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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34211

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**GRAND CANYON EDUCATION, INC.**

*(Exact name of registrant as specified in its charter)*

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DELAWARE  
*(State or other jurisdiction of  
Incorporation or organization)*

20-3356009  
*(I.R.S. Employer  
Identification No.)*

3300 W. Camelback Road  
Phoenix, Arizona 85017  
*(Address, including zip code, of principal executive offices)*

(602) 639-7500  
*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

The total number of shares of common stock outstanding as of May 4, 2011, was 44,860,646.

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**Table of Contents**

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

	<b><u>Page</u></b>
<b><u>PART I — FINANCIAL INFORMATION</u></b>	
<a href="#"><u>Item 1 Financial Statements</u></a>	3
<a href="#"><u>Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a>	15
<a href="#"><u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u></a>	19
<a href="#"><u>Item 4 Controls and Procedures</u></a>	19
<b><u>PART II — OTHER INFORMATION</u></b>	
<a href="#"><u>Item 1 Legal Proceedings</u></a>	19
<a href="#"><u>Item 1A Risk Factors</u></a>	19
<a href="#"><u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	19
<a href="#"><u>Item 3 Defaults Upon Senior Securities</u></a>	20
<a href="#"><u>Item 4 Reserved</u></a>	20
<a href="#"><u>Item 5 Other Information</u></a>	20
<a href="#"><u>Item 6 Exhibits</u></a>	20
<a href="#"><u>SIGNATURES</u></a>	21
<a href="#"><u>Exhibit 10.1</u></a>	
<a href="#"><u>Exhibit 31.1</u></a>	
<a href="#"><u>Exhibit 31.2</u></a>	
<a href="#"><u>Exhibit 32.1</u></a>	
<a href="#"><u>Exhibit 32.2</u></a>	
<a href="#"><u>EX-101 INSTANCE DOCUMENT</u></a>	
<a href="#"><u>EX-101 SCHEMA DOCUMENT</u></a>	
<a href="#"><u>EX-101 CALCULATION LINKBASE DOCUMENT</u></a>	
<a href="#"><u>EX-101 LABELS LINKBASE DOCUMENT</u></a>	
<a href="#"><u>EX-101 PRESENTATION LINKBASE DOCUMENT</u></a>	
<a href="#"><u>EX-101 DEFINITION LINKBASE DOCUMENT</u></a>	

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

GRAND CANYON EDUCATION, INC.  
Income Statements  
(Unaudited)

(In thousands, except per share data)	Three Months Ended March 31,	
	2011	2010
<b>Net revenue</b>	\$ 101,709	\$ 89,326
<b>Costs and expenses:</b>		
Instructional costs and services	45,830	36,660
Selling and promotional, including \$401 and \$2,347 to related parties for March 31, 2011 and 2010, respectively	29,832	26,876
General and administrative	6,832	6,104
Exit costs	—	89
<b>Total costs and expenses</b>	<u>82,494</u>	<u>69,729</u>
<b>Operating income</b>	19,215	19,597
Interest expense	(107)	(344)
Interest income	32	61
<b>Income before income taxes</b>	19,140	19,314
Income tax expense	7,842	7,834
<b>Net income</b>	<u>\$ 11,298</u>	<u>\$ 11,480</u>
<b>Earnings per share:</b>		
Basic income per share	<u>\$ 0.25</u>	<u>\$ 0.25</u>
Diluted income per share	<u>\$ 0.25</u>	<u>\$ 0.25</u>
Basic weighted average shares outstanding	<u>45,590</u>	<u>45,674</u>
Diluted weighted average shares outstanding	<u>46,089</u>	<u>46,325</u>

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

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

(In thousands)	Three Months Ended March 31,	
	2011	2010
<b>Net income</b>	\$ 11,298	\$ 11,480
<b>Other comprehensive income, net of tax:</b>		
Unrealized gains (losses) on hedging derivatives	53	(147)
Unrealized losses on available for sale securities	—	(4)
Realized gains on available for sale securities	—	(19)
<b>Comprehensive income</b>	<u>\$ 11,351</u>	<u>\$ 11,310</u>

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

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

<b>(In thousands, except par value)</b>	<b>March 31, 2011 (Unaudited)</b>	<b>December 31, 2010</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 30,243	\$ 33,637
Restricted cash and cash equivalents	49,740	52,178
Accounts receivable, net of allowance for doubtful accounts of \$13,169 and \$14,961 at March 31, 2011 and December 31, 2010, respectively	32,369	33,334
Income taxes receivable	2,213	8,415
Deferred income taxes	9,143	9,886
Other current assets	4,578	4,834
<b>Total current assets</b>	<b>128,286</b>	<b>142,284</b>
Property and equipment, net	140,655	123,999
Restricted cash	445	760
Prepaid royalties	6,396	6,579
Goodwill	2,941	2,941
Deferred income taxes	2,487	2,800
Other assets	5,254	4,892
<b>Total assets</b>	<b>\$ 286,464</b>	<b>\$ 284,255</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 27,072	\$ 15,693
Accrued compensation and benefits	15,144	13,633
Accrued liabilities	7,453	9,477
Accrued litigation loss	5,200	5,200
Accrued exit costs	40	64
Income taxes payable	1,223	829
Student deposits	46,882	48,873
Deferred revenue	18,463	15,034
Due to related parties	1,958	10,346
Current portion of capital lease obligations	1,638	1,673
Current portion of notes payable	1,957	2,026
<b>Total current liabilities</b>	<b>127,030</b>	<b>122,848</b>
Capital lease obligations, less current portion	10	151
Other noncurrent liabilities	2,679	2,715
Notes payable, less current portion	21,432	21,881
<b>Total liabilities</b>	<b>151,151</b>	<b>147,595</b>
Commitments and contingencies		
<b>Stockholders' equity</b>		
Preferred stock, \$0.01 par value, 10,000 shares authorized; 0 shares issued and outstanding at March 31, 2011 and December 31, 2010	—	—
Common stock, \$0.01 par value, 100,000 shares authorized; 45,812 and 45,811 shares issued and 44,817 and 45,761 shares outstanding at March 31, 2011 and December 31, 2010, respectively	458	458
Treasury stock, at cost, 995 and 50 shares of common stock at March 31, 2011 and December 31, 2010, respectively	(14,993)	(782)
Additional paid-in capital	78,962	77,449
Accumulated other comprehensive loss	(392)	(445)
Accumulated earnings	71,278	59,980
<b>Total stockholders' equity</b>	<b>135,313</b>	<b>136,660</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 286,464</b>	<b>\$ 284,255</b>

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

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

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Accumulated Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>	<u>Shares</u>	<u>Stated Value</u>				
Balance at								
December 31, 2010	45,811	\$ 458	50	\$ (782)	\$ 77,449	\$ (445)	\$ 59,980	\$136,660
Net income	—	—	—	—	—	—	11,298	11,298
Unrealized gain on hedging derivative, net of taxes of \$21	—	—	—	—	—	53	—	53
Common stock purchased for treasury	—	—	945	(14,211)	—	—	—	(14,211)
Exercise of stock options	1	—	—	—	13	—	—	13
Excess tax benefits from share-based compensation	—	—	—	—	70	—	—	70
Share-based compensation	—	—	—	—	1,430	—	—	1,430
Balance at March 31, 2011	<u>45,812</u>	<u>\$ 458</u>	<u>995</u>	<u>\$ (14,993)</u>	<u>\$ 78,962</u>	<u>\$ (392)</u>	<u>\$ 71,278</u>	<u>\$135,313</u>

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

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

<b>(In thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows provided by operating activities:</b>		
Net income	\$ 11,298	\$ 11,480
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	1,430	1,037
Excess tax benefits from share-based compensation	—	(492)
Amortization of debt issuance costs	15	16
Provision for bad debts	6,988	4,774
Depreciation and amortization	3,826	2,661
Exit costs	(24)	(479)
Deferred income taxes	1,004	(27)
Other	—	(39)
Changes in assets and liabilities:		
Accounts receivable	(6,023)	(4,862)
Prepaid expenses and other	(52)	(1,655)
Due to/from related parties	(8,388)	1,400
Accounts payable	5,748	1,912
Accrued liabilities	(513)	5,024
Income taxes receivable/payable	6,666	6,251
Student deposits	(1,991)	1,617
Deferred revenue	3,429	20,462
<b>Net cash provided by operating activities</b>	<b>23,413</b>	<b>49,080</b>
<b>Cash flows used in investing activities:</b>		
Capital expenditures	(14,668)	(11,591)
Change in restricted cash and cash equivalents	2,753	(2,931)
Proceeds from sale or maturity of investments	—	487
<b>Net cash used in investing activities</b>	<b>(11,915)</b>	<b>(14,035)</b>
<b>Cash flows (used in) provided by financing activities:</b>		
Principal payments on notes payable and capital lease obligations	(694)	(727)
Purchase of treasury stock	(14,211)	—
Excess tax benefits from share-based compensation	—	492
Net proceeds from exercise of stock options	13	502
<b>Net cash (used in) provided by financing activities</b>	<b>(14,892)</b>	<b>267</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(3,394)</b>	<b>35,312</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>33,637</b>	<b>62,571</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 30,243</b>	<b>\$ 97,883</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 107	\$ 195
Cash paid for income taxes	\$ 219	\$ 1,598
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Purchases of property and equipment included in accounts payable	\$ 5,631	\$ (1,357)
Tax benefit of Spirit warrant intangible	\$ 70	\$ 259

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



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

**1. Nature of Business**

Grand Canyon Education, Inc. (the "University") is a regionally accredited provider of postsecondary education services focused on offering graduate and undergraduate degree programs in its core disciplines of education, business, healthcare, and liberal arts. The University offers courses online, at its approximately 100 acre traditional ground campus in Phoenix, Arizona and onsite at the facilities of employers. The University is accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools.

**2. Summary of Significant Accounting Policies**

***Unaudited Interim Financial Information***

The accompanying unaudited interim financial statements of the University have been prepared in accordance with U.S. generally accepted accounting principles, consistent in all material respects with those applied in its financial statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Such interim financial information is unaudited but reflects all adjustments that in the opinion of management are necessary for the fair presentation of the interim periods presented. Interim results are not necessarily indicative of results for a full year. This Quarterly Report on Form 10-Q should be read in conjunction with the University's audited financial statements and footnotes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2010 from which the December 31, 2010 balance sheet information was derived.

***Restricted Cash and Cash Equivalents***

A significant portion of the University's revenue is received from students who participate in government financial aid and assistance programs. Restricted cash and cash equivalents primarily represents amounts received from the federal and state governments under various student aid grant and loan programs, such as Title IV. These funds are received subsequent to the completion of the authorization and disbursement process for the benefit of the student. The U.S. Department of Education requires Title IV funds collected in advance of student billings to be segregated in a separate cash or cash equivalent account until the students are billed for their portion. The University also classifies the \$5,200 that it agreed to pay to settle the *qui tam* matter as restricted cash, subject to the distribution of the settlement amount from escrow in accordance with the terms of the settlement agreement. The University records all of these amounts as a current asset in restricted cash and cash equivalents. Restricted cash and cash equivalents is excluded from cash and cash equivalents until the cash is no longer restricted. The majority of these funds remain as restricted cash and cash equivalents for an average of 60 to 90 days from the date of receipt.

In the fourth quarter of 2010, the counterparty to the University's interest rate swap made a collateral call and the University posted \$760 of pledged collateral as noncurrent restricted cash. The pledged collateral was reduced to \$445 as of March 31, 2011.

***Derivatives and Hedging***

Derivative financial instruments are recorded on the balance sheet as assets or liabilities and re-measured at fair value at each reporting date. For derivatives designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Derivative financial instruments enable the University to manage its exposure to interest rate risk. The University does not engage in any derivative instrument trading activity. Credit risk associated with the University's derivatives is limited to the risk that a derivative counterparty will not perform in accordance with the terms of the contract. Exposure to counterparty credit risk is considered low because these agreements have been entered into with institutions with strong credit ratings, and they are expected to perform fully under the terms of the agreements.

On June 30, 2009, the University entered into an interest rate corridor instrument and an interest rate swap to manage its 30 Day LIBOR interest exposure related to its variable rate debt, which commenced in April 2009 and matures in April 2014. The fair value of the interest rate corridor instrument as of March 31, 2011 and December 31, 2010 was \$25 and \$27, respectively, which is included in other assets. The fair value of the interest rate swap is a liability of \$583 and \$686 as of March 31, 2011 and December 31, 2010, respectively, which is included in other noncurrent liabilities. The fair values of each derivative instrument were determined using a hypothetical derivative transaction and Level 2 of the hierarchy of valuation inputs. These derivative instruments were designated as cash flow hedges of variable rate debt obligations. The adjustment of \$74 and \$245 in the first three months of 2011 and 2010, respectively, for the effective portion of the loss on the derivatives is included as a component of other comprehensive income, net of taxes.

The interest rate corridor instrument hedges variable interest rate risk starting July 1, 2009 through April 30, 2014 with a notional amount of \$11,268 as of March 31, 2011. The corridor instrument permits the University to hedge its interest rate risk at several thresholds; the University will pay variable interest rates based on the 30 Day LIBOR rates monthly until that index reaches 4%. If 30 Day LIBOR is equal to 4% through 6%, the University will pay 4%. If 30 Day LIBOR exceeds 6%, the University will pay actual 30 Day LIBOR less 2%. This reduces the University's exposure to potential increases in interest rates.

The interest rate swap commenced on May 1, 2010 and continues each month thereafter until April 30, 2014 and has a notional amount of \$11,268 as of March 31, 2011. The University will receive 30 Day LIBOR and pay 3.245% fixed interest on the amortizing notional amount. Therefore, the University has hedged its exposure to future variable rate cash flows through April 30, 2014. The

interest rate swap is not subject to a master netting arrangement and collateral has been called by the counterparty and reflected in a restricted cash account as of March 31, 2011 and December 31, 2010 in the amount of \$445 and \$760, respectively.

As of March 31, 2011 no derivative ineffectiveness was identified. Any ineffectiveness in the University's derivative instruments designated as hedges would be reported in interest expense in the income statement. For the three months ended March 31, 2011 \$8 of credit risk was recorded in interest expense on the derivatives. At March 31, 2011, the University is not expected to reclassify gains or losses on derivative instruments from accumulated other comprehensive (loss) income into earnings during the next 12 months.

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

**Fair Value of Financial Instruments**

As of March 31, 2011, the carrying value of cash and cash equivalents, accounts receivable, account payable and accrued expenses approximate their fair value based on the liquidity or the short-term maturities of these instruments. The carrying value of debt approximates fair value as it is based on variable rate index. The carrying value of capital lease obligations approximate fair value based upon market interest rates available to the University for debt of similar risk and maturities. Derivative financial instruments are carried at fair value, determined using Level 2 of the hierarchy of valuation inputs, with the use of inputs other than quoted prices that are observable for the asset or liability.

**Revenue Recognition**

Net revenues consist primarily of tuition and fees derived from courses taught by the University online, at its 100 acre traditional campus in Phoenix, Arizona, and onsite at the facilities of employers, as well as from related educational resources such as access to online materials. Tuition revenue and most fees and related educational resources are recognized pro-rata over the applicable period of instruction, net of scholarships provided by the University. For the three months ended March 31, 2011 and 2010, the University's revenue was reduced by approximately \$19,769 and \$13,771, respectively, as a result of scholarships that the University offered to students. The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods. Certain states in which students reside impose separate, mandatory refund policies, which override the University's policy to the extent in conflict. If a student withdraws at a time when only a portion, or none of the tuition is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the tuition that was not refunded as pro-rata over the applicable period of instruction. Since the University recognizes revenue pro-rata over the term of the course and because, under its institutional refund policy, the amount subject to refund is never greater than the amount of the revenue that has been deferred, under the University's accounting policies revenue is not recognized with respect to amounts that could potentially be refunded. The University's change in April 2010 to a non-term borrower-based institution from a term based institution for federal student financial aid funding purposes does not have any impact on the timing and recognition of revenues.

**Financial Statement Presentation**

In the first quarter of 2011, the University made changes in its presentation of costs and expenses and reclassified prior periods to conform to the current presentation. Previously the University reported bad debt expense as a general and administrative expense and royalty to former owner on a separate line item in the income statement. Both bad debt expense and royalty to former owner are now included in instructional costs and services. The University believes that these changes provide greater comparability to other institutions in its industry sector. There were no changes to total costs and expenses as a result of these reclassifications. Below the table are descriptions of the nature of the costs and expenses included in the University's operating expense categories.

The following table presents the University's costs and expenses as previously reported and as reclassified on its unaudited statements of income for the three months ended:

	March 31, 2010		June 30, 2010		September 30, 2010		December 31, 2010	
	As Reported	As Reclassified	As Reported	As Reclassified	As Reported	As Reclassified	As Reported	As Reclassified
<b>Costs and expenses:</b>								
Instructional costs and services	\$ 31,812	\$ 36,660	\$ 36,169	\$ 41,742	\$ 35,923	\$ 42,071	\$ 36,133	\$ 43,220
Selling and promotional	26,876	26,876	28,976	28,976	28,103	28,103	28,538	28,538
General and administrative	10,878	6,104	11,675	6,176	12,681	6,607	14,746	7,733
Contract termination fees to related party	—	—	—	—	—	—	9,233	9,233
Exit costs	89	89	116	116	27	27	26	26
Royalty to former owner	74	—	74	—	74	—	74	—
<b>Total costs and expenses</b>	<b>\$ 69,729</b>	<b>\$ 69,729</b>	<b>\$ 77,010</b>	<b>\$ 77,010</b>	<b>\$ 76,808</b>	<b>\$ 76,808</b>	<b>\$ 88,750</b>	<b>\$ 88,750</b>

**Instructional Costs and Services**

Instructional costs and services consist primarily of costs related to the administration and delivery of the University's educational programs. This expense category includes salaries, benefits and share-based compensation for full-time and adjunct faculty and administrative personnel, information technology costs, bad debt expense, curriculum and new program development costs (which are expensed as incurred) and costs associated with other support groups that provide services directly to the students. This category also includes an allocation of depreciation, amortization, rent, and occupancy costs attributable to the provision of educational services, primarily at the University's Phoenix, Arizona campus.

**Selling and Promotional**

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

Through December 2010, the University was a party to a revenue sharing arrangement (the Collaboration Agreement) with Mind Streams, L.L.C. (Mind Streams), a related party pursuant to which it paid a percentage of the net revenue that it actually received from applicants recruited by those entities that matriculated at Grand Canyon University. Mind Streams bore all costs associated with the recruitment of these applicants.

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

As a result of new rules adopted by the U.S. Department of Education and effective July 1, 2011, the University determined that revenue sharing arrangements like the Collaboration Agreement, and the manner in which it pays amounts under the Collaboration Agreement, will most likely no longer be permitted. Accordingly, the University and Mind Streams entered into an agreement, dated December 30, 2010, pursuant to which the University agreed to pay Mind Streams an amount equal to (a) \$8,500, plus (b) Mind Streams' applicable share of any net revenue actually received by the University on or before February 28, 2011 with respect to any such Mind Streams identified students commencing University courses prior to November 1, 2010. In return, Mind Streams agreed to (i) accept such amounts in full and complete satisfaction of all amounts owed by the University to Mind Streams under the Collaboration Agreement, and (ii) transfer to the University a proprietary database of potential student leads. A payment of \$8,500 was made in January 2011 in conjunction with this agreement. Additionally in 2010, Gail Richardson, the father of Brent D. Richardson, the University's Executive Chairman, and Christopher C. Richardson, the University's General Counsel and a director, formed a new entity, Lifetime Learning, which plans to generate and sell leads to the University and other entities in the education sector. For the three months ended March 31, 2011 and 2010, the University expensed approximately \$401 and \$2,347, respectively, pursuant to these arrangements, exclusive of the settlement arrangement discussed above. As of March 31, 2011 and December 31, 2010 \$564, and \$9,367, respectively, were due to these related parties.

#### **General and Administrative**

General and administrative expenses include salaries, benefits and share-based compensation of employees engaged in corporate management, finance, human resources, compliance, and other corporate functions. General and administrative expenses also include an allocation of depreciation, amortization, rent, and occupancy costs attributable to the departments providing general and administrative functions.

#### **Exit Costs**

In November 2009, the University finalized a plan to centralize its student services operations in Arizona and, as a result, closed its student services facility in Utah. The exit costs incurred in connection with this decision have been expensed and are presented separately on the income statement. The costs incurred included severance payments; relocation expenses; future lease payments, net of estimated sublease rentals; and the write off of leasehold improvements associated with this leased space. The following is a summary of the University's exit activities:

	<b>Accrued Exit Costs at December 31, 2010</b>	<b>Exit Costs</b>	<b>Payments in 2011</b>	<b>Accrued Exit Costs at March 31, 2011</b>
Accrued exit costs	\$ 64	\$ —	\$ (24)	\$ 40

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### **Segment Information**

The University operates as a single educational delivery operation using a core infrastructure that serves the curriculum and educational delivery needs of both its ground and online students regardless of geography. The University's Chief Executive Officer manages the University's operations as a whole and no expense or operating income information is generated or evaluated on any component level.

#### **Reclassifications**

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

#### **Recent Accounting Pronouncements**

The University has reviewed and evaluated all recent accounting pronouncements and believes there are none that could potentially have a material impact on the University's financial condition, results of operations, or disclosures.

### **3. Net Income Per Common Share**

Basic net income per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflects the assumed conversion of all potentially dilutive securities, consisting of stock options, for which the estimated fair value exceeds the exercise price, less shares which could have been purchased with the related proceeds, unless anti-dilutive. For employee equity awards, repurchased shares are also included for any unearned compensation adjusted for tax.

The table below reflects the calculation of the weighted average number of common shares outstanding, on an as if converted basis, used in computing basic and diluted earnings per common share.

**Three Months Ended March 31,**20112010**Denominator:**

Basic weighted average shares outstanding	45,590,195	45,673,917
Effect of dilutive stock options and restricted stock	498,720	650,856
Diluted weighted average shares outstanding	<u>46,088,915</u>	<u>46,324,773</u>

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

Diluted weighted average shares outstanding exclude the incremental effect of shares that would be issued upon the assumed exercise of stock options. For the three months ended March 31, 2011 and 2010, approximately 2,244,541 and 506,868, respectively, of the University's stock options outstanding were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive. These options could be dilutive in the future.

**4. Valuation and Qualifying Accounts**

	Balance at Beginning of Period	Charged to Expense	Deductions <sup>(1)</sup>	Balance at End of Period
Allowance for doubtful accounts receivable:				
Three months ended March 31, 2011	\$ 14,961	6,988	(8,780)	\$ 13,169
Three months ended March 31, 2010	\$ 7,553	4,774	(4,479)	\$ 7,848

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

**5. Property and Equipment**

Property and equipment consist of the following:

	As of March 31, 2011	As of December 31, 2010
Land	\$ 8,282	\$ 8,282
Land improvements	1,597	1,597
Buildings	49,939	48,323
Equipment under capital leases	4,502	4,502
Leasehold improvements	11,835	11,407
Computer equipment	38,796	36,742
Furniture, fixtures and equipment	11,896	11,401
Internally developed software	4,390	3,825
Other	1,098	998
Construction in progress	36,390	21,349
	<u>168,725</u>	<u>148,426</u>
Less accumulated depreciation and amortization	(28,070)	(24,427)
Property and equipment, net	<u>\$ 140,655</u>	<u>\$ 123,999</u>

**6. Commitments and Contingencies**

**Leases**

The University leases certain land, buildings and equipment under non-cancelable operating leases expiring at various dates through 2023. Future minimum lease payments under operating leases due each year are as follows at March 31, 2011:

2011	\$ 3,745
2012	6,243
2013	7,020
2014	6,640
2015	5,764
Thereafter	24,188
Total minimum payments	<u>\$ 53,600</u>

Total rent expense and related taxes and operating expenses under operating leases for the three months ended March 31, 2011 and 2010 were \$1,593 and \$1,084, respectively.

**Legal Matters**

From time to time, the University is a party to various lawsuits, claims, and other legal proceedings that arise in the ordinary course of business, some of which are covered by insurance. When the University is aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the University records a liability for the loss. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the University discloses the nature of the specific claim if the likelihood of a potential loss is reasonably possible and the amount involved is material. With respect to the majority of pending litigation matters, the University's ultimate legal and financial responsibility, if any, cannot be estimated with certainty and, in most cases, any potential losses related to those matters are not considered probable.

In connection with the *qui tam* lawsuit that had been filed against the University in August 2007 in the United States District Court for the District of Arizona (the "Court") by a then-current employee on behalf of the federal government, and in connection with the related settlement agreement approved by the Court in August 2010, the University continues to maintain a \$5,200 accrued

litigation loss and a commensurate amount of restricted cash of \$5,200 in an interest-bearing segregated account controlled by the University, for payment to the United States and the relator in accordance with the terms of the settlement agreement on the earlier of September 1, 2011 or the issuance by the Department of Education to the University of a full three-year Title IV program participation agreement.



**GRAND CANYON EDUCATION, INC.**  
**Notes to Financial Statements**  
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Upon resolution of any pending legal matters, the University may incur charges in excess of presently established reserves. Management does not believe that any such charges would, individually or in the aggregate, have a material adverse effect on the University's financial condition, results of operations or cash flows.

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

From time to time the University has exposure to various non-income tax related matters that arise in the ordinary course of business. At March 31, 2011 and December 31, 2010, the University had reserved approximately \$83 and \$92, respectively, for tax matters where its ultimate exposure is considered probable and the potential loss can be reasonably estimated.

**7. Income Taxes**

The University's uncertain tax positions are related to tax years that remain subject to examination by tax authorities. As of March 31, 2011, the earliest tax year still subject to examination for federal and state purposes is 2007 and 2005, respectively.

**8. Share-Based Compensation**

On September 27, 2008 the University's shareholders approved the adoption of the 2008 Equity Incentive Plan ("Incentive Plan") and the 2008 Employee Stock Purchase ("ESPP"). A total of 4,199,937 shares of the University's common stock were originally authorized for issuance under the Incentive Plan. On January 1, of each subsequent year in accordance with the terms of the Incentive Plan, the number of shares authorized for issuance under the Incentive Plan automatically increased by 2.5% of the number of shares of common stock issued and outstanding on the previous December 31, raising the total number of shares of common stock authorized for issuance under the Incentive Plan to 7,622,034 shares. Although the ESPP has not yet been implemented, a total of 1,049,984 shares of the University's common stock have been authorized for sale under the ESPP.

A summary of the activity related to stock options granted under the University's Incentive Plan since December 31, 2010 is as follows:

	<b>Summary of Stock Options Outstanding</b>			
	<b>Total Shares</b>	<b>Weighted Average Exercise Price per Share</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value (\$)(1)</b>
<b>Outstanding as of December 31, 2010</b>	4,026,172	14.24		
Granted	1,226,250	15.34		
Exercised	(1,154)	12.00		
Forfeited, canceled or expired	(29,208)	18.22		
<b>Outstanding as of March 31, 2011</b>	5,222,060	\$ 14.47	8.42	\$ 157
<b>Exercisable as of March 31, 2011</b>	1,671,032	\$ 12.95	7.77	\$ 2,590
<b>Available for issuance as of March 31, 2011</b>	1,978,459			

(1) Aggregate intrinsic value represents the value of the University's closing stock price on March 31, 2011 (\$14.50) in excess of the exercise price multiplied by the number of options outstanding or exercisable.

**Share-based Compensation Expense**

The table below outlines share-based compensation expense for the quarter ended March 31, 2011 and 2010 related to restricted stock and stock options granted:

	<b>2011</b>	<b>2010</b>
Instructional costs and services	\$ 620	\$ 379
Selling and promotional	64	37
General and administrative	746	621
<b>Share-based compensation expense included in operating expenses</b>	1,430	1,037
Tax effect of share-based compensation	(572)	(415)
<b>Share-based compensation expense, net of tax</b>	\$ 858	\$ 622

**9. Regulatory**

The University is subject to extensive regulation by federal and state governmental agencies and accrediting bodies. In particular, the Higher Education Act of 1965, as amended (the "Higher Education Act"), and the regulations promulgated thereunder by the Department of Education, subject the University to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy in order to participate in the various federal student financial assistance programs under Title IV of the Higher Education Act.



**GRAND CANYON EDUCATION, INC.**  
**Notes to Financial Statements**  
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To participate in the Title IV programs, an institution must be authorized to offer its programs of instruction by the relevant agency of the state in which it is located, accredited by an accrediting agency recognized by the Department of Education and certified as eligible by the Department of Education. The Department of Education will certify an institution to participate in the Title IV programs only after the institution has demonstrated compliance with the Higher Education Act and the Department of Education's extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance to the Department of Education on an ongoing basis. The University submitted its application for recertification in March 2008 in anticipation of the expiration of its provisional certification on June 30, 2008. The Department of Education did not make a decision on the University's recertification application by June 30, 2008, and therefore the University's participation in the Title IV programs had been automatically extended thereafter on a month-to-month basis pending the Department of Education's decision. While this decision remained pending, on January 12, 2011, the University disclosed the termination of certain voting agreements that had the effect of triggering a change in control under Department of Education regulations because it caused the University's largest stockholder group to own and control less than 25% of the outstanding voting stock. On April 8, 2011, following the completion of the Department of Education's review of the information that the University provided in connection with the termination of the voting agreements, the Department of Education notified the University that it approved its application for a change of ownership and issued to the University a new, provisional program participation agreement to participate in the Title IV programs. While this certification is provisional, it does remove the University from month-to-month status, provides for the University's continued participation in Title IV programs through December 31, 2013, and does not impose any conditions (such as any letter of credit requirement) or other restrictions on the University during the provisional period other than the standard restrictions applicable to a provisional certification. In accordance with the terms of the provisional certification, the University may apply for recertification on a full basis by submitting a complete application by no later than September 30, 2013.

Because the University operates in a highly regulated industry, it, like other industry participants, may be subject from time to time to investigations, claims of non-compliance, or lawsuits by governmental agencies or third parties, which allege statutory violations, regulatory infractions, or common law causes of action. While there can be no assurance that regulatory agencies or third parties will not undertake investigations or make claims against the University, or that such claims, if made, will not have a material adverse effect on the University's business, results of operations or financial condition, management believes the University is in compliance with applicable regulations in all material respects.

In connection with its administration of the Title IV federal student financial aid programs, the Department of Education periodically conducts program reviews at selected schools that receive Title IV funds. In July 2010, the Department of Education initiated a program review of Grand Canyon University covering the 2008-2009 and 2009-2010 award years. As part of this program review, a Department of Education program review team conducted a site visit on the University's campus and reviewed, and in some cases requested further information regarding, the University's records, practices and policies relating to, among other things, financial aid, enrollment, enrollment counselor compensation, program eligibility and other Title IV compliance matters. Upon the conclusion of the site visit, the University was informed by the program review team that it would (i) conduct further review of the University's documents and records offsite, (ii) upon completion of such review, schedule a formal exit interview to be followed by a preliminary program review report in which any preliminary findings of non-compliance would be presented, and (iii) conclude the review by issuance of a final determination letter. The program review team has not yet scheduled a formal exit interview with the University. Accordingly, at this point, the program review remains open and the University intends to continue to cooperate with the review team until the program review is completed.

While the University has not yet received notification of the timing of its exit interview or the Department of Education's preliminary program review report or final determination letter, following the conclusion of the site visit the University became aware that the program review team had two preliminary findings of concern. The first issue is whether a compensation policy in use during part of the period under review improperly rewarded some enrollment counselors based on success in enrolling students in violation of applicable law. As the University has previously disclosed, while it believes that the University's compensation policies and practices at issue in the program review were not based on success in enrolling students in violation of applicable law, the Department of Education's regulations and interpretations of the incentive compensation law do not establish clear criteria for compliance in all circumstances and some of the University's practices in prior years were not within the scope of any of the specific "safe harbors" provided in the compensation regulations and applicable during that period.

The second issue is whether, during the award years under review, certain programs offered within the University's College of Liberal Arts provided students with training to prepare them for gainful employment in a recognized occupation. This "gainful employment" standard has been a requirement for Title IV eligibility for programs offered at proprietary institutions of higher education such as Grand Canyon University although, pursuant to legislation passed in 2008 and effective as of July 1, 2010, this requirement no longer applies to designated liberal arts programs offered by the University and certain other institutions that have held accreditation by a regional accrediting agency since a date on or before October 1, 2007 (the University has held a regional accreditation since 1968). Subsequent to the site visit, the program review team submitted a written request to the University in which the program review team stated the view that, prior to July 1, 2010, traditional liberal arts programs were not considered as being eligible under Title IV but then requested additional information from the University that would help the Department of Education determine whether the programs offered within the University's College of Liberal Arts were eligible under Title IV because they did provide training to prepare students for gainful employment in a recognized occupation. While the University was not informed as to which specific programs offered within the University's College of Liberal Arts the program review team believes may be ineligible, in August 2010 the University provided the Department of Education with the requested information which the University believes will demonstrate that the programs offered within the University's College of Liberal Arts met this requirement. The University has received no further communications from the Department of Education regarding the program review.



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

**10. Treasury Stock**

On August 16, 2010, the University announced that its Board of Directors had authorized the University to repurchase up to \$25,000 of common stock, from time to time, depending on market conditions and other considerations. The expiration date on the repurchase authorizations is September 30, 2011 and repurchases occur at the University's discretion. Repurchases may be made in the open market or in privately negotiated transactions, pursuant to the applicable Securities and Exchange Commission rules. The amount and timing of future share repurchases, if any, will be made as market and business conditions warrant. Since the approval of the share repurchase plan, the University has purchased 995,200 shares of common stock shares at an aggregate cost of \$14,993 which includes 945,200 shares of common stock at an aggregate cost of \$14,211 during the three months ended March 31, 2011, which are recorded at cost in the accompanying balance sheets and statement of stockholders' equity.

**11. Subsequent Events**

On April 8, 2011, the University entered into an amended and restated loan agreement with Bank of America, N.A. (the "Amended Agreement"). Under the Amended Agreement, the bank (a) extended the maturity date of the University's existing loan from April 30, 2014 to March 31, 2016 and decreased the interest rate on the outstanding balance from the BBA Libor Rate plus 225 basis points to the BBA Libor Rate plus 200 basis points (all other terms of the existing loan remain the same), and (b) provided to the University a revolving line of credit in the amount of \$50,000 through March 31, 2016 to be utilized for working capital, capital expenditures, share repurchases and other general corporate purposes. The Amended Agreement contains standard covenants that are substantially consistent with those included in the prior agreement, including covenants that, among other things, restrict the University's ability to incur additional debt or make certain investments, require the University to maintain compliance with certain applicable regulatory standards, and require the University to maintain a certain financial condition. Indebtedness under the Amended Agreement is secured by all of the University's assets.

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

*The following discussion of our historical results of operations and our liquidity and capital resources should be read in conjunction with the financial statements and related notes that appear elsewhere in this report.*

### Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, contains certain "forward-looking statements," which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation, and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new programs; expectations that regulatory developments or other matters will not have a material adverse effect on our financial position, results of operations, or liquidity; statements concerning projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, and future economic performance; and statements of management's goals and objectives and other similar expressions concerning matters that are not historical facts. Words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar expressions, as well as statements in future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- our failure to comply with the extensive regulatory framework applicable to our industry, including Title IV of the Higher Education Act and the regulations thereunder, state laws and regulatory requirements, and accrediting commission requirements;
- the results of the ongoing program review being conducted by the Department of Education of our compliance with Title IV program requirements, and possible fines or other administrative sanctions resulting therefrom;
- the ability of our students to obtain federal Title IV funds, state financial aid, and private financing;
- potential damage to our reputation or other adverse effects as a result of negative publicity in the media, in the industry or in connection with governmental reports or investigations or otherwise, affecting us or other companies in the for-profit postsecondary education sector;
- risks associated with changes in applicable federal and state laws and regulations and accrediting commission standards including pending rulemaking by the Department of Education;
- our ability to hire and train new, and develop and train existing, enrollment counselors;
- the pace of growth of our enrollment;
- our ability to convert prospective students to enrolled students and to retain active students;
- our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis;
- industry competition, including competition for qualified executives and other personnel;
- risks associated with the competitive environment for marketing our programs;
- failure on our part to keep up with advances in technology that could enhance the online experience for our students;
- the extent to which obligations under our loan agreement, including the need to comply with restrictive and financial covenants and to pay principal and interest payments, limits our ability to conduct our operations or seek new business opportunities;
- potential decreases in enrollment, the payment of refunds or other negative impacts on our operating results as a result of our change from a "term-based" financial aid system to a "borrower-based, non-term" or "BBAY" financial aid system;
- our ability to manage future growth effectively; and
- general adverse economic conditions or other developments that affect job prospects in our core disciplines.

Additional factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as updated in our subsequent reports filed with the Securities and Exchange Commission ("SEC"), including any updates found in Part II, Item 1A of this Quarterly Report on Form 10-Q or our other reports on Form 10-Q. You should not put undue reliance on any forward-looking statements. Forward-looking statements speak only as of the date the statements are made and we assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking

information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

## Overview

We are a regionally accredited provider of postsecondary education services focused on offering graduate and undergraduate degree programs in our core disciplines of education, business, healthcare, and liberal arts. We offer programs online as well as ground programs at our approximately 100 acre traditional campus in Phoenix, Arizona and onsite at the facilities of employers.

At March 31, 2011, we had approximately 42,500 students, an increase of 9.4% over the approximately 38,900 students we had at March 31, 2010. At March 31, 2011, 90.9% of our students were enrolled in our online programs, and 45.8% of our online students were pursuing master's or doctoral degrees. In addition, revenue per student increased between periods as we increased tuition prices for students in our online and professional studies programs by 0.0% to 5.7%, depending on the program, with an estimated blended rate increase of 3.5% for our 2010-11 academic year, as compared to tuition price increases for students in our online and professional studies programs of 2.3% to 15.5% for our 2009-10 academic year, depending on the program, with an estimated blended rate increase of 5.0% for the prior academic year. Tuition for our traditional ground programs had no increase for our 2010-11 academic year, as compared to an increase of 6.6% for the prior academic year. In addition, we experienced an increase in the number of students taking four credit courses between years. Operating income was \$19.2 million for the three months ended March 31, 2011, a decrease of \$0.4 million over the \$19.6 million in operating income for the three months ended March 31, 2010.

The following is a summary of our student enrollment at March 31, 2011 and 2010 (which included less than 525 students pursuing non-degree certificates in each period) by degree type and by instructional delivery method:

	March 31,			
	2011 <sup>(1)</sup>		2010	
	# of Students	% of Total	# of Students	% of Total
Graduate degrees <sup>(2)</sup>	18,438	43.4%	16,213	41.7%
Undergraduate degree	24,067	56.6%	22,641	58.3%
Total	42,505	100.0%	38,854	100.0%

	March 31,			
	2011 <sup>(1)</sup>		2010	
	# of Students	% of Total	# of Students	% of Total
Online <sup>(3)</sup>	38,655	90.9%	35,796	92.1%
Ground <sup>(4)</sup>	3,850	9.1%	3,058	7.9%
Total	42,505	100.0%	38,854	100.0%

(1) Enrollment at March 31, 2011 represents individual students who attended a course during the last two months of the calendar quarter. Prior to our transition to BBAY, enrollment had been defined as individual students that attended a course in a term that was in session as of the end of the quarter.

(2) Includes 1,301 and 615 students pursuing doctoral degrees at March 31, 2011 and 2010, respectively.

(3) As of March 31, 2011 and 2010, 45.8% and 43.4%, respectively, of our online students are pursuing graduate degrees.

(4) Includes both our traditional on-campus ground students, as well as our professional studies students.

## Critical Accounting Policies and Use of Estimates

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. During the three months ended March 31, 2011, there have been no significant changes in our critical accounting policies. Previously the University reported bad debt expense as a general and administrative expense and royalty to former owner on a separate line item in the income statement. Both bad debt expense and royalty to former owner are now included in instructional costs and services. The University believes that these changes provide greater comparability to other institutions in our industry sector.

## Key Trends, Developments and Challenges

Our key trends, developments and challenges are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. During the three months ended March 31, 2011, there have been no significant changes in these trends. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Trends, Developments and Challenges" in our Annual Report on Form 10-K for our fiscal year ended December 31, 2010, which is incorporated herein by reference.



## Results of Operations

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

	Three Months Ended March 31,	
	2011	2010
Net revenue	100.0%	100.0%
Operating expenses		
Instructional costs and services	45.1	41.0
Selling and promotional	29.3	30.1
General and administrative	6.7	6.8
Exit costs	0.0	0.1
Total operating expenses	81.1	78.1
Operating income	18.9	21.9
Interest expense	(0.1)	(0.4)
Interest income	0.0	0.1
Income before income taxes	18.8	21.6
Income tax expense	7.7	8.8
Net income	11.1	12.9

### Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

*Net revenue.* Our net revenue for the quarter ended March 31, 2011 was \$101.7 million, an increase of \$12.4 million, or 13.9%, as compared to net revenue of \$89.3 million for the quarter ended March 31, 2010. This increase was primarily due to an increase in online enrollment and, to a lesser extent, increases in the average tuition per student as a result of tuition price increases and an increase in the number of students taking four credit courses between years, partially offset by an increase in institutional scholarships and reduced revenue caused by our transition to a borrower-based, non-term financial aid system (“BBAY”) from a term-based financial aid system. End-of-period enrollment increased to approximately 42,500, as we were able to continue our growth and increase our recruitment, marketing, and enrollment operations. We are anticipating increased pressure on new and continuing enrollments due primarily to the increasing challenges presented in the economy, the impact of new and proposed regulations, and increased competition.

*Instructional costs and services expenses.* Our instructional costs and services expenses for the quarter ended March 31, 2011 were \$45.8 million, an increase of \$9.1 million, or 25.0%, as compared to instructional costs and services expenses of \$36.7 million for the quarter ended March 31, 2010. This increase was primarily due to increases in instructional compensation and related expenses, faculty compensation, bad debt expense, depreciation and amortization, and instructional supplies of \$3.3 million, \$2.6 million, \$2.2 million, \$0.9 million, and \$0.8 million, respectively, partially offset by a decrease in other miscellaneous instructional costs and services of \$0.7 million. These increases are primarily attributable to the increased headcount (both staff and faculty) needed to provide student instruction and support services, including increased occupancy and equipment costs for the increased headcount, to support the increase in enrollments. Our instructional costs and services expenses as a percentage of net revenue increased by 4.1% to 45.1% for the quarter ended March 31, 2011, as compared to 41.0% for the quarter ended March 31, 2010 primarily due to an increase in faculty compensation as a percentage of revenue as we have seen decreases in class size as the result of increasing the number of starts, an increase in employee compensation and related expenses as a percentage of revenue, and increased instructional supplies due to increased licensing fees related to educational resources and continued improvement in curriculum development and new and enhanced innovative educational tools, partially offset by our ability to leverage the fixed cost structure of our campus-based facilities and ground faculty across an increasing revenue base. In addition, bad debt expense increased to \$7.0 million or 6.9% of net revenues in the first quarter of 2011 from \$4.8 million or 5.3% of revenues in the first quarter of 2010 as a result of an increase in aged receivables between periods primarily due to the current economic conditions and the conversion to BBAY.

*Selling and promotional expenses.* Our selling and promotional expenses for the quarter ended March 31, 2011 were \$29.8 million, an increase of \$2.9 million, or 11.0%, as compared to selling and promotional expenses of \$26.9 million for the quarter ended March 31, 2010. This increase was primarily due to increases in employee compensation and related expenses, other selling and promotional expense, and advertising of \$1.4 million, \$0.9 million and \$0.6 million, respectively. These increases were driven by a continued expansion in our marketing efforts, which resulted in an increase in recruitment, marketing, and staffing. Our selling and promotional expenses as a percentage of net revenue decreased by 0.8% to 29.3% for the quarter ended March 31, 2011, from 30.1% for the quarter ended March 31, 2010. This decrease occurred as a result of slowing the growth of our enrollment counselor hiring such that our new enrollment counselors as a percentage of total enrollment counselors is less in 2011 than in 2010. In this regard, we incur immediate expenses in connection with hiring new enrollment counselors while these individuals undergo training, and typically do not achieve full productivity or generate enrollments from these enrollment counselors until four to six months after their dates of hire. We plan to continue to add additional enrollment counselors in the future, although the number of additional hires as a percentage of the total headcount is expected to remain flat or decrease. In addition, we terminated our revenue sharing arrangement with MindStreams, L.L.C. in December 2010. As a result, our advertising as a percentage of revenue decreased between years.

*General and administrative expenses.* Our general and administrative expenses for the quarter ended March 31, 2011 were \$6.8 million, an increase of \$0.7 million, or 11.9%, as compared to general and administrative expenses of \$6.1 million for the quarter ended March 31, 2010. This increase was primarily due to increases in other general and administrative expenses of \$0.7 million. Our general and administrative expenses as a percentage of net revenue decreased by 0.1% to 6.7% for the quarter ended March 31, 2011, from 6.8% for the quarter ended March 31, 2010.

*Interest expense.* Our interest expense for the quarter ended March 31, 2011 was \$0.1 million, a decrease of \$0.2 million from \$0.3 million for the quarter ended March 31, 2010, as the average interest rates were lowered as a result of the loan amendment to reduce the interest rate beginning in the third quarter of 2010.

*Income tax expense.* Income tax expense for the quarter ended March 31, 2011 and 2010 was \$7.8 million. In the first quarter of 2011, legislation was enacted by the state of Arizona implementing a gradual reduction in the corporate tax rate beginning in 2014 that will be fully phased in by 2017. As a result of this legislation we were required to adjust our deferred tax balances to account for the effect of the new state tax rate, which resulted in higher state income taxes for the first quarter of 2011. Excluding the state tax rate adjustment for our deferred balances, our effective tax rate was 40.0% during the first quarter of 2011 compared to 40.6% during the first quarter of 2010.

*Net income.* Our net income for the quarter ended March 31, 2011 was \$11.3 million, a decrease of \$0.2 million, as compared to \$11.5 million for the quarter ended March 31, 2010, due to the factors discussed above.

## Seasonality

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

## Liquidity and Capital Resources

*Liquidity.* We financed our operating activities and capital expenditures during the three months ended March 31, 2011 and 2010 primarily through cash provided by operating activities. Our unrestricted cash and cash equivalents were \$30.2 million and \$33.6 million at March 31, 2011 and December 31, 2010, respectively. Our restricted cash and cash equivalents at March 31, 2011 and December 31, 2010 were \$50.2 million and \$52.9 million, respectively.

On April 8, 2011, the University entered into an amended and restated loan agreement with Bank of America, N.A. (the "Amended Agreement"). Under the Amended Agreement, the bank (a) extended the maturity date of the University's existing loan from April 30, 2014 to March 31, 2016 and decreased the interest rate on the outstanding balance from the BBA Libor Rate plus 225 basis points to the BBA Libor Rate plus 200 basis points (all other terms of the existing loan remain the same), and (b) provided to the University a revolving line of credit in the amount of \$50.0 million through March 31, 2016 to be utilized for working capital, capital expenditures, share repurchases and other general corporate purposes. The Amended Agreement contains standard covenants that are substantially consistent with those included in the prior agreement, including covenants that, among other things, restrict the University's ability to incur additional debt or make certain investments, require the University to maintain compliance with certain applicable regulatory standards, and require the University to maintain a certain financial condition. Indebtedness under the Amended Agreement is secured by all of the University's assets.

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

## Cash Flows

*Operating Activities.* Net cash provided by operating activities for the three months ended March 31, 2011 was \$23.4 million as compared to \$49.1 million for the three months ended March 31, 2010. Cash provided by operating activities in the three months ended March 31, 2011 and 2010 resulted from our net income plus non cash charges for bad debts, depreciation and amortization, and share-based compensation.

*Investing Activities.* Net cash used in investing activities was \$11.9 million and \$14.0 million for the three months ended March 31, 2011 and 2010, respectively. Capital expenditures were \$14.7 million and \$11.6 million for the three months ended March 31, 2011 and 2010, respectively. In 2011, capital expenditures primarily consisted of ground campus building projects such as a new dormitory and events arena to support our increasing traditional ground student enrollment as well as purchases of computer equipment, other internal use software projects and furniture and equipment. In 2010, cash used in investing activities primarily consisted of ground campus building projects, purchases of computer equipment, and software costs to complete our transition from Datatel to CampusVue and Great Plains, other internal use software projects, furniture and equipment to support our increasing student enrollment.

*Financing Activities.* Net cash used in financing activities was \$14.9 million and provided by financing activities was \$0.3 million in the three months ended March 31, 2011 and 2010, respectively. During the first three months of 2011, \$14.2 million was used to purchase treasury stock in accordance with the University's share repurchase program. During the first three months of 2010 proceeds from the exercise of stock options and the excess tax benefits from share-based compensation were partially offset by principal payments on notes payable and capital lease obligations.

## Contractual Obligations

The following table sets forth, as of March 31, 2011, the aggregate amounts of our significant contractual obligations and commitments with definitive payment terms due in each of the periods presented (in millions):

	Total	Payments Due by Period			
		Less than 1 Year (1)	2-3 Years	4-5 Years	More than 5 Years
Long term notes payable	\$ 23.4	\$ 1.5	\$ 3.5	\$ 3.6	\$ 14.8
Capital lease obligations	1.6	1.5	0.1	0.0	0.0
Purchase obligations(2)	53.2	37.1	16.1	0.0	0.0
Operating lease obligations	53.6	3.7	13.3	12.4	24.2
<b>Total contractual obligations</b>	<b>\$ 131.8</b>	<b>\$ 43.8</b>	<b>\$ 33.0</b>	<b>\$ 16.0</b>	<b>\$ 39.0</b>

- (1) Less than one year represents expected expenditures from April 1, 2011 through December 31, 2011.
- (2) The purchase obligation amounts include expected spending by period under contracts that were in effect at March 31, 2011.

**Off-Balance Sheet Arrangements**

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

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

*Impact of inflation.* We believe that inflation has not had a material impact on our results of operations for the quarter ended March 31, 2011 or 2010. There can be no assurance that future inflation will not have an adverse impact on our operating results and financial condition.

*Market risk.* On June 30, 2009, we entered into two derivative agreements to manage our 30 Day LIBOR interest exposure from the variable rate debt we incurred in connection with the repurchase of shares of our common stock and the land and buildings that comprise our ground campus, which debt matures in April 2014. The corridor instrument, which hedges variable interest rate risk starting July 1, 2009 through April 30, 2014 with a notional amount of \$11.3 million as of March 31, 2011, permits us to hedge our interest rate risk at several thresholds. Under this arrangement, in addition to the credit spread we will pay variable interest rates based on the 30 Day LIBOR rates monthly until that index reaches 4%. If 30 Day LIBOR is equal to 4% through 6%, we will continue to pay 4%. If 30 Day LIBOR exceeds 6%, we will pay actual 30 Day LIBOR less 2%. The interest rate swap commenced on May 1, 2010, continues each month thereafter until April 30, 2014, and has a notional amount of \$11.3 million as of March 31, 2011. Under this arrangement, we will receive 30 Day LIBOR and pay 3.245% fixed rate on the amortizing notional amount plus the credit spread.

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

*Interest rate risk.* We manage interest rate risk by investing excess funds in cash equivalents and AAA-rated marketable securities bearing variable interest rates, which are tied to various market indices. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. At March 31, 2011, a 10% increase or decrease in interest rates would not have a material impact on our future earnings, fair values, or cash flows. For information regarding our variable rate debt, see "Market risk" above.

### **Item 4. Controls and Procedures**

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of March 31, 2011, in ensuring that material information relating to us required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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

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

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None.

### **Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2010.

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

#### ***Recent Sales of Unregistered Securities***

None.

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

On August 16, 2010, our Board of Directors adopted a stock repurchase program, pursuant to which we are authorized to repurchase up to \$25.0 million of shares of common stock, from time to time, depending on market conditions and other considerations. The expiration date on the repurchase authorization is September 30, 2011 and repurchases occur at our discretion. Repurchases may be made in the open market or in privately negotiated transactions, pursuant to the applicable Securities and Exchange Commission rules. The amount and timing of future share repurchases, if any, will be made as market and business conditions warrant. During the quarter ended March 31, 2011, we purchased 945,200 shares of common stock at an aggregate cost of \$14.2 million and for an average price of \$15.03 per share. At March 31, 2011, there remains \$10.0 million available under our current share repurchase authorization.



## [Table of Contents](#)

The following table sets forth our share repurchases of common stock during each period in the first quarter of fiscal 2011:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Programs</b>	<b>Maximum Dollar Value of Shares That May Yet Be Purchased Under that Programs</b>
January 1, 2011 — January 31, 2011	—		—	\$ 24,218,000
February 1, 2011 — February 28, 2011	100,000	15.78	100,000	\$ 22,640,000
March 1, 2011 — March 31, 2011	845,200	14.95	845,200	\$ 10,007,000
<b>Total</b>	<b>945,200</b>	<b>15.03</b>	<b>945,200</b>	<b>\$ 10,007,000</b>

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Reserved**

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**

(a) Exhibits

<b>Number</b>	<b>Description</b>	<b>Method of Filing</b>
3.1	Amended and Restated Certificate of Incorporation.	Incorporated by reference to Exhibit 3.1 to Amendment No. 6 to the University's Registration Statement on Form S-1 filed with the SEC on November 12, 2008.
3.2	Second Amended and Restated Bylaws.	Incorporated by reference to Exhibit 3.1 to the University's Current Report on Form 8-K filed with the SEC on August 2, 2010.
4.1	Specimen of Stock Certificate.	Incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the University's Registration Statement on Form S-1 filed with the SEC on September 29, 2008.
4.2	Amended and Restated Investor Rights Agreement, dated September 17, 2008, by and among Grand Canyon Education, Inc. and the other parties named therein.	Incorporated by reference to Exhibit 4.2 to Amendment No. 2 to the University's Registration Statement on Form S-1 filed with the SEC on September 29, 2008.
10.1	Amended and Restated Loan Agreement, dated April 8, 2011 by and between the University and Bank of America, N.A.	Filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †	Filed herewith.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †	Filed herewith.

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





**SIGNATURES**

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

**GRAND CANYON EDUCATION, INC.**

Date: May 9, 2011

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

## EXHIBIT INDEX

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**AMENDED AND RESTATED LOAN AGREEMENT**

This **AMENDED AND RESTATED LOAN AGREEMENT** (this "Agreement") is dated as of April 8, 2011, by and between **BANK OF AMERICA, N.A.**, a national banking association (the "Bank") and **GRAND CANYON EDUCATION, INC.**, a Delaware corporation (the "Borrower").

**FACTUAL BACKGROUND**

Borrower and Bank are parties to a Loan Agreement dated April 27, 2009, which was previously amended on June 9, 2010 (the "Loan Agreement") pursuant to which the Bank made a secured term loan to the Borrower. The Borrower has requested that the Bank also provide a revolving line of credit. The Bank is willing to provide such a revolving line of credit on the terms and conditions set forth herein, and to amend and restate the Loan Agreement.

**AGREEMENT**

Therefore, in consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

**1. VARIABLE RATE TERM LOAN****1.1 Loan Amount.**

The Bank has provided a loan to the Borrower in the principal amount of Twenty-Five Million Six Hundred Seventy Five Thousand and no/100 Dollars (\$25,675,000.00) (the "Term Loan").

**1.2 Single Disbursement of Term Loan.**

The Term Loan has been made by a single disbursement.

**1.3 Repayment Terms.**

- (a) The Borrower will pay accrued interest on the principal balance of the Term Loan commencing on June 1, 2009, and thereafter on the same day of each month, until payment in full of the Term Loan, such interest to be computed in accordance with Section 1.4.
  - (b) The Borrower will also make principal payments in equal monthly installments of One Hundred Forty Two Thousand Six Hundred Thirty Eight and 89/100 Dollars (\$142,638.89) beginning on June 1, 2009 and on the first (1st) day of each month thereafter. In addition to the foregoing monthly payments of principal, not later than March 31, 2016 (the "Maturity Date") the Borrower shall repay to the Bank the remaining unpaid principal, all accrued and unpaid interest and all other amounts payable under this Agreement and the Collateral Documents, as defined in Article 4 below.
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- (c) Upon not less than ten (10) banking days irrevocable written notice received by the Bank from the Borrower, the Borrower may prepay the Term Loan in full or in part only on the first (1st) day of the calendar month that is so noted in such notice. Any such noticed prepayment shall be unconditionally due on such stated date for such prepayment in the notice. Such prepayment must be accompanied with (i) the payment of any termination, reinvestment, or breakage costs incurred by the Bank if such prepayment is not received on the first (1st) day of the calendar month that is noted in such prepayment notice; and (ii) a prepayment fee as follows:

Date of Prepayment	Percentage of Prepaid Amount
Prior to March 31, 2012	0.50%

Provided that, if the prepayment is a prepayment in full and made in connection with either:

(A) a refinancing transaction, the proceeds of which are used to both (x) repay the Term Loan and all other amounts payable to the Bank in full, and (y) to finance material improvements to the real property and improvements thereon comprising the Collateral (as defined below); or

(B) a new market tax credit financing transaction, the proceeds of which are used to repay the Term Loan and all other amounts payable to the Bank in full;

then a prepayment fee as follows:

Date of Prepayment	Percentage of Prepaid Amount
Prior to March 31, 2012	0.25%

Provided further that, if the Bank is either the only lender or is the primary lender of any financing covered by clause (A) of the preceding sentence, then no prepayment fee will be required.

Each such prepayment will be applied (A) first, to the payment of any such termination, reinvestment, or breakage fee; (B) second, to the Prepayment Fee; and then; (C) third, to the most remote payment of principal due under this Agreement. The Borrower shall also pay to the Bank, in addition to any late fee or default, interest on any noticed prepayment that is not timely made, all costs, expenses, fees and losses incurred by Bank as a result of such failure, including any termination, reinvestment or breakage fee.

#### 1.4 Interest Rate.

- (a) The interest rate on the unpaid amount of the Term Loan shall be a rate per year equal to the BBA LIBOR Rate (Adjusted Periodically), plus two hundred (200) basis points.

- (b) The interest rate will be adjusted on the first (1st) day of every calendar month (the “Adjustment Date”) and remain fixed until the next Adjustment Date. If the Adjustment Date in any particular month would otherwise fall on a day that is not a banking day then, at the Bank’s option, the Adjustment Date for that particular calendar month will be the first banking day immediately following thereafter.
- (b) The BBA LIBOR Rate (Adjusted Periodically) is a rate of interest equal to the rate per annum equal to the British Bankers Association LIBOR Rate (“BBA LIBOR”), as published by Reuters (or another commercially available source providing quotations of BBA LIBOR as selected by the Bank from time to time) as determined for each Adjustment Date at approximately 11:00 a.m. London time two (2) London Banking Days prior to the Adjustment Date, for U.S. Dollar deposits (for delivery on the first day of such interest period) with a term of one month, as adjusted from time to time in the Bank’s sole discretion for reserve requirements, deposit insurance assessment rates and other regulatory costs. If such rate is not available at such time for any reason or if the Bank determines in its sole discretion that such rate no longer accurately reflects its cost of funds, then the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank provided that the effect of such alternative method is to provide for an interest rate that is generally comparable in market performance and fluctuation as the BBA LIBOR immediately prior to such rate not being available or not reflecting the cost of funds. A “London Banking Day” is a day on which banks in London are open for business and dealing in offshore dollars.

## **2. VARIABLE RATE REVOLVER COMMITMENT**

### **2.1 Revolver Commitment.**

The Bank agrees to provide a revolving line of credit (the “Revolver” and the Term Loan and outstanding amounts advanced under the Revolver, the “Loans”) to the Borrower in the maximum principal amount of Fifty Million and no/100 Dollars (\$50,000,000.00) (the “Revolver Commitment”).

### **2.2 Purpose of Revolver and Availability.**

#### **2.2.1 Purpose.**

Amounts advanced on the Revolver shall be used by the Borrower only to fund working capital, capital expenditures, repurchase shares of Borrower, and other lawful general corporate expenses and purposes of Borrower.

#### **2.2.2 Availability.**

Advances on the Revolver will be fully available to the Borrower as of the date hereof and through March 30, 2016 (“Availability Period”), or such earlier date as the availability may terminate as provided in this Agreement (the “Expiration Date”).

- (a) During the Availability Period, the Bank will provide the Revolver to the Borrower in the maximum amount of the Revolver Commitment.

- (b) At no time may the outstanding principal amount advanced on the Revolver exceed the Revolver Commitment. If the Borrower exceeds this limit, the Borrower will immediately pay the excess to the Bank upon the Bank's demand.
- (c) The Revolver is a revolving line of credit. During the Availability Period, the Borrower may repay principal amounts advanced thereunder and, subject to the terms and conditions in this Agreement, reborrow them.

### 2.3 Request for Advances.

Any requests for advances on the Revolver by the Borrower shall be made by delivering to the Bank a written request in the form of Request of Revolver Advance attached hereto as Exhibit 2.3, executed by a duly authorized officer designated by the Borrower. Each Request for an advance on the Revolver shall constitute, without the necessity of a specific written statement, a representation and warranty by the Borrower, as of the date of such request for, and the Bank's making of, such an advance that (i) all of the Borrower's representations and warranties set forth in Section 7 of this Agreement are true and correct in all material respects as of the date of the advance (except to the extent any such representation or warranty expressly relates to an earlier date); (ii) no Event of Default shall have occurred and be continuing; and (iv) no Event of Default will result from such advance.

### 2.4 Repayment Terms.

- (a) The Borrower will pay accrued interest on the principal balance of the outstanding advances on the Revolver commencing on May 1, 2011, and thereafter on the same day of each month, until payment in full of the Revolver, such interest to be computed in accordance with Section 2.5.
- (b) Not later than the Maturity Date, the Borrower shall repay to the Bank all outstanding and unpaid principal, all accrued and unpaid interest and all other amounts payable under this Agreement, and the Collateral Documents, as defined in Article 4 below.

### 2.5 Interest Rate.

- (a) The interest rate on the outstanding amounts advanced on the Revolver shall be a rate per year equal to the BBA LIBOR Daily Floating Rate, plus two hundred (200) basis points.
- (b) The BBA LIBOR Daily Floating Rate is a fluctuating rate of interest which can change on each banking day. The rate will be adjusted on each banking day to equal the British Bankers Association LIBOR Rate ("BBA LIBOR") for U.S. Dollar deposits for delivery on the date in question for a one month term beginning on that date. The Bank will use the BBA LIBOR Rate as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as selected by the Bank from time to time) as determined at approximately 11:00 a.m. London time two (2) London Banking Days prior to the date in question, as adjusted from time to time in the Bank's sole discretion for reserve requirements, deposit insurance assessment rates and other regulatory costs. If such rate is not available at such time for any reason, then the rate will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day." is a day on which banks in London are open for business and dealing in offshore dollars.

## 2.6 Standby Letters of Credit.

- (a) During the Availability Period, at the request of the Borrower and pursuant to this Agreement, the Bank will issue standby letters of credit with a maximum maturity of one year, but in no event shall the maturity ever extend beyond the Expiration Date.
  - (b) The amount of the letters of credit outstanding at any one time (including the drawn and unreimbursed amounts of the letters of credit) may not exceed the aggregate of Ten Million and No/100 Dollars (\$10,000,000.00).
  - (c) In calculating the principal amount outstanding under the Revolver Commitment, the calculation shall include the amount of any letters of credit outstanding, including amounts drawn on any letters of credit and not yet reimbursed.
  - (d) The Borrower agrees:
    - (i) Any sum drawn under a letter of credit may, at the option of the Bank, be added to the principal amount outstanding under the Revolver Commitment. The amount will bear interest and be due as described elsewhere in this Agreement.
    - (ii) If there is a default under this Agreement, to immediately prepay and make the Bank whole for any outstanding letters of credit.
    - (iii) The issuance of any letter of credit and any amendment to a letter of credit is subject to the Bank's written approval and must be in form and content satisfactory to the Bank and in favor of a beneficiary acceptable to the Bank.
    - (iv) To sign the Bank's form Application and Agreement for Standby Letter of Credit.
    - (v) To pay any issuance and/or other fees that the Bank notifies the Borrower will be charged for issuing and processing letters of credit for the Borrower.
    - (vi) To allow the Bank to automatically charge its checking account for applicable fees, discounts, and other charges.
    - (vii) To pay the Bank a non-refundable fee equal to 2.00% per annum (the "LC Rate") of the outstanding undrawn amount of each standby letter of credit, payable annually in advance, calculated on the basis of the face amount outstanding on the day the fee is calculated.
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### **3. FEES AND EXPENSES**

#### **3.1 Fees.**

- (a) **Loan Fee.** The Borrower agrees to pay a loan fee (i) in consideration for the extension of the Maturity Date of the Term Loan in the amount of Fifty Six Thousand Three Hundred Forty Two and 36/100 Dollars (\$56,342.36), and (ii) in consideration for the Revolver Commitment in the amount of Two Hundred Thousand and no/100 Dollars (\$200,000.00). The loan fees shall be paid by the Borrower on the date of this Agreement and shall be fully paid and non-refundable upon receipt by the Bank.
- (b) **Unused Commitment Fee.** The Borrower agrees to pay a fee on any difference between the Revolver Commitment and the outstanding amounts actually advanced on the Revolver at any time and from time to time, determined by the daily amount of advances outstanding on the Revolver during the specified period. The fee will be calculated at 0.25% per year.

This fee is due on May 1, 2011 and on the same day of each following month until the expiration of the Availability Period.

- (c) **Late Fee.** The Borrower agrees to pay a late fee in an amount equal to four percent (4%) of the amount of any delinquent payment of principal or interest that is more than ten (10) calendar days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank's rights with respect to the default. This fee shall be in addition to the accrual of interest at the default rate of interest pursuant to Section 5.6 below.
- (d) **Waiver Fee.** If the Bank, at its discretion, agrees to waive or amend any terms of this Agreement, the Borrower will, at the Bank's option, pay the Bank a fee for each waiver or amendment in an amount advised by the Bank at the time the Borrower requests the waiver or amendment. Nothing in this paragraph shall imply that the Bank is obligated to agree to any waiver or amendment requested by the Borrower. The Bank may impose additional requirements as a condition to any waiver or amendment.

#### **3.2 Expenses.**

The Borrower agrees to repay the Bank within ten (10) days after request or invoice for all expenses and costs incurred by the Bank in connection with the Loans, which may include, but are not limited to, filing, recording and search fees, appraisal fees, survey fees, title report fees, title insurance premiums, and documentation fees.

#### **3.3 Reimbursement of Costs and Expenses.**

- (a) The Borrower agrees to also reimburse the Bank for any costs or expenses it incurs in the preparation of this Agreement, any agreement, document or instrument required by this Agreement, including, without limitation, the Collateral Documents, as defined in Article 4 below and any agreement, document or instrument required pursuant to Article 6 below. Expenses shall include, but are not limited to, reasonable attorneys' fees and costs, including any allocated costs of the Bank's in-house counsel to the extent permitted by applicable law.



- (b) The Borrower agrees to also reimburse the Bank for the cost and expense of periodic field examinations of the Collateral, and appraisals of the Collateral, at such intervals as the Bank may reasonably require; provided, however, that so long as there is no Event of Default, Borrower shall not be required to pay for more than one (1) appraisal in any calendar year. The actions described in this paragraph shall include, without limitation, the actions taken pursuant to Section 8.23 below, and may be performed by employees of the Bank or by independent appraisers.

**4. DEED OF TRUST, SECURITY AGREEMENT AND COLLATERAL**

The Borrower's obligations to the Bank under this Agreement will be secured by the property rights and interests covered by the following (the "Collateral"):

A Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing dated as of April 27, 2009, as amended and restated on April 8, 2011 (the "Deed of Trust") which shall cover the approximately 100 acres of land located at 3300 West Camelback Road, Phoenix, Arizona 85017-3030 and the other property, rights and interest described in the Deed of Trust.

A Security Agreement dated as of April 8, 2011 (the "Security Agreement").

The Deed of Trust, Security Agreement and any other document executed at any time by the Borrower to secure the Loans are collectively, the "Collateral Documents".

**5. DISBURSEMENTS, PAYMENTS AND COSTS**

5.1 Disbursements and Payments.

- (a) Each payment by the Borrower will be made in U.S. Dollars and immediately available funds by debit to a deposit account, as described in this Agreement or otherwise authorized by the Borrower. For payments not made by direct debit, payments will be made by mail to the address shown on the Borrower's statement or at one of the Bank's banking centers in Phoenix, Arizona, or at such other banking center designated by the Bank, or by such other method as may be permitted or directed by the Bank.
- (b) The Bank may honor instructions for repayments or prepayments given by any one of the individuals authorized to sign this Agreement or the Collateral Documents on behalf of the Borrower, or any other individual designated in a writing delivered to the Bank by any one of such authorized signers (each an "Authorized Individual").
- (c) For any payment under this Agreement made by debit to a deposit account, the Borrower will maintain sufficient immediately available funds in the deposit account to cover such debit. If there are insufficient immediately available funds in the deposit account on the date the Bank enters any such debit authorized by this Agreement, the Bank may reverse the debit.

- (d) The disbursement of the Loan and each advance under the Revolver by the Bank and each payment by the Borrower on the Loans will be evidenced by records kept by the Bank, and shall be conclusive, absent manifest error. In addition, the Bank may, at its discretion, require the Borrower to sign a promissory note to further evidence the Loans, and the Borrower's obligation to repay the Loans, plus interest.
- (e) Not later than five (5) calendar days prior to the date each payment of principal and interest or any fees, costs or expenses from the Borrower becomes due (each a "Due Date"), the Bank will mail to the Borrower a statement of the amounts that will be due on the stated Due Date (the "Billed Amount"). The due date for any payment by Borrower shall not be delayed or postponed if for any reason (A) Bank does not timely mail any such statement; or (B) Borrower does not timely receive such statement. The calculations in each such billing statement will be made on the assumption that no payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate. If the Billed Amount differs from the actual amount due on the stated Due Date (the "Accrued Amount"), the discrepancy will be treated as follows:
  - (i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrower will not be in default by reason of any such discrepancy.
  - (ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

Regardless of any such discrepancy, interest will continue to accrue based on the actual amount of principal outstanding without compounding. Interest shall also accrue on any fees, costs or expenses that are not paid by the Borrower upon presentment of the amount to the Borrower. The Bank will not pay the Borrower interest on any overpayment.

#### 5.2 Telephone and Telefax Authorization.

- (a) The Bank may honor telephone, telefax or e-mail instructions for repayments or prepayments given, or purported to be given, by any one of the Authorized Individuals.
- (b) The Borrower will fully indemnify and hold the Bank harmless from all liability, loss, and costs in connection with any act resulting from telephone, telefax or e-mail instructions the Bank reasonably believes are made by any Authorized Individual. This section will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

#### 5.3 Direct Debit.

- (a) The Borrower agrees that on each Due Date the Bank will debit the Billed Amount from one of Borrower's accounts with the Bank as designated in writing by the Borrower (the "Designated Account").

#### 5.4 Banking Days.

Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the State of Arizona, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

#### 5.5 Interest Calculation.

Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

#### 5.6 Default Rate.

Following the occurrence of an Event of Default or after maturity of or after judgment has been rendered on any obligation under this Agreement, all amounts outstanding under this Agreement, including any (a) interest; or (b) fees, costs or expenses which are not paid within two (2) business days after the date when due will at the option of the Bank bear interest at a rate which is (and the LC Rate will increase to a rate which is) six hundred (600) basis points higher than the applicable interest rate (or the LC Rate) in effective and accruing immediately prior to such occurrence, maturity or judgment. This may result in the compounding of interest. This will not constitute a waiver of any default and shall be in addition to the late fee pursuant to Section 3.1(c).

### **6. CONDITIONS**

Before the Bank is required to make any advance on the Revolver Commitment pursuant to this Agreement, it must receive any documents and other items it may reasonably require, in form and content acceptable to the Bank, including any items specifically listed below.

#### 6.1 Authorizations.

Evidence that the execution, delivery and performance by the Borrower of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.

#### 6.2 Governing Documents.

A copy of the Borrower's organizational and operating documents.

#### 6.3 Deed of Trust.

Signed, acknowledged and properly recorded original Deed of Trust.

#### 6.4 Security Agreement.

Signed original Security Agreement.

#### 6.5 Title Insurance.

An ALTA lender's title insurance policy (on a form acceptable to the Bank and from a title company acceptable to the Bank), for Seventy Two Million Five Hundred Thirty Six Thousand Nine Hundred Forty Four and no/100 Dollars (\$72,530,944.00), insuring the Bank's lien pursuant to the Deed of Trust, with only such exceptions and exclusions as may be approved by the Bank and together with such endorsements as the Bank may require (the "Title Policy"). The Title Policy may be by an amendment to the current title policy issued for the Term Loan, in a form and content acceptable to the Bank.

#### 6.6 Payment of Fees, Costs and Expenses.

Payment of all fees and other amounts due and owing to the Bank, including without limitation payment of all accrued and unpaid expenses incurred by the Bank as required by the Section 2.3 entitled "Reimbursement of Costs and Expenses." The payment of all Reimbursement Costs accruing prior to the date of this Agreement shall be set forth in the Closing Statement referenced in Section 8.1 and may be paid out of the proceeds of any advance made under the Revolver on the date hereof, if any.

#### 6.7 Good Standing.

Certificates of good standing for the Borrower from the State of Delaware and the State of Arizona.

#### 6.8 Legal Opinion.

A written opinion from the Borrower's legal counsel, covering such matters as valid corporate existence, authority to borrow, confirmation that entering into this Agreement will not cause a violation of any other lending agreement, and any other matters the Bank may require. The legal counsel and the terms of the opinion must be acceptable to the Bank.

#### 6.9 Insurance.

Evidence of insurance coverage, as required pursuant to either (i) Section 8.14 of this Agreement or (ii) the Collateral Documents.

#### 6.10 Other Required Documentation.

- (a) All documents and certificates set forth on the Closing Checklist delivered to Borrower from the legal counsel of the Bank regarding the Loans (the "Closing Checklist").
- (b) All documents and certificates required by the Title Insurance Company as a condition to its issuance of the Title Policy, and all endorsements thereto.

## **7. REPRESENTATIONS AND WARRANTIES**

When the Borrower signs this Agreement, and until the Bank is repaid in full, the Borrower makes the following representations and warranties as of and on each day the Term Loan or the Revolver Commitment remains outstanding.

### **7.1 Formation.**

Borrower is duly formed and validly existing under the laws of the State of Delaware.

### **7.2 Authorization.**

This Agreement, and any instrument or agreement required hereunder, are within the Borrower's corporate powers, have been duly authorized, and do not conflict with any of its organizational or governing documents.

### **7.3 Enforceable Agreement and Deed of Trust.**

This Agreement and the Collateral Documents are each a legal, valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with their respective terms. In addition, any instrument or agreement required under this Agreement, when executed and delivered, will be similarly legal, valid, binding and enforceable.

### **7.4 Good Standing.**

In each state in which the Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes, except where such failure to be so licensed, in good standing and in compliance has not and would not reasonably be expected to have a material adverse effect on the Borrower or its business.

### **7.5 No Conflicts.**

This Agreement does not conflict with any law, agreement, or obligation by which the Borrower is bound.

### **7.6 Financial Information.**

All financial and other information that has been or will be supplied to the Bank pursuant to Section 8.2 is sufficiently complete to give the Bank accurate and complete knowledge, in all material respects, of the Borrower's financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of the Borrower.

#### 7.7 Lawsuits.

As of the date of this Agreement, there is no lawsuit, tax claim or other dispute pending, overtly threatened in writing or, to Borrower's actual knowledge, otherwise threatened against the Borrower (or any of the Borrower's property) which, if lost, would materially impair the Borrower's financial condition or ability to repay the Loans, except as have been disclosed in writing to the Bank or as have otherwise been disclosed by the Borrower in any periodic report or other filing made with the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act") or the Securities Exchange Act of 1934, as amended (the "Exchange Act") (collectively, the "SEC Reports"), or if occurring after the date of this Agreement, is promptly disclosed to the Bank pursuant to Section 8.13.

#### 7.8 Collateral.

As of the time the Deed of Trust is recorded with the Recorder of Maricopa County, Arizona, the Collateral is owned by the Borrower free of any title defects or any liens, except those which are disclosed in the Title Policy referenced in Section 6.5 above or by a UCC financing statement search. As of the time of filing a Financing Statement with the Arizona Secretary of State for the Collateral to be perfected by such filing is owned by the Borrower free of any liens of interest of any person or entity other than Permitted Liens (as defined in Section 8.8).

#### 7.9 Permits, Franchises.

The Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights, copyrights, and fictitious name rights necessary to enable it to conduct the business in which it is now engaged except to the extent Borrower's failure to possess such permits or other rights has not resulted or would not reasonably be expected to result in a material adverse effect on Borrower or its business.

#### 7.10 Other Obligations.

As of the date of this Agreement, the Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

#### 7.11 Tax Matters.

The Borrower has no knowledge of any pending assessments or adjustments in an amount exceeding One Hundred Thousand Dollars and no/100 Dollars (\$100,000.00) of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank, or if the Borrower obtains knowledge of such assessment or adjustment after the date of this Agreement, except as is promptly disclosed to the Bank in writing.

#### 7.12 No Event of Default.

There is no event which is, or with notice or lapse of time or both would be, an Event of Default under this Agreement or any of the Collateral Documents.

#### 7.13 Insurance.

The Borrower has obtained, and maintains in effect, the insurance coverage required in any of (i) Section 8.14 of this Agreement, or (ii) pursuant to the Collateral Documents.

#### 7.14 ERISA Plans.

- (a) Each Plan (other than a multiemployer plan) is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law. Each Plan has received a favorable determination letter from the IRS and to the best knowledge of the Borrower, nothing has occurred which would cause the loss of such qualification. The Borrower has fulfilled its obligations, if any, under the minimum funding standards of ERISA and the Code with respect to each Plan, and has not incurred any liability with respect to any Plan under Title IV of ERISA.
  - (b) There are no claims, lawsuits or actions (including by any governmental authority), and there has been no prohibited transaction or violation of the fiduciary responsibility rules, with respect to any Plan which has resulted or could reasonably be expected to result in a material adverse effect on the Borrower or its business.
  - (c) With respect to any Plan subject to Title IV of ERISA:
    - (i) No reportable event has occurred under Section 4043(c) of ERISA for which the PBGC requires 30-day notice.
    - (ii) No action by the Borrower or any ERISA Affiliate to terminate or withdraw from any Plan has been taken and no notice of intent to terminate a Plan has been filed under Section 4041 of ERISA.
    - (iii) No termination proceeding has been commenced with respect to a Plan under Section 4042 of ERISA, and no event has occurred or condition exists which might constitute grounds for the commencement of such a proceeding.
  - (d) The following terms have the meanings indicated for purposes of this Agreement:
    - (i) "Code" means the Internal Revenue Code of 1986, as amended from time to time.
    - (ii) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.
    - (iii) "ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code.
    - (iv) "PBGC" means the Pension Benefit Guaranty Corporation.
    - (v) "Plan" means a pension, profit-sharing, or stock bonus plan intended to qualify under Section 401(a) of the Code, maintained or contributed to by the Borrower or any ERISA Affiliate, including any multiemployer plan within the meaning of Section 4001(a)(3) of ERISA.
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#### 7.15 Location of Borrower.

As of the date of this Agreement, the place of business of the Borrower and its chief executive office are each located at 3300 West Camelback Road, Phoenix, Arizona 85017-3030.

#### 7.16 Closing Checklist.

The Borrower's Survey and Environmental Certificate and Agreement listed on the Closing Checklist and delivered to the Bank is true and correct in all material respects.

### **8. COVENANTS**

The Borrower agrees that until the Bank is repaid in full and during the availability:

#### 8.1 Use of Proceeds of Revolver.

To use and apply the proceeds of each advance on the Revolver only for the purposes set forth in Section 2.2.1.

#### 8.2 Financial Information.

To provide the following financial statements and other information; provided, that for so long as the Borrower is required to file SEC Reports, the Borrower shall be deemed to have satisfied its obligation to provide such financial statements and other information to the extent such financial statements and other information are filed by the Borrower on the SEC's EDGAR filing system and a copy of each such filing is delivered to the Bank within five (5) calendar days of such filing.

- (a) Copies of each Form 10-K Annual Report for Borrower filed with the SEC. If the Borrower does not timely file, or is not required to file with the SEC, a Form 10-K Annual Report for Borrower for any fiscal year, then, within ninety (90) days of each fiscal year end of the Borrower, the Borrower shall provide to Bank the annual financial statements of Borrower, certified and dated by an authorized financial officer. The financial statements delivered separately or included in such Form 10-K Annual Reports must be (i) audited by a Certified Public Accountant acceptable to the Bank; (ii) prepared on a consolidated basis (if applicable); and (iii) include a balance sheet, statement of income and statement of cash flow.
- (b) Copies of each Form 10-Q Quarterly Report for Borrower filed with the SEC. If the Borrower does not timely file, or is not required to file with the SEC, a Form 10-Q Quarterly Report for Borrower for any fiscal quarter, then, within sixty (60) days of each fiscal quarter (other than the fiscal quarter that ends with the fiscal year) the Borrower shall provide to Bank the quarterly financial statements of Borrower, certified and dated by an authorized financial officer. The financial statements delivered separately or included in such Form 10-Q Quarterly Report must be, (i) certified and dated by an authorized financial officer; (ii) prepared on a consolidated basis (if applicable); and (iii) include a balance sheet, statement of income and statement of cash flow.



- (c) Copies of each Form 8-K Current Report for Borrower filed with the SEC.
- (d) Promptly, upon sending or receipt, copies of any management letters and correspondence relating to management letters, sent or received by the Borrower to or from the Borrower's auditor. If no management letter is prepared, the Bank may, in its discretion, request a letter from such auditor stating that no deficiencies were noted that would otherwise be addressed in a management letter.
- (e) Consolidated Financial Projections covering a three (3) year time period and specifying the assumptions used in creating the projections (the "Consolidated Financial Projections"). The Consolidated Financial Projections shall be provided to the Bank no less often than annually, and within seventy-five (75) days after the end of each fiscal year.
- (f) Promptly upon the Bank's request, such other books, records, statements, lists of property and accounts, budgets, forecasts, pipeline reports or other reports as the Bank may reasonably request; including, without limitation, information, documents, evidence and opinions of compliance of any New Market Tax Credit transaction ("NMTC") with the terms and provisions of this Agreement.
- (g) Within sixty (60) days of the end of each fiscal quarter (other than a fiscal quarter that ends on last day of the fiscal year), a compliance certificate of the Borrower, signed by an authorized financial officer in the form of Exhibit 8.2(g), which shall include, without limitation, (i) the information and computations (in sufficient detail) to establish compliance with the financial covenants set forth in Sections 8.3, 8.4, and 8.5 at the end of the period covered by the financial statements then being furnished for such fiscal quarter, and (ii) a statement whether there existed as of the date of either such financial statements or the date of the certificate, any default under this Agreement, and if any such default exists, specifying the nature thereof and the action the Borrower is taking and proposes to take with respect thereto (the "Quarterly Compliance Certificate"). The form or delivery of any Quarterly Compliance Certificate does not change the terms of any financial or other covenant contained in this Agreement.
- (h) Within ninety (90) days of the end of each fiscal year, a compliance certificate of the Borrower, signed by an authorized financial officer in the form of Exhibit 8.2(h), which shall include, without limitation, (i) the information and computations (in sufficient detail) to establish compliance with the financial covenants set forth in Sections 8.3, 8.4, and 8.5 at the end of the period covered by the financial statements then being furnished for such fiscal year, (ii) the information to establish compliance with the Educational Covenants contained herein, and (iii) a statement whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement, and if any such default exists, specifying the nature thereof and the action the Borrower is taking and proposes to take with respect thereto (the "Annual Compliance Certificate"). The form or delivery of any Annual Compliance Certificate does not change the terms of any financial or other covenant contained in this Agreement.
- (i) Not later than the earlier of (A) June 30 of each year, or (B) upon the filing with the DOE thereof, a copy of the Borrower's most recent Title IV Compliance Audit (as such term is defined by the DOE).

### 8.3 Funded Debt to Adjusted EBITDA Ratio.

To maintain on a consolidated basis a ratio of Funded Debt to Adjusted EBITDA as of the end of each fiscal quarter and each fiscal year not exceeding 1.75:1.00.

“Funded Debt” means all outstanding liabilities for borrowed money and other interest-bearing liabilities, including current and long term debt, less the non-current portion of Subordinated Liabilities (as defined in Section 8.5 below).

“Adjusted EBITDA” means net income, less income or plus loss from discontinued operations and extraordinary items, plus income taxes, plus interest expense, plus depreciation, depletion, and amortization, as adjusted for (i) the amortization of prepaid royalty payments recorded in conjunction with the settlement of dispute with the Borrower’s former owner that has been terminated as of April 15, 2008, as disclosed in the SEC Reports; (ii) non-cash share based compensation; and (iii) agreed upon, non-cash charges or non-recurring charges. This ratio will be calculated at the end of each reporting period for which the Bank requires financial statements, using the results of the twelve-month period ending with that reporting period.

### 8.4 Basic Fixed Charge Coverage Ratio.

To maintain on a consolidated basis a Basic Fixed Charge Coverage Ratio as of the end of each fiscal quarter and each fiscal year of at least 1.50:1.00.

“Basic Fixed Charge Coverage Ratio” means the ratio of (a) the sum of net income plus (i) royalty payments incurred pursuant to an agreement with the Borrower’s former owner that has been terminated as of April 15, 2008, as disclosed in the SEC Reports; (ii) non-cash share based compensation; and (iii) agreed upon, non-cash charges or non-recurring charges, plus interest expense, and rent expense, to (b) the sum of interest expense, rent expense, the current portion of long term debt, the current portion of capitalized lease obligations and dividends.

This ratio will be calculated at the end of each reporting period for which the Bank requires financial statements, using the results of the twelve-month period ending with that reporting period. The current portion of long-term liabilities will be measured as of the date of each calculation.

### 8.5 Tangible Net Worth.

To maintain on a consolidated basis Tangible Net Worth as of the end of each fiscal quarter and each fiscal year in an amount equal to at least (i) One Hundred Six Million Nine Hundred Seventy Five Thousand and no/100 Dollars (\$106,975,000.00); plus (ii) 50% of the Borrower’s net income for each fiscal quarter commencing with fiscal quarter ending June 30, 2011 and each fiscal quarter thereafter (without reduction for any net loss for any fiscal quarter).

“Tangible Net Worth” means the value of total assets including pre-paid royalty payments, leaseholds and leasehold improvements, and reserves against assets but excluding goodwill, patents, trademarks, trade names, organization expense, unamortized debt discount and expense, capitalized or deferred research and development costs, deferred marketing expenses, and other like intangibles, and monies due from affiliates, officers, directors, employees, shareholders, members or managers) *less* total liabilities, including but not limited to accrued and deferred income taxes, but excluding the non-current portion of Subordinated Liabilities.

“Subordinated Liabilities” means liabilities subordinated to the Borrower’s obligations to the Bank in a manner acceptable to the Bank in its sole discretion.

#### 8.6 No Subsidiaries.

Borrower shall not have, create or maintain any subsidiary, except for (i) any Qualified QALICB, as defined in Section 8.7(f) below that has executed a Continuing Guaranty covering the Loans in such form and content acceptable to the Bank, (ii) any subsidiary formed for a discrete business purpose otherwise in compliance with this Agreement, approved by the Bank in its reasonable judgment and which prior to engaging in any business executes a Continuing Guaranty covering the Loans and related indebtedness and liabilities to the Bank (the “Guaranteed Obligations”) and a Security Agreement (and a Deed of Trust, as applicable) securing the Guaranteed Obligations and such Continuing Guaranty, all in form and content acceptable to the Bank, or (iii) the Dormant Subsidiary as defined in and pursuant to the remainder of this Section 8.6. The Borrower has formed, but has not yet capitalized a subsidiary named “Grand Canyon University, Inc, an Arizona corporation” which has not yet been capitalized and is dormant (the “Dormant Subsidiary”). The Dormant Subsidiary shall not be activated, capitalized or transact any business until the requirements in subsections (i) or (ii) of this Section 8.6 are satisfied as to the Dormant Subsidiary.

#### 8.7 Other Debts.

Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank’s written consent. This does not prohibit:

- (a) Acquiring goods, supplies, or merchandise on normal trade credit.
- (b) Becoming and remaining liable with respect to subordinated indebtedness, the terms of such indebtedness and the subordination thereof are reasonably acceptable to Bank and the maturity date of which is at least one (1) year later than the Maturity Date.
- (c) Endorsing negotiable instruments received in the usual course of business.
- (d) Obtaining surety bonds in the usual course of business.
- (e) Liabilities, lines of credit and leases in existence on the date of this Agreement as disclosed in writing to the Bank or in the Borrower’s SEC Reports.

- (f) Debt issued in connection with a qualified NMTC that is non-recourse unsecured debt (i) of a [QALICB] that is at all times absolutely and unconditionally wholly owned and controlled by the Borrower (a “Qualified QALICB”) and (ii) is fully, absolutely and unconditionally forgivable without the payment of any money or other consideration not later than the seventh anniversary of the date of issuance.
- (g) Additional debts and lease obligations for business purposes which are not covered by (a) through (f) above, and which do not exceed a total aggregate principal amount of Ten Million and no/100 Dollars (\$10,000,000.00) outstanding at any one time.

8.8 Other Liens.

Not to create, assume, or allow any security interest or lien (including judicial liens) on property the Borrower (or any subsidiary permitted under Section 8.6 above) now or later owns, except the “Permitted Liens”:

- (a) Liens and security interests in favor of the Bank.
- (b) Liens for taxes not yet due.
- (c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.
- (d) Purchase money security interests (or leasing of equipment) outstanding on the date of this Agreement, and additional purchase money security interests in assets (or leasing of equipment) acquired after the date of this Agreement, or liens on any asset existing at the time of acquisition of such asset by the Borrower, or liens to secure any indebtedness permitted hereby incurred by the Borrower at the time of or within ninety (90) days after the acquisition of such asset, which indebtedness is incurred for the purpose of financing all or any part of the purchase price thereof; provided that the total principal amount of the debts or indebtedness secured by the liens covered by this Subsection 8.8(d) shall not exceed Ten Million and no/100 Dollars (\$10,000,000.00) in the aggregate at any one time.
- (e) Statutory liens of landlords, liens of collecting banks under the UCC on items in the course of collection, statutory liens and rights of set-off of banks, statutory liens of carriers, warehousemen, mechanics, repairmen, workmen and materialmen, and other liens imposed by law, in each case incurred in the ordinary course of business (i) for amounts not yet overdue or (ii) for amounts that are overdue and that (in the case of any such amounts overdue for a period in excess of five (5) days) are being contested in good faith by appropriate proceedings, so long as such reserves or other appropriate provisions, if any, as shall be required by GAAP shall have been made for any such contested amounts.
- (f) Deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security, or to secure the performance of statutory obligations, bids, surety and appeal bonds, leases, government contracts, performance bonds, trade contracts, and other similar obligations (exclusive of obligations for the payment of borrowed money).

- (g) Licenses (with respect to intellectual property and other property), leases or subleases granted to third parties not interfering in any material respect with ordinary conduct of the business of Borrower consistent with past and anticipated practices.
- (h) Easements, rights-of-way, restrictions, encroachments, and other minor defects or irregularities in title, in each case which do not and will not (i) interfere in any material respect with the ordinary conduct of the business of the Borrower; or (ii) adversely affect the value of the Collateral in any material respect.
- (i) Any (i) interest or title of a lessor or sublessor under any lease not prohibited by this Agreement, (ii) lien or restriction that the interest or title of such lessor or sublessor may be subject to, or (iii) subordination of the interest of the lessee or sublessee under such lease to any lien or restriction referred to in the preceding clause (ii), so long as the holder of such lien or restriction agrees to recognize the rights of such lessee or sublessee under such lease.
- (j) Liens arising from filing UCC financing statements relating solely to leases not prohibited by this Agreement.
- (k) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods.
- (l) Liens incurred in favor of insurance companies (or their financing affiliates) in connection with the financing of insurance premiums in the ordinary course of business.
- (m) Any zoning or similar law or right reserved to or vested in any government authority to control or regulate the use of any real property.

Without limiting the foregoing, Borrower shall timely pay all amounts payable to the general contractor, all subcontractors, materialmen and suppliers, as applicable, in connection with the construction of the Event Center and Dormitory Building A. Promptly upon each payment, Borrower shall deliver to Fidelity National Title Insurance Company at One East Washington Street, Suite #450, Phoenix, AZ 85004, Attention: Kelli J. Vos, the following items with respect to each such payment:

- (i) A sworn statement from the general contractor identifying all individuals to receive payment pursuant to the applicable AIA payment application;
- (ii) AIA payment application from the general contractor signed by the Borrower and including the architect's certification for the applicable billing period; and
- (iii) Conditional Lien Waivers from the general contractor and all subcontractors, materialmen and suppliers identified in the general contractor's sworn statement for the applicable billing period.

Additionally, upon completion of the Event Center and Dorm Building A and final payment to the general contractor, the Borrower shall deliver to Fidelity National Title Insurance Company: (i) a sworn statement of the Borrower identifying all contracts entered into by the Borrower for the construction of the Event Center and Dormitory Building A; and, (ii) Unconditional Lien Waivers from the general contractor and all subcontractors, materialmen and suppliers identified in the general contractor's sworn statement.

Upon receipt of all of the foregoing, Fidelity National Title Insurance Company shall issue , at no cost to the Borrower or Bank, an endorsement to the Title Insurance Policy insuring the Deed of Trust, further insuring the Bank against all liens from the general contractor, all subcontractors, materialmen and suppliers for the Event Center and Dormitory Building A.

#### 8.9 Maintenance of Assets.

- (a) Not to sell, assign, lease, transfer or otherwise dispose of any part of the Borrower's business or the Borrower's assets except in the ordinary course of the Borrower's business, and in no case in an aggregate amount exceeding Five Million and no/100 Dollars (\$5,000,000.00) in any fiscal year, except for transfers of property, that is at all times subject to and subordinate in every respect to the lien and security interest in favor of the Bank, that is part of a new NMTC and immediately and unconditionally result in such transferred property being unconditionally owned by a Qualified QALICB and (i) without restrictions or limitations of any type or nature, and (ii) without any liens and encumbrances, except for Permitted Liens.
- (b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.
- (c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.
- (d) To maintain and preserve all material rights, privileges, and franchises of the Borrower.
- (e) To make any repairs, renewals, or replacements to keep the Collateral in good working condition.

#### 8.10 Investments.

Not to have any existing, or make any new, investments in any individual or entity (including, without limitation, any repurchase of or investment in any stock, debt or other securities of Borrower), or make any capital contributions or other transfers of assets to any individual or entity, except for:

- (a) Existing investments disclosed to the Bank in writing.
- (b) Investments in the Borrower's current subsidiaries.
- (c) Investments consistent with the Borrower's Investment Policy as of the date of this Agreement, a copy of which is attached hereto as Exhibit 8.10, as prepared by the Controller and for purposes of this Section 8.10, any changes thereto that are approved by the Board of Directors and CFO from time to time with the consent of the Bank, which consent will not be unreasonably withheld, which may include investments in any of the following:
  - (i) certificates of deposit;

- (ii) U.S. treasury bills and other obligations of the federal government; and
  - (iii) readily marketable securities (including commercial paper, but excluding restricted stock and stock subject to the provisions of Rule 144 of the Securities and Exchange Commission).
- (d) The stock repurchase program of Borrower for (i) up to \$25,000,000.00 of Borrower's stock announced in the press release issued on August 16, 2010; and (ii) an additional \$25,000,000 of properly authorized and legally permitted stock repurchases that is publicly announced prior to December 31, 2012, and (iii) additional properly authorized and legally permitted stock repurchases for which the Borrower provides evidence to the Bank that the Borrower is and will remain (and the Borrower at all times remains) in compliance with all financial covenants contained in this Agreement through such additional stock repurchases.
- (e) An investment in a QALICB in connection with a qualified NMTC which is in compliance with Sections 8.7(f) and 8.9(a)(ii).
- (f) Additional investments permitted under Section 8.12(b) below.
- (g) Additional investments which are not covered by (a) through (d) above, and which do not exceed a total aggregate amount of Five Million and no/100 Dollar (\$5,000,000.00), at any time.

#### 8.11 Loans to Officers or Affiliates.

Not to make any loans, advances or other extensions of credit (including extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services) to any of the Borrower's executives, officers or directors (or any relatives of any of the foregoing), or to any affiliated entities in excess of Five Hundred Thousand and no/100 Dollars (\$500,000.00) in the aggregate to all of the foregoing at any one time; provided that this Section 8.11 shall not prohibit Indebtedness issued in compliance with Section 8.7(f) above.

#### 8.12 Additional Negative Covenants.

Not to, without the Bank's written consent:

- (a) Enter into any consolidation, merger, or other combination, or become a partner in a partnership, a member of a joint venture, or a member of a limited liability company.
- (b) Acquire or purchase a business or all or substantially all of the assets of a business, in an aggregate amount exceeding an amount equal to 25% of the Borrower's Tangible Net Worth on the date of each such acquisition or purchase after giving effect to all prior, and the currently planned acquisition or purchase; provided that, (i) such acquisition or purchase is consensual (and not hostile) to the selling party; and (ii) the Borrower, is in compliance with all covenants in this Agreement, and shall be, on a pro-forma basis, in compliance with all covenants in this Agreement after giving effect to such acquisition or purchase.

- (c) Engage in any business activities substantially different from the Borrower's present business.
- (d) Liquidate or dissolve the Borrower's business.
- (e) Voluntarily suspend its business for more than ten (10) calendar days in any rolling three hundred and sixty five (365) day period.

8.13 Notices to Bank.

To promptly notify the Bank in writing of:

- (a) Any lawsuit in which the damages claimed exceed Five Million and no/100 Dollars (\$5,000,000.00) against the Borrower or the disclosure of which would be required in an SEC Report.
- (b) Any material dispute between any governmental authority and the Borrower not otherwise disclosed in an SEC Report, promptly delivered to the Bank.
- (c) An Event of Default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an Event of Default.
- (d) Any material adverse change in the Borrower's business condition (financial or otherwise), operations, properties or prospects, the Collateral, or the Borrower's ability to repay the Loans.
- (e) Any change in the Borrower's name, legal structure, principal, place of business, or its chief executive office.
- (f) Except as otherwise disclosed in any financial statements of Borrower or in any SEC Report, any actual contingent liabilities of the Borrower in excess of Five Million and no/100 Dollars (\$5,000,000.00) in the aggregate and, to Borrower's knowledge, any such contingent liabilities which are reasonably foreseeable, where such liabilities would cause an Event of Default.
- (g) Not later than thirty (30) days prior to closing of any new NMTC a written notice of such NMTC including (i) a detailed summary and explanation of the NMTC structure, (ii) evidence that the closing of such NMTC will be in full compliance with the covenants contained in this Agreement, and (iii) such other documents, information, evidence and opinions requested by the Bank.



#### 8.14 Insurance.

- (a) General Business Insurance. To maintain insurance reasonably satisfactory to the Bank as to amount, nature and carrier covering property damage (including loss of use and occupancy) to any of the Borrower's properties, business interruption insurance, public liability insurance including coverage for contractual liability, product liability and workers' compensation, and any other insurance which is usual for the Borrower's business. Each policy shall provide for at least thirty (30) days prior notice to the Bank of any cancellation thereof.
- (b) Insurance Covering Collateral. To maintain insurance required pursuant to the Deed of Trust. The insurance must be issued by an insurance company reasonably acceptable to the Bank and must include a lender's loss payable endorsement in favor of the Bank in a form acceptable to the Bank.
- (c) Evidence of Insurance. Upon the request of the Bank, to deliver to the Bank a copy of each insurance policy, or, if permitted by the Bank, a certificate of insurance listing all insurance in force, and when requested by the Bank, noting the Bank on each such policy as an additional insured or loss payee, as appropriate.

#### 8.15 Compliance with Laws.

To comply with the applicable laws (including any fictitious or trade name statute), regulations, and orders of any government body with authority over the Borrower's business, except where the failure to comply would not reasonably be expected to have a material adverse effect on the Borrower or its business.

#### 8.16 ERISA Plans.

Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) calendar days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

#### 8.17 ERISA Plans — Notices.

With respect to a Plan subject to Title IV of ERISA, to give prompt written notice to the Bank of:

- (a) The occurrence of any reportable event under Section 4043(c) of ERISA for which the PBGC requires 30-day notice.
- (b) Any action by the Borrower or any ERISA Affiliate to terminate or withdraw from a Plan or the filing of any notice of intent to terminate under Section 4041 of ERISA.
- (c) The commencement of any proceeding with respect to a Plan under Section 4042 of ERISA.

#### 8.18 Books and Records.

To maintain adequate books and records of its corporate and business activities.

#### 8.19 Audits.

Except as may be prohibited by applicable laws regarding confidentiality, to allow the Bank and its agents to inspect the Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of the Borrower's properties, books or records are in the possession of a third party, the Borrower authorizes that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.

#### 8.20 Perfection of Liens.

To help the Bank perfect and protect its security interests in and liens on the Collateral, and reimburse it for related costs it incurs to perfect, protect or enforce its security interests in and liens on the Collateral.

#### 8.21 Cooperation.

To take any action reasonably requested by the Bank to carry out the intent of this Agreement.

#### 8.22 Flood and Other Insurance.

If any improved real property comprising the Collateral is located in a designated flood hazard area, or becomes located in a designated flood hazard area after the date of this Agreement as a result of any re-mapping of flood insurance maps by the Federal Emergency Management Agency, the Borrower will be required to maintain flood insurance on the real property and any other portion of the Collateral within such area.

#### 8.23 Inspections and Appraisals of Real Property.

To allow the Bank and its agents to visit the real property comprising any of the Collateral at any reasonable time for the purpose of inspecting such property and conducting appraisals thereof, and deliver to the Bank any financial or other information concerning such property as the Bank may request. So long as there is no Event of Default, Borrower shall not be required to pay for more than one (1) appraisal in any calendar year.

#### 8.24 Use or Leasing of the Real Property Collateral.

(a) To occupy the real property comprising any of the Collateral for the conduct of its regular business. The Borrower will not change its intended use of such real property without the Bank's prior written approval.

- (b) All leases of any portion of the real property comprising any of the Collateral and spaces within such real property may be entered into with bona fide third party tenants, financially capable of performing their obligations under the leases, in arms-length transactions at the then current market rate for comparable space, area or use. All leases in the aggregate shall not alter the Borrower's current occupancy, control or use of the Collateral and shall not cover any material part of the real property comprising any of the Collateral. The leases shall not contain any right to purchase such real property or any present or future interest in any portion of the real property other than the right to use and occupy the premises demised. The Borrower will promptly obtain and deliver to the Bank such estoppel certificates and subordination and attornment agreements from tenants as the Bank from time to time may require provided that so long as there is no Event of Default Borrower shall not be required to deliver such certificates more frequently than one (1) time per calendar year. The Borrower will perform all obligations of landlord under all leases.

#### 8.25 Indemnity Regarding Use of Real Property.

To indemnify, defend with counsel acceptable to the Bank, and hold the Bank harmless from and against all liabilities, claims, actions, damages, costs and expenses (including all legal fees and expenses of Bank's counsel) arising out of or resulting from the construction of any improvements on the real property comprising any of the Collateral, or the ownership, operation, or use of such real property collateral, whether such claims are based on theories of derivative liability, comparative negligence or otherwise. The Borrower's obligations to the Bank under this Section shall survive termination of this Agreement and repayment of the Borrower's obligations to the Bank under this Agreement, and shall also survive as unsecured obligations after any acquisition by the Bank of the real property comprising any of the Collateral or any part of it by foreclosure or any other means.

#### 8.26 Educational Covenants.

The following Sections 8.27, 8.28, 8.29, and 8.30 shall be collectively referred to as the "Educational Covenants." The following definitions shall apply to the Educational Covenants. Any term in the Educational Covenants that is not defined herein shall have the meaning given to them by the DOE or Title IV.

"Title IV" shall mean Title IV of the Higher Education Act of 1965, as amended.

"Title IV Programs" means the programs of federal student financial assistance administered pursuant to Title IV.

"School" shall mean Grand Canyon University.

"Education Law" means any federal, state, local or similar statute, law, ordinance, regulation, rule, code, order, or binding standard issued or administered by, or related to, any Education Agency and applicable to private educational institutions.

“Education Agency” means any entity or organization, whether governmental, government chartered, private, or quasi-private, that engages in granting or withholding Educational Approvals for, provides or administers financial assistance to or for students of, or otherwise regulates private schools in accordance with standards relating to the performance, operation, financial condition or academic standards of such schools, including, without limitation, the DOE, DHS, state authorizing or licensing agencies, accrediting bodies, state student aid agencies, state approving agencies for veterans benefits, and student loan guaranty agencies.

“DHS” means the U.S. Department of Homeland Security.

“DOE” shall mean the United States Department of Education.

#### 8.27 Title IV Accreditation Requirements.

Borrower shall ensure that School maintains all customary accreditation requirements under Title IV including all licenses, accreditations, certificates, permits, consents, authorizations and other governmental, regulatory, or accreditation approvals or exemptions (the “Educational Approvals”) necessary for the School to conduct its business, including all requisite approvals or exemptions from the DOE, the State of Arizona, the Higher Learning Commission and any other Education Agency. In addition, the Borrower shall ensure that the School maintains its eligibility as a “proprietary institution of higher education,” as defined in 34 C.F.R. § 6005.5 under Title IV, and remains party to, and in material compliance with, a valid Program Participation Agreement (provisional or otherwise) with the DOE with respect to the School’s operations. Lastly, the Borrower shall ensure that the School continues to hold a valid Eligibility and Certification Approval Report (provisional or otherwise) issued by the DOE attesting to its Title IV Program eligibility. Borrower shall also maintain all other academic accreditations (or substitute a commercially reasonable substitute academic accreditation) as the Borrower reasonably determines are necessary for the School to conduct its business provided that, if the Borrower elects to cease maintaining a material academic accreditation without such substitution, then such election or determination of the Borrower must be reasonably acceptable to the Bank. Borrower shall give Bank notice within ten (10) business days of any breach of this Section 7.27.

#### 8.28 DOE Composite Score Requirement.

Borrower shall ensure that School maintains a DOE Composite Score of not less than 1.50 for any fiscal year. In addition, Borrower shall ensure that School continues to be in material compliance with the DOE standards of financial responsibility as set forth at 34 C.F.R. §§ 668.172 — 174. In addition, Borrower shall notify Bank if it is required by the DOE to post a letter of credit, including a letter of credit due to late funds pursuant to 34 C.F.R. § 668.173.

#### 8.29 Long Term Student Receivables Limitation.

Borrower shall ensure that School does not allow its Long Term Receivables to Students to exceed an amount equal to ten percent (10%) of the Borrower’s Tangible Net Worth as defined in Section 8.5, and calculated on consolidated basis as of the end of each fiscal quarter and each fiscal year. In addition, Borrower will ensure that the School continues to comply with the statutory provision at 20 U.S.C. § 1002(b)(1)(F) requiring that at least ten percent (10%) of its revenues for any fiscal year are not derived from Title IV Program funds as required by 34 C.F.R. § 600.5.

### 8.30 Cohort Default Rate.

Borrower shall ensure that School does not allow its Cohort default rate to exceed any of (i) twenty-five percent (25%) as calculated under the two-year method, for each of the Borrower's three most recent federal fiscal years, or (ii) thirty percent (30%) as calculated under the three-year method, for each of the Borrower's three most recent federal fiscal years, or (iii) forty percent (40%) in any fiscal year, or (iv). a rate that may result in any suspension of eligibility or sanctions pursuant to the Higher Education Act of 1965, as amended. In addition, Borrower shall ensure that School meets the requirements for Federal Direct Loan Program loans and Federal Perkins loans, as published by the DOE.

## **9. DEFAULT AND REMEDIES**

If any of the following events of default ("Event of Default") occurs, the Bank may do one or more of the following: declare the Borrower in default, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately and without prior notice. In addition, if any Event of Default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an Event of Default occurs under the paragraph entitled "Bankruptcy," below, with respect to the Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

### 9.1 Failure to Pay.

The Borrower fails to make a payment under this Agreement when due, and such failure continues for three (3) calendar days.

### 9.2 Other Bank Agreements.

Any default occurs and is continuing under any other agreement the Borrower has with the Bank with a payment or obligation amount exceeding Fifty Thousand and no/100 Dollars (\$50,000.00), if such default continues after giving effect to any applicable cure period.

### 9.3 Cross-default.

Any default occurs under any agreement in connection with any credit exceeding One Million and no/100 Dollars (\$1,000,000.00) the Borrower or any subsidiary of the Borrower's has obtained from anyone else or which the Borrower or any of the Borrower's subsidiaries has guaranteed, if such default continues after giving effect to any applicable cure period.

### 9.4 False Information.

The Borrower has given the Bank materially false or misleading information or representations.

9.5 Bankruptcy.

The Borrower files a bankruptcy petition; or a bankruptcy petition is filed against the Borrower (and not dismissed within sixty (60) days); or the Borrower makes a general assignment for the benefit of creditors.

9.6 Receivers.

A receiver or similar official is appointed for a substantial portion of the Borrower's business and such appointment is not terminated within ten (10) calendar days, or the business is terminated.

9.7 Lien Priority.

The Bank fails to have an enforceable first lien (except for any prior liens to which the Bank has consented in writing or are noted in the Title Policy) on or security interest in any of the Collateral as security for the Loans or this Agreement.

9.8 [Intentionally Blank].

9.9 Judgments.

Any judgments or arbitration awards are entered against the Borrower, or the Borrower enters into any settlement agreements, in each case with respect to any litigation or arbitration, in an aggregate amount of Five Million and no/100 Dollars (\$5,000,000.00) or more in excess of any insurance coverage and (i) said judgments are not stayed or bonded over within thirty (30) days after entry, or (ii) Borrower does not have sufficient liquidity to satisfy such judgment or award, as determined by the Bank.

9.10 Material Adverse Change.

A material adverse change occurs in the Borrower's business condition (financial or otherwise), operations or properties, which could reasonably adversely affect the Borrower's ability to repay the Loans including any action by any government authority.

9.11 Intentionally Omitted.

9.12 Default under Related Documents.

Any Event of Default, as defined therein, or a default occurs (and continues beyond any applicable notice or cure period and which gives the Bank an immediate right to exercise its remedies as a result thereof), under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or the Loans, including, without limitation, the Deed of Trust or any other Collateral Document.

#### 9.13 ERISA Plans.

Any one or more of the following events occurs with respect to a Plan of the Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject the Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of the Borrower:

- (a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.
- (b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by the Borrower or any ERISA Affiliate.

#### 9.14 Educational Covenants.

A default occurs under any term or condition of the Educational Covenants and such default, if it is capable of being cured, continues for a period of thirty (30) days.

#### 9.15 Other Breach Under Agreement.

A default occurs under any other term or condition of this Agreement not specifically referred to in this Article, including any failure by the Borrower to comply with any financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrower or the Bank.

#### 9.16 Representations and Warranties.

Any representation or warranty of the Borrower or any written certification or other material written statement of fact made or deemed made by the Borrower or by a Authorized Individual on behalf of the Borrower, in this Agreement or in any other Collateral Document, or in any document delivered in connection herewith or therewith shall be incorrect or misleading in any material respect when made or deemed made.

### **10. ENFORCING THIS AGREEMENT; MISCELLANEOUS**

#### 10.1 GAAP.

Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.

#### 10.2 Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of Arizona. To the extent that the Bank has greater rights or remedies under federal law, whether as a national bank or otherwise, this paragraph shall not be deemed to deprive the Bank of such rights and remedies as may be available under federal law.

### 10.3 Successors and Assigns.

This Agreement is binding on the Borrower's and the Bank's successors and assignees. The Borrower agrees that it may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign the Term Loan or the Revolver Commitment, and may exchange information about the Borrower (including, without limitation, any information regarding any hazardous substances) with actual or potential participants or assignees. If a participation is sold or the Term Loan or Revolver Commitment is assigned, the purchaser will have the right of set-off against the Borrower.

### 10.4 Dispute Resolution Provision.

This paragraph, including the subparagraphs below, is referred to as the "Dispute Resolution Provision." This Dispute Resolution Provision is a material inducement for the parties entering into this agreement.

- (a) This Dispute Resolution Provision concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this Agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a "Claim"). For the purposes of this Dispute Resolution Provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this Agreement.
- (b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U.S. Code) (the "Act"). The Act will apply even though this Agreement provides that it is governed by the law of a specified state.
- (c) Arbitration proceedings will be determined in accordance with the Act, the then-current rules and procedures for the arbitration of financial services disputes of the American Arbitration Association or any successor thereof ("AAA"), and the terms of this Dispute Resolution Provision. In the event of any inconsistency, the terms of this Dispute Resolution Provision shall control. If AAA is unwilling or unable to (i) serve as the provider of arbitration or (ii) enforce any provision of this arbitration clause, the Bank may designate another arbitration organization with similar procedures to serve as the provider of arbitration.
- (d) The arbitration shall be administered by AAA and conducted, unless otherwise required by law, in Phoenix, Arizona. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million and no/100 Dollars (\$5,000,000.00), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and have judgment entered and enforced.



- (e) The arbitrator(s) will give effect to statutes of limitation in determining any Claim and may dismiss the arbitration on the basis that the Claim is barred. For purposes of the application of any statutes of limitation, the service on AAA under applicable AAA rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s), except as set forth at subparagraph (h) of this Dispute Resolution Provision. The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this Agreement.
- (f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.
- (g) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.
- (h) Any arbitration or trial by a judge of any Claim will take place on an individual basis without resort to any form of class or representative action (the "Class Action Waiver"). Regardless of anything else in this Dispute Resolution Provision, the validity and effect of the Class Action Waiver may be determined only by a court and not by an arbitrator. The parties to this Agreement acknowledge that the Class Action Waiver is material and essential to the arbitration of any disputes between the parties and is nonseverable from the agreement to arbitrate Claims. If the Class Action Waiver is limited, voided or found unenforceable, then the parties' agreement to arbitrate shall be null and void with respect to such proceeding, subject to the right to appeal the limitation or invalidation of the Class Action Waiver. **The Parties acknowledge and agree that under no circumstances will a class action be arbitrated.**
- (i) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this agreement to arbitrate, to the extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This waiver of jury trial shall remain in effect even if the Class Action Waiver is limited, voided or found unenforceable. **WHETHER THE CLAIM IS DECIDED BY ARBITRATION OR BY TRIAL BY A JUDGE, THE PARTIES AGREE AND UNDERSTAND THAT THE EFFECT OF THIS AGREEMENT IS THAT THEY ARE GIVING UP THE RIGHT TO TRIAL BY JURY TO THE EXTENT PERMITTED BY LAW.**

#### 10.5 Severability; Waivers.

If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it made the Term Loan or any advances under the Revolver after a default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

#### 10.6 Attorneys' Fees.

The Borrower shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout" or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator. In the event that any case is commenced by or against the Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of the Bank's in-house counsel.

#### 10.7 Set-Off.

- (a) In addition to any rights and remedies of the Bank provided by law, upon the occurrence and during the continuance of any Event of Default under this Agreement, the Bank is authorized, at any time, to set off and apply any and all Deposits of the Borrower held by the Bank against any and all Obligations owing to the Bank. The set-off may be made irrespective of whether or not the Bank shall have made demand under this Agreement or any guaranty, and although such Obligations may be contingent or unmatured or denominated in a currency different from that of the applicable Deposits.
- (b) The set-off may be made without prior notice to the Borrower or any other party, any such notice being waived by the Borrower to the fullest extent permitted by law. The Bank agrees promptly to notify the Borrower after any such set-off and application; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application.
- (c) For the purposes of this Section 10.7, "Deposits" means any deposits (general or special, time or demand, provisional or final, individual or joint) and any instruments owned by the Borrower which come into the possession or custody or under the control of the Bank. "Obligations" means all obligations, now or hereafter existing, of the Borrower to the Bank under this Agreement and under any other agreement or instrument executed in connection with this Agreement.

#### 10.8 One Agreement.

This Agreement and any related security or other agreements required by this Agreement, collectively:

- (a) represent the sum of the understandings and agreements between the Bank and the Borrower concerning this credit;
- (b) replace any prior oral or written agreements between the Bank and the Borrower concerning this credit; and
- (c) are intended by the Bank and the Borrower as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. Any reference in any related document to a "promissory note" or a "note" executed by the Borrower and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

#### 10.9 Indemnification.

The Borrower will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrower hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document, or any such credit. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrower's obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrower, due and payable immediately without demand.

#### 10.10 Notices.

Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrower, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax numbers listed on the signature page, or sent via electronic mail (e-mail) with attachments in portable document format (PDF) to the e-mail addresses listed on the signature page, or to such other addresses as the Bank and the Borrower may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when transmitted, (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered or (iv) if sent via electronic mail, upon electronic confirmation of delivery and receipt.

10.11 Headings.

Article and Section headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

10.12 Counterparts.

This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same Agreement. A copy of an executed signature page that is transmitted by facsimile or sent as a PDF file via email shall, for all purposes, be deemed to be an original.

10.13 Borrower Information; Reporting to Credit Bureaus.

The Borrower authorizes the Bank at any time to verify or check any information given by the Borrower to the Bank, check the Borrower's credit references, verify employment, and obtain credit reports. The Borrower agrees that the Bank shall have the right at all times to disclose and report to credit reporting agencies and credit rating agencies such information pertaining to the Borrower and/or all guarantors as is consistent with the Bank's policies and practices from time to time in effect.

*[Remainder of page is intentionally left blank; signature pages follow]*

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

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

By: /s/ Daniel E. Bachus

Name: Daniel E. Bachus  
Title: Chief Financial Officer

Contact Information for Notice:

3300 West Camelback Road  
Phoenix, Arizona 85017-3030  
Attn: Daniel E. Bachus, CFO

Telephone: 602-639-6648  
Facsimile: 602-639-7846  
Email: dbachus@gcu.edu

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

By: /s/ David R. Barney

Name: David R. Barney  
Title: Senior Vice President

Contact Information for Notice:

201 East Washington Street  
AZ1-200-22-32, 22nd Floor  
Phoenix, Arizona 85004-2343  
Attn: David Barney — Commercial Banking

Telephone: 602-523-2351  
Facsimile: (to be sent to both:)  
312-453-5567  
866-524-9739

Email: david.r.barney@bankofamerica.com

*Federal law requires Bank of America, N.A. (the “Bank”) to provide the following notice. The notice is not part of the foregoing agreement or instrument and may not be altered. Please read the notice carefully.*

**USA PATRIOT ACT NOTICE** Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account or obtains a loan. The Bank will ask for the Borrower’s legal name, address, tax ID number or social security number and other identifying information. The Bank may also ask for additional information or documentation or take other actions reasonably necessary to verify the identity of the Borrower, guarantors or other related persons.

EXHIBIT 2.3

BORROWING REQUEST

[To Be Completed]

Exhibit 2.3

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EXHIBIT 8.2(g)

FORM OF QUARTERLY COMPLIANCE CERTIFICATE

[Form Used for Real Estate As Modified for Financial Covenants.]

Exhibit 8.2(g)

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EXHIBIT 8.2(h)

FORM OF ANNUAL COMPLIANCE CERTIFICATE

[Form Used for Real Estate As Modified for Financial Covenants.]

Exhibit 8.2(h)

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EXHIBIT 8.10

BORROWER'S INVESTMENT POLICY

[Will be same as For Real Estate Loan]

Exhibit 8.10

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

I, Brian E. Mueller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ending March 31, 2011 of Grand Canyon Education, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 9, 2011

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

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

I, Daniel E. Bachus, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ending March 31, 2011 of Grand Canyon Education, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 9, 2011

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

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

In connection with the Quarterly Report on Form 10-Q of Grand Canyon Education, Inc. (the "University") for the quarter ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian E. Mueller, Chief Executive Officer, of the University, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the University.

Date: May 9, 2011

/s/ Brian E. Mueller

\_\_\_\_\_  
Brian E. Mueller

Chief Executive Officer (Principal Executive Officer)

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

In connection with the Quarterly Report on Form 10Q of Grand Canyon Education, Inc. (the "University") for the quarter ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel E. Bachus, Chief Financial Officer, of the University, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the University.

Date: May 9, 2011

/s/ Daniel E. Bachus

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Daniel E. Bachus

Chief Financial Officer (Principal Financial and Principal Accounting Officer)