**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K/A**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**January 22, 2019**

Date of Report (Date of earliest event reported)

**Grand Canyon Education, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other Jurisdiction of

**001-34211**

(Commission File Number)

**20-3356009**

(IRS Employer Identification No.)

Incorporation)

**2600 W. Camelback Road**

**Phoenix, Arizona**

(Address of Principal Executive Offices)

**85017**

(Zip Code)

Registrant’s telephone number, including area code: **(602) 247-4400**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o



**EXPLANATORY NOTE**

On January 23, 2019, Grand Canyon Education, Inc. (the “Company” or “GCE”) filed with the Securities and Exchange Commission (the “SEC”), a Current Report on Form 8-K (the “Initial Form 8-K”) disclosing that on January 22, 2019, GCE had completed the acquisition of Orbis Education Services, LLC (“Orbis Education”) for $365.8 million in cash (inclusive of closing date adjustments). Orbis Education is an education services company that supports healthcare education programs for 17 universities across the United States.

In the Initial Form 8-K, GCE stated its intention to file the historical financial statements of Orbis Education and the pro forma financial information required by parts (a) and (b) of Item 9.01 of Form 8-K not later than 71 calendar days after the date that the Initial Form 8-K was required to be filed with the SEC. Pursuant to the instructions to Item 9.01 of Form 8-K, this Current Report on Form 8-K/A (the “Form 8-K/A”) amends the Initial Form 8-K in order to provide the required financial information.

**Item 9.01. Consolidated Financial Statements and Exhibits.**

* 1. *Financial Statements of Business Acquired*

The audited consolidated balance sheet of Orbis Education Services, LLC as of December 31, 2018, the related audited consolidated statements of operations for the year ended December 31, 2018 are attached to this Form 8-K/A as Exhibit 99.1 and are incorporated herein by reference.

* 1. *Pro Forma Financial Information*

The unaudited pro forma combined balance sheet which gives effect to the Acquisition as if it had occurred on December 31, 2018, the related unaudited pro forma combined statement of income for the year ended December 31, 2018 which gives effect to the Acquisition as if it had occurred on January 1, 2018, and the related notes to such unaudited pro forma combined financial statements are attached to this Form 8-K/A as Exhibit 99.2 and are incorporated herein by reference.

1. *Exhibits*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Exhibit** |  |  |  | **Description** |  |
| **No.** |  |  |  |  |
| 23.1 |  | [Consent of BKD, LLP, Independent Registered Accounting Firm for Orbis Education Services, LLC.](#page4) |  |  |
| 99.1 |  | [Audited consolidated financial statements of Orbis Education Services, LLC as of December 31, 2018 and for the year ended](#page6) |  |  |
|  |  | [December 31, 2018.](#page6) |  |  |
| 99.2 |  | [Unaudited pro forma combined financial statements and explanatory notes as of December 31, 2018 and for the year ended December 31,](#page26) |  |
|  | [2018.](#page26) |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

*Cautionary Statement Regarding Forward-Looking Statements*

This Current Report on Form 8-K contains “forward-looking statements,” including statements relating to the Acquisition discussed above. 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 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 events 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: the failure of the Company to operate successfully as a third party education services provider; the occurrence of any event, change or other circumstance that could give rise to the termination of any of our key customer 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

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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 partner’s enrollment and its effect on the pace of our own growth; our ability to, on behalf of our university partner, 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; and other factors discussed in the Company’s reports on file with the Securities and Exchange Commission. Factors or events that could affect the transactions contemplated herein or cause the Company’s actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable securities laws.

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**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: April 2, 2019 | By: /s/ Daniel E. Bachus |  |
|  |  | Daniel E. Bachus |  |
|  |  | Chief Financial Officer |  |
|  |  | (Principal Financial and Principal Accounting Officer) |  |
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**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the registration statements (Nos. 333-155973, 333-165019, 333-179611, and 333-218740) on Form S-8 of Grand Canyon Education, Inc. of our report dated March 25, 2019 on our audit of the consolidated balance sheet as of December 31, 2018 of Orbis Education Services, LLC and the related consolidated statements of operations, members’ deficit, and cash flows for the year ended December 31, 2018 included in this Current Report on Form 8-K/A of Grand Canyon Education, Inc., filed with the Securities and Exchange Commission.

/s/ BKD, LLP

Indianapolis, Indiana

April 2, 2019



**Exhibit 99.1**

**Orbis Education Services, LLC**

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2018



|  |  |
| --- | --- |
|  | **Orbis Education Services, LLC** |
|  | **December 31, 2018** |
| **Contents** |  |
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| **Consolidated Financial Statements** |  |
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**Independent Auditor’s Report**

Board of Directors

Orbis Education Services, LLC

Indianapolis, Indiana

We have audited the accompanying consolidated financial statements of Orbis Education Services, LLC and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, members’ deficit and cash flows for the year then ended, and the related notes to consolidated the financial statements.

***Management’s Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orbis Education Services, LLC and its subsidiaries as of December 31, 2018 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 11 to the consolidated financial statements, the entity has changed its method of accounting for goodwill and its presentation of redeemable preferred units in 2018. Our opinion is not modified with respect to this matter.

/s/ **BKD, LLP**

Indianapolis, Indiana

March 25, 2019

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Orbis Education Services, LLC** |  |  |  |  |  |  |  |
|  |  | **Consolidated Balance Sheet** |  |  |  |  |  |  |  |
|  |  | **December 31, 2018** |  |  |  |  |  |  |  |
|  |  |  |  | **2018** |  |  |  |  |  |
|  | **Assets** |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **Current Assets** |  |  |  |  |  |  |  |  |  |
|  | Cash | $ | 240,981 |  |  |  |  |  |
|  | Accounts receivable |  |  | 40,736 |  |  |  |  |  |
|  | Prepaid expenses and other current assets |  |  | 1,759,219 |  |  |  |  |  |
|  | Total current assets |  |  |  | $ | 2,040,936 |  |  |
|  | **Other Assets** |  |  |  |  |  |  |  |  |  |
|  | Property and equipment, net |  |  | 5,270,481 |  |  |  |  |  |
|  | Intangible assets, net |  |  | 4,315,621 |  |  |  |  |  |
|  | Goodwill |  |  | 346,325 |  |  |  |  |  |
|  |  |  |  |  |  |  | 9,932,427 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Total assets |  |  | $ | 11,973,363 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Liabilities and Members’ Deficit** |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **Current Liabilities** |  |  |  |  |  |  |  |  |  |
|  | Revolving credit facility | $ | 17,517,500 |  |  |  |  |  |
|  | Accounts payable |  |  | 799,669 |  |  |  |  |  |
|  | Accrued expenses |  |  | 7,112,460 |  |  |  |  |  |
|  | Total current liabilities |  |  |  | $ | 25,429,629 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **Noncurrent Liabilities** |  |  |  |  |  |  |  |  |  |
|  | Warrant liability |  |  | 2,624,379 |  |  |  |  |  |
|  | Other |  |  | 895,939 |  |  |  |  |  |
|  | Total noncurrent liabilities |  |  |  |  |  | 3,520,318 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Total liabilities |  |  |  |  |  | 28,949,947 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **Redeemable Convertible Preferred Units** |  |  |  |  |  | 33,942,336 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **Members’ Deficit** |  |  |  |  |  | (50,918,920) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Total liabilities and members’ deficit |  |  |  | $ | 11,973,363 |  |  |  |
| *See Notes to Consolidated Financial Statements* |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
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|  |  | **Orbis Education Services, LLC** |  |  |  |  |  |  |  |
|  |  | **Consolidated Statement of Operations** |  |  |  |  |  |  |  |
|  |  | **Year Ended December 31, 2018** |  |  |  |  |  |  |  |
|  |  |  |  | **2018** |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Revenues** |  |  | $ | 62,458,801 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Cost of Revenues** |  |  |  |  |  |  |  |  |  |
|  | Sales and marketing | $ | 14,094,651 |  |  |  |  |  |
|  | Instructional costs |  |  | 18,348,660 |  |  |  |  |  |
|  | Facilities |  |  | 4,118,716 |  |  |  |  |  |
|  | Wages and benefits |  |  | 7,449,711 |  |  |  |  |  |
|  | Other costs of revenue |  |  | 1,275,159 |  |  |  |  |  |
|  | Total cost of revenues |  |  |  |  |  | 45,286,897 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Gross Income** |  |  |  |  |  | 17,171,904 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Operating Expenses** |  |  |  |  |  |  |  |  |  |
|  | General and administrative |  |  | 16,991,156 |  |  |  |  |  |
|  | Depreciation and amortization |  |  | 3,040,592 |  |  |  |  |  |
|  | Stock compensation expense |  |  | 300,026 |  |  |  |  |  |
|  | Total operating expenses |  |  |  |  |  | 20,331,774 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Operating Loss** |  |  |  |  |  | (3,159,870) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Other Income (Expense)** |  |  |  |  |  |  |  |  |  |
|  | Interest expense |  |  | (3,216,074) |  |  |  |  |  |
|  | Other expense |  |  | (40,448) |  |  |  |  |  |
|  |  |  |  |  |  |  | (3,256,522) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Net Loss** |  |  | $ | (6,416,392) |  |  |
| *See Notes to Consolidated Financial Statements* |  |  |  |  |  |  |  |  |  |
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|  |  | **Orbis Education Services, LLC** |  |  |  |  |
|  |  | **Consolidated Statement of Members’ Deficit** |  |  |  |  |
|  |  | **Year Ended December 31, 2018** |  |  |  |  |
|  |  |  |  | **Members’** |  |  |
|  |  |  |  | **Deficit** |  |  |
|  |  |  |  |  |  |  |  |
| **Balance, December 31, 2017 (as adjusted - Note 11)** | $ | (44,802,554) |  |  |
|  |  |  |  |  |  |  |  |
|  | Net loss |  |  | (6,416,392) |  |  |
|  | Profit interest expense |  |  | 300,026 |  |  |
|  |  |  |  |  |  |  |  |
| **Balance, December 31, 2018** | $ | (50,918,920) |  |  |
| *See Notes to Consolidated Financial Statements* |  |  |  |  |  |  |
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|  | **Orbis Education Services, LLC** |  |  |  |  |  |  |  |  |
|  | **Consolidated Statement of Cash Flows** |  |  |  |  |  |  |  |  |
|  | **Year Ended December 31, 2018** |  |  |  |  |  |  |  |  |
|  |  |  |  | **2018** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Operating Activities** |  |  |  |  |  |  |  |  |
|  | Net loss | $ | (6,416,392) |  |  |  |  |
|  | Items not requiring cash |  |  |  |  |  |  |  |  |
|  | Depreciation and amortization |  |  | 3,040,592 |  |  |  |  |
|  | Debt discount amortization (interest expense) |  |  | 17,656 |  |  |  |  |
|  | Warrant liability adjustment |  |  | 1,876,700 |  |  |  |  |
|  | Profit interest expense |  |  | 300,026 |  |  |  |  |
|  | Changes in |  |  |  |  |  |  |  |  |
|  | Accounts receivable, net |  |  | (40,736) |  |  |  |  |
|  | Accounts payable |  |  | (146,353) |  |  |  |  |
|  | Prepaid expenses and other assets |  |  | (314,359) |  |  |  |  |
|  | Accrued expenses |  |  | 1,437,453 |  |  |  |  |
|  | Other assets and liabilities |  |  | 282,317 |  |  |  |  |
|  | Net cash provided by operating activities |  |  |  | $ | 36,904 |  |
|  |  |  |  |  |  |  |  |  |  |
| **Investing Activities** |  |  |  |  |  |  |  |  |
|  | Purchase of property and equipment |  |  | (2,473,858) |  |  |  |  |
|  | Development of online learning products |  |  | (837,921) |  |  |  |  |
|  | Net cash used in investing activities |  |  |  |  |  | (3,311,779) |  |
|  |  |  |  |  |  |  |  |  |  |
| **Financing Activities** |  |  |  |  |  |  |  |  |
|  | Borrowings on revolving credit facility |  |  | 32,935,000 |  |  |  |  |
|  | Principal payments on revolving credit facility |  |  | (29,520,000) |  |  |  |  |
|  | Net cash provided by financing activities |  |  |  |  |  | 3,415,000 |  |
|  |  |  |  |  |  |  |  |  |  |
| **Increase in Cash** |  |  |  |  |  | 140,125 |  |
|  |  |  |  |  |  |  |  |  |  |
| **Cash, Beginning of Year** |  |  |  |  |  | 100,856 |  |
|  |  |  |  |  |  |  |  |  |  |
| **Cash, End of Year** |  |  | $ | 240,981 |  |
|  |  |  |  |  |  |  |  |  |  |
| **Supplemental Cash Flows Information** |  |  |  |  |  |  |  |  |
|  | Cash paid for interest |  |  | $ | 1,296,766 |  |
|  | Property and equipment purchases included in accounts payable |  |  |  |  |  | 71,116 |  |

*See Notes to Consolidated Financial Statements*

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**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

**Note 1:** **Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Orbis Education Services, LLC (Orbis), headquartered in Indianapolis, Indiana, is an outsourced provider of education services to universities and healthcare providers. In partnership with college and university affiliates and hospital networks, the Company creates, manages and markets collaborative educational solutions for nursing and other healthcare related students. The Company leverages these alliances to provide flexible and customized education programs by facilitating operations, management, student recruitment, and the technology behind the programs. The Company currently has work environments in California, Colorado, Florida, Indiana, Massachusetts, Nevada, New York, North Carolina, Ohio, Oregon, Tennessee, Texas, Utah and Wisconsin.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Orbis Management Company, LLC (Management) and Orbis Education II, LLC (“OE II”). Management is owned 99% by Orbis and 1% by OE II. Management primarily provides employee services to Orbis for a service fee. OE II is owned 100% by Orbis. All intercompany accounts and transactions have been eliminated in the consolidation of Orbis, Management and OE II (hereinafter collectively referred to as the Company). OE II had no significant operating activities during the year ended December 31, 2018.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Significant Estimates***

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates. Definite-lived intangibles are evaluated by management whenever events or circumstances indicate the carrying amount may not be recoverable. Assumptions by management that could affect the value of the intangibles include expected profitability and economic factors, including increased competition.

Additionally, the Company estimates the fair value of outstanding warrants.

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**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

***Cash***

The Company maintains, cash balances in bank accounts, which may exceed federally insured limits. The Company has not experienced any losses in such accounts. At December 31, 2018, the Company’s cash accounts exceed federally insured limits by approximately $162,000.

***Accounts Receivable***

Accounts receivable are stated at the amount billed to customers. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

***Property and Equipment***

Property and equipment acquisitions are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. The estimated useful lives for each major depreciable classification of property and equipment are:

|  |  |
| --- | --- |
| Clinical equipment | 5 years |
| Computers and equipment | 3 years |
| Furniture and fixtures | 5 years |
| Leasehold improvements | 3 - 9 years |

***Goodwill***

Goodwill is evaluated annually for impairment. In testing goodwill for impairment, the Company has the option first to perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired or the entity can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the entity with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of an entity, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

***Intangible Assets***

Definite-lived intangible assets consist of customer relationships and acquired learning objects. Customer relationships are amortized on the straight-line basis over periods ranging from 8 to13 years. Online learning products are being amortized on the straight-line basis over three years. Such assets are periodically evaluated as to the recoverability of their carrying values.

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**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

Costs incurred for the development of software that will be sold, leased, or otherwise marketed are capitalized when technological feasibility has been established under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 985, *Software*. These costs are included in online learning products and are amortized over the estimated useful life of the resulting software. The Company amortizes the online learning products on a straight-line basis over three years beginning when the product is available for general release. Costs capitalized include direct labor and overhead costs. Costs incurred prior to technological feasibility and after general release are expensed as incurred.

***Long-Lived Asset Impairment***

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended December 31, 2018.

***Income Taxes***

Orbis and Management are limited liability companies in which taxable income is taxed directly to their members. Consequently, Orbis and Management do not record any provision for federal or state taxes on the income of the Company. OE II files a separate federal and separate state income tax returns. Due to no significant operating activity, no provision for federal or state taxes is recorded on the income of OE II.

***Revenue Recognition***

Revenue is recognized when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, and collectability is reasonably assured. Revenue generally consists of service fees associated with educational partners and/or healthcare partners, and is recognized ratably over the period of instruction for each program. Fees are generally invoiced each semester for the number of students at the contractual rate per credit hour.

***Selling and Promotional Costs***

The Company generally expenses selling and promotional costs, including paid advertising, as incurred. The purpose of these costs is to generate awareness of our university partners’ educational solutions so that prospective students may enroll in the university partners’ education programs. Advertising and promotional costs were approximately $9,490,000 for the year ended December 31, 2018.

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**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

***Future Changes in Accounting Principles***

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption. The Company has not adopted this standard as it is a public business entity that otherwise would not meet the definition except for a requirement to include its financial statements in another entity’s filing with the SEC. Therefore, the Company may apply this amendment for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Company is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheets as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts. Because the Company is a public business entity that otherwise would not meet the definition except for a requirement to include its financial statements in another entity’s filing with the SEC, the Company may apply this amendment for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. The Company is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

***Subsequent Events***

Subsequent events have been evaluated through March 25, 2019, which is the date the consolidated financial statements were available to be issued.

On January 22, 2019, the Company completed a merger with Grand Canyon Education, Inc. (GCE). The consideration received was $365,800,000 subject to various provisions as defined in the merger agreement. The Company incurred approximately $908,000 of transaction costs related to this merger that were incurred and accrued at December 31, 2018. Additionally, the Company incurred approximately $7,898,000 of transaction costs during 2019.

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**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

Upon the effective date of the merger, Orbis membership units were converted into the right to receive the per unit portion of the closing cash proceeds as defined in the merger agreement. Additionally, all outstanding options and warrants were converted into the right to receive the excess of the per unit estimated closing cash proceeds over the applicable exercise price of the warrant or option. All outstanding debt was repaid from the sale proceeds.

On January 31, 2019, GCE, its wholly owned subsidiary, Orbis Education Services, LLC, a Delaware limited liability company (“Orbis Education”), as guarantor and Bank of America, N.A., as administrative agent, entered into a First Amendment (the “First Amendment”) to the Amended and Restated Credit Agreement, dated as of January 22, 2019, among GCE, Orbis Education, as guarantor, Bank of America, N.A. as administrative agent, swing line lender and letter of credit issuer, and the other lenders named therein (as amended, the “Credit Agreement”)

On February 1, 2019, GCE, Orbis Education, as guarantor, Bank of America, N.A, as administrative agent, and the other lenders named therein entered into a First Incremental Facility Amendment (the “First Incremental Facility Amendment”) to the Credit Agreement. Pursuant to the First Incremental Facility Amendment, GCE borrowed an incremental $56,250,000 principal amount of term loans and increased the aggregate revolving commitments by $18,750,000, thereby increasing the principal amount of the term loan borrowed to $243.75 million and the principal amount of the aggregate revolving commitments to $81.25 million. No other changes were made to the Credit Agreement.

**Note 2:** **Property and Equipment**

Property and equipment consist of the following at December 31, 2018:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **2018** |  |  |  |
|  | Clinical equipment |  | $ | 2,795,553 |  |  |  |
|  | Computers and equipment |  |  | 2,686,504 |  |  |  |
|  | Furniture and equipment |  |  | 1,506,644 |  |  |  |
|  | Leasehold improvements |  |  | 2,398,365 |  |  |  |
|  | Total cost |  |  | 9,387,066 |  |  |  |
|  | Accumulated depreciation and amortization |  |  | (4,116,585) |  |  |
|  |  |  | $ | 5,270,481 |  |  |  |
|  |  | 11 |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |



**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

**Note 3:** **Goodwill and Intangible Assets**

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2018 were:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **2018** |  |  |  |  |  |  |
|  |  | **Gross** |  | **Accumulated** |  |  |  |  |  |
|  |  | **Carrying** |  |  | **Net** |  |
|  |  | **Amount** |  | **Amortization** |  |  |
| Customer relationships | $ | 10,516,000 |  | $ | (7,322,206) |  | $ | 3,193,794 |  |  |  |
| Acquired learning objects |  | 319,000 |  | (319,000) |  | — |  |
| Online learning products |  | 3,394,019 |  | (2,272,192) |  | 1,121,827 |  |  |
| Intangible assets |  | 14,229,019 |  |  | (9,913,398) |  |  | 4,315,621 |  |  |  |
| Goodwill |  | 346,325 |  | — |  | 346,325 |  |  |
| Balance December 31 | $ | 14,575,344 |  | $ | (9,913,398 | ) | $ | 4,661,946 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

Amortization expense was $1,486,107 for the year ended December 31, 2018. Estimated amortization expense for each of the following five years is:

|  |  |  |
| --- | --- | --- |
| 2019 | $ | 1,527,958 |
| 2020 |  | 1,181,830 |
| 2021 |  | 549,777 |
| 2022 |  | 305,082 |
| 2023 |  | 281,615 |

**Note 4:** **Revolving Credit Facility**

The Company has a revolving credit facility that allows for total borrowings up to $32,500,000. The facility allows for borrowings up to $25,000,000 limited to a borrowing base formula as defined in the agreement. This portion of the credit facility bears interest at the greater of 2% above prime or

5.50%. The facility also allows for borrowings not limited to the borrowing base formula up to $7,500,000, which bear interest at the greater of 1.50% above prime or 5.0%. There was $17,517,500 borrowed against the revolving credit facility bearing interest at 7.50% at December 31, 2018.

Upon completion of the merger on January 22, 2019, all outstanding borrowings on the line of credit were paid in full.

LLR Equity Partners III, L.P., a related party through majority ownership, had guaranteed $7,500,000 of the revolving credit facility.

The credit facility was secured by all personal property of the Company, including any intellectual property. Under the terms of the agreement, the Company was subject to certain financial covenants, including minimum cumulative EBITDA and minimum cumulative revenue, as well as certain negative covenants.

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**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

Additionally, the lease agreement for the Company’s Indianapolis corporate headquarters requires the Company to maintain a $300,000 letter of credit in favor of the landlord. The letter of credit expires in January 2020.

**Note 5:** **Operating Leases**

The Company leases substantially all of its facilities and also enters into lease agreements for equipment necessary to conduct business. Management evaluates all lease agreements to determine whether the lease is a capital lease or an operating lease. The leases expire in various years throughout 2026. Certain leases contain renewal options allowing for the term to be extended for five years after the initial term. Some leases contain escalating rent payments which the Company has expensed on a straight-line basis.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2018 are as follows:

|  |  |  |
| --- | --- | --- |
|  |  | **Operating** |
|  |  | **Leases** |
| 2019 | $ | 3,405,727 |  |
| 2020 |  | 2,929,571 |  |
| 2021 |  | 2,672,195 |  |
| 2022 |  | 2,297,840 |  |
| 2023 |  | 2,177,708 |  |
| Thereafter |  | 3,464,850 |  |
|  | $ | 16,947,891 |  |
|  |  |  |  |

Total rent expense incurred for the year ended December 31, 2018 was approximately $3,991,826.

**Note 6:** **Members’ Deficit**

The Company’s members’ deficit is represented by and divided into classes of units. At December 31, 2018, the units outstanding were:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2018** |  |  |
|  | Series A preferred |  | 393,700 |  |  |
|  | Series A-1 preferred | 353,353 |  |
|  | Series B preferred | 544,564 |  |
|  | Series C preferred | 8,240,313 |  |
|  | Series C-1 preferred | 1,983,815 |  |
|  | Class C incentive | 2,532,173 |  |
|  | Common incentive | 1,544,506 |  |
|  | Common | 1,880,147 |  |
|  |  | 13 |  |  |  |
|  |  |  |  |  |  |



**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

The holders of the common units are entitled to one vote for each common unit held. The holders of the preferred units are entitled to the number of votes equal to the number of whole common units into which the preferred units held are convertible.

***Redeemable Convertible Preferred Units***

Shares of the preferred units are automatically convertible into common units at the option of the preferred holder at any time. The number of common units to which a holder of preferred units shall be entitled upon conversion shall be the product obtained by multiplying the applicable conversion rate as defined in the limited liability company agreement by the number of units being converted.

The Series C preferred units are redeemable if requested by a majority of the Series C preferred unit holders at any time after the fifth anniversary of the original issue date. The redemption is payable within 455 days after the receipt of the redemption request. The units shall be redeemed at a price equal to the greater of the then fair value of the Series C preferred units or the original issue price of $2.42 per unit.

Upon receipt of the Series C preferred unit redemption notice, all other preferred units shall be redeemed in the following preferential order: Series C-1, Series B, Series A-1 then Series A. The Series C-1 and Series A-1 preferred units shall be redeemed at a price equal to the greater of the then fair value of the units or the original issue price of $2.19 and $5.20 per unit, respectively.

The Series B units shall be redeemed at a price equal to the greater of the then fair value or $7.75 per Series B preferred unit. The Series A units shall be redeemed at a price equal to the greater of the then fair value or $9.14 per Series A preferred unit.

All redemption rights of the holders of the preferred units shall expire and terminate upon the effective date of the registration statement filed in connection with a Qualified Public Offering.

***Members’ Equity by Class***

In the event of a voluntary or involuntary liquidation event, the limited liability agreement defines the preferences of each series of units, and is summarized below:

1. The Series C and C-1 holders shall be entitled, on a pari passu basis, to an amount equal to, (i) in the case of the Series C Preferred Units, an amount per Series C Preferred Unit equal to $2.42 and (ii) in the case of the Series C-1 Preferred Units, an amount per Series C-1 Preferred Unit equal to $2.19.
2. Sixty percent (60%) of the remaining assets shall be paid to holders of Series C units (including Class C incentive units) ratably.
3. The balance of the assets available for distribution shall be paid in the following order:
4. To the Series B and Series A-1 unit holders, in the amount of $7.75 ($1.385 per unit of which represents the amount of accrued and unpaid dividends) and $5.20 per unit, respectively, on a pari passu basis.

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**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

1. To the Series A unit holders, in the amount of $9.14 ($1.524 per unit of which represents the amount of declared and unpaid dividends) per unit.
2. Ratably to the holders of common units (including common incentive units), Series B units and Series C-1 units (all on an as if converted to common units basis) until such time that the holders of the Series B units have received an aggregate amount per Series B unit equal to three times the Series B original issue price of $6.36 per unit.
3. Ratably to the holders of the common units (including common incentive units) and Series C-1 units.

***Warrants***

As of December 31, 2018, the Company had various warrants outstanding, which entitle its holders to purchase security units. Outstanding warrants as of December 31, 2018 are summarized as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Type of Unit** | **Number of** | **Exercise** |  |  | **Expiration** |  |
| **Units** | **Price** |  |  | **Date** |  |
| Common |  | 90,000 |  | $ | 4.30 |  | 3/31/2019 |  |  |
| Common | 66,000 |  | 6.50 | 3/31/2019 |  |
| Series C Preferred | 10,275 |  | 2.19 | 6/4/2024 |  |
| Series C Preferred | 9,375 |  | 3.60 | 3/11/2026 |  |
| Series C Preferred | 59,483 |  | 4.35 | 11/1/2026 |  |
| Series C Preferred | 3,125 |  | 7.20 | 12/8/2027 |  |
| Series C-1 Preferred | 6,848 |  | 2.19 | 6/4/2024 |  |
| Series C-1 Preferred | 9,493 |  | 2.37 | 3/11/2026 |  |
| Series C-1 Preferred | 66,091 |  | 2.61 | 11/1/2026 |  |
| Series C-1 Preferred | 2,443 |  | 6.14 | 12/8/2027 |  |

***Equity Incentive Plans***

The Second Amended and Restated Orbis Education Services, Inc. 2004 Stock option plan as amended on August 31, 2012, (the 2004 Plan) provided for the grant of both Incentive Stock Options and Nonqualified Stock Options of common units. The aggregate number of units for which options may be granted under the plan shall not exceed 554,000. If an option granted under the Plan expires or terminates for any reason without being exercised, the unpurchased common units relating to those options shall be available for grant of other options under the 2004 Plan.

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**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

A summary of the activity related to the 2004 Plan is as follows:

Outstanding as of January 1, 2018



Forfeited, canceled or expired during year

Outstanding at December 31, 2018



Vested as of December 31, 2018

**2018**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Weighted-** |  |  |
| **Total** |  |  | **Average** |  |
|  |  | **Exercise** |  |
| **Units** |  |  | **Per Unit** |  |
| 49,504 |  |  | $ | 1.60 |  |  |
| — |  |  | — |  |
| 49,504 |  |  | 1.60 |  |
|  |  |  |  |  |  |  |
| 49,504 |  |  |  |  |  |

At December 31, 2018, the weighted-average remaining contractual life of the options outstanding were three years.

There is no unrecognized compensation expense related to the options granted under the 2004 Plan as of December 31, 2018, as the options were deemed to have no value at date of grant.

During 2012, the Company adopted the “Orbis Education Services, LLC 2012 Profit Interest and Option Plan”. The plan allows the Company to grant profit interest in Class C incentive units or common incentive units. Additionally, the plan allows the Company to grant options to purchase common units. In 2016, the plan was amended to increase the common incentive units and options available for grant to 1,544,506 and increase the Class C incentive units available for grant to 2,532,173.

The Company’s policy is to estimate forfeitures at the date of grant and recognize compensation cost based on the number of awards expected to vest.

The following tables summarize information about the profit interest outstanding as of December 31, 2018:

Outstanding at January 1, 2018



Granted during year

Outstanding at December 31, 2018



Vested as of December 31, 2018

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**2018**



|  |  |  |
| --- | --- | --- |
| **Common** | **Class C** |  |
| **Incentive** | **Incentive** |  |
| **Units** | **Units** |  |
| 1,544,506 | 2,532,173 |  |  |
| — | — |  |
| 1,544,506 | 2,532,173 |  |
| 862,517 |  |  |  |
| 1,373,656 |  |



**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

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The Company recorded $300,026 of compensation expense related to these units for the year ended December 31, 2018. All of the unvested profit interests vested upon completion of the merger as disclosed in Note 1.

Distributions to incentive unit holders are limited to the holder’s share of the aggregate amount of profit and unrealized appreciation in all of the assets of the Company between the date of issuance of such Incentive Units and the date of such distribution.

**Note 7:** **Fair Value Disclosures**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Warrant Liability***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and are classified as Level 2. In certain cases where Level 1 or Level 2 inputs are not available, items are classified as Level 3. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

At December 31, 2018, because of the merger agreement disclosed in Note 1, the warrants were valued at their cash value on January 22, 2019.

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**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheet measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Fair Value Measurements Using** |  |  |
|  |  |  |  |  | **Significant** |  | **Significant** |  |
|  |  |  |  |  | **Other** |  |  |
|  |  | **Fair** |  | **Observable** |  | **Unobservable** |  |
|  |  |  | **Inputs** |  | **Inputs** |  |
|  |  | **Value** |  | **(Level 2)** |  | **(Level 3)** |  |
| Warrant liability - December 31, 2018 | $ | 2,624,379 |  | $ | 2,624,379 |  | $ | — |  |  |

***Level 3 Reconciliation***

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheet using significant unobservable (Level 3) inputs:

|  |  |  |
| --- | --- | --- |
| **Description** |  | **Liability** |
| Balance at January 1, 2018 |  | $ | 747,679 |  |
| Transfers out of Level 3 |  | (747,679) |
| Balance at December 31, 2018 | $ | — |  |
|  |  |  |  |  |

As of December 31, 2018, the Company had identified a significant other observable input and transferred the fair value of the warrant liability from Level 3 to Level 2.

**Note 8:** **Profit-Sharing Plan**

The Company has a 401(k) profit-sharing plan covering substantially all employees. The Company allows participants to defer a portion of their annual compensation on a pretax basis. In 2018, the Company’s matching contribution was 100% of salary deferral that make up the first 3% of total compensation and an additional 1/2% matching contribution for each additional 1% of total compensation that each participating employee defers up to a total of 5% of total compensation. Contributions to the plan were $561,127 for the year ended December 31, 2018.

**Note 9:** **Deferred Compensation**

The Company has a retention plan for certain individuals. The plan allows for certain payments to be made to these individuals upon the completion of four years of service or a change of control, whichever is first. There was $997,500 accrued related to this obligation as of December 31, 2018. Upon completion of the merger agreement in January 2019, the Company paid $1,787,500 related to this retention plan.

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**Orbis Education Services, LLC**

**Notes to Consolidated Financial Statements**

**December 31, 2018**

**Note 10:** **Concentrations**

***Major Customers***

At December 31, 2018, the Company had four major customers (defined as a customer providing 10% or more of total revenues). These customers represented approximately 59% of total revenue for the year ended December 31, 2018.

**Note 11:** **Changes in Accounting Principles**

Prior to 2018, the Company had elected the alternative guidance for private companies that allowed goodwill to be amortized (ASU 2014-

02, *Intangibles-Goodwill and Other (Topic 350): Accounting for Goodwill).* As a result of sale of the business, as disclosed in Note 1, the Company is no longer considered a private company.

Additionally, the Company changed its accounting for redeemable preferred stock. As a public business entity, the Company must account for its redeemable preferred stock at its redemption value and classify the redeemable preferred stock outside of permanent equity.

The following financial statement line items for fiscal year 2018 were affected by the changes in accounting principles.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **2018** |  |  |  |  |  |  |
|  |  |  | **As Computed Under** |  |  | **As Reported** |  |  | **Effect of** |  |  |
|  |  |  | **Previous Methods** |  |  |  |  | **Change** |  |
| **Income Statement** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Depreciation and amortization | $ | 3,075,225 |  | $ | 3,040,592 |  | $ | 34,633 |  |  |
| **Balance Sheet** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Goodwill | $ | 138,530 |  | $ | 346,325 |  | $ | 207,795 |  |  |
| Redeemable preferred units |  |  | — |  |  | 33,942,336 |  |  |  | 33,942,336 |  |  |
| Members’ deficit |  |  | (17,184,379) |  |  | (50,918,920) |  |  | (33,734,541) |  |
| **Statement of Cash Flows** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net loss | $ | (6,451,025) | $ | (6,416,392) | $ | (34,633) |  |
| Adjustment to reconcile net loss to net Cash used in |  |  |  |  |  |  |  |  |  |  |  |  |  |
| operating activities Depreciation and amortization |  |  | 3,075,225 |  |  |  | 3,040,592 |  |  |  | 34,633 |  |  |

As a result of the accounting changes, the members’ deficit as of January 1, 2018 changed from $(11,033,380) as originally reported to $(44,802,554), which is a change of $(33,769,174). The change consists of a decrease to member’s deficit of $33,942,336, which was the difference between the carrying value of the redeemable preferred units and their redemption value at January 1, 2018. Additionally, member’s deficit increased by $173,162, which was the accumulated amortization of goodwill at January 1, 2018.

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**Exhibit 99.2**

**GRAND CANYON EDUCATION, INC. REPORTS**

**UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION**

On January 22, 2019, Grand Canyon Education, Inc. (the “Company” or “GCE”) acquired Orbis Education Services, LLC (“Orbis Education”) for $365.8 million in cash (inclusive of closing date adjustments). Orbis Education is an education services company that supports healthcare education programs for 17 universities across the United States. Concurrent with the closing of the acquisition, GCE entered into an amended and restated credit agreement dated January 22, 2019 and two related amendments dated January 31, 2019 and dated February 1, 2019, that together provided a credit facility of $325.0 million comprised of a term loan facility of $243.75 million and a revolving credit facility of $81.25 million, both with a five year maturity date. The term facility is subject to quarterly amortization of principal, commencing with the fiscal quarter ended June 30, 2019, in equal installments of 5% of the principal amount of the term facility per quarter. Both the term loan and revolver have monthly interest payments currently at 30 Day LIBOR plus an applicable margin of 2%. The proceeds of the term loan, together with $6.25 million drawn under the revolver and cash on hand, were used to pay the purchase price in the acquisition. Concurrent with the amendment of the credit agreement and acquisition, we repaid our existing term loan of $60.0 million and our cash collateral of $61.7 million was released. The foregoing actions (other than the credit facility amendments), which are referred to collectively herein as the “Orbis Acquisition,” were completed on January 22, 2019.

The following unaudited pro forma combined financial information is based on the historical consolidated financial information of GCE and Orbis Education and has been prepared to illustrate the effect of the Orbis Acquisition that was completed on January 22, 2019.

The Company’s accounting and financial reporting in these unaudited pro formas is based on its preliminary assessment of the appropriate application of Generally Accepted Accounting Principles (“GAAP”) under the acquisition method of accounting in accordance with Financial Accounting Standards Board Accounting Standard Topic ASC 805, *Business Combinations* (ASC 805), with the Company treated as the acquirer. As of the date of this filing, the Company has not completed its final determination of the fair value of Orbis Education’s assets and liabilities, including intangible assets with both indefinite and finite lives. Accordingly, the final application of GAAP to the Acquisition may differ from what is presented in these unaudited pro formas.

The unaudited pro forma combined balance sheet assumes that the Acquisition had occurred on December 31, 2018. The unaudited pro forma combined income statement is presented as if the Acquisition had occurred on January 1, 2018. The following unaudited pro forma combined financial statements should be read in conjunction with the Company’s historical consolidated financial statements and accompanying notes, which are included in the Company’s latest Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 20, 2019, and Orbis Education’s historical information included herein.

The pro forma adjustments are based on the best information available and assumptions that management believes are (a) directly attributable to the Acquisition, (b) are factually supportable and (c) with respect to the income statement, have a continuing impact on the consolidated results. The pro forma adjustments are described in the accompanying notes to the unaudited pro forma combined financial information.

The unaudited pro forma combined financial information is provided herein for illustrative purposes only and is not necessarily indicative of the results of operations that would have occurred had the Acquisition occurred on January 1, 2018. The unaudited pro forma combined financial information does not reflect future events that may occur after the sale, including potential general and administrative cost savings or material non-recurring charges.



**GRAND CANYON EDUCATION, INC.**

**UNAUDITED PRO FORMA COMBINED BALANCE SHEET**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **As of December 31, 2018** |  |  |  |  |  |  |
| **(In thousands, except par value)** |  | **Grand Canyon** |  | **Orbis Education** |  | **Pro Forma** |  |  |  | **Pro Forma** |  |
|  | **Education, Inc.** |  | **Services, LLC** |  | **Adjustments (1)** |  |  |  |  |
| **ASSETS:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Current assets** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents | $ | 120,346 | $ | 241 | $ | (45,406) a, b, c, e | $ | 75,181 |  |
| Restricted cash and cash equivalents |  | 61,667 |  | — |  | (61,667) a |  |  | — |  |
| Investments |  | 69,002 |  | — |  | (69,002) b |  |  | — |  |
| Accounts receivable, net |  | 46,830 |  | 41 |  | — |  |  |  | 46,871 |  |
| Interest receivable on Secured Note |  | 4,650 |  | — |  | — |  |  |  | 4,650 |  |
| Income tax receivable |  | 8 |  | — |  | — |  |  |  | 8 |  |
| Other current assets |  | 6,963 |  | 1,759 |  | — |  |  |  | 8,722 |  |
| **Total current assets** |  | 309,466 |  |  | 2,041 |  |  | (176,075) |  |  |  |  | 135,432 |  |  |
| Property and equipment, net |  | 111,039 |  | 5,270 |  | — |  |  |  | 116,309 |  |
| Intangibles |  | — |  | 4,316 |  | 200,084 |  | c, e |  |  | 204,400 |  |
| Goodwill |  | 2,941 |  | 346 |  | 162,826 |  | c, e |  |  | 166,113 |  |
| Note receivable, less current portion |  | 900,093 |  | — |  | — |  |  |  | 900,093 |  |
| Other assets |  | 478 |  | — |  | — |  |  |  | 478 |  |
| **Total assets** | $ | 1,324,017 |  | $ | 11,973 |  | $ | 186,835 |  |  |  | $ | 1,522,825 |  |  |
| **LIABILITIES AND STOCKHOLDERS’ EQUITY:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Current liabilities** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Accounts payable | $ | 14,274 | $ | 800 | $ | — |  | $ | 15,074 |  |
| Accrued compensation and benefits |  | 15,427 |  | 4,741 |  | — |  |  |  | 20,168 |  |
| Accrued liabilities |  | 8,907 |  | 2,371 |  | 4,082 |  | d, e |  |  | 15,360 |  |
| Income taxes payable |  | 5,442 |  | — |  | — |  |  |  | 5,442 |  |
| Student deposits |  | — |  | — |  | — |  |  |  | — |  |
| Deferred revenue |  | — |  | — |  | — |  |  |  | — |  |
| Current portion of notes payable |  | 36,468 |  | 17,518 |  | (17,518) e |  |  | 36,468 |  |
| **Total current liabilities** |  | 80,518 |  |  | 25,430 |  |  | (13,436) |  |  |  |  | 92,512 |  |  |
| Other noncurrent liabilities |  | — |  | 3,520 |  | (2,624) e |  |  | 896 |  |
| Deferred income taxes, noncurrent |  | 6,465 |  |  |  |  | — |  |  |  | 6,465 |  |
| Notes payable, less current portion |  | 23,437 |  | — |  | 190,000 |  | a |  |  | 213,437 |  |
| **Total liabilities** |  | 110,420 |  |  | 28,950 |  |  | 173,940 |  |  |  |  | 313,310 |  |  |
| Commitments and contingencies |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Stockholders’ equity** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Redeemable Convertible Preferred Units |  | — |  | 33,942 |  | (33,942) e |  |  | — |  |
| Preferred stock, $0.01 par value, 10,000 shares authorized; |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 0 shares issued and outstanding at March 31, 2018 |  | — |  | — |  | — |  |  |  | — |  |
| Common stock, $0.01 par value, 100,000 shares |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| authorized; 52,496 shares issued and 48,217 shares |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| outstanding at March 31, 2018 |  | 527 |  | — |  | — |  |  |  | 527 |  |
| Treasury stock, at cost, 4,279 shares of common stock at |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| March 31, 2018 |  | (125,452) |  | — |  | — |  |  |  | (125,452) |  |
| Additional paid-in capital |  | 256,806 |  | — |  | — |  |  |  | 256,806 |  |
| Accumulated other comprehensive loss |  | (453) |  | — |  | — |  |  |  | (453) |  |
| Retained earnings (deficit) |  | 1,082,169 |  |  | (50,919) |  | 46,837 | d, e |  |  | 1,078,087 |  |
| **Total stockholders’ equity** |  | 1,213,597 |  |  | (16,977) |  |  | 12,895 |  |  |  |  | 1,209,515 |  |  |
| **Total liabilities and stockholders’ equity** | $ | 1,324,017 |  | $ | 11,973 |  | $ | 186,835 |  |  |  | $ | 1,522,825 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



(1) The pro forma adjustments assume that the Acquisition occurred on December 31, 2018.



**GRAND CANYON EDUCATION, INC.**

**UNAUDITED PRO FORMA COMBINED INCOME STATEMENT**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Year Ended December 31, 2018** |  |  |  |  |  |  |
|  |  |  | **Grand Canyon** |  | **Orbis** |  |  | **Pro Forma** |  |  |  |  |  |  |
|  |  |  |  | **Education** |  |  | **Adjustments** |  |  | **Pro Forma** |  |
|  |  |  | **Education, Inc.** |  | **Services, LLC** |  |  | **(1)** |  |  |  |  |
| **Service revenue** |  | $ | 333,002 |  | $ | 62,459 |  |  | $ | — |  |  | $ | 395,461 |  |  |  |
| **University related revenue** |  |  | 512,499 |  |  | — |  |  | — |  |  | 512,499 |  |  |
| **Net revenue** |  | $ | 845,501 |  | $ | 62,459 |  |  | $ | — |  |  | $ | 845,501 |  |  |  |
| **Costs and expenses:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Technology and academic services |  |  | 43,574 |  | 30,201 |  |  | (270) a, c | 73,505 |  |  |
| Counseling services and support |  |  | 204,690 |  |  | 10,225 |  |  | — | c | 214,915 |  |  |
| Marketing and communication |  |  | 117,420 |  | 12,086 |  |  | — | c | 129,506 |  |  |
| General and administrative |  |  | 29,968 |  | 11,303 |  |  | — | c | 41,271 |  |  |
| University related expenses |  |  | 173,330 |  |  | — |  |  | — |  |  | 173,330 |  |  |
| Amortization of intangibles |  |  | — |  | 936 |  |  | 7,464 |  | a, c | 8,400 |  |  |
| Loss on Transaction |  |  | 18,370 |  | 908 |  |  | (1,716) b, c | 17,562 |  |  |
| **Total costs and expenses** |  |  | 587,352 |  |  | 65,659 |  |  |  | 5,748 |  |  |  | 240,563 |  |  |  |
| **Operating income** |  |  | 258,149 |  |  | (3,200) |  |  |  | (5,748) |  |  |  | 604,938 |  |  |  |
| Interest income on Secured Note |  |  | 26,947 |  | — |  |  | — |  |  | 26,947 |  |  |
| Interest expense |  |  | (1,536) |  | (3,216) |  |  | (6,968) d | (11,720) |  |
| Investment interest and other |  |  | 3,440 |  |  | — |  |  | — | e | 3,440 |  |  |
| **Income before income taxes** |  |  | 287,000 |  |  | (6,416) |  |  |  | (12,716) |  |  |  | 623,605 |  |  |  |
| Income tax expense |  |  | 57,989 |  | — |  |  | (3,164) f | 54,825 |  |  |
| **Net income** |  | $ | 229,011 |  | $ | (6,416) |  |  | $ | (9,552) |  |  | $ | 213,043 |  |  |  |
| **Earnings per share:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Basic income per share** | $ | 4.81 |  |  |  |  |  |  |  | $ | 4.47 |  |  |
| **Diluted income per share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| $ | 4.73 |  |  |  |  |  |  |  | $ | 4.40 |  |  |
| **Basic weighted average shares outstanding** |  |  | 47,608 |  |  |  |  |  |  |  |  |  |  | 47,608 |  |  |  |
| **Diluted weighted average shares outstanding** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 48,414 |  |  |  |  |  |  |  |  |  | 48,414 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



1. The historical combined statements of income of the Company and Orbis Education for the year ended December 31, 2018 assume that the Acquisition occurred as of January 1, 2018.



**GRAND CANYON EDUCATION, INC.**

**NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION**

1. **Basis of Pro Forma Presentation**

The unaudited pro forma combined financial statements were prepared using the acquisition method of accounting and are based on the historical consolidated financial statements of the Company and Orbis Education. The acquisition method of accounting is based on ASC 805, and used the fair value concepts defined in Financial Accounting Standards Board Accounting Standard Topic ASC 820, *Fair Value Measurements*. ASC 805 requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date.

In accordance with ASC 805, the Company used its best estimates and assumptions to accurately assign fair value to tangible assets and liabilities to be acquired, identifiable intangible assets and the related income tax impacts. Goodwill is measured as the excess of purchase consideration over the fair value of tangible and intangible assets and liabilities.

The unaudited pro forma combined financial statements are based on preliminary estimated fair value purchase consideration allocation, provided for illustrative purposes only and do not purport to represent what the combined income statement or the financial condition would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual results of operations may differ significantly from the pro forma amounts reflected herein. In addition, the unaudited pro forma combined financial information does not reflect any planned cost savings initiatives following the merger.

Acquisition related transaction costs (e.g. investment banker, advisory, legal, valuation and other professional fees) and certain acquisition related charges have not been included as a component of consideration transferred, but instead must be expensed as incurred. The pro forma balance sheet reflects the $4.1 million of anticipated acquisition related transaction costs of the Company reflected in other accrued liabilities with a corresponding decrease in stockholders’ equity. The Company has not presented the acquisition costs incurred during 2018 in the pro forma statement of operations because they will not have a continuing impact on the results of the combined company.

In order to prepare the pro forma financial statements, the Company performed a preliminary review of Orbis Education’s accounting policies to identify significant differences. Upon completion of the Acquisition, the Company will conduct an additional review of Orbis Education’s accounting policies to determine if differences in accounting policies require further adjustment or reclassification of Orbis Education’s results of operations, asset or liabilities to conform to the Company’s accounting policies and classifications. As a result of that review, the Company may identify additional differences between the accounting policies of the two companies that, when conformed, could have a material impact on the pro forma financial statements.

The Company presents the pro forma financial statements for informational purposes only and the pro forma financial statements are not necessarily indicative of what the combined company’s financial position or results of operations would actually have been had the merger been completed on the dates indicated. In addition, the pro forma financial statements do not purport to project the future financial position or operating results of the combined company.

The unaudited pro forma combined financial information has been derived from GAAP applicable to the Company as of and for all periods presented and does not reflect adjustments for any accounting pronouncements pending adoption as of January 1, 2019. Specifically, the pro forma combined financial information has been prepared in conformity with the revenue recognition accounting policies as disclosed in the Company’s Form 10K for the year



ended December 31, 2018 and does not reflect any adjustment for the Company’s adoption of the new leasing standard, ASU 2016-02. The Company will adopt the new leasing standard on January 1, 2019 and will adopt the new leasing standard for Orbis Acquisition in its Acquisition and business combination accounting on January 22, 2019.

1. **Purchase Price and Estimated Fair Value of Net Assets Acquired**

The unaudited pro forma combined balance sheet has been adjusted to reflect the preliminary estimate of the fair value of Orbis Education’s tangible assets, identifiable intangible assets to be acquired and liabilities to be assumed. The excess of the preliminary estimated purchase price over these fair values is recorded to goodwill. The following table provides a tabular depiction of the Company’s allocation of the $365.8 million cash purchase (inclusive of closing date adjustments) on January 22, 2019.

|  |  |  |  |
| --- | --- | --- | --- |
| **(in thousands)** |  |  | **Fair Value** |
| Assets acquired |  | $ | 7,070 |  |
| Liabilities assumed |  |  | 8,808 |  |
| Intangible Assets |  |  | 204,400 |  |
| Goodwill |  |  | 163,172 |  |
| Total purchase price |  | $ | 365,834 |  |
|  |  |  |  |  |

The amount recorded related to the acquisition is subject to adjustment as the Company has not yet completed the final allocation of the purchase price. The Company has one year from the date of purchase to complete the allocation of the purchase price.

Orbis Education’s identifiable intangible assets include, customer relationships, trade names and other intangibles. These preliminary estimates of fair value and weighted average useful life may be different from the amounts included in the acquisition accounting upon the completion of purchase accounting, and the difference could have a material impact on the accompanying unaudited pro forma combined financial statements. The combined effect of any such changes could then also result in a significant increase or decrease to the Company’s estimate of associated amortization expense.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **(in thousands)** |  | **Fair Value** |  | **Useful Life (in years)** |
| Customer relationships |  | $ | 203,000 |  |  | 25 |  |
| Trade names |  | 280 | 1 |  |
| Other intangible assets |  | 1,120 | 4 |  |
| Total intangibles subject to amortization | $ | 204,400 |  |  |  |  |
|  |  |  |  |  |  |  |  |

1. **Pro Forma Adjustments — Balance Sheet**
2. Reflects the net loan increase of $190.0 million resulting from an amended and restated credit agreement on the purchase date, which resulted in an increase of the term and revolver loan to an aggregate of $250.0 million and the repayment of the $60.0 million term loan. In addition, the collateral of $61.7 million was released concurrently with the amended and restated credit agreement and that balance was reclassed to cash for the Orbis Acquisition.
3. Reflects the liquidation of the investment balances of $69.0 million, which were reclassed to cash for the Orbis Acquisition.
4. Reflects the $365.8 million cash purchase (inclusive of closing date adjustments) of Orbis Education. This adjustment records the preliminary estimated fair values as of December 31, 2018 of the tangible



assets acquired, liabilities assumed, identified intangible assets acquired, and estimated goodwill arising from the Orbis Acquisition, as described above. The Company is not expecting any changes to the assets acquired or liabilities assumed including property, plant and equipment as management believes the net book value of these assets approximate the fair market value of assets acquired with the exception of an increase in the assets and liabilities assumed due to the adoption of ASU 2016-02 as Orbis Education has leases at approximately 18 site locations.

1. The adjustment is to include estimated transaction costs that are not recognized in the historical consolidated balance sheets of the Company as these should be included on the pro forma balance sheet as they are transaction costs that are estimated to be incurred by the completion of the merger. The adjustment is for $4.1 million that would have been incurred and paid by the Company prior to December 31, 2018 as if the merger had occurred on December 31, 2018.
2. This entry eliminates the historical balances, including assets and liabilities not assumed in the Acquisition, Orbis Education’s goodwill and intangible assets, and various equity accounts on the Orbis Education’s historical balance sheet.
3. **Pro Forma Adjustments — Income Statement**
4. The following adjustment reflects the estimated amortization expense related to the intangible assets to be acquired, and the removal of amortization recorded by Orbis Education related to its customer relationships and online learning products, which is included in technical and academic services. Orbis Education’s goodwill was fully amortized, so no amortization was removed.
5. This adjustment removes transaction costs that were recognized as expenses in the Company and Orbis Education’s consolidated financial statement for the year ended December 31, 2018. The adjustment is for $0.8 million and $0.9 million that were incurred and paid by the Company and Orbis Education, respectively, during the year ended December 31, 2018.
6. The Orbis Education operating expenses were reflected in the combined income statement to conform with the Company’s income statement classifications.
7. This adjustment removed the interest expense recorded by the Company and Orbis Education for the year ended December 31, 2018. This adjustment then added interest expense for the $250.0 million drawn on the amended and restated credit agreement for the year ended December 31, 2018 at a rate of 30 Day LIBOR plus an applicable margin of 2%, which totals 4.5%. This adjustment assumes quarterly payments were made on the term loan for $12.2 million at each quarter ended commencing with June 30, 2018 for the year. This adjustment assumes the entire loan was considered a loan modification and that the lending costs of approximately $2.2 million are amortized over the five year maturity period. This adjustment includes the 25 basis point fee for the unused portion of the revolver for the entire year of $75 million. Also, this adjustment includes the third party costs of $0.2 million that were expensed at the time of the amended and restated credit agreement.
8. No adjustment can be reflected in this pro forma for reduced interest and other income; however we used $115.8 million of cash and investments to complete the Orbis Acquisition, which would have resulted in significantly lower investment balances and returns on such investments.
9. Reflects the tax effect of the pro forma adjustments at the statutory rate in effect during the periods for which the pro forma income statements are presented.



1. **Pro Forma Earnings Per Share**

The pro forma basic and diluted earnings per share amounts presented in the unaudited pro forma combined statements of income are based upon the pro forma combined net income and the Company’s weighted average number of shares outstanding.

