1.5%. If 30 Day LIBOR is equal to 1.5% through 3.0%, the University pays 1.5%. If 30 Day LIBOR exceeds 3.0%, the University pays actual 30 Day LIBOR less 1.5%.

As of March 31, 2015, no derivative ineffectiveness was identified. Any ineffectiveness in the University s derivative instrument designated as a hedge is reported in interest expense in the income statement. For the three months ended March 31, 2015 and 2014, $3 of credit risk was recorded in interest expense for the interest rate corridor. At March 31, 2015, the University does not expect to reclassify gains or losses on derivative instruments from accumulated other comprehensive income (loss) into earnings during the next 12 months.

Fair Value of Financial Instruments

As of March 31, 2015, the carrying value of cash and cash equivalents, investments, accounts receivable, account payable and accrued compensation and benefits and accrued liabilities expenses approximate their fair value based on the liquidity or the short-term maturities of these instruments. The carrying value of notes payable approximates fair value as it is based on variable rate index. The carrying value of capital lease obligations approximate fair value based upon market interest rates available to the University for debt of similar risk and maturities. Derivative financial instruments are carried at fair value, determined using Level 2 of the hierarchy of valuation inputs, with the use of inputs other than quoted prices that are observable for the asset or liability.

GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

The fair value of investments, primarily municipal securities, including municipal bond portfolios were determined using Level 2 of the hierarchy of valuation inputs, with the use of inputs other than quoted prices that are observable for the assets. The unit of account used for valuation is the individual underlying security. The municipal securities are comprised of city and county bonds related to schools, water and sewer, utilities, transportation, healthcare and housing. Because these securities are held by the University as investments, assessment of non-performance risk is not applicable as such considerations are only applicable in evaluating the fair value measurements for liabilities.

Revenue Recognition

Net revenues consist primarily of tuition and fees derived from courses taught by the University online, on ground at its 200+ acre campus in Phoenix, Arizona, and at facilities it leases or those of employers, as well as from related educational resources that the University provides to its students, such as access to online materials. Tuition revenue and most fees from related educational resources are recognized pro-rata over the applicable period of instruction, net of scholarships provided by the University. For the three months ended March 31, 2015 and 2014, the University s revenue was reduced by approximately $46,432 and $37,719, respectively, as a result of scholarships that the University offered to students. The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods. Certain states in which students reside impose separate, mandatory refund policies, which override the University s policy to the extent in conflict. If a student withdraws at a time when only a portion, or none, of the tuition is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the tuition that was not refunded pro-rata over the applicable period of instruction. However, for students that have taken out financial aid to pay their tuition and for which a Return to Title IV is required as a result of his or her withdrawal, the University recognizes revenue after a student withdraws only at the time of cash collection. Sales tax collected from students is excluded from net revenues. Collected but unremitted sales tax is included as an accrued liability in the consolidated balance sheets. The University also charges online students an upfront learning management fee, which is deferred and recognized over the average expected term of a student. Costs that are direct and incremental to new online students are also deferred and recognized ratably over the average expected term of a student. Deferred revenue and student deposits in any period represent the excess of tuition, fees, and other student payments received as compared to amounts recognized as revenue on the income statement and are reflected as current liabilities in the accompanying consolidated balance sheet. The University s educational programs have starting and ending dates that differ from its fiscal quarters. Therefore, at the end of each fiscal quarter, a portion of revenue from these programs is not yet earned. Other revenues may be recognized as sales occur or services are performed.

Allowance for Doubtful Accounts

The University records an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of its students to make required payments, which includes the recovery of financial aid funds advanced to a student for amounts in excess of the student s cost of tuition and related fees. The University determines the adequacy of its allowance for doubtful accounts based on an analysis of its historical bad debt experience, current economic trends, the aging of the accounts receivable and student status. The University applies reserves to its receivables based upon an estimate of the risk presented by the age of the receivables and student status. The University writes off accounts receivable balances at the earlier of the time the balances were deemed uncollectible, or one year after the revenue is generated. The University accelerates the write off of inactive student accounts such that the accounts are written off by day 150. The University reflects accounts receivable with an offsetting allowance as long as management believes there is a reasonable possibility of collection. Bad debt expense is recorded as an instructional costs and services expense in the consolidated income statement.

Long-Lived Assets (other than goodwill)

The University evaluates the recoverability of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Instructional Costs and Services

Instructional costs and services consist primarily of costs related to the administration and delivery of the University s educational programs. This expense category includes salaries, benefits and share-based compensation for full-time and adjunct faculty and administrative personnel, information technology costs, bad debt expense, curriculum and new program development costs (which are expensed as incurred) and costs associated with other support groups that provide services directly to the students. This category also includes an allocation of depreciation, amortization, rent, and occupancy costs attributable to the provision of educational services, primarily at the University s Phoenix, Arizona campus.

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GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

Admissions Advisory and Related

Admissions advisory and related expenses include salaries and benefits for admissions advisory personnel and, revenue share expense as well as an allocation of depreciation, amortization, rent and occupancy costs attributable to the admissions advisory personnel.

Advertising

Advertising expenses include brand advertising, marketing leads and other branding activities. Advertising costs are expensed as incurred.

Marketing and Promotional

Marketing and promotional expenses include salaries, benefits and share-based compensation for marketing personnel, and other promotional expenses. This category also includes an allocation of depreciation, amortization, rent, and occupancy costs attributable to marketing and promotional activities. Marketing and promotional costs are expensed as incurred.

General and Administrative

General and administrative expenses include salaries, benefits and share-based compensation of employees engaged in corporate management, finance, human resources, compliance, and other corporate functions. General and administrative expenses also include an allocation of depreciation, amortization, rent, and occupancy costs attributable to the departments providing general and administrative functions.

Commitments and Contingencies

The University accrues for contingent obligations when it is probable that a liability has been incurred and the amount is reasonably estimable. When the University becomes aware of a claim or potential claim, the likelihood of any loss exposure is assessed. If it is probable that a loss will result and the amount of the loss is estimable, the University records a liability for the estimated loss. If the loss is not probable or the amount of the potential loss is not estimable, the University will disclose the claim if the likelihood of a potential loss is reasonably possible and the amount of the potential loss could be material. Estimates that are particularly sensitive to future changes include tax, legal, and other regulatory matters, which are subject to change as events evolve, and as additional information becomes available during the administrative and litigation process. The University expenses legal fees as incurred.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Segment Information

The University operates as a single educational delivery operation using a core infrastructure that serves the curriculum and educational delivery needs of both its ground and online students regardless of geography. The University s Chief Executive Officer manages the University s operations as a whole and no expense or operating income information is generated or evaluated on any component level.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Revenue from Contracts with Customers. The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is not permitted. Accordingly, the standard is effective for us on January 1, 2017. The University is currently evaluating the impact that the standard will have on our financial condition, results of operations and disclosures.

GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

The University has determined that no other recent accounting pronouncements apply to its operations or would otherwise have a material impact on its financial statements.

3. Investments

The following is a summary of amounts included in restricted and unrestricted investments as of March 31, 2015 and December 31, 2014. The University sold $9,965 of restricted investments during the three months ended March 31, 2015. The University considered all investments as available for sale.

	As of March 31, 2015			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Municipal securities	$ 83,523	$ 48	$ (165)	$ 83,406
Municipal bond mutual fund	75,484			75,484
Total restricted and unrestricted investments	$ 159,007	$ 48	$ (165)	$ 158,890

	As of December 31, 2014			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Municipal securities	$ 83,364	$ 51	$ (177)	$ 83,238
Municipal bond mutual fund	85,386			85,386
Total unrestricted investments	$ 168,750	$ 51	$ (177)	$ 168,624

The cash flows of municipal securities are backed by the issuing municipality s credit worthiness. All municipal securities are due in one year or less as of March 31, 2015. For the three months ended March 31, 2015, the net unrealized loss on available-for-sale securities was $72, net of taxes.

4. Net Income Per Common Share

Basic net income per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflects the assumed conversion of all potentially dilutive securities, consisting of stock options and restricted stock awards, for which the estimated fair value exceeds the exercise price, less shares which could have been purchased with the related proceeds, unless anti-dilutive. For employee equity awards, repurchased shares are also included for any unearned compensation adjusted for tax.

The table below reflects the calculation of the weighted average number of common shares outstanding, on an as if converted basis, used in computing basic and diluted earnings per common share.

	Three Months Ended March 31,	
	2015	**2014**
Denominator:		
Basic weighted average shares outstanding	45,789	45,205
Effect of dilutive stock options and restricted stock	1,412	1,636
Diluted weighted average shares outstanding	47,201	46,841

Diluted weighted average shares outstanding exclude the incremental effect of shares that would be issued upon the assumed exercise of stock options and vesting of restricted stock. For the three months ended March 31, 2015 and 2014, approximately 268 and 0, respectively, of the University s stock options outstanding were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive. These options and restricted stock awards could be dilutive in the future.

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GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

5. Allowance for Doubtful Accounts

	Balance at Beginning of Period	Charged to Expense	Deductions[1]	Balance at End of Period
Three months ended March 31, 2015	$ 6,472	3,968	(3,492)	$ 6,948
Three months ended March 31, 2014	$ 9,678	3,795	(4,973)	$ 8,500

(1) Deductions represent accounts written off, net of recoveries.

6. Property and Equipment, net

Property and equipment, net consist of the following:

	March 31, 2015	December 31, 2014
Land	$ 86,278	$ 76,537
Land improvements	9,608	8,800
Buildings	298,450	298,124
Buildings and leasehold improvements	46,147	45,855
Equipment under capital leases	5,310	5,310
Computer equipment	79,275	75,990
Furniture, fixtures and equipment	38,449	38,162
Internally developed software	21,545	20,813
Other	1,099	1,099
Construction in progress	61,921	20,693
	648,082	591,383
Less accumulated depreciation and amortization	(120,353)	(113,213)
Property and equipment, net	$ 527,729	$ 478,170

7. Commitments and Contingencies

Leases

The University leases certain land, buildings and equipment under non-cancelable operating leases expiring at various dates through 2022. Future minimum lease payments under operating leases due each year are as follows at March 31, 2015:

2015 (remaining nine months)	$ 5,167
2016	5,310
2017	3,935
2018	3,432
2019	3,022
Thereafter	4,869
Total minimum payments	$ 25,735

Total rent expense and related taxes and operating expenses under operating leases for the three months ended March 31, 2015 and 2014 were $2,176 and $2,090, respectively.

GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

Legal Matters

From time to time, the University is a party to various lawsuits, claims, and other legal proceedings that arise in the ordinary course of business, some of which are covered by insurance. When the University is aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the University records a liability for the loss. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the University discloses the nature of the specific claim if the likelihood of a potential loss is reasonably possible and the amount involved could be material. With respect to the majority of pending litigation matters, the University s ultimate legal and financial responsibility, if any, cannot be estimated with certainty and, in most cases, any potential losses related to those matters are not considered probable.

Upon resolution of any pending legal matters, the University may incur charges in excess of presently established reserves. Management does not believe that any such charges would, individually or in the aggregate, have a material adverse effect on the University s financial condition, results of operations or cash flows.

Tax Reserves, Non-Income Tax Related

From time to time the University has exposure to various non-income tax related matters that arise in the ordinary course of business. At March 31, 2015 and December 31, 2014, the University reserved approximately $652 and $659, respectively, for tax matters where its ultimate exposure is considered probable and the potential loss can be reasonably estimated.

8. Share-Based Compensation

Incentive Plan

Restricted Stock

During the three months ended March 31, 2015, the University granted 313 shares of common stock with a service vesting condition to certain of its executives, officers, faculty and employees. The restricted shares have voting rights and vest in five annual installments of 20% starting on March 1, 2016 and each of the four anniversaries of the vesting date following the date of grant. Upon vesting, shares will be held in lieu of taxes equivalent to the minimum statutory tax withholding required to be paid when the restricted stock vests. During the three months ended March 31, 2015, the University withheld 91 shares of common stock in lieu of taxes at a cost of $4,178 on the restricted stock vesting dates.

A summary of the activity related to restricted stock granted under the University s Incentive Plan since December 31, 2014 is as follows:

	Total Shares	Weighted Average Grant Date Fair Value per Share
Outstanding as of December 31, 2014	1,033	$ 28.75
Granted	313	$ 45.75
Vested	(257)	$ 26.47
Forfeited, canceled or expired	(3)	$ 25.82
Outstanding as of March 31, 2015	1,086	$ 34.19

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GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

Stock Options

During the three months ended March 31, 2015, no options were granted. A summary of the activity related to stock options granted under the University s Incentive Plan since December 31, 2014 is as follows:

	Summary of Stock Options Outstanding			
	Total Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($)(1)
Outstanding as of December 31, 2014	2,452	$ 14.83		
Granted		$		
Exercised	(105)	$ 16.57		
Forfeited, canceled or expired	(3)	$ 16.90		
Outstanding as of March 31, 2015	2,344	$ 14.75	4.60	$ 66,930
Exercisable as of March 31, 2015	2,116	$ 14.58	4.45	$ 60,783
Available for issuance as of March 31, 2015	1,927			

(1) Aggregate intrinsic value represents the value of the University s closing stock price on March 31, 2015 ($43.30) in excess of the exercise price multiplied by the number of shares underlying options outstanding or exercisable, as applicable.

Share-based Compensation Expense

The table below outlines share-based compensation expense for the three months ended March 31, 2015 and 2014 related to restricted stock and stock options granted:

	2015	2014

Instructional costs and services	$ 1,549	$ 1,312
Admissions advisory and related expenses	44	37
Marketing and promotional	46	60
General and administrative	964	795
Share-based compensation expense included in operating expenses	2,603	2,204
Tax effect of share-based compensation	(1,041)	(882)
Share-based compensation expense, net of tax	$ 1,562	$ 1,322

9. Regulatory

The University is subject to extensive regulation by federal and state governmental agencies and accrediting bodies. In particular, the Higher Education Act of 1965, as amended (the Higher Education Act), and the regulations promulgated thereunder by the Department of Education, subject the University to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy in order to participate in the various federal student financial assistance programs under Title IV of the Higher Education Act.

To participate in the Title IV programs, an institution must be authorized to offer its programs of instruction by the relevant agency of the state in which it is located, accredited by an accrediting agency recognized by the Department of Education and certified as eligible by the Department of Education. The Department of Education will certify an institution to participate in the Title IV programs only after the institution has demonstrated compliance with the Higher Education Act and the Department of Education s extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance to the Department of Education on an ongoing basis. As of March 31, 2015, management believes the University is in compliance with the applicable regulations in all material respects.

Because the University operates in a highly regulated industry, it, like other industry participants, may be subject from time to time to investigations, claims of non-compliance, or lawsuits by governmental agencies or third parties, which allege statutory violations, regulatory infractions, or common law causes of action. While there can be no assurance that regulatory agencies or third parties will not undertake investigations or make claims against the University, or that such claims, if made, will not have a material adverse effect on the University s business, results of operations or financial condition, management believes the University is in compliance with applicable regulations in all material respects.

GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

10. Treasury Stock

The Board of Directors has authorized the University to repurchase up to $75,000 in aggregate of common stock, from time to time, depending on market conditions and other considerations. The current expiration date on the repurchase authorization is September 30, 2015. Repurchases occur at the University s discretion. Repurchases may be made in the open market or in privately negotiated transactions, pursuant to the applicable Securities and Exchange Commission rules. The amount and timing of future share repurchases, if any, will be made as market and business conditions warrant. Since its approval of the share repurchase plan, the University has purchased 2,787 shares of common stock at an aggregate cost of $49,135. During the three months ended March 31, 2015 the University did not repurchase any shares of common stock. At March 31, 2015, there remained $25,865 available under its share repurchase authorization. Shares repurchased in lieu of taxes are not included in the repurchase plan totals as they were approved in conjunction with the restricted share awards.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes that appear elsewhere in this report.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Item 2, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, contains certain forward-looking statements, which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation, and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new programs; statements as to whether regulatory developments or other matters may or may not have a material adverse effect on our financial position, results of operations, or liquidity; statements concerning projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, and future economic performance; and statements of management s goals and objectives and other similar expressions concerning matters that are not historical facts. Words such as may, should, could, would, predicts, potential, continue, anticipates, future, intends, plans, believes, estimates and similar expressions, as well as statements in future identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made or management s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- our failure to comply with the extensive regulatory framework applicable to our industry, including Title IV of the Higher Education Act and the regulations thereunder, state laws and regulatory requirements, and accrediting commission requirements;
- the ability of our students to obtain federal Title IV funds, state financial aid, and private financing;
- potential damage to our reputation or other adverse effects as a result of negative publicity in the media, in the industry or in connection with governmental reports or investigations or otherwise, affecting us or other companies in the for-profit postsecondary education sector;
- risks associated with changes in applicable federal and state laws and regulations and accrediting commission standards including pending rulemaking by the Department of Education;
- our ability to properly manage risks and challenges associated with the expansion of our campus, potential acquisitions of, or investments in, new businesses, acquisitions of new properties, or the development of new campuses;

our ability to hire and train new, and develop and train existing employees and faculty;

the pace of growth of our enrollment;

our ability to convert prospective students to enrolled students and to retain active students;

our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis;

industry competition, including competition for students and for qualified executives and other personnel;

risks associated with the competitive environment for marketing our programs;

failure on our part to keep up with advances in technology that could enhance the online experience for our students;

the extent to which obligations under our loan agreement, including the need to comply with restrictive and financial covenants and to pay principal and interest payments, limits our ability to conduct our operations or seek new business opportunities;

our ability to manage future growth effectively; and

general adverse economic conditions or other developments that affect the job prospects of our students.

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Additional factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in this Management s Discussion and Analysis of Financial Condition and Results of Operations and in Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as updated in our subsequent reports filed with the Securities and Exchange Commission (SEC), including any updates found in Part II, Item 1A of this Quarterly Report on Form 10-Q or our other reports on Form 10-Q. You should not put undue reliance on any forward-looking statements. Forward-looking statements speak only as of the date the statements are made and we assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

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Overview

We are a comprehensive regionally accredited university that offers over 160 graduate and undergraduate degree programs across eight colleges both online and on ground at our 200+ acre campus in Phoenix, Arizona, and at facilities we lease and at facilities owned by third party employers. Our undergraduate programs are designed to be innovative and meet the future needs of employers, while providing students with the needed critical thinking and effective communication skills developed through a Christian-oriented, liberal arts foundation.

End-of-period enrollment increased 12.9% between March 31, 2015 and March 31, 2014, as ground enrollment increased 25.3% and online enrollment increased 10.6% over the prior year. We attribute the significant growth in our ground enrollment between years to our increasing brand recognition and the value proposition that our ground traditional campus affords to traditional-aged students and their parents. After scholarships, our ground traditional students pay tuition, room, board, and fees in an amount that is often half to a third of what it costs to attend a private, traditional university in another state and an amount comparable to what it costs to attend the public universities in the state of Arizona as an in-state student. Net revenues increased 15.9% over the first fiscal quarter of the prior year primarily due to the enrollment growth and due to an increase in ancillary revenues resulting from the increased traditional student enrollment (e.g. housing, food, etc.). We did not raise tuition in any of our programs for our 2013-2014 or 2014-2015 academic years and have not raised our tuition for our traditional ground programs in six years. Operating income was $56.0 million for the three months ended March 31, 2015, an increase of 29.8% over the $43.4 million in operating income for the three months ended March 31, 2014.

The following is a summary of our student enrollment at March 31, 2015 and 2014 by degree type and by instructional delivery method:

	2015[1]		**2014[1]**	
	# of Students	**% of Total**	**# of Students**	**% of Total**
Graduate degrees[2]	27,767	39.9%	23,770	38.6%
Undergraduate degree	41,785	60.1%	37,831	61.4%
Total	69,552	100.0%	61,601	100.0%

	2015[1]		**2014[1]**	
	# of Students	**% of Total**	**# of Students**	**% of Total**
Online[3]	57,450	82.6%	51,944	84.3%
Ground[4]	12,102	17.4%	9,657	15.7%
Total	69,552	100.0%	61,601	100.0%

(1) Enrollment at March 31, 2015 and 2014 represents individual students who attended a course during the last two months of the calendar quarter. Included in enrollment at March 31, 2015 and 2014 are students pursuing

non-degree certificates of 864 and 801, respectively.

(2) Includes 5,792 and 4,619 students pursuing doctoral degrees at March 31, 2015 and 2014, respectively.

(3) As of March 31, 2015 and 2014, 46.6% and 44.0%, respectively, of our working adult students (online and professional studies students) were pursuing graduate degrees.

(4) Includes both our traditional on-campus ground students, as well as our professional studies students.

Critical Accounting Policies and Use of Estimates

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. During the three months ended March 31, 2015, there have been no significant changes in our critical accounting policies.

Key Trends, Developments and Challenges

The key trends, developments and challenges facing the University are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. During the three months ended March 31, 2015, there have been no significant changes in these trends. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Key Trends, Developments and Challenges in our Annual Report on Form 10-K for our fiscal year ended December 31, 2014, which is incorporated herein by reference.

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Results of Operations

The following table sets forth income statement data as a percentage of net revenue for each of the periods indicated:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net revenue	100.0%	100.0%
Operating expenses		
Instructional costs and services	40.5	42.2
Admissions advisory and related	14.6	15.7
Advertising	10.3	10.0
Marketing and promotional	0.9	1.1
General and administrative	4.8	5.1
Total operating expenses	71.2	74.1
Operating income	28.8	25.9
Interest expense	(0.2)	(0.3)
Interest and other income	0.1	0.1