**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 June 30, 2010**

**or**

o **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 ☑ No o

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 o No o

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 o | Accelerated filer ☑ | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

The total number of shares of common stock outstanding as of August 5, 2010, was 45,774,965.

**GRAND CANYON EDUCATION, INC.**
**FORM 10-Q**
**INDEX**

## PART I — FINANCIAL INFORMATION

### Item 1. Financial Statements

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

| (In thousands, except per share amounts) | Three Months Ended June 30, 2010 | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|---|---|
| **Net revenue** | $ 97,522 | $ 62,905 | $ 186,848 | $ 118,364 |
| **Costs and expenses:** | | | | |
| Instructional costs and services | 36,169 | 20,411 | 67,981 | 38,379 |
| Selling and promotional, including $2,628 and $1,875 for the three months ended June 30, 2010 and 2009, respectively, and $4,975 and $3,391 for the six months ended June 30, 2010 and 2009, respectively, to related parties | 28,976 | 20,726 | 55,852 | 40,301 |
| General and administrative | 11,675 | 8,688 | 22,553 | 17,521 |
| Exit costs | 116 | — | 205 | — |
| Royalty to former owner | 74 | 74 | 148 | 148 |
| **Total costs and expenses** | 77,010 | 49,899 | 146,739 | 96,349 |
| **Operating income** | 20,512 | 13,006 | 40,109 | 22,015 |
| Interest expense | (162) | (420) | (506) | (1,087) |
| Interest income | 37 | 120 | 98 | 229 |
| **Income before income taxes** | 20,387 | 12,706 | 39,701 | 21,157 |
| Income tax expense | 7,991 | 5,063 | 15,825 | 8,439 |
| **Net income** | $ 12,396 | $ 7,643 | $ 23,876 | $ 12,718 |
| **Net income per common share:** | | | | |
| **Basic** | $ 0.27 | $ 0.17 | $ 0.52 | $ 0.28 |
| **Diluted** | $ 0.27 | $ 0.17 | $ 0.51 | $ 0.28 |
| **Shares used in computing net income per common share:** | | | | |
| **Basic** | 45,724 | 44,846 | 45,699 | 45,159 |
| **Diluted** | 46,557 | 45,051 | 46,441 | 45,437 |

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

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

| *(In thousands, except par value)* | June 30, 2010 (Unaudited) | December 31, 2009 |
|---|---|---|
| **ASSETS:** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 43,420 | $ 62,571 |
| Restricted cash, cash equivalents and investments (of which $170 is unrestricted at December 31, 2009) | 30,658 | 3,403 |
| Accounts receivable, net of allowance for doubtful accounts of $11,182 and $7,553 at June 30, 2010 and December 31, 2009, respectively | 42,636 | 13,802 |
| Deferred income taxes | 11,355 | 6,685 |
| Other current assets | 4,864 | 3,785 |
| **Total current assets** | 132,933 | 90,246 |
| Property and equipment, net | 85,012 | 67,370 |
| Investments | — | 360 |
| Prepaid royalties | 6,945 | 7,311 |
| Goodwill | 2,941 | 2,941 |
| Deferred income taxes | 7,509 | 5,956 |
| Other assets | 2,473 | 554 |
| **Total assets** | $ 237,813 | $ 174,738 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY:** | | |
| **Current liabilities** | | |
| Accounts payable | $ 12,053 | $ 8,762 |
| Accrued liabilities | 26,585 | 18,103 |
| Accrued estimated litigation loss | 5,200 | 5,200 |
| Accrued exit costs | 351 | 832 |
| Income taxes payable | 4,815 | 2,261 |
| Deferred revenue and student deposits | 45,083 | 23,204 |
| Due to related parties | 2,076 | 1,174 |
| Current portion of capital lease obligations | 710 | 751 |
| Current portion of notes payable | 2,100 | 2,105 |
| **Total current liabilities** | 98,973 | 62,392 |
| Capital lease obligations, less current portion | 502 | 868 |
| Notes payable, less current portion and other | 25,031 | 25,450 |
| **Total liabilities** | 124,506 | 88,710 |
| Commitments and contingencies | | |
| **Stockholders' equity** | | |
| Preferred stock, $0.01 par value, 10,000 shares authorized; 0 shares issued and outstanding at June 30, 2010 and December 31, 2009 | — | — |
| Common stock, $0.01 par value, 100,000 shares authorized; 45,745 and 45,658 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively | 457 | 457 |
| Additional paid-in capital | 73,880 | 70,100 |
| Accumulated other comprehensive loss | (521) | (144) |
| Accumulated earnings | 39,491 | 15,615 |
| **Total stockholders' equity** | 113,307 | 86,028 |
| **Total liabilities and stockholders' equity** | $ 237,813 | $ 174,738 |

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

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

| | Common Stock | | Additional Paid-in | Accumulated Other Comprehensive | Accumulated | |
|---|---|---|---|---|---|---|
| | Shares | Par Value | Capital | Loss | Earnings | Total |
| Balance at December 31, 2009 | 45,658 | $ 457 | $ 70,100 | $ (144) | $ 15,615 | $ 86,028 |
| Net income | — | — | — | — | 23,876 | 23,876 |
| Unrealized loss on hedging derivatives, net of taxes of $237 | | | | (354) | | (354) |
| Unrealized losses on available for-sale securities, net of taxes of $3 | — | — | — | (4) | — | (4) |
| Reclassification of realized gains on available for-sale securities, net of taxes of $12 | — | — | — | (19) | — | (19) |
| Comprehensive income | | | | | | 23,499 |
| Exercise of stock options | 80 | — | 955 | — | — | 955 |
| Excess tax benefits from share-based compensation | — | — | 487 | — | — | 487 |
| Share-based compensation | 7 | — | 2,338 | — | — | 2,338 |
| Balance at June 30, 2010 | 45,745 | $ 457 | $ 73,880 | $ (521) | $ 39,491 | $ 113,307 |

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

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

| (In thousands) | Six Months Ended June 30, 2010 | 2009 |
|---|---|---|
| **Cash flows provided by operating activities:** | | |
| Net income | $ 23,876 | $ 12,718 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Share-based compensation | 2,338 | 1,577 |
| Excess tax benefits from share-based compensation | (536) | (9) |
| Amortization of debt issuance costs | 32 | — |
| Provision for bad debts | 10,273 | 6,587 |
| Depreciation and amortization | 5,309 | 3,386 |
| Non-capitalizable system conversion costs | 4,013 | — |
| Exit costs | (481) | — |
| Deferred income taxes | (5,974) | (1,296) |
| Other | (59) | (14) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (43,120) | (7,757) |
| Prepaid expenses and other | (2,910) | 333 |
| Due to/from related parties | 902 | 469 |
| Accounts payable | 3,062 | 2,942 |
| Accrued liabilities | 8,482 | 1,729 |
| Income taxes payable | 3,041 | 396 |
| Deferred revenue and student deposits | 21,879 | 5,921 |
| **Net cash provided by operating activities** | 30,127 | 26,982 |
| **Cash flows used in investing activities:** | | |
| Capital expenditures | (22,355) | (11,111) |
| Purchase of campus land and buildings | — | (35,505) |
| Change in restricted cash and cash equivalents | (27,386) | (1,108) |
| Proceeds from sale or maturity of investments | 487 | — |
| **Net cash used in investing activities** | (49,254) | (47,724) |
| **Cash flows (used in) provided by financing activities:** | | |
| Principal payments on notes payable and capital lease obligations | (1,515) | (976) |
| Proceeds from debt | — | 25,547 |
| Repurchase of common shares | — | (14,495) |
| Excess tax benefits from share-based compensation | 536 | 9 |
| Net proceeds from exercise of stock options | 955 | 247 |
| **Net cash (used in) provided by financing activities** | (24) | 10,332 |
| **Net decrease in cash and cash equivalents** | (19,151) | (10,410) |
| **Cash and cash equivalents, beginning of period** | 62,571 | 35,152 |
| **Cash and cash equivalents, end of period** | $ 43,420 | $ 24,742 |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid for interest | $ 409 | $ 1,276 |
| Cash paid for income taxes | $ 19,061 | $ 9,402 |
| **Supplemental disclosure of non-cash investing and financing activities** | | |
| Purchase of equipment through capital lease obligations | $ — | $ 2,116 |
| Purchases of property and equipment included in accounts payable | $ 229 | $ 1,041 |
| Settlement of capital lease obligation | $ — | $ 30,020 |
| Tax benefit of Spirit warrant intangible | $ 259 | $ 314 |

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

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

**1. Nature of Business**

Grand Canyon Education, Inc. (the "Company") 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 Company offers courses online, at its 100 acre campus in Phoenix, Arizona and onsite at the facilities of employers. The Company is accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools.

**2. Summary of Significant Accounting Policies**

***Unaudited Interim Financial Information***

The accompanying unaudited interim financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles, 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, 2009. Accordingly, 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. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's audited financial statements and footnotes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2009 from which the December 31, 2009 balance sheet information was derived.

***Instructional Costs and Services***

Instructional cost and services consist primarily of costs related to the administration and delivery of the Company's educational programs. This expense category includes salaries, benefits and share-based compensation for full-time and adjunct faculty and administrative personnel, costs associated with online faculty, information technology costs, 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 Company's Phoenix, Arizona campus. In the second quarter of 2010, the Company completed the conversion of its student records system from DataTel to CampusVue. In connection with this conversion, the Company incurred approximately $4,013 of costs due to unanticipated delays in information processing which are included in instructional costs and services for the three- and six-month periods ended June 30, 2010.

***Selling and Promotional***

Selling and promotional expenses include salaries, benefits and share-based compensation of personnel engaged in the marketing, recruitment, and retention of students, as well as advertising costs associated with purchasing leads, hosting events and seminars, and producing marketing materials. This category also includes an allocation of depreciation, amortization, rent and occupancy costs attributable to selling and promotional activities at the Company's facilities in Arizona. Selling 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 bad debt expense, as well as an allocation of depreciation, amortization, rent, and occupancy costs attributable to the departments providing general and administrative functions.

***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 period 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 Company to manage its exposure to interest rate risk. The Company does not engage in any derivative instrument trading activity. Credit risk associated with the Company'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, the Company entered into two derivative agreements to manage its 30 Day LIBOR interest exposure related to its variable rate debt, which commenced in April 2009 and matures in April 2014. The fair value for the interest rate corridor was determined using a hypothetical derivative transaction and Level 2 of the hierarchy of valuation inputs. The fair value as of June 30, 2010 and December 31, 2009 was $29 and $113, respectively, and this derivative asset is included in other assets. The fair value of the interest rate swap is a liability of $715 and $228 as of June 30, 2010 and December 31, 2009, respectively, and is included in long term notes payable and other. These derivative instruments were designated as cash flow hedges of variable rate debt obligations. The adjustment of $354 in the first six months of 2010 for the effective portion of the loss on the derivatives is included as a component of other comprehensive income, net of taxes.

The interest rate corridor instrument hedges variable interest rate risk starting July 1, 2009 through April 30, 2014 with a notional amount of $11,910 as of June 30, 2010. The corridor instrument permits the Company to hedge its interest rate risk at several thresholds; the Company will pay variable interest rates based on the 30 Day LIBOR rates monthly until that index reaches 4%. If 30 Day LIBOR is equal to 4% through 6%, the Company will pay 4%. If 30 Day LIBOR exceeds 6%, the Company will pay actual 30 Day LIBOR less 2%. This reduces the Company's exposure to potential increases in interest rates.

The interest rate swap commenced on May 1, 2010 and continues each month thereafter until April 30, 2014 and has a notional amount of $11,910 as of June 30, 2010. The Company will receive 30 Day LIBOR and pay 3.245% fixed interest on the amortizing notional amount. Therefore, the Company has hedged its exposure to future variable rate cash flows through April 30, 2014. The interest rate swap is not subject to a master netting arrangement and no collateral has been called or posted by the counterparty. Such collateral, if called by the counterparty, would be included in the restricted cash and cash equivalent balances.

As of June 30, 2010 no derivative ineffectiveness was identified. Any ineffectiveness in the Company's derivative instruments designated as hedges would be reported in Interest expense in the income statement. As of June 30, 2010, credit default risk interest income of $21 was identified and recognized. At June 30, 2010, the Company is not expected to reclassify gains or losses on derivative instruments from accumulated other comprehensive (loss) income into earnings during the next 12 months.

***Fair Value of Financial Instruments***

As of June 30, 2010, the carrying value of cash and cash equivalents, accounts receivable, account payable and accrued expenses approximate their fair value based on the liquidity or the short-term maturities of these instruments. The carrying value of debt 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 Company for debt of similar risk and maturities. The fair value of investments was determined using Level 1 of the hierarchy of valuation inputs, with the use of observable market prices in the active market. The Company's investment portfolio is primarily comprised of money market funds with AAA rating at more than one financial institution. 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 Financial Statements**
**(In thousands, except share and per share data)**
**(Unaudited)**

***Exit Costs***

In November 2009, the Company finalized a plan to centralize its student services operations in Arizona and, as a result, closed its student services facility in Utah. The exit costs expected to be incurred in connection with this decision have been expensed and are presented separately on the income statement. The costs incurred include severance payments; relocation expense; future lease payments, net of estimated sublease rentals; and the write off of leasehold improvements associated with this leased space.

The following is a summary of our exit activities:

| | Accrued Exit Costs at December 31, 2009 | Exit Costs | Payments to Date | Accrued Exit Costs at June 30, 2010 |
|---|---|---|---|---|
| Severance payments | $ 503 | $ — | $ (503) | $ — |
| Future lease payments, net of estimated sublease rentals | 288 | 109 | (128) | 269 |
| Leasehold improvements and other | 41 | 96 | (55) | 82 |
| Total | $ 832 | $ 205 | $ (686) | $ 351 |

***Comprehensive Income***

Total comprehensive income includes net income and other comprehensive income (loss), which consists of unrealized gains and losses on available-for-sale investments and the effective portion of the change in fair value of qualifying hedge instruments. Total comprehensive income for the six months ended June 30, 2010 and 2009 was $23,499 and $12,723, respectively.

***Use of Estimates***

The preparation of 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 financial statements and accompanying notes. Actual results could differ from those estimates.

***Segment Information***

The Company 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 Company’s Chief Executive Officer manages the Company’s operations as a whole and no expense or operating income information is generated or evaluated on any component level.

***Reclassifications***

Certain reclassifications have been made to the prior period balances to conform to the current period.

***Recent Accounting Pronouncements***

In January 2010, previously released guidance on fair value measurements and disclosures was amended. The amendment requires disclosure of transfers into and out of Level 1 and Level 2 fair value measurements, and also requires more detail disclosure about the activity within Level 3 fair value measurements. The guidance became effective for our interim and annual reporting periods beginning January 1, 2010. The adoption had no impact on the Company’s financial position or results of operations.

In June 2009, the FASB set forth certain requirements to improve the financial reporting by enterprises involved with variable interest entities and to provide more relevant information to users of financial statements. This guidance became effective for our interim and annual reporting periods beginning January 1, 2010. The adoption had no impact on the Company’s financial position or results of operations.

Also in June 2009, the FASB provided guidance to improve transparency of financial assets and a transferor’s continuing involvement, if any, with transferred financial assets. This guidance became effective for our interim and annual reporting periods beginning January 1, 2010. The adoption had no impact on the Company’s financial position or results of operations.

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

### 3. Spirit Transaction and Loan Agreement

On April 28, 2009, the Company acquired the land and buildings that comprise its ground campus and 909,348 shares of its common stock from Spirit Master Funding, LLC and Spirit Management Company, respectively (collectively, "Spirit") for an aggregate purchase price of $50,000. Prior to the acquisition, the Company had leased the land and buildings from Spirit, accounting for the land as an operating lease and the buildings and improvements as capital lease obligations. To finance a portion of the purchase, the Company entered into a loan agreement with a financial institution pursuant to which it borrowed $25,675. Under the terms of the loan agreement, the Company makes principal payments in equal monthly installments of $143 plus accrued interest. All remaining unpaid principal is due on April 30, 2014. The loan agreement contains standard covenants, including covenants that, among other things, restrict the Company's ability to incur additional debt or make certain investments, require the Company to maintain compliance with certain applicable regulatory standards, and require the Company to maintain a certain financial condition. Indebtedness under the loan agreement is secured by the land and buildings that comprise the Company's ground campus. Under the original terms of the loan agreement, interest accrued based on 30 day LIBOR plus 3.5%. On June 9, 2010, the loan agreement was amended to reduce the interest rate on unpaid amounts to 30 day LIBOR plus 2.25% (approximately 3.9% at June 30, 2010). All other significant aspects of the loan agreement remained unchanged. As of June 30, 2010, the Company is in compliance with its debt covenants.

The Company allocated $14,495 of the purchase price to the repurchase of its common stock and the remaining $35,505 to the land and buildings. Additionally, the Company removed the building and improvement assets and related capital lease obligations of $29,796 and applied the deferred gain of $1,429 as a reduction to the new building value.

### 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, 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 net income per common share.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Denominator: | | | | |
| Basic common shares outstanding | 45,723,634 | 44,846,224 | 45,698,913 | 45,158,536 |
| Effect of dilutive stock options and restricted stock | 833,788 | 204,395 | 742,322 | 278,388 |
| Diluted common shares outstanding | 46,557,422 | 45,050,619 | 46,441,235 | 45,436,924 |

### 5. Valuation and Qualifying Accounts

| | Balance at Beginning of Period | Charged to Expense | Deductions(1) | Balance at End of Period |
|---|---|---|---|---|
| Allowance for doubtful accounts receivable: | | | | |
| Six months ended June 30, 2010 | $ 7,553 | 10,273 | (6,644) | $ 11,182 |
| Six months ended June 30, 2009 | $ 6,356 | 6,587 | (5,833) | $ 7,110 |

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

### 6. Property and Equipment

Property and equipment consist of the following:

| | As of June 30, 2010 | As of December 31, 2009 |
|---|---|---|
| Land | $ 8,282 | $ 7,230 |
| Land improvements | 1,597 | 1,597 |
| Buildings | 25,176 | 25,176 |
| Equipment under capital leases | 3,545 | 3,545 |
| Leasehold improvements | 7,288 | 3,692 |
| Computer equipment | 30,134 | 22,327 |
| Furniture, fixtures and equipment | 9,025 | 7,750 |
| Other | 2,763 | 1,431 |
| Construction in progress | 15,384 | 7,712 |

| | | |
|---|---|---|
| | 103,194 | 80,460 |
| Less accumulated depreciation and amortization | (18,182) | (13,090) |
| Property and equipment, net | $ 85,012 | $ 67,370 |

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

### 7. Accrued Liabilities

Accrued liabilities consist of the following:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Accrued compensation and benefits | $ 17,298 | $ 11,898 |
| Accrued interest | 90 | 94 |
| Deferred rent | 238 | 244 |
| Tax reserves, non-income tax related | 709 | 229 |
| Tax reserves, income tax related | 267 | 568 |
| Other accrued expenses | 7,983 | 5,070 |
| | $ 26,585 | $ 18,103 |

### 8. Commitments and Contingencies

***Leases***

The Company leases certain land, buildings and equipment under non-cancelable operating leases expiring at various dates through 2023. Future minimum lease payments under operating leases due each year are as follows at June 30, 2010:

| | |
|---|---|
| 2010 | $ 1,966 |
| 2011 | 4,069 |
| 2012 | 3,623 |
| 2013 | 3,681 |
| 2014 | 3,309 |
| Thereafter | 12,538 |
| Total minimum payments | $ 29,186 |

Total rent expense and related taxes and operating expenses under operating leases for the six months ended June 30, 2010 and 2009 were $2,327 and $2,376, respectively.

***Legal Matters***

From time to time, the Company 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 Company 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 Company records a liability for the loss. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the Company discloses the nature of the specific claim if the likelihood of a potential loss is reasonably possible and the amount involved is material. With respect to the majority of pending litigation matters, the Company'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.

On August 14, 2008, the U. S. Department of Education, Office of Inspector General ("OIG") served an administrative subpoena on the Company requiring it to provide certain records and information related to performance reviews and salary adjustments for all of its enrollment counselors and managers from January 1, 2004 to August 2008. The Company is cooperating with the OIG to facilitate its investigation and has completed its rolling responsive document production, which commenced in September 2008. The Company cannot presently predict the ultimate outcome of the OIG investigation, including any liability or other sanctions that may result, or the outcome of the proposed settlement.

On September 11, 2008, the Company was served with a *qui tam* lawsuit that had been filed against the Company in August 2007 in the United States District Court for the District of Arizona (the "Court") by a then-current employee on behalf of the federal government. All proceedings in the lawsuit had been under seal until September 5, 2008, when the court unsealed the first amended complaint, which was filed on August 11, 2008. A *qui tam* case is a civil lawsuit brought under the federal False Claims Act by one or more individuals (a "relator") on behalf of the federal government for an alleged submission to the government of a false claim for payment. The *qui tam* lawsuit alleges, among other things, that the Company violated the False Claims Act by knowingly making false statements, and submitting false records or statements, from at least 2001 to the present, to get false or fraudulent claims paid or approved, and asserts that the Company improperly compensated certain of its enrollment counselors in violation of the Title IV law governing compensation of such employees, and as a result, improperly received Title IV program funds. The complaint specifically alleges that some of the Company's compensation practices with respect to its enrollment personnel, including providing non-cash awards, have violated the Title IV law governing compensation. While the Company believes that the compensation policies and practices at issue in the complaint have not been based on success in enrolling students in violation of applicable law, the Department of Education's regulations and interpretations of the incentive compensation law do not establish clear criteria for compliance in all circumstances, and some of these practices, including the provision of non-cash awards, are not within the scope of any explicit "safe harbor" provided in the compensation regulations. The complaint seeks treble the amount of unspecified damages sustained by the federal government in connection with the Company's receipt of Title IV funding, a civil penalty for each violation of the False Claims Act, attorneys' fees, costs, and interest. The Company filed a motion to dismiss this case in November 2008, which was denied by the court in

February 2009, and it has continued to vigorously contest this lawsuit. The Company cannot presently predict the outcome of this qui tam case or any liability or other sanctions that may result.

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

Pursuant to the court's mandatory scheduling order, the Company entered into settlement discussions with respect to the *qui tam* matter with the relator. In connection with such discussions, in October 2009 the Company reached a settlement in principle with the relator pursuant to which the Company agreed to pay $5,200 to finally resolve the *qui tam* case and thereby avoid the cost and distraction of a potentially protracted trial. Thus, in the third quarter of 2009, the Company accrued $5,200 for the estimated litigation loss. Following unsuccessful attempts to conclude a settlement agreement among the Company, the relator and the United States, on April 28, 2010, the Company and the relator submitted a proposed settlement agreement to the Court for approval. In accordance with a scheduling order set by the Court, the United States filed certain objections to the proposed settlement agreement to which the Company and the relator responded. The Court then held a hearing regarding the proposed settlement agreement, and the United States' objections thereto, on June 10, 2010.

Following the June 10, 2010 hearing, the Court ruled that, notwithstanding the United States' objections, the Court would not object to the provisions of the settlement agreement proposed by the Company and the relator that provide, among other things, (a) that the $5,200 settlement amount would be payable by the Company on the earlier of September 1, 2011 or the issuance by the DOE to the Company of a Title IV program participation agreement (the Company's application for which had been pending since March 2008), and (b) that the Company would receive a release from future False Claims Act claims (i.e. *qui tam* actions) with respect to all conduct which is of the same subject matter as the conduct that is at issue in the current *qui tam* litigation (the "covered conduct") through the date that the settlement agreement is approved by the Court. The Court asked for further briefing on the issue of whether the Court has jurisdiction to approve the settlement agreement, over the United States' objections, if it includes (i) within the scope of the release provision, a release from future DOE administrative actions with respect to the covered conduct, and (ii) a provision confirming that the Company has fully complied with the OIG subpoena (the "contested provisions"). The parties have completed such briefing and, a final hearing on approval, modification, or rejection of the contested provisions will be held on August 13, 2010. If the Court determines that it cannot approve the contested provisions, then the parties may agree to strike those provisions and the Court, per its June 10, 2010 ruling, will approve a settlement consisting of the remaining proposed provisions, including those described in (a) and (b) above. Alternatively, the Company would have the option to abandon the proposed settlement and continue with its defense of the litigation. In either such event, the DOE would retain the power it currently possesses to continue with the OIG investigation and/or to initiate other administrative actions, including a program review, against the Company based on the covered, or any other, conduct. Should the parties fail to conclude the settlement on the proposed or other terms, the Company intends to vigorously defend this lawsuit.

If it were determined that any of our compensation practices violated the incentive compensation law, the Company could experience an adverse outcome in the *qui tam* litigation and be subject to substantial monetary liabilities, fines, and other sanctions, any of which could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

Upon resolution of any pending legal matters, the Company 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 Company's financial condition, results of operations or cash flows.

***Tax Reserves, Non-Income Tax Related***

From time to time the Company has exposure to various non-income tax related matters that arise in the ordinary course of business. At June 30, 2010 and December 31, 2009, the Company had reserved approximately $709 and $229, respectively, for tax matters where its ultimate exposure is considered probable and the potential loss can be reasonably estimated.

**9. Income Taxes**

The Company's uncertain tax positions are related to tax years that remain subject to examination by tax authorities. As of December 31, 2009, the earliest tax year still subject to examination for federal and state purposes was 2005. During 2008, the IRS commenced an examination of the Company's 2005 income tax return and subsequently opened 2006 for examination. The Company has finalized the federal income tax audits of 2005 and 2006 and as a result of the audit findings, paid $67 and $20 in tax and interest, respectively, for 2005 and $159 and $31 in tax and interest, respectively, for 2006 during the second quarter of 2010.

**10. Share-Based Compensation**

On September 27, 2008 the Company's shareholders approved the adoption of the 2008 Equity Incentive Plan ("Incentive Plan") and the 2008 Employee Stock Purchase ("ESPP"). A total of 4,199,937 shares of the Company's common stock were originally authorized for issuance under the Incentive Plan. On January 1, 2010 and 2009 and in accordance with the terms of the Incentive Plan, the number of shares authorized for issuance under the Incentive Plan automatically increased by 2.5% of the number of shares of common stock issued and outstanding on December 31, 2009 and 2008, or 1,141,449 shares and 1,136,629 shares, respectively, raising the total number of shares of common stock authorized for issuance under the Incentive Plan to 6,478,015 shares. On February 22, 2010, the Company filed a Form S-8 to register the additional shares authorized for issuance on January 1, 2010 and 2009 under the Incentive Plan. Although the ESPP has not yet been implemented, a total of 1,049,984 shares of the Company's common stock have been authorized for sale under the ESPP.

**GRAND CANYON EDUCATION, INC.**
**Notes to Financial Statements**
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**(Unaudited)**

A summary of the activity related to stock options granted under the Company's Incentive Plan since December 31, 2009 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, 2009** | 3,349,996 | 12.30 | | |
| Granted | 883,800 | 21.25 | | |
| Exercised | (79,602) | 12.00 | | |
| Forfeited, canceled or expired | (64,130) | 16.60 | | |
| **Outstanding as of June 30, 2010** | 4,090,064 | $ 14.18 | 8.69 | $ 37,833 |
| **Exercisable as of June 30, 2010** | 1,031,854 | $ 12.07 | 8.40 | $ 11,722 |
| **Available for issuance as of June 30, 2010** | 2,037,778 | | | |

(1) Aggregate intrinsic value represents the value of our closing stock price on June 30, 2010 ($23.43) in excess of the exercise price multiplied by the number of options outstanding or exercisable.

***Share-based Compensation Expense***

The table below outlines share-based compensation expense for the six months ended June 30, 2010 and 2009 related to restricted stock and stock options granted:

| | 2010 | 2009 |
|---|---|---|
| Instructional costs and services | $ 918 | $ 173 |
| Selling and promotional | 100 | 78 |
| General and administrative | 1,320 | 1,326 |
| **Share-based compensation expense included in operating expenses** | 2,338 | 1,577 |
| Tax effect of share-based compensation | (935) | (631) |
| **Share-based compensation expense, net of tax** | $ 1,403 | $ 946 |

***Restricted Stock Grants***

On March 3, 2009, the Company granted 2,614 shares of common stock with a fair value of $15.30 per share, to certain members of the Company's board of directors. The restricted shares have voting rights and vested on March 3, 2010. On May 19, 2009, the Company granted 4,982 shares of common stock with a fair value of $14.05 per share, to certain members of the Company's board of directors. The restricted shares have voting rights and vested on May 17, 2010. On May 18, 2010, the Company granted 4,173 shares of common stock with a fair value of $25.16 per share, to certain members of the Company's board of directors. The restricted shares have voting rights and vest the earlier of May 18, 2011 or immediately prior to the 2011 Annual Meeting of Stockholders.

**11. Regulatory**

The Company 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 (the "DOE") subject the Company 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 DOE. The DOE 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 DOE's extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance to the DOE on an ongoing basis. The Company submitted its application for recertification in March 2008 in anticipation of the expiration of its provisional certification on June 30, 2008. The DOE did not make a decision on the Company's recertification application by June 30, 2008, and therefore the Company's participation in the Title IV programs has been automatically extended on a month-to-month basis until the DOE makes its decision. As of December 31, 2009 and June 30, 2010, management believes the Company is in compliance with the applicable regulations in all material respects.

Because the Company 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.

**GRAND CANYON EDUCATION, INC.**
**Notes to Financial Statements**
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In connection with its administration of the Title IV program, the Department of Education periodically conducts program reviews at selected schools that receive Title IV funds. In July 2010, the Department of Education initiated a program review of Grand Canyon University covering the 2008-2009 and 2009-2010 award years. As part of this program review, a Department of Education program review team conducted a site visit on campus and reviewed, and in some cases has requested further information regarding, the University's records, practices and policies relating to, among other things, financial aid, enrollment, enrollment counselor compensation, program eligibility and other Title IV compliance matters. Upon the conclusion of the site visit, the Company was informed by the program review team that it would (i) conduct further review of the University's documents and records offsite, (ii) upon completion of such review, schedule a formal exit interview to be followed by a preliminary program review report in which any preliminary findings of non-compliance would be presented, and (iii) conclude the review by issuance of a final program review report or a final determination letter. Accordingly, at this point, the program review remains open and the Company intends to continue to cooperate with the review team until the program review is completed.

While the Company has not yet received notification of the timing of our exit interview or the Department of Education's preliminary or final program review report or a final determination letter, as a result of concerns first raised by a member of the program review team at the conclusion of the site visit and subsequently stated in an affidavit by such member filed in connection with the *qui tam* case, the Company is aware that the program review team has two preliminary findings of concern. The first issue is whether a compensation policy in use during part of the period under review improperly rewarded some enrollment counselors based on success in enrolling students in violation of applicable law. As the Company has previously disclosed in the context of the ongoing *qui tam* action, while we believe that the Company's compensation policies and practices are not based on success in enrolling students in violation of applicable law, the Department of Education's regulations and interpretations of the incentive compensation law do not establish clear criteria for compliance in all circumstances and some of the Company's practices in prior years were not within the scope of any specific "safe harbor" provided in the compensation regulations.

The second issue is whether, during the award years under review, certain programs offered within the University's College of Liberal Arts provided students with training for gainful employment in recognized occupations. This "gainful employment" standard has been a requirement of Title IV eligibility generally for programs offered at proprietary institutions of higher learning such as Grand Canyon University, but under legislation passed in 2008 and effective as of July 1, 2010, it no longer applies to designated liberal arts programs offered by the University. Subsequent to the filing of the affidavit by the program review team member expressing this preliminary finding, the program review team requested additional information from the Company that would help them determine whether the University's liberal arts degree programs were eligible under Title IV because they did provide training for gainful employment in recognized occupations during the award years under review. While the Company has not been informed at this time which of the University's liberal arts programs the program review team believes may be ineligible, the Company is in the process of gathering information for delivery to the Department of Education by its requested deadline that the Company believes will demonstrate that its liberal arts programs met this requirement during such award years.

The Company's policies and procedures are planned and implemented to comply with the applicable standards and regulations under Title IV. If and to the extent the DOE's program review identifies any compliance issues, the Company is committed to resolving such issues and ensuring that Grand Canyon University operated in compliance with all DOE requirements. Program reviews may be unresolved for several months or years with little or no communication from the DOE, and may involve additional exchanges of information following the site visit. The Company cannot presently predict whether further information requests will be made, when the program review will be closed, when the exit interview will take place or when the preliminary or final program review report or final determination letter will be issued. If the DOE were to make significant findings of non-compliance in the final program review determination, it could have a material adverse effect on the Company's business, results of operations, cash flows and financial position.

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

*The following discussion of our historical results of operations and our liquidity and capital resources 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; expectations that regulatory developments or other matters will 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," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar expressions, as well as statements in future tense, 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 results of the ongoing investigation by the Department of Education's Office of Inspector General and the pending *qui tam* action regarding the manner in which we have compensated our enrollment personnel, and possible remedial actions or other liability resulting therefrom;
- the results of the ongoing program review being conducted by the Department of Education of our compliance with Title IV program requirements, and possible fines or other administrative sanctions resulting therefrom;
- the ability of our students to obtain federal Title IV funds, state financial aid, and private financing;
- we experience damage to our reputation or other adverse effects as a result of negative publicity in the media, in 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;
- we experience a change of control under applicable regulatory or accrediting standards, including as a result of actions or events not within our control, and we are unable to obtain appropriate approvals for such an event in a timely manner, or at all;
- our ability to hire and train new, and develop and train existing, enrollment counselors;
- 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 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 convenants 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;
- general adverse economic conditions or other developments that affect job prospects in our core disciplines; and
- other factors discussed under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Forward-looking statements speak only as of the date the statements are made. 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 "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, 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 or other reports on Form 10-Q. You should not put undue reliance on any forward-looking statements. 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.

Table of Contents

### Overview

We are a regionally accredited provider of postsecondary education services focused on offering graduate and undergraduate degree programs in our core disciplines of education, business, healthcare, and liberal arts. We offer programs online as well as ground programs at our 100 acre traditional campus in Phoenix, Arizona and onsite at the facilities of employers. In February 2004, several of our current stockholders acquired the assets of the school and converted its operations to a for-profit institution. Since then, we have enhanced our senior management team, expanded our online platform, increased our program offerings, and initiated a marketing and branding effort to further differentiate us in the markets in which we operate. We have also made investments to enhance our ground campus and student and technology support services. We believe the changes we have instituted, combined with our management expertise, provide a platform that will support continued enrollment and revenue growth.

At June 30, 2010, we had approximately 36,300 students, an increase of 31.5% over the approximately 27,600 students we had at June 30, 2009. At June 30, 2010, 96.8% of our students were enrolled in our online programs, and 44.1% of our online students were pursuing master's or doctoral degrees. In addition, revenue per student increased between periods as we increased tuition prices for students in our online and professional studies programs by 0.0% to 5.7%, depending on the program, with an estimated blended rate increase of 3.5% for our 2010-11 academic year, as compared to tuition price increases for students in our online and professional studies programs by 2.3% to 15.5% for our 2009-10 academic year, depending on the program, with an estimated blended rate increase of 5.0% for the prior academic year. Tuition for our traditional ground programs had no increase for our 2010-11 academic year, as compared to an increase of 6.6% for the prior academic year. In addition, we experienced an increase in the number of students taking 4 credit courses between years. Operating income was $40.8 million for the six months ended June 30, 2010, an increase of $18.8 million over the $22.0 million in operating income for the six months ended June 30, 2009.

As part of our transition from a "term-based" financial aid system (where all students, including online students, begin programs and are eligible to receive financial aid at periodic start dates pursuant to a calendar-based term system) to a "borrower-based" financial aid system (where each student may begin a program and start an award year at any time throughout the year), we successfully converted our back office system from Datatel, Inc. to a series of programs developed by Campus Management Corp., including CampusVue and Campus Portal. Beginning in April 2010, all new and continuing online and professional studies students starting a new award year have financial aid awarded based on the borrower-based academic year ("BBAY") non-term processing. All other online and professional studies students were transitioned to BBAY, non-term processing at the completion of their spring term. All traditional ground students will remain on the term based financial aid system. This conversion allows us to manage our non-traditional online and professional studies students with greater ease and flexibility by providing for rolling and flexible start dates.

The following is a summary of our student enrollment at June 30, 2010 and 2009 (which included less than 200 students pursuing non-degree certificates in each period) by degree type and by instructional delivery method:

| | June 30, | | | |
|---|---|---|---|---|
| | 2010(1) | | 2009 | |
| | # of Students | % of Total | # of Students | % of Total |
| Graduate degrees(2) | 15,916 | 43.8% | 13,841 | 50.1% |
| Undergraduate degree | 20,385 | 56.2% | 13,781 | 49.9% |
| Total | 36,301 | 100.0% | 27,622 | 100.0% |

| | June 30, | | | |
|---|---|---|---|---|
| | 2010(1) | | 2009 | |
| | # of Students | % of Total | # of Students | % of Total |
| Online(3) | 35,145 | 96.8% | 26,234 | 95.0% |
| Ground(4) | 1,156 | 3.2% | 1,388 | 5.0% |
| Total | 36,301 | 100.0% | 27,622 | 100.0% |

(1) Enrollment at June 30, 2010 represents individual students who attended a course during the last two months of the calendar quarter. Prior to our transition to BBAY, enrollment had been defined as individual students that attended a course in a term that was in session as of the end of the quarter.

(2) Includes 870 and 228 students pursuing doctoral degrees at June 30, 2010 and 2009, respectively.

(3) As of June 30, 2010 and 2009, 44.1% and 50.8%, respectively, of our Online students are 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, 2009. During the six months ended June 30, 2010, there have been no significant changes in our critical accounting policies.

### Key Trends, Developments and Challenges

The following circumstances and trends present opportunities, challenges and risks.

### Evolving Postsecondary Education Market

The U.S. is in the midst of an economic downturn that has caused an increased number of individuals to consider advancing their education. Additionally, we believe the number of non-traditional students who work, are raising a family, or are doing both while trying to earn a college degree continue to grow. Given these trends, we believe that many individuals will be attracted to our high quality academic programs at affordable tuition rates.

**Regulation and Oversight**

We are 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 (the "DOE") subject the Company 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.

**Pending Rulemaking by the Department of Education**

In November 2009, the Department of Education convened a new negotiated rulemaking team related to Title IV program integrity issues. This team, which included representatives of the various higher education constituencies, was unable to reach consensus of the form of all of the rules addressed by that team. Accordingly, under the negotiated rulemaking protocol, the Department of Education became free to propose rules without regard to the tentative agreement reached regarding certain of the rules.

The proposed program integrity rulemaking addresses numerous topics. The most significant proposals for our business are the following:

- Modification of the standards relating to the payment of incentive compensation to employees involved in student recruitment and enrollment; and
- Adoption of a definition of "gainful employment" for purposes of the requirement for Title IV student financial aid that a program of study prepare students for gainful employment in a recognized occupation.

On June 18, 2010, the Department of Education issued a Notice of Proposed Rulemaking ("NPRM") in respect of the program integrity issues, other than the metrics for determining compliance with the gainful employment requirement, with a 45 day public comment period. On July 26, 2010, the Department of Education issued an NPRM in respect of the proposed gainful employment requirement, also with a 45 day comment period. With respect to both NPRMs, the Department of Education has stated that its goal to publish rules by November 1, 2010 and to have the final rules be effective July 1, 2011 with certain provisions of the gainful employment rules to be effective July 1, 2012.

There remain many open questions and interpretive issues with respect to each of these NPRMs. In particular, with repect to the gainful employment NPRM, there remain questions as to the availability of, and the ability of education companies to obtain, the information needed to calculate the applicable metrics. If the gainful employment regulation is adopted in a form similar to the Department of Education's proposal in the NPRM, it could render some of our programs ineligible for Title IV funding if we do not meet the test to be considered "fully eligible." We are currently evaluating the impact of the proposed rules and will continue to monitor developments in this area.

**Department of Education Program Review**

In connection with its administration of the Title IV program, the Department of Education periodically conducts program reviews at selected schools that receive Title IV funds. In July 2010, the Department of Education initiated a program review of Grand Canyon University covering the 2008-2009 and 2009-2010 award years. As part of this program review, a Department of Education program review team conducted a site visit on our campus and reviewed, and in some cases has requested further information regarding, our records, practices and policies relating to, among other things, financial aid, enrollment, enrollment counselor compensation, program eligibility and other Title IV compliance matters. Upon the conclusion of the site visit, we were informed by the program review team that it would (i) conduct further review of our documents and records offsite, (ii) upon completion of such review, schedule a formal exit interview to be followed by a preliminary program review report in which any preliminary findings of non-compliance would be presented, and (iii) conclude the review by issuance of a final program review report or a final determination letter. Accordingly, at this point, the program review remains open and we intend to continue to cooperate with the review team until the program review is completed.

While we have not yet received notification of the timing of our exit interview or the Department of Education's preliminary or final program review report or a final determination letter, as a result of concerns first raised by a member of the program review team at the conclusion of the site visit and subsequently stated in an affidavit by such member filed in connection with our *qui tam* case, we are aware that the program review team has two preliminary findings of concern. The first issue is whether a compensation policy in use during part of the period under review improperly rewarded some enrollment counselors based on success in enrolling students in violation of applicable law. As we have previously disclosed in the context of our ongoing *qui tam* action, while we believe that our compensation policies and practices are not based on success in enrolling students in violation of applicable law, the Department of Education's regulations and interpretations of the incentive compensation law do not establish clear criteria for compliance in all circumstances and some of our practices in prior years were not within the scope of any specific "safe harbor" provided in the compensation regulations.

The second issue is whether, during the award years under review, certain programs offered within our College of Liberal Arts provided students with training for gainful employment in recognized occupations. This "gainful employment" standard has been a requirement of Title IV eligibility generally for programs offered at proprietary institutions of higher learning such as Grand Canyon University, but under legislation passed in 2008 and effective as of July 1, 2010, it no longer applies to designated liberal arts programs offered by us. Subsequent to the filing of the affidavit by the program review team member expressing this preliminary finding, the program review team requested additional information from us that would help them determine whether our liberal arts degree programs were eligible under Title IV because they did provide training for gainful employment in recognized occupations during the award years under review. While we have not been informed at this time which of our liberal arts programs the program review team believes may be ineligible, we are in the process of gathering information for delivery to the Department of Education by its requested deadline that we believe will demonstrate that our liberal arts programs met this requirement during such award years.

The Company's policies and procedures are planned and implemented to comply with the applicable standards and regulations under Title IV. If and to the extent the DOE's program review identifies any compliance issues, the Company is committed to resolving such issues and ensuring that Grand Canyon University operated in compliance with all DOE requirements. Program reviews may be unresolved for several months or years with little or no communication from the DOE, and may involve additional exchanges of information following the site visit. The Company cannot presently predict whether further information requests will be made, when the program review will be closed, when the exit interview will take place or when the preliminary or final program review report or final determination letter will be issued. If the DOE were to make significant findings of non-compliance in the final program review determination, it could have a material adverse effect on the Company's business, results of operations, cash flows and financial position.

**Congressional Hearings**

In recent months, there has been increased focus by the U.S. Congress on the role that for-profit educational institutions play in higher education. On June 17, 2010, the Education and Labor Committee of the U.S. House of Representatives held a hearing to examine the manner in which accrediting agencies review higher education institutions' policies on credit hours and program length. On June 24, 2010, the Health, Education, Labor and Pensions ("HELP") Committee of the U.S. Senate released a report entitled, "Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education" and held the first in a series of hearings to examine the proprietary education sector. Earlier, on June 21, 2010 the Chairmen of each of these education committees, together with other members of Congress, requested the Government Accountability Office ("GAO") to conduct a review and prepare a report with recommendations regarding various aspects of the proprietary sector, including recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in federal student aid programs and the degree to which proprietary institutions' revenue is composed of Title IV and other federal funding sources. On August 4, 2010, the HELP Committee held a second hearing to examine student recruitment practices as for-profit colleges. At this hearing, the GAO presented a report detailing the results of an investigation into sales and marketing practices in the for-profit education industry, which found that certain schools named in the report had engaged in fraudulent, deceptive or otherwise questionable practices in the area of student recruitment. These hearings and the GAO investigation are not formally related to the Department of Education's program integrity rulemaking process currently underway regarding program integrity issues. However, the outcome of the hearings and the GAO investigation could impact the substance of the rulemaking process.

Following the August 6, 2010 hearing, we received a request from the HELP Committee to provide information to the committee concerning how we use Federal resources, including how we recruit and enroll students, set program price or tuition, determine financial aid including private or institutional loans, track attendance, handle withdrawals of students and return of Title IV dollars and manage compliance with the requirement that no more than 90% of revenues come from Title IV dollars. The request also seeks an understanding of the number of students who complete or graduate from programs we offer, how many of those students find new work in their educational area, the debt levels of students enrolling and completing programs and how we track and manage the number of students who risk default within the cohort default rate window. In furtherance of this, the HELP Committee has requested that we provide information about a broad spectrum of our business, including detailed information relating to financial results, management, operations, personnel, recruiting, enrollment, graduation, student withdrawals, receipt of Title IV funds, institutional accreditation, regulatory compliance and other matters. We are in the process of evaluating this request. For further information, see "Item 1A. Risk Factors — The U.S. Congress has recently commenced an examination of the for-profit education sector that could result in legislation or further U.S. Department of Education rulemaking restricting Title IV program participation by proprietary schools in a manner that materially and adversely affects our business."

**Results of Operations**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Net revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Operating expenses | | | | |
| Instructional cost and services | 37.1 | 32.4 | 36.4 | 32.4 |
| Selling and promotional | 29.7 | 32.9 | 29.9 | 34.0 |
| General and administrative | 12.0 | 13.8 | 12.1 | 14.8 |
| Exit costs | 0.1 | 0.0 | 0.1 | 0.0 |
| Royalty to former owner | 0.1 | 0.1 | 0.1 | 0.1 |
| Total operating expenses | 79.0 | 79.3 | 78.5 | 81.4 |
| Operating income | 21.0 | 20.7 | 21.5 | 18.6 |
| Interest expense | (0.2) | (0.7) | (0.3) | (0.9) |
| Interest income | 0.0 | 0.2 | 0.1 | 0.2 |
| Income before income taxes | 20.9 | 20.2 | 21.2 | 17.9 |
| Income tax expense | 8.2 | 8.0 | 8.5 | 7.1 |
| Net income | 12.7 | 12.2 | 12.8 | 10.7 |

***Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009***

*Net revenue*. Our net revenue for the quarter ended June 30, 2010 was $97.5 million, an increase of $34.6 million, or 55.0%, as compared to net revenue of $62.9 million for the quarter ended June 30, 2009. This increase was primarily due to an increase in online enrollment, and, to a lesser extent increases in the average tuition per student as a result of tuition price increases and an increase in the number of students taking four credit courses between years, partially offset by increased institutional scholarships. End-of-period enrollment increased 31.5% between June 30, 2010 and 2009, as we were able to continue our growth and increase our recruitment, marketing, and enrollment operations.

*Instructional cost and services expenses*. Our instructional cost and services expenses for the quarter ended June 30, 2010 were $36.2 million, an increase of $15.8 million, or 77.2%, as compared to instructional cost and services expenses of $20.4 million for the quarter ended June 30, 2009. This increase was primarily due to increases in instructional compensation and related expenses, non-capitalizable system conversion costs, faculty compensation, instructional supplies, depreciation and amortization, share-based compensation, and other miscellaneous instructional costs and services of $4.3 million, $4.0 million, $2.8 million, $1.2 million, $0.8 million, $0.4 million, and $2.3 million, respectively. These increases are primarily attributable to the increased headcount (both staff and faculty) needed to provide student instruction and support services, including increased occupancy and equipment costs for the increased headcount, to support the increase in enrollments. Our instructional cost and services expenses as a percentage of net revenue increased by 4.7% to 37.1% for the quarter ended June 30, 2010, as compared to 32.4% for the quarter ended June 30, 2009. This increase was a result of costs incurred during our system conversion during the second quarter of 2010, an increase in employee compensation and related expenses as a percentage of revenue as we have increased the support personnel to student ratios to further improve the customer service to our students and increased instructional supplies and miscellaneous instructional costs due to increased licensing fees related to educational resources and continued improvement in curriculum development and new and enhanced innovative educational tools, partially offset by our ability to leverage the fixed cost structure of our campus-based facilities and ground faculty across an increasing revenue base.

*Selling and promotional expenses*. Our selling and promotional expenses for the quarter ended June 30, 2010 were $29.0 million, an increase of $8.3 million, or 39.8%, as compared to selling and promotional expenses of $20.7 million for the quarter ended June 30, 2009. This increase was primarily due to increases in selling and promotional employee compensation and related expenses, advertising and other promotional expenses of $4.1 million, $3.1 million and $1.1 million, respectively. These increases were driven by a continued expansion in our marketing efforts, which resulted in an increase in recruitment, marketing, and enrollment staffing, and expenses related to our revenue sharing arrangement. Our selling and promotional expenses as a percentage of net revenue decreased by 3.2% to 29.7% for the quarter ended June 30, 2010, from 32.9% for the quarter ended June 30, 2009. This decrease occurred as a result of an increase in the productivity of our enrollment counselors that were hired during 2009, coupled with our efforts to focus on pursuing higher quality leads to increase enrollment. In this regard, we incur immediate expenses in connection with hiring new enrollment counselors while these individuals undergo training, and typically do not achieve full productivity or generate enrollments from these enrollment counselors until four to six months after their dates of hire. We plan to continue to add additional enrollment counselors in the future, although the number of additional hires as a percentage of the total headcount is expected to remain flat or decrease.

*General and administrative expenses*. Our general and administrative expenses for the quarter ended June 30, 2010 were $11.7 million, an increase of $3.0 million, or 34.4%, as compared to general and administrative expenses of $8.7 million for the quarter ended June 30, 2009. This increase was primarily due to increases in bad debt expense and employee compensation and related expenses of $2.2 million and $0.9 million, partially offset by decreases in other general and administrative expenses of $0.1 million. Bad debt expense increased to $5.5 million for the quarter ended June 30, 2010 from $3.3 million for the quarter ended June 30, 2009 as a result of an increase in net revenues and the increase in aged receivables between periods. Employee compensation increased primarily as a result of additions in 2009 and the first quarter of 2010 resulting from our continued growth. Our general and administrative expenses as a percentage of net revenue decreased by 1.8% to 12.0% for the quarter ended June 30, 2010, from 13.8% for the quarter ended June 30, 2009. This decrease was primarily due to our ability to leverage certain costs such as administration and legal expenses across increasing revenue, partially offset by an increase in bad debt expense as a percentage of revenue from 5.2% in the second quarter of 2009 to 5.6% in the second quarter of 2010. As a result of current economic conditions, a higher percentage of aged receivables are not being paid.

*Interest expense*. Our interest expense for the quarter ended June 30, 2010 was $0.2 million, a decrease of $0.2 million from $0.4 million for the quarter ended June 30, 2009, as the average level of borrowings and related interest rates were significantly lowered as a result of the repurchase of the campus land and buildings and the conversion from a capital lease obligation at an effective interest rate of approximately 8.7% to a variable rate debt with an effective interest rate of 3.8% beginning in the second quarter of 2009.

*Income tax expense*. Income tax expense for the quarter ended June 30, 2010 was $8.0 million, an increase of $2.9 million from $5.1 million for the quarter ended June 30, 2009. This increase was primarily attributable to increased income before income taxes. Our effective tax rate was 39.2% during the second quarter of 2010 compared to 39.8% during the second quarter of 2009. The decrease in the effective tax rate between periods is due to resolution of the 2005 and 2006 IRS audit.

*Net income*. Our net income for the quarter ended June 30, 2010 was $12.4 million, an increase of $4.8 million, as compared to $7.6 million for the quarter ended June 30, 2009, due to the factors discussed above.

***Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009***

*Net revenue*. Our net revenue for the six months ended June 30, 2010 was $186.8 million, an increase of $68.4 million, or 57.9%, as compared to net revenue of $118.4 million for the six months ended June 30, 2009. This increase was primarily due to increased online enrollment and, to a lesser extent, increases in the average tuition per student as a result of tuition price increases and an increase in the number of students taking four credit courses between years, partially offset by an increase in institutional scholarships. End-of-period enrollment increased 31.5% between June 30, 2010 and 2009, as we were able to continue our growth and increase our recruitment, marketing, and enrollment operations.

*Instructional cost and services expenses*. Our instructional cost and services expenses for the six months ended June 30, 2010 were $68.0 million, an increase of $29.6 million, or 77.1%, as compared to instructional cost and services expenses of $38.4 million for the six months ended June 30, 2009. This increase was primarily due to increases in instructional compensation and related expenses, faculty compensation, non-capitalizable system conversion costs, instructional supplies, depreciation and amortization, share-based compensation, and other miscellaneous instructional costs and services of $8.8 million, $6.4 million, $4.0 million, $2.3 million, $1.6 million, $0.7 million, and $5.8 million, respectively. These increases are primarily attributable to the increased headcount (both staff and faculty) needed to provide student instruction and support services, including increased occupancy and equipment costs for the increased headcount, to support the increase in enrollments. Our instructional cost and services expenses as a percentage of net revenue increased by 4.0% to 36.4% for the six months ended June 30, 2010, as compared to 32.4% for the six months ended June 30, 2009. This increase was a result of costs incurred during our system conversion that occurred in the second quarter of 2010, an increase in employee compensation and related expenses as a percentage of revenue as we have increased the support personnel to student ratios to further improve the customer service to our students and increased instructional supplies and miscellaneous instructional costs due to increased licensing fees related to educational resources and continued improvement in curriculum development and new and enhanced innovative educational tools, partially offset by our ability to leverage the fixed cost structure of our campus-based facilities and ground faculty across an increasing revenue base.

*Selling and promotional expenses*. Our selling and promotional expenses for the six months ended June 30, 2010 were $55.9 million, an increase of $15.6 million, or 38.6%, as compared to selling and promotional expenses of $40.3 million for the six months ended June 30, 2009. This increase was primarily due to increases in selling and promotional employee compensation and related expenses, advertising and other selling and promotional expenses of $8.7 million, $6.5 million and $0.4 million, respectively. These increases were driven by a continued expansion in our marketing efforts, which resulted in an increase in recruitment, marketing, and enrollment staffing, and expenses related to our revenue sharing arrangement. Our selling and promotional expenses as a percentage of net revenue decreased by 4.1% to 29.9% for the six months ended June 30, 2010, from 34.0% for the six months ended June 30, 2009. This decrease occurred as a result of an increase in the productivity of our enrollment counselors that were hired during 2008 and 2009, coupled with our efforts to focus on pursuing higher quality leads to increase enrollment. In this regard, we incur immediate expenses in connection with hiring new enrollment counselors while these individuals undergo training, and typically do not achieve full productivity or generate enrollments from these enrollment counselors until four to six months after their dates of hire. We plan to continue to add additional enrollment counselors in the future, although the number of additional hires as a percentage of the total headcount is expected to remain flat or decrease.

*General and administrative expenses*. Our general and administrative expenses for the six months ended June 30, 2010 were $22.6 million, an increase of $5.1 million, or 28.7%, as compared to general and administrative expenses of $17.5 million for the six months ended June 30, 2009. This increase was primarily due to increases in bad debt expense and employee compensation of $3.7 million and $1.5 million, partially offset by lower other general and administrative expenses of $0.1 million. Bad debt expense increased to $10.3 million for the six months ended June 30, 2010 from $6.6 million for the six months ended June 30, 2009 as a result of an increase in net revenues and the increase in aged receivables between periods. Employee compensation increased primarily as a result of additions in 2009 and the first quarter of 2010 resulting from our continued growth. Our general and administrative expenses as a percentage of net revenue decreased by 2.7% to 12.1% for the six months ended June 30, 2010, from 14.8% for the six months ended June 30, 2009. This decrease was primarily due to our ability to leverage certain costs such as administration and legal expenses across an increasing revenue base. In addition, our bad debt expense decreased as a percentage of revenue from 5.6% in the first six months of 2009 to 5.5% in the first six months of 2010. As a result of current economic conditions, a higher percentage of aged receivables are not being paid. However, this deterioration in collections of aged receivables has recently been more than offset by changes that have been implemented with respect to our student accounts receivable collection process, which has resulted in fewer accounts reaching aged status.

*Interest expense*. Our interest expense for the six months ended June 30, 2010 was $0.5 million, a decrease of $0.6 million from $1.1 million for the six months ended June 30, 2009, as the average level of borrowings and related interest rates were significantly lowered as a result of the repurchase of the campus land and buildings and the conversion from a capital lease obligation at an effective interest rate of approximately 8.7% to a variable rate debt with an effective interest rate of 3.8% beginning in the second quarter of 2009.

*Income tax expense (benefit)*. Income tax expense for the six months ended June 30, 2010 was $15.8 million, an increase of $7.4 million from $8.4 million for the six months ended June 30, 2009. This increase was primarily attributable to increased income before income taxes. Our effective tax rate was 39.9% during the first six months of 2010 compared to 39.9% during the first six months of 2009.

*Net income*. Our net income for the six months ended June 30, 2010 was $23.9 million, an increase of $11.2 million, as compared to $12.7 million for the six months ended June 30, 2009, due to the factors discussed above.

**Seasonality**

Our net revenue and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in enrollment. Student population varies as a result of new enrollments, graduations, and student attrition. The majority of our traditional ground students do not attend courses during the summer months (May through August), which affects our results for our second and third fiscal quarters. Since a significant amount of our campus costs are fixed, the lower revenue resulting from the decreased ground student enrollment has historically contributed to lower operating margins during those periods. As we have increased the relative proportion of our online students, we expect this summer effect to continue to lessen. Partially offsetting this summer effect in the third quarter has been the sequential quarterly increase in enrollments that has occurred as a result of the traditional fall school start. This increase in enrollments also has occurred in the first quarter, corresponding to calendar year matriculation. In addition, we typically experience higher net revenue in the fourth quarter due to its overlap with the semester encompassing the traditional fall school start and in the first quarter due to its overlap with the first semester of the calendar year. A portion of our expenses do not vary proportionately with these fluctuations in net revenue, resulting in higher operating income in the first and fourth quarters relative to other quarters. We expect quarterly fluctuation in operating results to continue as a result of these seasonal patterns.

**Liquidity and Capital Resources**

*Liquidity*. We financed our operating activities and capital expenditures during the six months ended June 30, 2010 and 2009 primarily through cash provided by operating activities. Our unrestricted cash, cash equivalents, and marketable securities were $43.4 million and $63.1 million at June 30, 2010 and December 31, 2009, respectively. Our restricted cash, cash equivalents and investments at June 30, 2010 and December 31, 2009 were $30.7 million and $3.2 million, respectively.

A significant portion of our net revenue is derived from tuition financed by the Title IV programs. Federal regulations dictate the timing of disbursements under the Title IV programs. Under the BBAY financial aid system, loan funds are generally provided by the Direct Loan Program in two disbursements for each academic year. The disbursements are usually received four weeks into the first course of a payment period. These factors, together with the timing of our students beginning their programs, affect our operating cash flow.

The significant increase in the restricted cash amount between December 31, 2009 and June 30, 2010 is the result of us transitioning online and professional studies students into BBAY starting in April 2010. Financial aid for these students previously was processed on a semester basis in which disbursements for the semester were typically received in the first couple of weeks of the semester. We classify all financial aid received for courses that have not yet started as restricted cash.

Based on our current level of operations and anticipated growth, we believe that our cash flow from operations and other sources of liquidity, including cash and cash equivalents, will provide adequate funds for ongoing operations, planned capital expenditures, and working capital requirements for at least the next 24 months.

***Cash Flows***

*Operating Activities*. Net cash provided by operating activities for the six months ended June 30, 2010 was $30.1 million as compared to $27.0 million for the six months ended June 30, 2009. Cash provided by operating activities in the six months ended June 30, 2010 resulted from our net income plus non cash charges for bad debts, depreciation and amortization, exit costs, share-based compensation and improvement in our working capital management.

*Investing Activities*. Net cash used in investing activities was $49.3 million and $47.7 million for the six months ended June 30, 2010 and 2009, respectively. Cash used in investing activities in 2010 is primarily due to an increase in restricted cash during the second quarter of 2010 as a result of our transition from a term-based financial aid system to BBAY in April 2010. Other capital expenditures were $22.4 million and $11.1 million for the six months ended June 30, 2010 and 2009, respectively. In the first six months of 2010, capital expenditures primarily consisted of purchases of computer equipment, and software costs to complete our transition from Datatel to CampusVue and Great Plains, other internal use software projects, furniture and equipment to support our increasing employee base and headcount and ground campus building projects such as a new dormitory, classroom building and recreational center to support our increasing traditional ground student enrollment. In 2009, cash used in investing activities was primarily the result of our acquisition on April 28, 2009 of the land and buildings that comprise our ground campus for $35.5 million, in addition to the $11.1 million of capital expenditures which primarily consisted of purchases of computer equipment, leasehold improvements, and office furniture and fixtures to support our increasing employee headcounts.

*Financing Activities*. Net cash used in financing activities was nil and provided by financing activities was $10.3 million in the six months ended June 30, 2010 and 2009, respectively. During the first six months of 2010 principal payments on notes payable and capital lease obligations were offset by proceeds from the exercise of stock options and the excess tax benefits from share-based compensation. During the first six months of 2009, the proceeds from the loan agreement were partially offset by the repurchase of our shares from Spirit.

**Contractual Obligations**

The following table sets forth, as of June 30, 2010, the aggregate amounts of our significant contractual obligations and commitments with definitive payment terms due in each of the periods presented (in millions):

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 2-3 Years | 4-5 Years | More than 5 Years |
| Long term notes payable | $ 25.0 | $ 1.0 | $ 3.8 | $ 19.8 | $ 0.4 |
| Capital lease obligations | 1.2 | 0.3 | 0.9 | 0.0 | 0.0 |
| Purchase obligations(1) | 53.5 | 29.7 | 23.4 | 0.4 | 0.0 |
| Operating lease obligations | 29.2 | 2.0 | 7.7 | 7.0 | 12.5 |
| Total contractual obligations | $ 108.9 | $ 33.0 | $ 35.8 | $ 27.2 | $ 12.9 |

(1) The purchase obligation amounts include expected spending by period under contracts that were in effect at June 30, 2010. Less than one year represents expected expenditures from July 1, 2010 through December 31, 2010.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have had or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

**Non-GAAP Discussion**

In addition to our GAAP results, we use Adjusted EBITDA as a supplemental measure of our operating performance and as part of our compensation determinations. Adjusted EBITDA is not required by or presented in accordance with GAAP and should not be considered as an alternative to net income, operating income, or any other performance measure derived in accordance with GAAP, or as an alternative to cash flow from operating activities or as a measure of our liquidity.

We define Adjusted EBITDA as net income plus interest expense net of interest income, plus income tax expense, and plus depreciation and amortization (EBITDA), as adjusted for (i) the amortization of prepaid royalty payments recorded in conjunction with a settlement of a dispute with our former owner, (ii) contributions made to Arizona school tuition organizations in lieu of the payment of state income taxes, which we typically make in the fourth quarter of a fiscal year, (iii) estimated litigation losses, if any, (iv) exit costs, and (v) share-based compensation.

We present Adjusted EBITDA because we consider it to be an important supplemental measure of our operating performance. We also make certain compensation decisions based, in part, on our operating performance, as measured by Adjusted EBITDA, and our loan agreement requires us to comply with covenants that include performance metrics substantially similar to Adjusted EBITDA. All of the adjustments made in our calculation of Adjusted EBITDA are adjustments to items that management does not consider to be reflective of our core operating performance. Management considers our core operating performance to be that which can be affected by our managers in any particular period through their management of the resources that affect our underlying revenue and profit generating operations during that period. Royalty expenses paid to our former owner, contributions made to Arizona school tuition organizations in lieu of the payment of state income taxes, estimated litigation losses, exit costs, and share-based compensation are not considered reflective of our core performance. We believe Adjusted EBITDA allows us to compare our current operating results with corresponding historical periods and with the operational performance of other companies in our industry because it does not give effect to potential differences caused by variations in capital structures (affecting relative interest expense, including the impact of write-offs of deferred financing costs when companies refinance their indebtedness), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the book amortization of intangibles (affecting relative amortization expense), and other items that we do not consider reflective of underlying operating performance. We also present Adjusted EBITDA because we believe it is frequently used by securities analysts, investors, and other interested parties as a measure of performance.

Table of Contents

In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments described above. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by expenses that are unusual, non-routine, or non-recurring. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are that it does not reflect:

- cash expenditures for capital expenditures or contractual commitments;
- changes in, or cash requirements for, our working capital requirements;
- interest expense, or the cash requirements necessary to service interest or principal payments on our indebtedness;
- the cost or cash required to replace assets that are being depreciated or amortized; and
- the impact on our reported results of earnings or charges resulting from the items for which we make adjustments to our EBITDA, as described above and set forth in the table below.

In addition, other companies, including other companies in our industry, may calculate these measures differently than we do, limiting the usefulness of Adjusted EBITDA as a comparative measure. Because of these limitations, Adjusted EBITDA should not be considered as a substitute for net income, operating income, or any other performance measure derived in accordance with GAAP, or as an alternative to cash flow from operating activities or as a measure of our liquidity. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally.

The following table presents data relating to Adjusted EBITDA, which is a non-GAAP measure, for the periods indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (Unaudited, in thousands) | | | |
| Net income | $ 12,396 | $ 7,643 | $ 23,876 | $ 12,718 |
| Plus: interest expense net of interest income | 125 | 300 | 408 | 858 |
| Plus: income tax expense | 7,991 | 5,063 | 15,825 | 8,439 |
| Plus: depreciation and amortization | 2,574 | 1,680 | 5,161 | 3,238 |
| EBITDA | 23,086 | 14,686 | 45,270 | 25,253 |
| Plus: royalty to former owner (a) | 74 | 74 | 148 | 148 |
| Plus: exit costs (b) | 116 | — | 205 | — |
| Plus: share-based compensation (c ) | 1,301 | 813 | 2,338 | 1,577 |
| Adjusted EBITDA | $ 24,577 | $ 15,573 | $ 47,961 | $ 26,978 |

(a) Reflects the amortization of prepaid royalties recorded in conjunction with a settlement with the former owner.

(b) Represents exit costs as a result of the closure of the student services facility in Utah during the fourth quarter of 2009. This amount represents increased costs related to an adjustment in the estimated sublease rentals associated with the leased space.

(c) Reflects share-based compensation expense relating to stock and option grants made to employees and directors.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

*Impact of inflation.* We believe that inflation has not had a material impact on our results of operations for the quarter ended June 30, 2010 or 2009. There can be no assurance that future inflation will not have an adverse impact on our operating results and financial condition.

*Market risk*. On June 30, 2009, we entered into two derivative agreements to manage our 30 Day LIBOR interest exposure from the variable rate debt we incurred in connection with the repurchase from Spirit of shares of our common stock and the land and buildings that comprise our ground campus, which debt matures in April 2014. The corridor instrument, which hedges variable interest rate risk starting July 1, 2009 through April 30, 2014 with a notional amount of $11.9 million as of June 30, 2010, permits us to hedge our interest rate risk at several thresholds. Under this arrangement, in addition to the credit spread we will pay variable interest rates based on the 30 Day LIBOR rates monthly until that index reaches 4%. If 30 Day LIBOR is equal to 4% through 6%, we will continue to pay 4%. If 30 Day LIBOR exceeds 6%, we will pay actual 30 Day LIBOR less 2%. The interest rate swap commenced on May 1, 2010, continues each month thereafter until April 30, 2014, and has a notional amount of $11.9 million as of June 30, 2010. Under this arrangement, we will receive 30 Day LIBOR and pay 3.245% fixed rate on the amortizing notional amount plus the credit spread.

Except with respect to the foregoing, we have no derivative financial instruments or derivative commodity instruments. We invest cash in excess of current operating requirements in short term certificates of deposit and money market instruments in multiple financial institutions.

*Interest rate risk*. We manage interest rate risk by investing excess funds in cash equivalents and AAA-rated marketable securities bearing variable interest rates, which are tied to various market indices. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. At June 30, 2010, a 10% increase or decrease in interest rates would not have a material impact on our future earnings, fair values, or cash flows. For information regarding our variable rate debt, see “Market risk” above.

### Item 4. Controls and Procedures

***Evaluation of Disclosure Controls and Procedures***

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of June 30, 2010, in ensuring that material information relating to us required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting.***

Based on an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

On August 14, 2008, the U. S. Department of Education, Office of Inspector General ("OIG") served an administrative subpoena on Grand Canyon University requiring us to provide certain records and information related to performance reviews and salary adjustments for all of our enrollment counselors and managers from January 1, 2004 to August 2008. We are cooperating with the OIG to facilitate its investigation and have completed our rolling responsive document production, which commenced in September 2008. Under the terms of the proposed settlement of the *qui tam* litigation that we and the *qui tam* relator submitted to the Court for approval on April 28, 2010 (described below), the OIG investigation would be resolved. The proposed settlement is subject to Court approval and the United States will have an opportunity to object the proposed settlement. We cannot presently predict the ultimate outcome of the OIG investigation, including any liability or other sanctions that may result, or the outcome of the proposed settlement.

On September 11, 2008, we were served with a *qui tam* lawsuit that had been filed against us in August 2007, in the United States District Court for the District of Arizona (the "Court") by a then-current employee on behalf of the federal government. All proceedings in the lawsuit had been under seal until September 5, 2008, when the court unsealed the first amended complaint, which was filed on August 11, 2008. The *qui tam* lawsuit alleges, among other things, that we violated the False Claims Act by knowingly making false statements, and submitting false records or statements, from at least 2001 to the present, to get false or fraudulent claims paid or approved, and asserts that we improperly compensated certain of our enrollment counselors in violation of the Title IV law governing compensation of such employees, and as a result, improperly received Title IV program funds. The complaint specifically alleges that some of our compensation practices with respect to our enrollment personnel, including providing non-cash awards, have violated the Title IV law governing compensation. While we believe that the compensation policies and practices at issue in the complaint have not been based on success in enrolling students in violation of applicable law, the Department of Education's regulations and interpretations of the incentive compensation law do not establish clear criteria for compliance in all circumstances, and some of these practices, including the provision of non-cash awards, are not within the scope of any explicit "safe harbor" provided in the compensation regulations. The complaint seeks treble the amount of unspecified damages sustained by the federal government in connection with our receipt of Title IV funding, a civil penalty for each violation of the False Claims Act, attorneys' fees, costs, and interest. The Company filed a motion to dismiss this case in November 2008, which was denied by the court in February 2009, and it has continued to vigorously contest this lawsuit. We cannot presently predict the ultimate outcome of this litigation or any liability or other sanctions that may result.

Pursuant to the court's mandatory scheduling order, we entered into a settlement discussions with respect to the *qui tam* matter with the relator. In connection with such discussions, in October 2009, we reached a settlement in principle with the relator pursuant to which we agreed to pay $5.2 million to finally resolve the *qui tam* case and thereby avoid the cost and distraction of a potentially protracted trial. Thus, in the third quarter of 2009, we accrued $5.2 million for the estimated litigation loss. On April 28, 2010, we and the relator submitted a proposed settlement agreement to the Court for approval. Following unsuccessful attempts to conclude a settlement agreement among the Company, the relator and the United States, on April 28, 2010, the Company and the relator submitted a proposed settlement agreement to the Court for approval. In accordance with a scheduling order set by the Court, the United States filed certain objections to the proposed settlement agreement to which the Company and the relator responded. The Court then held a hearing regarding the proposed settlement agreement, and the United States' objections thereto, on June 10, 2010.

Following the June 10, 2010 hearing, the Court ruled that, notwithstanding the United States' objections, the Court would not object to the provisions of the settlement agreement proposed by the Company and the relator that provide, among other things, (a) that the $5.2 million settlement amount would be payable by the Company on the earlier of September 1, 2011 or the issuance by the DOE to the Company of a Title IV program participation agreement (the Company's application for which had been pending since March 2008), and (b) that the Company would receive a release from future False Claims Act claims (i.e. *qui tam* actions) with respect to all conduct which is of the same subject matter as the conduct that is at issue in the current *qui tam* litigation (the "covered conduct") through the date that the settlement agreement is approved by the Court. The Court asked for further briefing on the issue of whether the Court has jurisdiction to approve the settlement agreement, over the United States' objections, if it includes (i) within the scope of the release provision, a release from future DOE administrative actions with respect to the covered conduct, and (ii) a provision confirming that the Company has fully complied with the OIG subpoena (the "contested provisions"). The parties have completed such briefing and, a final hearing on approval, modification, or rejection of the contested provisions will be held on August 13, 2010. If the Court determines that it cannot approve the contested provisions, then the parties may agree to strike those provisions and the Court, per its June 10, 2010 ruling, will approve a settlement consisting of the remaining proposed provisions, including those described in (a) and (b) above. Alternatively, the Company would have the option to abandon the proposed settlement and continue with its defense of the litigation. In either such event, the DOE would retain the power it currently possesses to continue with the OIG investigation and/or to initiate other administrative actions, including a program review, against the Company based on the covered, or any other, conduct. Should the parties fail to conclude the settlement on the proposed or other terms, we intend to vigorously defend this lawsuit.

If it were determined that any of our compensation practices violated the incentive compensation law, we could experience an adverse outcome in the *qui tam* litigation and be subject to substantial monetary liabilities, fines, and other sanctions, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations and could adversely affect our stock price.

From time to time, we are subject to ordinary and routine litigation incidental to our business. While the outcomes of these matters are uncertain, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors**

Other than with respect to the risk factors below, there have been no material changes to the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2009, as updated in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

***A qui tam lawsuit has been filed against us alleging, among other things, that we have improperly compensated certain of our enrollment counselors, and we may incur liability, be subject to sanctions, or experience damage to our reputation as a result of this lawsuit.***

On September 11, 2008, we were served with a *qui tam* lawsuit that had been filed against us in August 2007, in the United States District Court for the District of Arizona by a then-current employee on behalf of the federal government. All proceedings in the lawsuit had been under seal until September 5, 2008, when the court unsealed the first amended complaint, which had been filed on August 11, 2008. A *qui tam* case is a civil lawsuit brought by one or more individuals (a "relator") on behalf of the federal government for an alleged submission to the government of a false claim for payment. The relator, often a current or former employee, is entitled to a share of the government's recovery in the case. A *qui tam* action is always filed under seal and remains under seal until the government decides whether to intervene in the case. If the government intervenes, it takes over primary control of the litigation. If the government declines to intervene in the case, the relator may nonetheless elect to continue to pursue the litigation at his or her own expense on behalf of the government. In our case, the *qui tam* lawsuit was initially filed under seal in August 2007 and was unsealed and served on us following the government's decision not to intervene at that time.

The *qui tam* lawsuit alleges, among other things, that we violated the False Claims Act by knowingly making false statements, and submitting false records or statements, from at least 2001 to the present, to get false or fraudulent claims paid or approved, and asserts that we have improperly compensated certain of our enrollment counselors in violation of the Title IV law governing compensation of such employees, and as a result, improperly received Title IV program funds. The complaint specifically alleges that some of our compensation practices with respect to our enrollment personnel, including providing non-cash awards, have violated the Title IV law governing compensation. While we believe that our compensation policies and practices at issue in the complaint have not been based on success in enrolling students in violation of applicable law, the Department of Education's regulations and interpretations of the incentive compensation law do not establish clear criteria for compliance in all circumstances and some of our practices, including in respect of non-cash awards, have not been within the scope of any specific "safe harbor" provided in the compensation regulations. The complaint seeks treble the amount of unspecified damages sustained by the federal government in connection with our receipt of Title IV funding, a civil penalty for each violation of the False Claims Act, attorneys' fees, costs, and interest. We filed a motion to dismiss this case in November 2008, which was denied by the court in February 2009.

Pursuant to the court's mandatory scheduling order, we entered into settlement discussions with respect to the *qui tam* matter with the relator and in October 2009, reached a settlement in principle with the relator pursuant to which we agreed to pay $5.2 million to finally resolve the *qui tam* case and thereby avoid the cost and distraction of a potentially protracted trial. We have accrued that amount in the accompanying financial statements for the year ended December 31, 2009. At that time, we also accrued $5.2 million for the estimated litigation loss. This settlement in principle was conditioned upon obtaining the approval of the U. S. Department of Justice (which has authority to approve settlement of False Claims Act matters) and the Department of Education with respect to the issuance to us of our Title IV program participation agreement (our application for which has been pending since March 2008), resolution of the OIG investigation, and finalizing the settlement terms that would release us from other False Claims Act cases based upon the conduct covered by the settlement.

Following unsuccessful attempts to conclude a settlement agreement among us, the relator and the United States, we and the relator submitted a proposed settlement agreement to the Court for approval. In accordance with a scheduling order set by the Court, the United States filed certain objections to the proposed settlement agreement to which the Company and the relator responded. The Court then held a hearing regarding the proposed settlement agreement, and the United States' objections thereto, on June 10, 2010.

Following the June 10, 2010 hearing, the Court ruled that, notwithstanding the United States' objections, the Court would not object to the provisions of the settlement agreement proposed by us and the relator that provide, among other things, (a) that the $5.2 million settlement amount would be payable by us on the earlier of September 1, 2011 or the issuance by the Department of Education to us of our Title IV program participation agreement, and (b) that we would receive a release from future False Claims Act claims (i.e. qui tam actions) with respect to all conduct which is of the same subject matter as the conduct that is at issue in the current qui tam litigation (the "covered conduct") through the date that the settlement agreement is approved by the Court. The Court asked for further briefing on the issue of whether the Court has jurisdiction to approve the settlement agreement, over the United States' objections, if it includes (i) within the scope of the release provision, a release from future Department of Education administrative actions with respect to the covered conduct, and (ii) a provision confirming that we have fully complied with the OIG subpoena (the "contested provisions"). The parties have completed such briefing and, a final hearing on approval, modification, or rejection of the contested provisions will be held on August 13, 2010. If the Court determines that it cannot approve the contested provisions, then the parties may agree to strike those provisions and the Court, per its June 10, 2010 ruling, will approve a settlement consisting of the remaining proposed provisions, including those described in (a) and (b) above. Alternatively, we would have the option to abandon the proposed settlement and continue with our defense of the litigation. In either such event, the Department of Education would retain the power it currently possesses to continue with the OIG investigation and/or to initiate other administrative actions, including a program review, against us based on the covered, or any other, conduct.

The ultimate dismissal of the action, should a final settlement be reached, is subject to the Court's approval. Should the parties fail to conclude the settlement on the proposed or other terms, we intend to vigorously defend this lawsuit. If it were determined that any of our compensation practices violated the incentive compensation law, we could experience an adverse outcome in the *qui tam* litigation and be subject to substantial monetary liabilities, fines, and other sanctions, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations and could adversely affect our stock price. We cannot presently predict the ultimate outcome of this *qui tam* case or any liability or other sanctions that may result. It is possible that during the course of the litigation or the related Office of Inspector General investigation other information may be discovered that would adversely affect the outcome of the litigation.

***The Department of Education is conducting a program review of Grand Canyon University, which may result in the repayment of a substantial amount of Title IV funds and may lead to fines, penalties, or other sanctions, and damage to our reputation in the industry.***

In connection with its administration of the Title IV federal student aid programs, the Department of Education periodically conducts program reviews at selected schools that receive Title IV funds. In July 2010, the Department of Education initiated a program review of Grand Canyon University covering the 2008-2009 and 2009-2010 award years. As part of this program review, a Department of Education program review team conducted a site visit on our campus and reviewed, and in some cases has requested further information regarding, our records, practices and policies relating to, among other things, financial aid, enrollment, enrollment counselor compensation, program eligibility and other Title IV compliance matters. Upon the conclusion of the site visit, we were informed by the program review team that it would (i) conduct further review of our documents and records offsite, (ii) upon completion of such review, schedule a formal exit interview to be followed by a preliminary program review report in which any preliminary findings of non-compliance would be presented, and (iii) conclude the review by issuance of a final program review determination letter. Accordingly, at this point, the program review remains open and we intend to continue to cooperate with the review team until the program review is completed.

While we have not yet received notification of the timing of our exit interview or the Department of Education's preliminary program review report, as a result of concerns first raised by a member of the program review team at the conclusion of the site visit and subsequently stated in an affidavit by such member filed in connection with our *qui tam* case, we are aware that the program review team has two preliminary findings of concern. The first issue is whether a compensation policy in use during part of the period under review improperly rewarded some enrollment counselors based on success in enrolling students in violation of applicable law. As we have previously disclosed in the context of our ongoing *qui tam* action, while we believe that our compensation policies and practices are not based on success in enrolling students in violation of applicable law, the Department of Education's regulations and interpretations of the incentive compensation law do not establish clear criteria for compliance in all circumstances and some of our practices in prior years were not within the scope of any specific "safe harbor" provided in the compensation regulations.

The second issue is whether certain programs offered within our College of Liberal Arts provided students with training to prepare them for gainful employment in a recognized occupation. This "gainful employment" standard has been a requirement for Title IV eligibility for programs offered at proprietary institutions of higher education such as Grand Canyon University although, under legislation passed in 2008 and effective as of July 1, 2010, it no longer applies to designated liberal arts programs offered by us and certain other institutions that have held accreditation by a regional accrediting agency since a date on or before October 1, 2007 (we have held a regional accreditation since 1968). Subsequent to the filing of the affidavit by the program review team member expressing this preliminary finding, the program review team requested additional information from us that would help them determine whether our liberal arts degree programs were eligible under Title IV because they did provide training to prepare students for gainful employment in a recognized occupation. While we have not been informed at this time which of our liberal arts programs the program review team believes may be ineligible, we are in the process of gathering the information for delivery to the Department of Education by its requested deadline that we believe will demonstrate that each of our liberal arts programs met this requirement.

Our policies and procedures are planned and implemented to comply with the applicable standards and regulations under Title IV. If and to the extent the Department of Education's final program review determination letter identifies any compliance issues, we are committed to resolving such issues and ensuring that Grand Canyon University operates in compliance with all Department of Education requirements. Program reviews may remain unresolved for months or years with little or no communication from the Department of Education, and may involve multiple exchanges of information following the site visit. We cannot presently predict whether or if further information requests will be made, when the exit interview will take place, when the preliminary program review report or final determination letter will be issued, or when the program review will be closed. If the Department of Education were to make significant findings of non-compliance in the final program review determination letter, including any finding related to the two issues discussed above, then, after exhausting any administrative appeals available to us, we could be required to pay a fine, return Title IV monies previously received, or be subjected to other administrative sanctions, any of which outcomes could damage our reputation in the industry and have a material adverse effect on our business, results of operations, cash flows, and financial position.

***Pending rulemaking by the U.S. Department of Education could result in regulatory changes that materially and adversely affect our business.***

In November 2009, the Department of Education convened a new negotiated rulemaking team related to Title IV program integrity issues. This team, which included representatives of the various higher education constituencies, was unable to reach consensus on the form of all of the rules address by that team. Accordingly, under the negotiated rulemaking protocol, the Department of Education became free to propose rules without regard to the tentative agreement reached regarding certain of the rules.

The proposed program integrity rulemaking addresses numerous topics. The most significant proposals for our business are the following:

- Modification of the standards relating to the payment of incentive compensation to employees involved in student recruitment and enrollment; and

- Adoption of a definition of "gainful employment" for purposes of the requirement for Title IV student financial aid that a program of study prepare students for gainful employment in a recognized occupation.

On June 18, 2010, the Department of Education issued a Notice of Proposed Rulemaking ("NPRM") in respect of the program integrity issues, other than the metrics for determining compliance with the gainful employment requirement, with a 45 day public comment period. On July 26, 2010, the Department of Education issued an NPRM in respect of the proposed gainful employment requirement, also with a 45 day comment period. With respect to both NPRMs, the Department of Education has stated that its goal to publish final rules by November 1, 2010 and to have the final rules be effective July 1, 2011 with certain provisions of the gainful employment rules to be effective July 1, 2012.

*Incentive Compensation*

Current Title IV rules and regulations restrict the ability of a school participating in Title IV programs to pay any commission, bonus or other incentive payments to any person involved in student recruitment or admissions or awarding of Title IV program funds, if such payments are based directly or indirectly on success in enrolling students or obtaining student financial aid. The law and regulations governing this requirement do not establish clear criteria for compliance in all circumstances, but there currently are twelve safe harbors that define specific types of compensation that are deemed not to constitute impermissible incentive compensation. Currently, we rely on several of these safe harbors to ensure that our compensation and recruitment practices comply with the applicable requirements.

In the rules proposed by the Department of Education, these twelve safe harbors would be eliminated and, in lieu of the safe harbors, some of the relevant concepts relating to the incentive compensation limitations would be defined. We believe these changes may increase the uncertainty about what constitutes incentive compensation and which employees are covered by the regulation, and may require us and other schools to change some of our compensation practices for enrollment counselors and other employees, as well as certain third parties whom we pay for Internet-based services related to lead generation and marketing and whose activities are also subject to the incentive compensation rules. This could adversely affect our ability to compensate our enrollment counselors, other employees, and third parties in a manner that appropriately reflects their relative merit, which in turn could reduce their effectiveness and make it more difficult to attract and retain staff with the desired talent and motivation to succeed at Grand Canyon University. In addition, a lack of certainty could increase the risk of future Federal False Claims Act *qui tam* lawsuits in which private plaintiffs assert that our compensation practices violate the incentive compensation rules and, therefore, that our receipt of Title IV funds constitutes a submission to the government of a false claim for payment.

*Gainful Employment*

Under the Higher Education Act of 1965, proprietary schools are eligible to participate in Title IV programs in respect of educational programs that lead to “gainful employment in a recognized occupation.” Historically, this concept has not been defined in detail. The proposed definition of gainful employment in the NPRM would take into consideration whether former students are repaying their federal student loans and the relationship between total student loan debt and average earnings after a postsecondary program. Individual educational programs would be divided into three groups based on the proposed metrics:

- Programs with at least 45% of their former students paying down the principal on their federal loans, or with graduates having a debt-to-earnings ratio of less than 20% of discretionary income or 8% or total income, would be deemed fully eligible for Title IV funding. These programs would be required to disclose both their repayment rates and debt-to-earnings ratios unless they pass both of the preceeding tests.

- Programs with less than 35% of their former students paying down the principal on their federal loans, and with graduates having a debt-to-earnings ratio above 30% of discretionary income and 12% of total income, would be deemed ineligible for Title IV funding. Such programs would lose Title IV eligibility as of July 1, 2012, although institutions must warn students in the programs about the high debt-to-earnings ratio effective July 1, 2011. In order to mitigate against large and immediate displacements of students as of July 1, 2012, the Department of Education has further proposed that no more than 5 percent of a single institution’s programs would be declared ineligible as of that date, with the lowest-performing programs immediately losing eligibility and the remaining non-compliant programs losing eligibility one year later.

- Programs that are not fully eligible or ineligible under the above standards would be restricted programs and subject to limits on enrollment growth. Such institutions also would be required to demonstrated employer support for the program and warn consumers and current students of high debt levels.

While there remain many open questions and interpretive issues with respect to this NPRM, including questions as to the availability of, and the ability of education companies to obtain, the information needed to calculate the applicable metrics, if this regulation is adopted in a form similar to the Department of Education’s proposal in the NPRM, it could render some of our programs ineligible for Title IV funding if we do not meet the test to be considered “fully eligible.” In addition, the continuing eligibility of our educational programs for Title IV funding would be at risk due to factors beyond our control, such as changes in the income level of persons employed in specific occupations or sectors, increases in interest rates, changes in student mix to persons requiring higher amounts of student loans to complete their programs, changes in student loan delinquency rates and other factors. If a particular program ceased to be eligible for Title IV funding, in most cases it would not be practical to continue offering that course under our current business model. Regulations in the form proposed in the NPRM could result in a significant realignment of the types of educational programs that are offered by us and by proprietary institutions in general, in order to comply with the rules or to avoid the uncertainty associated with compliance over time. Furthermore, we may be required for certain programs to warn consumers and current students of high debt levels and provide the most recent debt measures for the program. Such changes in our business practices could reduce our enrollment, perhaps materially, which could have a material adverse effect on our business, prospects, financial condition and results of operations and could adversely affect our stock price.

***The U.S. Congress has recently commenced an examination of the for-profit education sector that could result in legislation or further U.S. Department of Education rulemaking restricting Title IV program participation by proprietary schools in a manner that materially and adversely affects our business.***

In recent months, there has been increased focus by the U.S. Congress on the role that for-profit educational institutions play in higher education. On June 17, 2010, the Education and Labor Committee of the U.S. House of Representatives held a hearing to examine the manner in which accrediting agencies review higher education institutions’ policies on credit hours and program length. On June 24, 2010, the Health, Education, Labor and Pensions (“HELP”) Committee of the U.S. Senate released a report entitled, “Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education” and held the first in a series of hearings to examine the proprietary education sector. Earlier, on June 21, 2010 the Chairmen of each of these education committees, together with other members of Congress, requested the Government Accountability Office (“GAO”) to conduct a review and prepare a report with recommendations regarding various aspects of the proprietary sector, including recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in federal student aid programs and the degree to which proprietary institutions’ revenue is composed of Title IV and other federal funding sources. On August 4, 2010, the HELP Committee held a second hearing to examine student recruitment practices as for-profit colleges. At this hearing, the GAO presented a report detailing the results of an investigation into sales and marketing practices in the for-profit education industry, which found that certain schools named in the report had engaged in fraudulent, deceptive or otherwise questionable practices in the area of student recruitment. These hearings and the GAO investigation are not formally related to the Department of Education’s program integrity rulemaking process currently underway regarding program integrity issues. However, the outcome of the hearings and the GAO investigation could impact the substance of the rulemaking process.

In connection with the August 6, 2010 hearing, the Chairman of the HELP Committee announced that additional hearings on for-profit colleges would take place in September, November and possibly December 2010, which would include a review of accreditors’ oversight of for-profit colleges, and also announced the HELP Committee’s plans to send requests to approximately 30 for-profit colleges, including all of the publicly-traded companies that operate for-profit colleges, seeking information about such matters as graduation and loan default rates, as well as internal recruiting documents and details about the use of third-party companies, such as lead generators, in the recruiting process. On August 6, 2010, we received one of these requests for information from the HELP Committee. The request seeks information to more accurately understand how we use Federal resources, including how we recruit and enroll students, set program price or tuition, determine financial aid including private or institutional loans, track attendance, handle withdrawals of students and return of Title IV dollars and manage compliance with the requirement that no more than 90% of revenues come from Title IV dollars. The request also seeks an understanding of the number of students who complete or graduate from programs we offer, how many of those students find new work in their educational area, the debt levels of students enrolling and completing programs and how we track and manage the number of students who risk default within the cohort default rate window. In furtherance of this, the HELP Committee has requested that we provide information about a broad spectrum of our business, including detailed information relating to financial results, management, operations, personnel, recruiting, enrollment, graduation, student withdrawals, receipt of Title IV funds, institutional accreditation, regulatory compliance and other matters. The HELP Committee has requested that we produce a portion of the specified information by August 26, 2010 and the remainder of the information by September 16, 2010. We are in the process of evaluating this request.

We cannot predict the extent to which, or whether, these hearings and review will result in legislation, further rulemaking or other administrative actions affecting our participation in Title IV programs. To the extent that any laws or regulations are adopted, or other administrative actions are taken, that limit our participation in Title IV programs or the amount of student financial aid for which the students at our institutions are eligible, our enrollments, revenues and results of operation could be materially and adversely affected.

***The implementation of our new back office systems could impact our ability to timely and accurately admit students to the university and register them for classes, bill students, certify and disburse financial aid, prepare financial reports, or impact the effectiveness of our internal controls over financial reporting.***

We have completed the transition of our online programs from a "term-based" financial aid system (where all students, including online students, begin programs and are eligible to receive financial aid at periodic start dates pursuant to a calendar-based term system) to a "borrower-based" financial aid system (where each student may begin a program and be eligible to receive financial aid at any time throughout the year). As part of this transition, we converted our back office system from Datatel, Inc. to a series of programs developed by Campus Management Corp., including CampusVue and CampusPortal, and also implemented Microsoft's Great Plains accounting system. These new systems are intended to allow us to manage our non-traditional online students with greater ease and flexibility by providing for rolling and flexible start dates. We continue to maintain redundancies between our old and new systems for a period of time while we ensure that the new systems operate as intended. If we did not effectively transition our student and financial aid data to these systems or if these systems do not operate as intended, it could adversely impact the effectiveness of our internal controls over financial reporting, as well as our ability to timely and accurately admit students to the university and register them for classes, bill students, certify and disburse financial aid, and prepare financial reports. This may in turn affect our ability to comply with the Department of Education's administrative capability standards.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

***Recent Sales of Unregistered Securities***

None.

***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Reserved**

**Item 5. Other Information**

None.

Table of Contents

**Item 6. Exhibits**

(a) Exhibits

| Number | Description | Method of Filing |
|---|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation. | Incorporated by reference to Exhibit 3.1 to Amendment No. 6 to the Company's Registration Statement on Form S-1 filed with the SEC on November 12, 2008. |
| 3.2 | Amended and Restated Bylaws. | Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on August 2, 2010. |
| 4.1 | Specimen of Stock Certificate. | Incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 filed with the SEC on September 29, 2008. |
| 4.2 | Amended and Restated Investor Rights Agreement, dated September 17, 2008, by and among Grand Canyon Education, Inc. and the other parties named therein. | Incorporated by reference to Exhibit 4.2 to Amendment No. 2 to the Company's Registration Statement on Form S-1 filed with the SEC on September 29, 2008. |
| 10.1 | Amendment No. 1 to Loan Agreement, dated June 9, 2010, by and between Grand Canyon Education, Inc. and Bank of America, N.A. | Filed herewith. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. † | Filed herewith. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. † | Filed herewith. |

† This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Exchange Act, and is not to be incorporated by reference into any filings of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**GRAND CANYON EDUCATION, INC.**

| | |
|---|---|
| Date: August 9, 2010 | By: /s/ Daniel E. Bachus<br>Daniel E. Bachus<br>Chief Financial Officer<br>(Principal Financial Officer and Principal Accounting Officer) |

EXHIBIT INDEX

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# AMENDMENT NO. 1 TO LOAN AGREEMENT

(Section 1.4(a) — Interest Rate)

This Amendment No. 1 To Loan Agreement (the "Amendment") is dated as of June 9, 2010, and between **BANK OF AMERICA, N.A.** (the "Bank") and **GRAND CANYON EDUCATION, INC.,** a Delaware corporation (the "Borrower").

RECITALS

A. The Bank and the Borrower entered into the Loan Agreement dated as of April 27, 2009 (the "Loan Agreement").

B. The Borrower and Bank desire to amend Section 1.4(a) of the Loan Agreement.

AGREEMENT

1. Definitions and References. Capitalized terms used but not defined in this Amendment shall have the meaning given to them in the Loan Agreement. All references to "Section" or "Subsection" are to the stated Section or Subsection in the Loan Agreement.

2. Amendment.

Section 1.4(a) is amended in total and shall hereafter read as follows:

(a) The interest rate on the unpaid amount of the Loan shall be a rate per year equal to the BBA LIBOR Rate (Adjusted Periodically), plus two hundred twenty five (225) basis points.

3. Representations and Warranties. When the Borrower signs this Amendment, the Borrower represents and warrants to the Bank that: (a) the Borrower is a Delaware corporation which was duly formed and is validly existing under the laws of the State of Delaware and is qualified to do business in Arizona and in each other state in which it operates, except for any such state where the failure to be so qualified would not have a material adverse effect, (b) there is no event which is, or with notice or lapse of time or both would be an Event of Default under the Loan Agreement except those events, if any, that have been disclosed in writing to the Bank or waived in writing by the Bank, (c) the representations and warranties in the Loan Agreement are true as of the date of this Amendment as if made on the date of this Amendment, except the representations and warranties that have the introductory clause "As of the date of this Agreement" which were true as of April 27, 2009, (d) this Amendment does not conflict with any law, agreement, or obligation by which the Borrower is bound, (e) the Loan Agreement and related loan documents including this Amendment, to which Borrower is a party, are legal, valid and binding agreements of the Borrower in accordance with their respective terms, (f) there is no pending litigation, tax claim, proceeding, or dispute that, if lost, would materially impair the Borrower's financial condition or ability to repay the Loan, except as have been disclosed in writing to the Bank or as have otherwise been disclosed by the Borrower in any periodic report or other filing made with the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act") or the Securities Exchange Act of 1934, as amended (the "Exchange Act") (collectively, the "SEC Reports"), and (g) this Amendment is within the Borrower's powers, has been duly authorized, and does not conflict with the Borrower's certificate of incorporation or bylaws.

4. Effect of Amendment. This Amendment shall be effective upon the Bank's receipt of each of the following:

(a) this Amendment executed by the Borrower; and

(b) $59,551.74 in payment of a fully earned and nonrefundable amendment fee.

Except as provided in this Amendment, all of the terms and conditions of the Loan Agreement shall remain in full force and effect.

5. Reaffirmation of Agreement. The Borrower (i) reaffirms all of its contractual undertakings and obligations under the Loan Agreement, as amended hereby, the Deed of Trust and the Secured and Unsecured Indemnity Agreement, and (ii) acknowledges that Borrower does not have any claims, offsets or defenses with respect to the payment of sums due under the Loan Agreement, the Deed of Trust or the Secured and Unsecured Indemnity Agreement.

6. No Prejudice; Reservation of Rights. This Agreement shall not prejudice any rights or remedies of the parties under the Loan Agreement, the Deed of Trust or the Secured and Unsecured Indemnity Agreement. The Borrower's obligations under the Loan Agreement shall continue to be secured by the Deed of Trust.

7. Counterparts. This Amendment may be executed in counterparts, each of which when so executed shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

8. Attorney Fees. Borrower shall pay all reasonable legal fees and costs incurred by the Bank in connection with this Amendment within three (3) Business Days of receipt of invoice.

9. **FINAL AGREEMENT. BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THIS DOCUMENT REPRESENTS THE FINAL AGREEMENT BETWEEN PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF, (B) THIS DOCUMENT SUPERSEDES ANY COMMITMENT LETTER, TERM SHEET OR OTHER WRITTEN OUTLINE OF TERMS AND CONDITIONS RELATING TO THE SUBJECT MATTER HEREOF, (C) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, RELATING TO THE SUBJECT MATTER HEREOF, AND (D) THIS DOCUMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES RELATING TO THE SUBJECT MATTER HEREOF.**

[Signature page follows]

This Amendment is executed as of the date stated at the beginning of this Amendment.

**BANK:**

**BANK OF AMERICA, N.A.**

By: /s/ David R. Barney
Name: David R. Barney
Title: Senior Vice President

**BORROWER:**

**GRAND CANYON EDUCATION, INC.**,
a Delaware corporation

By: /s/ Daniel E. Bachus
Name: Dan Bachus
Title: Chief Financial Officer

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO RULES 13a-14(a) and 15d-14(a),**
**AS ADOPTED PURSUANT TO SECTION 302 0F THE SARBANES-OXLEY ACT OF 2002**

I, Brian E. Mueller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ending June 30, 2010 of Grand Canyon Education, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2010

/s/ Brian E. Mueller
Brian E. Mueller
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO RULES 13a-14(a) and 15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 0F THE SARBANES-OXLEY ACT OF 2002**

I, Daniel E. Bachus, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ending June 30, 2010 of Grand Canyon Education, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2010

/s/ Daniel E. Bachus
Daniel E. Bachus
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Grand Canyon Education, Inc. (the "Company") for the quarter ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian E. Mueller, Chief Executive Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2010

/s/ Brian E. Mueller
Brian E. Mueller
Chief Executive Officer (Principal Executive Officer)

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10Q of Grand Canyon Education, Inc. (the "Company") for the quarter ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel E. Bachus, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2010

/s/ Daniel E. Bachus

Daniel E. Bachus
Chief Financial Officer
(Principal Financial and Principal Accounting Officer)