

Grand Canyon Education, Inc.  
Form 10-Q  
October 29, 2014  
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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, 2014**

**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  (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

The total number of shares of common stock outstanding as of October 24, 2014, was 46,701,554.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GRAND CANYON EDUCATION, INC.****Consolidated Income Statements****(Unaudited)**

<b>(In thousands, except per share data)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Net revenue</b>	\$ 175,056	\$ 152,399	\$ 501,082	\$ 435,892
<b>Costs and expenses:</b>				
Instructional costs and services	71,714	64,704	210,239	186,448
Admissions advisory and related, including \$762 and \$953 for the three months ended September 30, 2014 and 2013, respectively, and \$2,373 and \$2,574 for the nine months ended September 30, 2014 and 2013, respectively, to related parties	27,324	24,578	79,793	70,917
Advertising	16,491	15,498	48,954	45,947
Marketing and promotional	1,931	1,299	5,629	4,117
General and administrative	11,640	9,035	29,188	26,064
<b>Total costs and expenses</b>	129,100	115,114	373,803	333,493
<b>Operating income</b>	45,956	37,285	127,279	102,399
Interest expense	(576)	(528)	(1,455)	(1,635)
Interest and other income	43	1,502	377	3,759
<b>Income before income taxes</b>	45,423	38,259	126,201	104,523
Income tax expense	16,407	15,714	47,828	41,969
<b>Net income</b>	\$ 29,016	\$ 22,545	\$ 78,373	\$ 62,554
<b>Earnings per share:</b>				
<b>Basic income per share</b>	\$ 0.64	\$ 0.50	\$ 1.72	\$ 1.40
<b>Diluted income per share</b>	\$ 0.62	\$ 0.49	\$ 1.67	\$ 1.36
<b>Basic weighted average shares outstanding</b>	45,651	44,963	45,486	44,631
<b>Diluted weighted average shares outstanding</b>	47,051	46,424	46,962	45,936

*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,	
	2014	2013	2014	2013
<b>Net income</b>	\$ 29,016	\$ 22,545	\$ 78,373	\$ 62,554
<b>Other comprehensive income, net of tax:</b>				
Unrealized gains (losses) on available-for-sale securities, net of taxes of \$8 and \$0 for the three months ended September 30, 2014 and 2013, respectively, and \$10 and \$0 for the nine months ended September 30, 2014 and 2013, respectively	12	26	(16)	15
Unrealized gains (losses) on hedging derivatives, net of taxes of \$39 and \$56 for the three months ended September 30, 2014 and 2013, respectively, and \$73 and \$310 for the nine months ended September 30, 2014 and 2013, respectively	61	(75)	(113)	448
<b>Comprehensive income</b>	\$ 29,089	\$ 22,496	\$ 78,244	\$ 63,017

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

**Table of Contents****GRAND CANYON EDUCATION, INC.****Consolidated Balance Sheets**

(In thousands, except par value)	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS:</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 56,482	\$ 55,824
Restricted cash and cash equivalents	58,801	64,368
Investments	127,126	108,420
Accounts receivable, net	8,289	7,217
Income taxes receivable	22	3,599
Deferred income taxes	4,940	5,159
Other current assets	19,511	19,116
<b>Total current assets</b>	<b>275,171</b>	<b>263,703</b>
Property and equipment, net	469,294	339,596
Prepaid royalties	3,725	4,641
Goodwill	2,941	2,941
Other assets	4,367	5,219
<b>Total assets</b>	<b>\$ 755,498</b>	<b>\$ 616,100</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 32,925	\$ 24,231
Accrued compensation and benefits	18,893	20,093
Accrued liabilities	14,084	14,554
Income taxes payable	7,799	7
Student deposits	60,472	66,772
Deferred revenue	76,908	32,816
Due to related parties	471	454
Current portion of capital lease obligations	91	89
Current portion of notes payable	6,613	6,607
<b>Total current liabilities</b>	<b>218,256</b>	<b>165,623</b>
Capital lease obligations, less current portion	429	497
Other noncurrent liabilities	4,075	6,811
Deferred income taxes, noncurrent	11,716	11,832
Notes payable, less current portion	81,532	86,493
<b>Total liabilities</b>	<b>316,008</b>	<b>271,256</b>
Commitments and contingencies		

**Stockholders equity**

Preferred stock, \$0.01 par value, 10,000 shares authorized; 0 shares issued and outstanding at September 30, 2014 and December 31, 2013		
Common stock, \$0.01 par value, 100,000 shares authorized; 49,686 and 48,890 shares issued and 46,697 and 46,045 shares outstanding at September 30, 2014 and December 31, 2013, respectively	497	489
Treasury stock, at cost, 2,989 and 2,845 shares of common stock at September 30, 2014 and December 31, 2013, respectively	(53,770)	(48,432)
Additional paid-in capital	154,636	132,904
Accumulated other comprehensive income	229	358
Retained earnings	337,898	259,525
<b>Total stockholders equity</b>	<b>439,490</b>	<b>344,844</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 755,498</b>	<b>\$ 616,100</b>

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



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

	Common Stock		Treasury Stock		Additional	Accumulated	Other	Retained	Total
	Shares	Par Value	Shares	Cost	Paid-in	Comprehensiv	Income (Loss)	Earnings	
Balance at December 31, 2013	48,890	\$ 489	2,845	\$(48,432)	\$ 132,904		\$ 358	\$ 259,525	\$ 344,844
Comprehensive income							(129)	78,373	78,244
Common stock purchased for treasury			38	(1,676)					(1,676)
Restricted shares forfeited			29						
Exercise of stock options	489	5			6,961				6,966
Excess tax benefits					7,413				7,413
Share-based compensation	307	3	77	(3,662)	7,358				3,699
Balance at September 30, 2014	49,686	\$ 497	2,989	\$(53,770)	\$ 154,636		\$ 229	\$ 337,898	\$ 439,490

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

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

<b>(In thousands)</b>	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows provided by operating activities:</b>		
Net income	\$ 78,373	\$ 62,554
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	7,412	7,668
Excess tax benefits from share-based compensation	(7,232)	(3,678)
Provision for bad debts	10,835	14,881
Depreciation and amortization	21,418	18,602
Prepaid royalty impairment	966	
Gain on proceeds received from note receivable		(3,646)
Deferred income taxes	(137)	2,404
Other including fixed asset impairments	2,475	
Changes in assets and liabilities:		
Restricted cash and cash equivalents	5,567	6,249
Accounts receivable	(11,907)	(14,916)
Prepaid expenses and other	(317)	(5,854)
Due to/from related parties	17	(29)
Accounts payable	(2,956)	1,859
Accrued liabilities and employee related liabilities	(1,610)	(3,753)
Income taxes receivable/payable	18,782	(4,055)
Deferred rent	(2,736)	(721)
Deferred revenue	44,092	29,889
Student deposits	(6,300)	(5,668)
<b>Net cash provided by operating activities</b>	<b>156,742</b>	<b>101,786</b>
<b>Cash flows used in investing activities:</b>		
Capital expenditures	(141,217)	(59,168)
Purchase of land and building related to off-site development		(11,209)
Purchases of investments	(101,185)	(101,040)
Proceeds from sale or maturity of investments	82,479	37,548
Restricted funds held for derivative collateral		140
Proceeds received from note receivable		29,187