

7 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 the amount of revenue and profit generated during the period. Royalty expenses paid to our former owner, contributions made to Arizona school organizations in lieu of the payment of state income taxes, estimated litigation losses, exit costs, share-based compensation, and contract termination fees 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 non-recurring losses), the book amortization of intangibles (affecting operating expenses), 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-recurring, or non-recurring. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for net income, operating income, or any other performance measure.

- cash requirements for capital expenditures or contractual commitments;
- changes in, or cash requirement 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 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 provides a reconciliation of net income to Adjusted EBITDA, which is a non-GAAP measure for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(Unaudited, in thousands)	Restated	(Unaudited, in thousands)	Restated
Net income	\$ 12,868	\$ 10,742	\$ 35,222	\$ 28,956
Plus: interest expense, net of interest income	155	142	429	551
Plus: income tax expense	7,643	7,606	23,398	19,820
Plus: depreciation and amortization	4,524	3,358	13,820	8,309
EBITDA	25,814	21,668	73,269	57,436
Plus: royalty to former owner	74	71	222	484
Plus: lease termination costs	922	--	922	--
Plus: exit costs	--	271	--	930
Plus: share-based compensation	1,462	1,342	4,732	4,856
Adjusted EBITDA	\$ 27,478	\$ 23,701	\$ 79,243	\$ 64,156

GRAND CANYON EDUCATION, INC.
Consolidated Balance Sheets

	September 30, December 31, 2010	
	(Unaudited)	Restated
Assets		
Current assets, except prepaids		
Cash and cash equivalents	\$ 18,309	\$ 23,823
Restricted cash and cash equivalents	47,177	52,170
Accounts receivable, net of allowance for doubtful accounts of \$14,618 (Restated) and \$30,712 (Restated) at September 30, 2011 and December 31, 2010, respectively	16,333	17,983
Income taxes receivable	8,383	8,415
Deferred income taxes	6,788	16,078
Other current assets	9,204	4,824
Total current assets	106,794	119,273
Property and equipment, net	179,545	123,999
Restricted cash	655	760
Prepaid royalties	6,122	6,579
Goodwill	2,841	2,841
Deferred income taxes	1,912	2,800
Other assets	5,464	8,862
Total assets	\$ 303,000	\$ 278,006
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 22,277	\$ 15,693
Accrued compensation and benefits	9,768	13,823
Accrued liabilities	1,134	9,477
Accrued litigation loss	--	5,200
Accrued exit costs	1,068	829
Income taxes payable	48,483	48,873
Student loan liability	34,746	16,054
Deferred revenue	820	2,008
Due to related parties	892	1,873
Current portion of capital lease obligations	2,860	2,860
Current portion of notes payable	128,892	122,848
Capital lease obligations, less current portion	695	151
Other noncurrent liabilities	6,772	2,715
Notes payable, less current portion	20,320	41,261
Total liabilities	258,388	212,292
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value, 10,000 shares authorized; 0 shares issued and outstanding at September 30, 2011 and December 31, 2010	--	--
Common stock, \$0.01 par value, 100,000 shares authorized, 45,938 and 45,811 shares issued and 44,331 and 45,761 shares outstanding at September 30, 2011 and December 31, 2010, respectively	459	458
Treasury stock, at cost, 1,807 and 50 shares of common stock at September 30, 2011 and December 31, 2010, respectively	(23,130)	(780)
Additional paid-in capital	63,821	77,449
Accumulated other comprehensive loss	(699)	(445)
Accumulated earnings	66,043	56,821
Total stockholders' equity	104,612	107,501
Total liabilities and stockholders' equity	\$ 303,000	\$ 278,006

GRAND CANYON EDUCATION, INC.
Consolidated Statements of Cash Flows

	Nine Months Ended	
	September 30, 2011	September 30, 2010
	(Unaudited)	Restated
Cash flows provided by operating activities:		
Net income	\$ 12,868	\$ 28,956
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	4,732	3,855
Excess tax benefits from share-based compensation	42	48
Amortization of debt issuance costs	27,460	29,483
Provision for bad debts	12,054	8,561
Depreciation and amortization	13,820	8,309
Lease termination fee	--	4,013
Non-capitalizable system conversion costs	--	4,013
Litigation settlement	(5,000)	--
Exit costs	(84)	(540)
Deferred income taxes	10,185	(9,481)
Other	--	(67)
Changes in assets and liabilities:		
Accounts receivable	(28,253)	(39,280)
Prepaid expenses and other	(4,577)	(6,280)
Due to/from related parties	(9,852)	3,584
Accounts payable	5,317	5,317
Accrued liabilities and employee related liabilities	(4,208)	5,949
Income taxes receivable/payable	1,348	(770)
Deferred rent	3,123	662
Deferred revenue	19,712	10,009
Student deposits	(260)	2,286
Net cash provided by operating activities	\$ 6,391	\$ 10,324
Cash flows used in investing activities:		
Capital expenditures	(61,516)	(39,590)
Change in restricted cash and cash equivalents	5,208	(52,600)
Proceeds from sale of maturity of investments	--	897
Net cash used in investing activities	(56,308)	(91,293)
Cash flows used in financing activities:		
Principal payments on notes payable and capital lease obligations	(2,856)	(2,209)
Debt issuance costs	(70)	(782)
Repayments of common shares	(22,371)	(792)
Excess tax benefits from share-based compensation	1,477	675
Net proceeds from exercises of stock options	1,303	1,303
Net cash used in financing activities	(23,820)	(3,805)
Net decrease in cash and cash equivalents	(73,737)	(114,100)
Cash and cash equivalents, beginning of period	33,832	62,521
Cash and cash equivalents, end of period	\$ 18,095	\$ 48,421
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 315	\$ 633
Cash paid for income taxes	\$ 12,790	\$ 29,528
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment included in accounts payable	\$ 4,827	\$ 7,580
Purchases of equipment through capital lease obligations	\$ 601	\$ 625
Tax benefits of S Corp warrant intangible	\$ 194	\$ 189
Shortfall tax expense from share-based compensation	\$ 117	\$ --

The following is a summary of our student enrollment at September 30, 2011 and 2010 (which included less than 500 students pursuing non-degree certificates in each period) by degree type and by instructional delivery method:

	September 30, 2011 (1)	September 30, 2010 (1)		
	# of Students % of Total # of Students % of Total	# of Students % of Total # of Students % of Total		
Graduate degree (2)	17,407	30.7%	42,376	42.7%
Undergraduate degree	28,889	50.7%	24,158	24.3%
Total	46,296	100.0%	66,534	100.0%

	September 30, 2011 (1)	September 30, 2010 (1)		
	# of Students % of Total # of Students % of Total	# of Students % of Total # of Students % of Total		
Online (3)	38,447	83.2%	35,551	53.4%
Ground (4)	8,849	18.8%	30,983	46.6%
Total	47,296	100.0%	66,534	100.0%

- (1) Enrollment at September 30, 2011 and 2010 represents individual students who attended a course during the last two months of the calendar quarter.
- (2) Includes 1,608 and 977 students pursuing doctoral degrees at September 30, 2011 and 2010, respectively.
- (3) As of September 30, 2011 and 2010, 42.3% and 45.3%, 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.

The following tables summarize the unaudited quarterly results of operations as originally reported and as restated for each of the three quarters of 2010 and for the first two quarters of 2011 with the restated amounts reflecting amounts that would have been reported under our new allowance estimation methodology.

	2010			
	Second Quarter	Second Quarter	Third Quarter	Third Quarter
	As Reported	As Reported	As Reported	As Reported
Net revenue	\$ 97,522	\$ 97,522	\$ 98,948	\$ 98,948
Costs and expenses:				
Instructional costs and services	41,742	51,232	42,071	45,717
Selling and promotional	18,976	28,978	28,103	28,103
General and administrative	6,178	6,178	6,607	6,608
Estimated net costs	118	118	27	27
Total costs and expenses	77,014	86,506	76,808	80,455
Operating income	20,508	11,016	22,140	18,493
Net interest expense	(125)	(125)	(153)	(153)
Income before income taxes	20,383	10,891	21,987	18,340
Income tax expense	7,081	4,163	9,027	7,608
Net income available to common stockholders	\$ 13,302	\$ 6,728	\$ 12,960	\$ 10,732
Earnings per share:				
Basic income per share (1)	\$ 0.27	\$ 0.15	\$ 0.29	\$ 0.23
Diluted income per share (1)	\$ 0.27	\$ 0.14	\$ 0.29	\$ 0.23
Basic weighted average shares outstanding	48,724	46,720	44,740	46,746
Diluted weighted average shares outstanding	48,522	46,522	44,541	46,541

(1) The sum of quarterly income per share may not equal annual income per share due to rounding.

	2011			
	Fourth Quarter	Fourth Quarter	December 31,	December 31,
	As Reported	As Reported	As Reported	As Reported
Net revenue	\$ 100,031	\$ 100,031	\$ 98,825	\$ 98,825
Costs and expenses:				
Instructional costs and services	36,207	45,435	163,893	179,044
Selling and promotional	18,508	28,509	112,493	112,493
General and administrative	14,748	7,733	26,620	26,621
Contract termination fees	9,233	9,233	--	9,233
Estimated net costs	38	38	228	228
Total costs and expenses	83,240	90,948	303,234	337,620
Operating income	16,791	9,083	(304,409)	(339,195)
Net interest expense	(138)	(138)	(242)	(242)
Income before income taxes	11,211	8,999	(304,651)	(339,437)
Income tax expense	3,666	2,666	26,466	26,466
Net income available to common stockholders	\$ 7,545	\$ 6,333	(278,185)	(365,903)
Earnings per share:				
Basic income per share (1)	\$ 0.17	\$ 0.14	\$ (0.67)	\$ (0.77)
Diluted income per share (1)	\$ 0.16	\$ 0.13	\$ (0.65)	\$ (0.75)
Basic weighted average shares outstanding	45,143	45,143	41,222	47,222
Diluted weighted average shares outstanding	46,146	46,146	40,306	46,306

(1) The sum of quarterly income per share may not equal annual income per share due to rounding.

	2011			
	First Quarter	First Quarter	Second Quarter	Second Quarter
	As Reported	As Reported	As Reported	As Reported
Net revenue	\$ 93,709	\$ 93,709	\$ 103,118	\$ 103,118
Costs and expenses:				
Instructional costs and services	45,830	48,875	46,709	46,354
Selling and promotional	29,832	29,832	27,709	27,709
General and administrative	6,832	6,832	7,038	7,038
Contract termination fees	62,481	62,481	62,466	62,466
Total costs and expenses	145,005	156,010	142,922	143,567
Operating income	(51,296)	(62,301)	60,196	59,551

Net interest expense	(21)	(22)	(21)	(21)
Income before income taxes	13,742	16,007	22,029	22,014
Income tax expense	7,862	6,614	9,402	6,341
Net income	<u>\$ 5,880</u>	<u>\$ 9,393</u>	<u>\$ 12,627</u>	<u>\$ 15,673</u>
Earnings per share:				
Basic income per share(1)	<u>\$ 0.25</u>	<u>\$ 0.21</u>	<u>\$ 0.30</u>	<u>\$ 0.29</u>
Diluted income per share(1)	<u>\$ 0.24</u>	<u>\$ 0.21</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>
Basic weighted average shares outstanding	<u>23,880</u>	<u>45,206</u>	<u>42,058</u>	<u>44,883</u>
Diluted weighted average shares outstanding	<u>25,082</u>	<u>45,020</u>	<u>45,018</u>	<u>45,018</u>

(1) The sum of quarterly income per share may not equal annual income per share due to rounding.

The following is a summary of the changes on our balance sheet.

	As of June 30, 2010	As of September 30, 2010	As of December 31, 2010	As of March 31, 2011
	As Reported	As Restated	As Reported	As Restated
Accounts receivable	\$ 42,836	\$ 33,746	\$ 32,722	\$ 19,566
Deferred income taxes - current	11,356	15,183	6,204	14,462
Total current assets	132,933	127,271	153,074	146,236
Total assets	237,813	232,151	291,542	273,704
Accumulated earnings	39,491	33,829	52,409	44,071
Total stockholders' equity	113,307	107,646	127,105	119,287
Total liabilities and stockholders' equity	237,813	232,151	291,542	273,704

	As of December 31, 2010	As of March 31, 2011
	As Reported	As Restated
Accounts receivable	\$ 33,334	\$ 17,953
Deferred income taxes - current	9,888	16,078
Total current assets	143,294	133,025
Total assets	284,252	275,098
Accumulated earnings	59,905	50,621
Total stockholders' equity	136,860	127,501
Total liabilities and stockholders' equity	284,252	275,098

	As of June 30, 2011
	As Reported
Accounts receivable	\$ 32,120
Deferred income taxes - current	6,250
Total current assets	109,807
Total assets	280,943
Accumulated earnings	84,538
Total stockholders' equity	142,029
Total liabilities and stockholders' equity	280,943

The following is a summary of the changes on our statement of cash flows.

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2011	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2011
	As Reported	As Restated	As Reported	As Restated
Net income	\$ 2,376	\$ 18,144	\$ 38,796	\$ 25,554
Provision for bad debts	10,273	19,763	16,347	29,483
Deferred income taxes	(5,274)	(9,852)	(4,163)	(9,461)
Net cash provided by operating activities	30,122	30,122	80,534	80,534

	Year Ended December 31, 2010	Year Ended December 31, 2011
	As Reported	As Restated
Net income	\$ 44,360	\$ 36,712
Provision for bad debts	23,907	38,712
Deferred income taxes	179	(6,513)
Net cash provided by operating activities	84,104	84,104

	Six Months Ended June 30, 2011
	As Reported
Net income	\$ 24,558
Provision for bad debts	14,586
Deferred income taxes	2,881
Net cash provided by operating activities	36,028

SOURCE Grand Canyon Education, Inc.