Grand Canyon Education, Inc. Reports Second Quarter 2022 Results

August 4, 2022

PHOENIX, Aug. 4, 2022 /PRNewswire/ -- **Grand Canyon Education, Inc.** (NASDAQ: LOPE), ("GCE" or the "Company"), is a publicly traded education services company that currently provides services to 27 university partners. GCE provides a full array of support services in the post-secondary education sector and has developed significant technological solutions, infrastructure and operational processes to provide superior services in these areas on a large scale. GCE today announced financial results for the quarter ended June 30, 2022.

For the three months ended June 30, 2022:

- Service revenue was $199.8 million for the second quarter of 2022, a decrease of $1.7 million, or 0.9%, as compared to $201.5 million for the second quarter of 2021. The decrease year over year in service revenue was primarily due to a decrease in online enrollments at GCU of 7.5% (see - *Impact of COVID-19* below) and to a lesser extent, students in a university partner's Occupational Therapy Assistants ("OTA") program of 34% (see - *Impact of COVID-19* below) partially offset by increases in GCU traditional campus enrollments, university partners enrollments in the Accelerated Bachelor of Science in Nursing ("ABSN") programs and revenue per student year over year. The increase in revenue per student between years is primarily due to the service revenue impact of the increased room, board and other ancillary revenues at GCU in the second quarter in 2022 as compared to the prior year period (see - *Impact of COVID-19* below) and the increase in students at off-campus classroom and laboratory sites. Service revenue per student for off-campus classroom and laboratory sites generates a significantly higher revenue per student than we earn under our agreement with GCU, as these agreements generally provide us with a higher revenue share percentage, the partners have higher tuition rates than GCU and the majority of their students are studying in the Accelerated Bachelor of Science in Nursing program and take more credits on average per semester.
- Partner enrollments totaled 96,029 at June 30, 2022 as compared to 101,808 at June 30, 2021. University partner enrollments at our off-campus classroom and laboratory sites were 4,120, a decrease of 2.1% over enrollments at June 30, 2021, which includes 324 GCU students at June 30, 2022. This growth rate has slowed over the past year primarily due to the 34.0% decline in OTA students. Year over year ABSN students grew 1.2% at June 30, 2022. In a joint decision between us and one of our university partners, two ABSN off-campus classroom and laboratory sites were closed at the beginning of this year to allow the university partner to focus its resources closer to its home location. Excluding the prior year enrollments from locations that have been closed in the past twelve months, ABSN students grew 6.6% year over year. We did open three new off-campus classroom and laboratory sites in the first half of 2022 increasing the total number of these sites to 32 at June 30, 2022 and anticipate opening four more this Fall and six to eight more in 2023 which should re-accelerate the ABSN student enrollment growth. Enrollments at GCU declined to 92,233 at June 30, 2022, a decrease of 5.7% over enrollments at June 30, 2021 primarily due to the decrease in GCU online enrollments between years. Enrollments for GCU ground students were 7,309 at June 30, 2022 up from 6,202 at June 30, 2021 primarily due to a 24.0% increase in traditional ground students taking summer school courses between years. GCU enrollment declines between March 31 and June 30 of each year as ground enrollment at GCU at June 30 of each year only includes traditional-aged students taking Summer school classes, which is a small percentage of GCU's traditional-aged student body. The Spring semester for GCU's traditional-aged student body ends near the end of April each year.
- Operating income for the three months ended June 30, 2022 was $33.8 million, a decrease of $16.4 million as compared to $50.2 million for the same period in 2021. The operating margin for the three months ended June 30, 2022 was 16.9%, compared to 24.9% for the same period in 2021.
- Interest income, net of interest expense decreased from $14.2 million in the second quarter of 2021 to $0.3 million in the second quarter of 2022 primarily due to the payoff of the Secured Note receivable and the cancellation and repayment of the credit facility, both of which occurred in the fourth quarter of 2021.
- Income tax expense for the three months ended June 30, 2022 was $8.6 million, a decrease of $6.4 million, as compared to income tax expense of $15.0 million for the three months ended June 30, 2021. This decrease was the result of a decrease in our taxable income partially offset by an increase in our effective tax rate between periods. Our effective tax rate was 25.2% during the second quarter of 2022 compared to 23.3% during the second quarter of 2021. In the second quarter of 2022, the effective tax rate was unfavorably impacted by an increase in the state income tax rate.
- Net income decreased 48.3% to $25.6 million for the second quarter of 2022, compared to $49.5 million for the same period in 2021. As adjusted net income was $27.1 million and $51.1 million for the second quarters of 2022 and 2021, respectively.
- Diluted net income per share was $0.80 and $1.09 for the second quarters of 2022 and 2021, respectively. As adjusted

diluted net income per share was $0.85 and $1.12 for the second quarters of 2022 and 2021, respectively.
- Adjusted EBITDA decreased 25.4% to $45.6 million for the second quarter of 2022, compared to $61.1 million for the same period in 2021.

For the six months ended June 30, 2022:

- Service revenue for the six months ended June 30, 2022 was $443.9 million, an increase of $5.5 million, or 1.2%, as compared to service revenue of $438.4 million for the six months ended June 30, 2021. The increase year over year in service revenue was primarily due to increases in GCU traditional campus enrollments, university partners enrollments in ABSN programs and revenue per student year over year partially offset by a decrease in online enrollments at GCU of 7.5% (see - *Impact of COVID-19* below) and to a lesser extent, students in a university partner's OTA program of 34% (see - *Impact of COVID-19* below). The increase in revenue per student between years is primarily due to the service revenue impact of the increased room, board and other ancillary revenues at GCU in the first half of 2022 as compared to the prior year period (see - *Impact of COVID-19* above) and the increase in students at off-campus classroom and laboratory sites. Service revenue per student for ABSN students at off-campus classroom and laboratory sites generates a significantly higher revenue per student than we earn under our agreement with GCU, as these agreements generally provide us with a higher revenue share percentage, the partners have higher tuition rates than GCU and the majority of their students take more credits on average per semester.
- Operating income for the six months ended June 30, 2022 was $111.3 million, a decrease of $23.2 million as compared to $134.5 million for the same period in 2021. The operating margin for the six months ended June 30, 2022 was 25.1%, compared to 30.7% for the same period in 2021.
- Interest income, net of interest expense decreased from $28.1 million for the six months ended June 30, 2021 to $0.5 million for the six months ended June 30, 2022 primarily due to the payoff of the Secured Note receivable and the cancellation and repayment of the credit facility, both of which occurred in the fourth quarter of 2021.
- Income tax expense for the six months ended June 30, 2022 was $28.2 million, a decrease of $6.8 million, or 19.4%, as compared to income tax expense of $35.0 million for the six months ended June 30, 2021. This decrease was the result of a decrease in our taxable income partially offset by an increase in our effective tax rate between periods. Our effective tax rate was 25.2% during the six months ended June 30, 2022 compared to 21.5% during the six months ended June 30, 2021. In the first half of 2021, the effective tax rate was significantly impacted by excess tax benefits of $4.4 million as a result of exercises of the remaining stock options held by employees prior to their expiration. Excess tax benefits totaled only $0.1 million in the first half of 2022. In the first half of 2022, the effective tax rate was also unfavorably impacted by an increase in the state income tax rate.
- Net income decreased 34.4% to $83.6 million for the six months ended June 30, 2022, compared to $127.6 million for the same period in 2021. As adjusted net income was $87.3 million and $130.9 million for the six months ended June 30, 2022 and 2021, respectively.
- Diluted net income per share was $2.51 and $2.78 for the six months ended June 30, 2022 and 2021, respectively. As adjusted diluted net income per share was $2.61 and $2.85 for the six months ended June 30, 2022 and 2021, respectively.
- Adjusted EBITDA decreased 13.2% to $136.0 million for the six months ended June 30, 2022, compared to $156.7 million for the same period in 2021.

Liquidity and Capital Resources

Our unrestricted cash and cash equivalents and investments were $203.3 million and $600.9 million as of June 30, 2022 and December 31, 2021, respectively. Our liquidity position, as measured by cash and cash equivalents and investments decreased by $397.7 million during fiscal 2022, which was largely attributable to the share repurchases during the first half of 2022 of $528.0 million, partially offset by cash provided by operating activities of $146.1 million.

Impact of COVID-19

Since March 2020, the world has been, and continues to be, impacted by the COVID-19 pandemic. This contagious outbreak, which has continued to spread, and the related adverse public health developments that have occurred at various times since March 2020, including orders to shelter-in-place, travel restrictions and mandated non-essential business closures, have adversely affected workforces, organizations, customers, economies and financial markets globally. It has also disrupted the normal operations of many businesses, including ours, and that of our university partners.

Pursuant to the Master Services Agreement, GCE provides education services to GCU in return for 60% of GCU's tuition and fee revenues, which includes fee revenues from room, board, and other ancillary businesses including a student-run golf course. GCU has four types of students: traditional ground university students, who attend class on its campus in Phoenix, Arizona and of which approximately 70% have historically lived on campus in university owned residence halls; professional studies students, who are working adult students who attend class one night a week on the Phoenix campus; online students who attend class fully online; and students who are studying in hybrid programs in which the ground component takes place at off-campus classroom and laboratory sites.

The COVID-19 outbreak, as well as measures taken to contain its spread, has impacted GCU's students and its business in a number of ways. A full description of those impacts is described in our 2021 Form 10-K. Below is an explanation of those impacts from the COVID-19 pandemic, that had an effect on GCU's tuition and non-tuition revenue during 2021 and the first six months of 2022 and, consequently, the service revenues we earned under the Master Services Agreement:

- Room, board and certain fee income was negatively impacted in the Spring semester of 2021 for GCU's traditional students as the first week of the Spring 2021 semester was completed in an online modality to provide greater flexibility for students returning to campus after the holidays. Face-to-face instruction for the semester commenced on January 11, 2021 and ended April 1, 2021 for approximately 80% of classes, followed by two weeks of online instruction. Approximately 3,500 traditional ground students elected to complete the Spring 2021 semester entirely in the online modality. GCU's ground traditional students residing on campus in GCU's residence halls returned to historical levels in the Spring semester of 2022 and the entire semester was conducted face-to-face. Thus, GCU experienced a significant year over year increase in these revenues in the first half of 2022 and thus the service revenues earned by GCE;
- During the second quarter of 2020, GCU's online enrollment growth accelerated significantly into the high single digits. The increased level of online enrollment at that time resulted from a combination of factors including an acceleration of new students starting programs, a higher-than-expected number of students returning to the university that had taken a break from their program ("re-enters") and a lower-than-expected number of students deciding to drop out of or take a break from their program. We believe these trends were primarily caused by the shutdowns precipitated by the COVID-19 outbreak as greater numbers of working adults decided to return to school to finish undergraduate degree programs that they had previously started or to start new graduate degree programs during this time. These trends generally continued through the first quarter of 2021. Beginning in the second quarter of 2021, online enrollment growth rates as compared to the prior year period began to slow as both new enrollments and re-enters were down year over year, the numbers of students dropping out of school or taking periodic breaks in their program returned to historical levels and students completing their programs increased significantly on a year over year basis. These trends continued through the rest of 2021 and thus the year over year online growth rate continued to decline. The decline in new enrollments as compared to the prior year beginning in the second quarter of 2021 was also the result of recruitment challenges caused by the reduced access to schools, hospitals, and businesses where our potential students work. We believe that as the year over year comparables return to historical levels and schools, hospitals and businesses fully reopen, our online enrollment growth rate will begin to re-accelerate; and
- Professional studies students have declined significantly since the onset of the COVID-19 outbreak. Professional studies students at that time were converted to the online learning environment; since then, most have completed their programs while no new cohorts have been started until very recently. Now that the university has approved the recruitment of new professional studies cohorts, we anticipate that the number of these students will begin to grow.

The changes described above at GCU have impacted or will impact GCE's service revenue under the Master Services Agreement. In addition, due to the limited operating expenses that we incur to deliver those services, there has been or will be a direct reduction in our operating profit and operating margin.

GCE also provides services to numerous university partners across the United States, including GCU, at off-campus classroom and laboratory sites. The majority of these university partners' students are studying in the ABSN program which is offered in a 12-16-month format in three or four academic semesters. Beginning with the Summer 2021 semester we experienced a decline in revenue per student from students in these programs caused primarily by some students delaying their scheduled clinical courses due to vaccine mandates at hospital partners and we started to see a reduction in our off-site classroom and laboratory student enrollment growth rate due primarily to delays in the opening of scheduled new sites and requests by some of our university or hospital partners or their state regulatory boards to reduce cohort sizes due to concerns over potential clinical faculty availability caused by nursing and other healthcare employee shortages. This is especially true with one of our university partner's OTA program in which enrollment declined 34.0% between June 30, 2021 and 2022 as the university partner stopped admitting new students for most of 2021 due to clinical placement backlog. None of our ABSN partners have stopped admitting new students but some locations that were scheduled to open in 2021 and 2022 have been pushed back and some existing partners have reduced incoming cohort sizes due to the concern that there are not enough nurses to serve as clinical faculty.

No other changes are currently anticipated with our other university partners that would have a material impact on GCE's service revenue, operating profit and operating margins. However, if one of our university partners were to close an off-campus classroom and laboratory site or take some other action that adversely impacted program enrollment, such an event would reduce the service revenues earned by GCE.

Beginning at the time of the COVID-19 outbreak a large percentage of our workforce began to work remotely and is expected to continue doing so for the foreseeable future. This degree of remote working could increase risks in the areas of internal control, cyber security and the use of remote technology, and thereby result in interruptions or disruptions in normal operational processes.

It is not possible for us to completely predict the duration or magnitude of the adverse results of the COVID-19 pandemic and its effects on our business, results of operations or financial condition at this time, but such effects may be material in future quarters.

2022 Outlook	
Q3 2022:	Service revenue of between $207.3 million and $209.3 million; As Adjusted Operating Margin of between 16.1% and 16.3%; Effective tax rate of 18.4%; As Adjusted Diluted EPS of between $0.86 and $0.88 using 31.6 million diluted shares
Q4 2022:	Service revenue of between $252.0 million and $256.0 million; As Adjusted Operating Margin of between 34.7% and 34.8%; Effective tax rate of 22.9%; As Adjusted Diluted EPS of between $2.14 and $2.18 using 31.5 million diluted shares
Full Year 2022:	Service revenue of between $903.2 million and $909.2 million; As Adjusted Operating Margin of between 26.2% and 26.3%; Effective tax rate of 23.4%; As Adjusted Diluted EPS of between $5.60 and $5.66 using 32.5 million diluted shares

Forward-Looking Statements

This news release contains "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; whether regulatory, economic, or business developments or other matters may or may not have a material adverse effect on our financial position, results of operations, or liquidity; projections, predictions, expectations, estimates, and forecasts as to our business, financial and operating results, and future economic performance; and 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, the negative of these 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 our actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements include, but are not limited to: the harm to our business, results of operations, and financial condition, and harm to our university partners resulting from epidemics, pandemics, including the continuing, and potential future, adverse effects of the COVID-19 pandemic, or public health crises: the occurrence of any event, change or other circumstance that could give rise to the termination of any of our key university partner agreements; our ability to properly manage risks and challenges associated with strategic initiatives, including potential acquisitions or divestitures of, or investments in, new businesses, acquisitions of new properties and new university partners, and expansion of services provided to our existing university partners; our failure to comply with the extensive regulatory framework applicable to us either directly as a third party education services provider or indirectly through our university partners, including Title IV of the Higher Education Act and the regulations thereunder, state laws and regulatory requirements, and accrediting commission requirements; competition from other education services companies in our geographic region and market sector, including competition for students, qualified executives and other personnel; the pace of growth of our university partners' enrollment and its effect on the pace of our own growth; our ability to, on behalf of our university partners, convert prospective students to enrolled students and to retain active students to graduation; 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 for our university partners; the impact of any natural disasters or public health emergencies; and other factors discussed in reports on file with the Securities and Exchange Commission, including as set forth in Part I, Item 1A of our Annual Report on Form 10-K for period ended December 31, 2021, as updated in our subsequent reports filed with the Securities and Exchange Commission on Form 10Q or Form 8-K.

Forward-looking statements speak only as of the date the statements are made. 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.

Conference Call

Grand Canyon Education, Inc. will discuss its second quarter 2022 results and full year 2022 outlook during a conference call scheduled for today, August 4, 2022 at 4:30 p.m. Eastern time (ET).

Live Conference Dial-In:

Those interested in participating in the question-and-answer session should follow the conference dial-in instructions below. Participants may register for the call here to receive the dial-in numbers and unique PIN to access the call seamlessly. Please dial in at least ten minutes prior to the start of the call. Journalists are invited to listen only.

Webcast and Replay:

Investors, journalists and the general public may access a live webcast of this event at: *Q2 2022 Grand Canyon Education Inc. Earnings Conference Call.* A webcast replay will be available approximately two hours following the conclusion of the call at the same link.

About Grand Canyon Education, Inc.

Grand Canyon Education, Inc. ("GCE"), incorporated in 2008, is a publicly traded education services company that currently provides services to 27 university partners. GCE is uniquely positioned in the education services industry in that its leadership has over 30 years of proven expertise in providing a full array of support services in the post-secondary education sector and has developed significant technological solutions, infrastructure and operational processes to provide superior services in these areas on a large scale. GCE provides services that support students, faculty and staff of partner institutions such as marketing, strategic enrollment management, counseling services, financial services, technology, technical support, compliance, human resources, classroom operations, content development, faculty recruitment and training, among others. For more information about GCE visit the Company's website at www.gce.com.

Grand Canyon Education, Inc., 2600 W. Camelback Road, Phoenix, AZ 85017, **www.gce.com**.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
(In thousands, except per share data)				
Service revenue	$ 199,753	$ 201,487	$ 443,886	$ 438,421
Costs and expenses:				
Technology and academic services	38,189	33,676	74,495	65,727
Counseling services and support	66,025	60,932	133,538	122,171
Marketing and communication	49,735	45,445	100,586	93,176
General and administrative	9,854	9,081	19,747	18,663
Amortization of intangible assets	2,105	2,105	4,210	4,210
Total costs and expenses	165,908	151,239	332,576	303,947
Operating income	33,845	50,248	111,310	134,474
Interest income on Secured Note	—	14,773	—	29,322
Interest expense	(5)	(763)	(5)	(1,562)
Investment interest and other	344	238	549	359
Income before income taxes	34,184	64,496	111,854	162,593
Income tax expense	8,622	15,035	28,214	35,020
Net income	$ 25,562	$ 49,461	$ 83,640	$ 127,573
Earnings per share:				
Basic income per share	$ 0.80	$ 1.09	$ 2.51	$ 2.78
Diluted income per share	$ 0.80	$ 1.09	$ 2.51	$ 2.78
Basic weighted average shares outstanding	31,800	45,490	33,295	45,810
Diluted weighted average shares outstanding	31,877	45,582	33,381	45,964

GRAND CANYON EDUCATION, INC.
Consolidated Balance Sheets

(In thousands, except par value)	As of June 30, 2022	As of December 31, 2021
ASSETS:	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 139,401	$ 600,941
Investments	63,867	—
Accounts receivable, net	25,727	70,063
Income taxes receivable	8,967	1,275
Other current assets	11,890	8,766
Total current assets	249,852	681,045
Property and equipment, net	139,632	136,120
Right-of-use assets	54,202	57,652
Amortizable intangible assets, net	181,009	185,219
Goodwill	160,766	160,766
Other assets	1,842	1,943
Total assets	$ 787,303	$ 1,222,745
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities		
Accounts payable	$ 18,139	$ 24,306
Accrued compensation and benefits	32,911	32,714
Accrued liabilities	32,977	27,593
Income taxes payable	32	5,895
Deferred revenue	11,958	10
Current portion of lease liability	7,699	7,426
Total current liabilities	103,716	97,944
Deferred income taxes, noncurrent	26,571	25,962
Other long-term liabilities	24	37
Lease liability, less current portion	50,354	53,755
Total liabilities	180,665	177,698
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.01 par value, 10,000 shares authorized; 0 shares issued and outstanding at December 31, 2021 and December 31, 2020	—	—
Common stock, $0.01 par value, 100,000 shares authorized; 53,830 and 53,637 shares issued and 31,963 and 37,722 shares outstanding at December 31, 2021 and December 31, 2020, respectively	538	536
Treasury stock, at cost, 21,867 and 15,915 shares of common stock at December 31, 2021 and December 31, 2020, respectively	(1,635,223)	(1,107,211)
Additional paid-in capital	303,029	296,670
Accumulated other comprehensive loss	(398)	—
Retained earnings	1,938,692	1,855,052
Total stockholders' equity	606,638	1,045,047
Total liabilities and stockholders' equity	$ 787,303	$ 1,222,745

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

(In thousands)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Cash flows provided by operating activities:		
Net income	$ 83,640	$ 127,573

Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	6,361	5,959
Depreciation and amortization	11,352	10,821
Amortization of intangible assets	4,210	4,210
Deferred income taxes	732	1,837
Other, including fixed asset impairments	631	302
Changes in assets and liabilities:		
Accounts receivable and interest receivable from university partners	44,336	47,312
Other assets	(3,171)	(3,975)
Right-of-use assets and lease liabilities	322	237
Accounts payable	(6,285)	6,653
Accrued liabilities	5,568	5,027
Income taxes receivable/payable	(13,555)	(5,387)
Deferred revenue	11,948	9,760
Net cash provided by operating activities	146,089	210,329
Cash flows used in investing activities:		
Capital expenditures	(15,136)	(15,757)
Additions of amortizable content	(114)	(271)
Funding to GCU	—	(190,000)
Purchases of investments	(91,361)	(51,223)
Proceeds from sale or maturity of investments	26,994	17,166
Net cash used in investing activities	(79,617)	(240,085)
Cash flows used in financing activities:		
Principal payments on notes payable	—	(16,572)
Net borrowings from revolving line of credit	—	35,000
Repurchase of common shares and shares withheld in lieu of income taxes	(528,012)	(167,673)
Net proceeds from exercise of stock options	—	2,680
Net cash used in financing activities	(528,012)	(146,565)
Net decrease in cash and cash equivalents and restricted cash	(461,540)	(176,321)
Cash and cash equivalents and restricted cash, beginning of period	600,941	245,769
Cash and cash equivalents and restricted cash, end of period	$ 139,401	$ 69,448
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 5	$ 1,658
Cash paid for income taxes	$ 38,841	$ 37,132
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment included in accounts payable	$ 1,654	$ 422
ROU Asset and Liability recognition	$ 503	$ 1,717

GRAND CANYON EDUCATION, INC.

Adjusted EBITDA (Non-GAAP Financial Measure)

Adjusted EBITDA is defined as net income plus interest expense, less interest income and other gain (loss) recognized on investments, plus income tax expense, and plus depreciation and amortization (EBITDA), as adjusted for (i) contributions to private Arizona school tuition organizations in lieu of the payment of state income taxes; (ii) loss on transaction; (iii) share-based compensation, and (iv) unusual charges or gains, such as litigation and regulatory reserves, impairment charges and asset write-offs, and exit or lease termination costs. 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. 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 and does not consider the items for which we make adjustments (as listed above) to be 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.

In evaluating Adjusted EBITDA, investors 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 in that, among other things 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 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 and reported under 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 only use Adjusted EBITDA as a supplemental performance measure.

The following table provides a reconciliation of net income to Adjusted EBITDA, which is a non-GAAP measure for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
	(Unaudited, in thousands)		**(Unaudited, in thousands)**	
Net income	$ 25,562	$ 49,461	$ 83,640	$ 127,573
Plus: interest expense	5	763	5	1,562
Less: interest income on Secured Note	—	(14,773)	—	(29,322)
Less: investment interest and other	(344)	(238)	(549)	(359)
Plus: income tax expense	8,622	15,035	28,214	35,020
Plus: amortization of intangible assets	2,105	2,105	4,210	4,210
Plus: depreciation and amortization	5,628	5,396	11,352	10,821
EBITDA	41,578	57,749	126,872	149,505
Plus: loss on fixed asset disposal	3	—	664	—
Plus: share-based compensation	3,171	2,940	6,361	5,959
Plus: litigation and regulatory reserves	857	432	2,128	1,246
Adjusted EBITDA	$ 45,609	$ 61,121	$ 136,025	$ 156,710

Non-GAAP Net Income and Non-GAAP Diluted Income Per Share

The Company believes the presentation of non-GAAP net income and non-GAAP diluted income per share information that excludes amortization of intangible assets and loss on disposal of fixed assets allows investors to develop a more meaningful understanding of the Company's performance over time. Accordingly, for the three-months and six-months ended June 30, 2022 and 2021, the table below provides reconciliations of these non-GAAP items to GAAP net income and GAAP diluted income per share, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
	(Unaudited, in thousands except per share data)			
GAAP Net income	$ 25,562	$ 49,461	$ 83,640	$ 127,573
Amortization of intangible assets	2,105	2,105	4,210	4,210
Loss on disposal of fixed assets	3	—	664	—

Income tax effects of adjustments(1)		(532)		(491)		(1,229)		(907)
As Adjusted, Non-GAAP Net income	$	27,138	$	51,075	$	87,285	$	130,876
GAAP Diluted income per share	$	0.80	$	1.09	$	2.51	$	2.78
Amortization of intangible assets (2)	$	0.05	$	0.03	$	0.09	$	0.07
Loss on disposal of fixed assets (3)	$	0.00	$	—	$	0.01	$	—
As Adjusted, Non-GAAP Diluted income per share	$	0.85	$	1.12	$	2.61	$	2.85

(1) The income tax effects of adjustments are based on the effective income tax rate applicable to adjusted (non-GAAP) results.

(2) The amortization of acquired intangible assets per diluted share is net of an income tax benefit of $0.02 and $0.01 for the three months ended June 30, 2022 and 2021, respectively, and net of an income tax benefit of $0.03 and $0.02 for the six months ended June 30, 2022 and 2021, respectively.

(3) The loss on disposal of fixed assets per diluted share is net of an income tax benefit of nil for the three months ended June 30, 2022 and net of an income tax benefit of $0.01 for the six months ended June 30, 2022.

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