

Grand Canyon Education, Inc.
Form 424B1
September 15, 2009

Table of Contents

**Filed Pursuant to Rule 424(b)(1)
Registration No. 333-161571**

6,000,000 Shares

Grand Canyon Education, Inc.
Common Stock

We are offering 1,000,000 shares of our common stock and the selling stockholders identified in this prospectus are offering 5,000,000 shares of our common stock. We will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

Our common stock is listed on The Nasdaq Global Market under the symbol LOPE. The last reported sale price of our common stock on September 14, 2009 was \$16.50 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 10.

	Per Share	Total
Public offering price	\$ 16.50	\$ 99,000,000
Underwriting discounts and commissions	\$ 0.83	\$ 4,950,000
Proceeds, before expenses, to us	\$ 15.68	\$ 15,675,000
Proceeds, before expenses, to the selling stockholders	\$ 15.68	\$ 78,375,000

The selling stockholders have granted the underwriters a 30-day option to purchase a maximum of 900,000 additional shares on the same terms and conditions as set forth above, to cover over-allotments of shares, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Delivery of the shares of common stock will be made on or about September 18, 2009.

Joint Book-Running Managers

Credit Suisse

BofA Merrill Lynch

BMO Capital Markets

William Blair & Company

Piper Jaffray

Barrington Research

The date of this prospectus is September 14, 2009.

TABLE OF CONTENTS

	Page
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	10
<u>Forward-Looking Statements</u>	37
<u>Use of Proceeds</u>	39
<u>Price Range of Common Stock</u>	39
<u>Dividend Policy</u>	39
<u>Capitalization</u>	40
<u>Regulation</u>	41
<u>Certain Relationships and Related Transactions</u>	60
<u>Beneficial Ownership of Common Stock</u>	64
<u>Selling Stockholders</u>	67
<u>Description of Capital Stock</u>	69
<u>Material U.S. Federal Income and Estate Tax Considerations for Non-U.S. Holders</u>	73
<u>Underwriting</u>	76
<u>Notice to European Economic Area Residents</u>	79
<u>Notice to United Kingdom Residents</u>	79
<u>Notice to Canadian Residents</u>	80
<u>Legal Matters</u>	82
<u>Experts</u>	82
<u>Where You Can Find More Information</u>	82
<u>Incorporation by Reference</u>	82

ABOUT THIS PROSPECTUS

You should rely only on the information contained in, or incorporated by reference in, this prospectus or in any free-writing prospectus that we specifically authorize to be delivered or made available to you. We have not, the selling stockholders have not, and the underwriters have not authorized anyone to provide you with additional or different information. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. You should assume that the information contained in, or incorporated by reference in, this prospectus or in any free-writing prospectus that we specifically authorize to be delivered or made available to you is accurate only as of the date of this prospectus, regardless of its time of delivery or of any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

For investors outside the United States: We have not, the selling stockholders have not and the underwriters have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside of the United States.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in or incorporated by reference into this prospectus. This summary sets forth the material terms of the offering, but does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus and the documents that are incorporated by reference into this prospectus carefully before making an investment decision, especially the risks of investing in our common stock described under Risk Factors. Unless the context otherwise requires, the terms we, us, our, Grand Canyon, and Grand Canyon Education refer to Grand Canyon Education, Inc. and our predecessor as the context requires, and references to Grand Canyon University refer to the postsecondary education institution operated by Grand Canyon Education, Inc.

Overview

We are a regionally accredited provider of online postsecondary education services focused on offering graduate and undergraduate degree programs in our core disciplines of education, business, and healthcare. In addition to our online programs, we offer ground programs at our traditional campus in Phoenix, Arizona and onsite at the facilities of employers. We are committed to providing an academically rigorous educational experience with a focus on career-oriented programs that meet the objectives of our students. We utilize an integrated, innovative approach to marketing, recruiting, and retaining students, which has enabled us to increase enrollment from approximately 3,000 students at the end of 2003 to approximately 27,600 students at June 30, 2009, representing a compound annual growth rate of approximately 50% over that period and an increase of 67% over the approximately 16,500 students we had at June 30, 2008. At December 31, 2008, 89.1% of our students were enrolled in our online programs, and 52.9% of our students were pursuing master's or doctoral degrees.

Our three core disciplines of education, business, and healthcare represent large markets with attractive employment opportunities. According to a March 2009 report from the U.S. Department of Education, National Center for Education Statistics, or NCES, these disciplines ranked as three of the four most popular fields of postsecondary education, based on degrees conferred in the 2006-07 school year. The U.S. Department of Labor, Bureau of Labor Statistics, or BLS, estimated in its 2008-09 Career Guide that these fields comprised over 40 million jobs in 2006, many of which require postsecondary education credentials.

We primarily focus on recruiting and educating working adults, whom we define as students age 25 or older who are pursuing a degree while employed. As of June 30, 2009, approximately 90% of our online students were age 25 or older. We believe that working adults are attracted to the convenience and flexibility of our online programs because they can study and interact with faculty and classmates during times that suit their schedules. We also believe that working adults represent an attractive student population because they are better able to finance their education, more readily recognize the benefits of a postsecondary degree, and have higher persistence and completion rates than students generally.

We have experienced significant growth in enrollment, net revenue, and operating income over the last several years. Our enrollment at December 31, 2008 was approximately 24,600, representing an increase of approximately 67% over our enrollment at December 31, 2007. Our net revenue and operating income for the year ended December 31, 2008 were \$161.3 million and \$12.8 million, respectively, representing increases of 62.4% and 194.5%, respectively, over the year ended December 31, 2007. Our enrollment at June 30, 2009 was approximately 27,600, representing an increase of approximately 67% over our enrollment at June 30, 2008. Our net revenue and operating income for the six months ended June 30, 2009 were \$118.4 million and \$22.0 million, respectively, representing increases of 68.4% and 248.0%, respectively, over the six months ended June 30, 2008. We seek to achieve continued growth in a manner

that reinforces our reputation for providing academically rigorous, career-oriented educational programs that advance the careers of our students.

Table of Contents

We have been regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools, or the Higher Learning Commission, and its predecessor since 1968, and we were reaccredited by the Higher Learning Commission in 2007 for the maximum term of ten years. In addition, we have specialized accreditations for certain programs from the Association of Collegiate Business Schools and Programs, the Commission on Collegiate Nursing Education, and the Commission on Accreditation of Athletic Training Education. We believe that our regional accreditation, together with these specialized accreditations, reflect the quality of our programs, enhance their marketability, and improve the employability of our graduates.

We were founded as Grand Canyon College, a traditional, private, non-profit college, in 1949 and moved to our existing campus in Phoenix, Arizona in 1951. In February 2004, several of our current stockholders acquired Grand Canyon University and converted it to a for-profit institution. Since then, we have enhanced our senior management team, expanded our online platform and programs, and initiated an infrastructure and technology improvement plan and a marketing and branding effort to further differentiate us in the markets in which we operate and support our continued growth. We have also maintained our non-denominational Christian identity, with many of our ground programs including Christian study requirements and our online programs including ethics requirements and electives in religion.

Industry

The United States market for postsecondary education represents a large and growing opportunity. According to the March 2009 NCES report, total revenue for all degree-granting postsecondary institutions was over \$411 billion for the 2005-06 school year. In addition, according to a March 2009 NCES report, approximately 18.2 million students were projected to be enrolled in postsecondary institutions in 2008 and the number was projected to grow to 20.1 million by 2017. We believe that future growth in this market will be driven, in part, by the increasing number of job openings in occupations that require bachelor's or master's degrees, which a November 2007 report based on BLS data has projected will grow approximately 17% and 19%, respectively, between 2006 and 2016, or nearly double the growth rate the BLS projected for occupations that do not require postsecondary degrees. Moreover, according to U.S. Census Bureau data, individuals with a postsecondary degree are able to obtain a significant compensation premium relative to individuals without a degree.

The market for online postsecondary education has grown more rapidly than the overall postsecondary market. A 2008 study by Eduventures, LLC, an education consulting and research firm, projected that from 2002 to 2008 enrollment in online postsecondary programs increased from approximately 0.4 million to approximately 1.9 million, representing a compound annual growth rate of approximately 28.6%. In comparison, in March 2009 the NCES projected a compound annual growth rate of 1.5% in enrollment in postsecondary programs overall during the same period. We believe this growth has been driven by a number of factors, including the greater convenience and flexibility of online programs as compared to ground-based programs and the increased acceptance of online programs among academics and employers. According to a 2006 survey by the Sloan Consortium, a trade group focused on online education, 79.1% of chief academic officers surveyed at institutions with 15,000 or more students, most of which offer online programs, and 61.9% of all chief academic officers surveyed, believe that online learning outcomes are equal or superior to traditional face-to-face instruction.

Competitive Strengths

We believe we have the following competitive strengths:

Established presence in targeted, high demand disciplines. We have an established presence within our three core disciplines of education, business, and healthcare. We believe our focused approach enables us to

Table of Contents

develop our academic reputation and brand identity within our core disciplines, recruit and retain quality faculty and staff members, and meet the educational and career objectives of our students.

Focus on graduate degrees for working adults. We have designed our program offerings and our online delivery platform to meet the needs of working adults, particularly those seeking graduate degrees to obtain pay increases or job promotions that are directly tied to higher educational attainment.

Campus-based tradition that complements online capabilities. We believe that our 60-year heritage as a traditional campus-based university complements our online capabilities, attracts students who seek to affiliate with a traditional university, enhances the reputation of our degree programs among prospective students and employers, and differentiates us in the for-profit postsecondary market.

Commitment to offering academically rigorous, career-oriented programs. We are committed to offering academically rigorous educational programs that are designed to help our students achieve their career objectives. Our programs are taught by qualified faculty, substantially all of whom hold at least a master's degree and often have practical experience in their respective fields.

Innovative marketing, recruiting, and retention strategy. We have developed an integrated, innovative approach to student marketing, recruitment, and retention to reach our targeted students. We also proactively provide support to students at key points during their consideration of, and enrollment at, Grand Canyon University to enhance the probability of student enrollment and retention.

Experienced executive management team with strong operating track-record. Our executive management team possesses extensive experience in the management and operation of publicly-traded for-profit, postsecondary education companies, as well as other educational services businesses, including in the areas of marketing to, recruiting, and retaining students pursuing online and other distance education degree offerings, and in online content development.

Growth Strategies

We intend to pursue the following growth strategies:

Increase enrollment in existing programs. We intend to increase enrollment in existing programs within our three core disciplines, which we believe offer ample opportunity for growth. We also intend to increase the number of our enrollment counselors and marketing and student services personnel and introduce mid-term starts to drive enrollment growth and enhance student retention.

Expand online program and degree offerings consistent with student and employment demand trends. We develop and offer new programs that we believe have attractive demand characteristics and that are consistent with employment trends in the country. In this regard, we seek to develop additional programs in healthcare, education, business and liberal arts that are relevant to employers in these fields.

Continue to enhance the profile and reputation of our traditional ground campus. We intend to continue to enhance the profile and reputation of our traditional ground campus by leveraging the capabilities of our full-time ground faculty, attracting additional faculty with strong academic credentials, expanding upon and modernizing our campus infrastructure and technological capabilities, and strengthening our athletic programs. We believe these activities will continue to sustain and enhance the reputation of our programs and help drive, and support, increased ground and online enrollments.

Further enhance our brand recognition. We continue to enhance our brand recognition by pursuing online and offline marketing campaigns, developing our ground campus and traditional university programs to increase awareness of the university, establishing strategic branding relationships with recognized industry leaders, and developing complementary resources in our core disciplines that increase the overall awareness of our offerings.

Table of Contents

Leverage infrastructure and drive earnings growth. We have made and will continue to make significant investments in our people, processes, and technology infrastructure. We believe that these investments have prepared us to deliver our academic programs to a much larger student population with only modest incremental investment, and have also enabled us to increase the effectiveness of our academic, administrative and student services in ways that will assist in our efforts to increase student success and retention levels. We intend to continue leveraging our historical investments over our increasing enrollment, which we believe will allow us to increase our operating margins over time.

Expand relationships with private sector and government employers and military personnel. We seek additional relationships with health care systems, school districts, emergency services providers, the military and other employers through which we market our offerings to their employees. These relationships provide leads for our programs, build our recognition among employers in our core disciplines, and enable us to identify new programs and degrees that are in demand by students and employers.

Risks Affecting Us

Our business is subject to numerous risks, as discussed more fully in the section entitled **Risk Factors** immediately following this Prospectus Summary. In particular, our business would be adversely affected if:

we are unable to attract and retain students as a result of the highly competitive markets in which we operate;

we are unable to comply with the constantly evolving and extensive regulatory requirements to which our business is subject, including requirements governing the Title IV federal student financial aid programs, state laws and regulations, and accrediting commission requirements;

we experience any student, regulatory, reputational, or other events that adversely affect our degree offerings;

we experience a change in control under applicable regulatory or accrediting standards, and we are unable to obtain appropriate approvals for such an event in a timely manner, or at all;

we experience damage to our reputation or other adverse effects in connection with any compliance audit; regulatory action; investigation, including the investigation of Grand Canyon University currently being conducted by the Office of Inspector General of the U.S. Department of Education; or litigation, including the pending *qui tam* action regarding the manner in which we have compensated our enrollment personnel;

we experience damage to our reputation or other adverse effects as a result of negative publicity in the media, in industry or governmental reports, or otherwise, affecting us or other companies in the for-profit postsecondary education sector;

we are unable to attract and retain key personnel needed to sustain and grow our business;

our students are unable to obtain student loans on affordable terms, or at all;

adverse economic or other developments affect demand in our core disciplines; or

we are unable to develop new programs or expand our existing programs in a timely and cost-effective manner.

Corporate Information

We were formed in Delaware in November 2003 for the purpose of acquiring the assets of Grand Canyon University. Our principal executive offices are located at 3300 West Camelback Road, Phoenix, Arizona 85017, and our telephone number is (602) 639-7500. Our website is located at www.gcu.edu. The information on, or accessible through, our website does not constitute part of, and is not incorporated into, this prospectus.

Table of Contents

Accreditation

We are accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools, 30 N. LaSalle Street, Suite 2400, Chicago, Illinois 60602-2504; telephone (312) 263-0456; website www.ncahlc.org. The information on, or accessible through, the website of the Higher Learning Commission does not constitute part of, and is not incorporated into, this prospectus.

Industry Data

We use market data and industry forecasts and projections throughout this prospectus, which we have obtained from market research, publicly-available information and private industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' experience in the industry as of the time they were prepared, which in some cases preceded the current economic downturn, and there is no assurance that any of the projected numbers will be reached. Similarly, we believe that the surveys and market research others have completed are reliable, but we have not independently verified their findings.

Table of Contents

OFFERING SUMMARY

Common stock offered by us 1,000,000 shares

Common stock offering by the selling stockholders 5,000,000 shares

Total common stock offered 6,000,000 shares

Total common stock outstanding after this offering 45,576,417 shares

Use of proceeds The proceeds to us from this offering will be approximately \$15.0 million after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use the proceeds to us from this offering to pay the fees and expenses of this offering that are payable by us, and for working capital and other general corporate purposes. See Use of Proceeds. We will not receive any proceeds from the shares sold by the selling stockholders.

Risk factors You should carefully read and consider the information set forth under the section titled Risk Factors and all other information set forth in or incorporated by reference into this prospectus before deciding to invest in shares of our common stock.

Nasdaq Global Market symbol LOPE

The number of shares of our common stock to be outstanding following this offering is based on 44,576,417 shares of our common stock outstanding as of June 30, 2009. This number does not include:

3,310,532 shares of common stock issuable upon the exercise of stock options outstanding as of June 30, 2009 under our equity incentive plan, with a weighted average exercise price of \$12.11 per share;

37,377 shares of common stock that were issued upon the exercise of stock options subsequent to June 30, 2009; and

1,956,107 shares of common stock reserved for future issuance under our equity incentive plan as of June 30, 2009.

Unless otherwise indicated, the information in this prospectus reflects and assumes no exercise by the underwriters of their option to purchase up to an additional 900,000 shares of our common stock from the selling stockholders to cover over-allotments, if any.

Table of Contents**SUMMARY FINANCIAL AND OTHER DATA**

The following table sets forth our summary financial and other data as of the dates and for the periods indicated. The statement of operations and other data, excluding period end enrollment, for each of the years in the three-year period ended December 31, 2008, have been derived from our audited financial statements, which are included with our Annual Report on Form 10-K for the year ended December 31, 2008, which is incorporated by reference into this prospectus. The statement of operations and other data, excluding period end enrollment, for each of the six month periods ended June 30, 2008 and 2009, and the balance sheet data as of June 30, 2009, have been derived from our unaudited financial statements, which are included with our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, which is incorporated by reference into this prospectus. In the opinion of management, our unaudited financial statements include all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of such data. Our historical results are not necessarily indicative of our results for any future period.

You should read the following summary financial and other data in conjunction with Selected Financial and Other Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, and our financial statements and related notes, all of which are incorporated by reference into this prospectus.

	Year Ended December 31,			Six Months Ended	
	2006	2007	2008	June 30,	2009
	(Unaudited)				
	(In thousands, except enrollment				
	and per share data)				
Statement of Operations Data:					
Net revenue	\$ 72,111	\$ 99,326	\$ 161,309	\$ 70,275	\$ 118,364
Costs and expenses:					
Instructional costs and services	31,287	39,050	54,450	24,028	38,379
Selling and promotional	20,093	35,148	65,551	27,473	40,301
General and administrative	15,011	17,001	26,825	10,960	17,521
Royalty to former owner	2,678	3,782	1,686	1,488	148
Total costs and expenses	69,069	94,981	148,512	63,949	96,349
Operating income	3,042	4,345	12,797	6,326	22,015
Interest expense	(2,827)	(2,975)	(2,897)	(1,507)	(1,087)
Interest income	912	1,172	640	432	229
Income before income taxes	1,127	2,542	10,540	5,251	21,157
Income tax expense	529	1,016	3,855	2,027	8,439
Net income	598	1,526	6,685	3,224	12,718
Preferred dividends	(527)	(349)	(938)	(521)	
Net income available to common stockholders	\$ 71	\$ 1,177	\$ 5,747	\$ 2,703	\$ 12,718
Earnings per common share					

Edgar Filing: Grand Canyon Education, Inc. - Form 424B1

Basic	\$ 0.00	\$ 0.06	\$ 0.26	\$ 0.14	\$ 0.28
Diluted	\$ 0.00	\$ 0.03	\$ 0.17	\$ 0.08	\$ 0.28
Shares used in computing earnings per common share					
Basic	18,853	18,923	22,185	19,089	45,159
Diluted	36,858	35,143	33,430	32,623	45,437
Other Data:					
Capital expenditures	\$ 2,387	\$ 7,406	\$ 8,374	\$ 3,504	\$ 11,111
Purchase of campus land and buildings	\$	\$	\$	\$	\$ 35,505
Depreciation and amortization	\$ 2,396	\$ 3,300	\$ 5,095	\$ 2,269	\$ 3,386
Adjusted EBITDA ⁽¹⁾	\$ 9,074	\$ 11,723	\$ 25,675	\$ 10,294	\$ 26,978
Period end enrollment:					
Online	8,406	12,497	21,955	14,847	26,234
Ground	2,256	2,257	2,681	1,663	1,388

Table of Contents

	As of June 30, 2009	
	Actual	As Adjusted⁽²⁾
	(Unaudited)	
	(In thousands)	
Balance Sheet Data:		
Cash, cash equivalents and investments unrestricted	\$ 25,225	\$ 40,191
Cash and cash equivalents restricted	6,230	6,230
Total assets	126,506	141,419
Capital lease obligations (including short-term)	2,013	2,013
Other indebtedness (including short-term indebtedness)	27,681	27,681
Total stockholders equity	53,965	68,878

- (1) Adjusted EBITDA is defined as net income (loss) plus interest expense net of interest income, plus income tax expense (benefit), and plus depreciation and amortization (EBITDA), as adjusted for (i) royalty payments incurred pursuant to an agreement with our former owner that has been terminated as of April 15, 2008, as discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Factors affecting comparability Settlement with former owner included with our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, which is incorporated by reference into this prospectus; (ii) management fees and expenses that are no longer paid; (iii) contributions made to Arizona school tuition organizations in lieu of the payment of state income taxes; and (iv) share-based compensation.

We present Adjusted EBITDA because we consider it to be an important supplemental measure of our operating performance. We also make certain compensation decisions based, in part, on our operating performance, as measured by Adjusted EBITDA, and our loan agreement requires us to comply with covenants that include performance metrics substantially similar to Adjusted EBITDA. All of the adjustments made in our calculation of Adjusted EBITDA are adjustments to items that management does not consider to be reflective of our core operating performance. Management considers our core operating performance to be that which can be affected by our managers in any particular period through their management of the resources that affect our underlying revenue and profit generating operations during that period. Management fees and expenses, royalty expenses paid to our former owner, financing arrangements, and share-based compensation are not considered reflective of our core operating performance.

Our management uses Adjusted EBITDA:

in developing our internal budgets and strategic plan;

as a measurement of operating performance;

as a factor in evaluating the performance of our management for compensation purposes;

to, in part, assess compliance with our loan agreement; and

in presentations to the members of our Board of Directors to enable our board to have the same measurement basis of operating performance as are used by management to compare our current operating results with corresponding prior periods and with the results of other companies in our industry.

However, Adjusted EBITDA is not a recognized measurement under GAAP, and when analyzing our operating performance, investors should use Adjusted EBITDA in addition to, and not as an alternative for, net income, operating income, or any other performance measure presented in accordance with GAAP, or as an alternative to cash flow from operating activities or as a measure of our liquidity. Because not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA has limitations as an analytical tool, as discussed under Management's Discussion and Analysis of Financial Condition and

Table of Contents

Results of Operations Non-GAAP Discussion included with our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, which is incorporated by reference into this prospectus.

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

	Year Ended December 31,			Six Months Ended	
	2006	2007	2008	2008	2009
	(Unaudited)				
	(In thousands)				
Net income	\$ 598	\$ 1,526	\$ 6,685	\$ 3,224	\$ 12,718
Plus: interest expense net of interest income	1,915	1,803	2,257	1,075	858
Plus: income tax expense	529	1,016	3,855	2,027	8,439
Plus: depreciation and amortization	2,396	3,300	5,095	2,269	3,238
EBITDA	5,438	7,645	17,892	8,595	25,253
Plus: royalty to former owner ^(a)	2,678	3,782	1,686	1,488	148
Plus: management fees and expenses ^(b)	958	296	356	211	
Plus: contributions made in lieu of state income taxes ^(c)			750		
Plus: share-based compensation ^(d)			4,991		1,577
Adjusted EBITDA	\$ 9,074	\$ 11,723	\$ 25,675	\$ 10,294	\$ 26,978

(a) Reflects the royalty fee arrangement with the former owner of Grand Canyon University in which we agreed to pay a stated percentage of cash revenue generated by our online programs. As a result of the settlement of a dispute with the former owner, we are no longer obligated to pay this royalty, although the settlement includes a prepayment of future royalties that will be amortized in 2008 and future periods. See

Management's Discussion and Analysis of Financial Condition and Results of Operations Factors affecting comparability Settlement with former owner included with our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, which is incorporated by reference into this prospectus.

(b) Reflects management fees and expenses of \$0.3 million, \$0.3 million, and \$0.4 million for the years ended December 31, 2006, 2007, and 2008, respectively, and \$0.2 million for the six months ended June 30, 2008, to the general partner of Endeavour Capital Fund IV, L.P., one of our significant stockholders, and an aggregate of \$0.7 million for the year ended December 31, 2006, to an entity affiliated with a former director and another affiliated with a significant stockholder, in each case following their investment in us. The agreements relating to these arrangements have all terminated.

(c) Reflects contributions made in 2008 to various Arizona school tuition organizations to assist with funding for education. In connection with such contributions, we received a dollar-for-dollar state income tax credit, which resulted in a reduction in our effective income tax rate to 36.6% for the year ended December 31,

2008. Had this payment not been made, our effective tax rate would have been 40.8%. Such contributions were made in lieu of payments of state income taxes and are therefore excluded from evaluation of our core operating performance for the year ended December 31, 2008.

- (d) Reflects share-based compensation expense relating to stock and option grants made to employees and directors in connection with our initial public offering and thereafter.
- (2) As adjusted to give effect to the sale of 1,000,000 shares of common stock by us in this offering at an offering price of \$16.50 per share and the receipt by us of the net proceeds of that sale of approximately \$15.0 million after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before making an investment in our common stock, you should carefully consider the following risks and the other information contained in or incorporated by reference into this prospectus, including our financial statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Regulation. See Where You Can Find More Information and Incorporation By Reference. The risks described below are those that we believe are the material risks we face. Any of the risk factors described below, and others that we did not anticipate, could significantly and adversely affect our business, prospects, financial condition, results of operations, and cash flows. As a result, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related to the Regulation of Our Industry

Our failure to comply with the extensive regulatory requirements governing our school could result in financial penalties, restrictions on our operations or growth, or loss of external financial aid funding for our students.

For our fiscal years ended December 31, 2007 and 2008, we derived cash receipts equal to approximately 70.2% and 74.4%, respectively, of our net revenue from tuition financed under federal student financial aid programs authorized under Title IV of the Higher Education Act of 1965, as amended, referred to in this prospectus as the Title IV programs, which are administered by the U.S. Department of Education, or the Department of Education. To participate in the Title IV programs, a school must be authorized by the appropriate state education agency or agencies, be accredited by an accrediting commission recognized by the Department of Education, and be certified as an eligible institution by the Department of Education. In addition, our operations and programs are regulated by other state education agencies and additional accrediting commissions. As a result of these requirements, we are subject to extensive regulation by the Arizona State Board for Private Postsecondary Education and education agencies of other states, the Higher Learning Commission, which is our primary accrediting commission, specialized accrediting commissions, and the Department of Education. These regulatory requirements cover the vast majority of our operations, including our educational programs, instructional and administrative staff, administrative procedures, marketing, recruiting, financial operations, and financial condition. These regulatory requirements also affect our ability to open additional schools and locations, add new educational programs, change existing educational programs, and change our corporate or ownership structure. The agencies that regulate our operations periodically revise their requirements and modify their interpretations of existing requirements. Regulatory requirements are not always precise and clear, and regulatory agencies may sometimes disagree with the way we have interpreted or applied these requirements. Any misinterpretation by us of regulatory requirements could materially adversely affect us.

If we fail to comply with any of these regulatory requirements, we could suffer financial penalties, limitations on our operations, loss of accreditation, termination of or limitations on our ability to grant degrees and certificates, or limitations on or termination of our eligibility to participate in the Title IV programs, each of which could materially adversely affect us. In addition, if we are charged with regulatory violations, our reputation could be damaged, which could have a negative impact on our stock price and our enrollments. We cannot predict with certainty how all of these regulatory requirements will be applied, or whether we will be able to comply with all of the applicable requirements in the future.

If the Department of Education does not recertify us to continue participating in the Title IV programs, our students would lose their access to Title IV program funds, or we could be recertified but required to accept significant limitations as a condition of our continued participation in the Title IV programs.

Department of Education certification to participate in the Title IV programs lasts a maximum of six years, and institutions are thus required to seek recertification from the Department of Education on a regular basis in order to continue their participation in the Title IV programs. An institution must also apply for recertification by the Department of Education if it undergoes a change in control, as defined by Department

Table of Contents

of Education regulations, and may be subject to similar review if it expands its operations or educational programs in certain ways.

Our most recent recertification, which was issued on a provisional basis in May 2005 after an extended review by the Department of Education following the change in control that occurred in February 2004, contained a number of conditions on our continued participation in the Title IV programs. At that time we were required by the Department of Education to post a letter of credit, accept restrictions on the growth of our program offerings and enrollment, and receive certain Title IV funds under the heightened cash monitoring system of payment (pursuant to which an institution is required to credit students with Title IV funds prior to obtaining those funds from the Department of Education) rather than by advance payment (pursuant to which an institution receives Title IV funds from the Department of Education in advance of disbursement to students). In 2006 and 2007, the Department of Education eliminated the letter of credit requirement, allowed the growth restrictions to expire, eliminated the heightened cash monitoring restrictions and returned us to the advance payment method. We submitted our application for recertification to participate in the Title IV programs to the Department of Education in March 2008 in anticipation of the expiration of our provisional certification on June 30, 2008. The Department of Education did not make a decision on our recertification application by June 30, 2008 and therefore our provisional certification to participate in the Title IV programs has been automatically extended on a month-to-month basis until the Department of Education makes its decision. See Regulation Regulation of Federal Student Financial Aid Programs Eligibility and certification procedures. There can be no assurance that the Department of Education will recertify us while the investigation by the Office of Inspector General of the Department of Education is being conducted, while the qui tam lawsuit is pending, or at all, or that it will not impose restrictions as a condition to approving our pending recertification application or with respect to any future recertification. See The Office of Inspector General of the Department of Education has commenced an investigation of Grand Canyon University, which is ongoing and which may result in fines, penalties, other sanctions, and damage to our reputation in the industry and A qui tam lawsuit has been filed against us alleging, among other things, that we have improperly compensated certain of our enrollment counselors, and we may incur liability, be subject to sanctions, or experience damage to our reputation as a result of this lawsuit. If the Department of Education does not renew or withdraws our certification to participate in the Title IV programs at any time, our students would no longer be able to receive Title IV program funds. Similarly, the Department of Education could renew our certification, but restrict or delay our students receipt of Title IV funds, limit the number of students to whom we could disburse such funds, or place other restrictions on us that could be similar to, or more or less restrictive than, the restrictions that Department of Education imposed on us in connection with our recertification in 2005. Any of these outcomes would have a material adverse effect on our enrollments and us.

The Office of Inspector General of the Department of Education has commenced an investigation of Grand Canyon University, which is ongoing and which may result in fines, penalties, other sanctions, and damage to our reputation in the industry.

The Office of Inspector General of the Department of Education is responsible for, among other things, promoting the effectiveness and integrity of the Department of Education s programs and operations, including compliance with applicable statutes and regulations. The Office of Inspector General performs investigations of alleged violations of law, including cases of alleged fraud and abuse, or other identified vulnerabilities, in programs administered or financed by the Department of Education. On August 14, 2008, the Office of Inspector General served an administrative subpoena on Grand Canyon University requiring us to provide certain records and information related to performance reviews and salary adjustments for all of our enrollment counselors and managers from January 1, 2004 to the present. The Office of Inspector General s investigation is focused on whether we have compensated any of our enrollment counselors or managers in a manner that violated the Title IV statutory requirements or the related Department of Education regulations concerning the payment of incentive compensation based on success in securing enrollments or financial aid. See Regulation Regulation of Federal Student Financial Aid Programs Incentive

compensation rule.

We have been cooperating with the Office of Inspector General to facilitate its investigation and have completed production of all requested documents. We cannot presently predict the ultimate outcome of the investigation or any liability or other sanctions that may result. The outcome of the Office of Inspector

Table of Contents

General investigation may depend in part on information contained in the materials we produced or information or testimony provided by former employees or other third parties.

The Department of Education may impose fines and other monetary penalties as a result of a violation of the incentive compensation law and such fines and other monetary penalties may be substantial. In addition, the Department of Education retains the authority to impose other sanctions on an institution for violations of the incentive compensation law. The possible effects of a determination of a regulatory violation are described more fully in Regulation of Federal Student Financial Aid Programs Potential effect of regulatory violations. Any such fine or other sanction could damage our reputation and impose significant costs on us, which could have a material adverse effect on our business, prospects, financial condition, and results of operations.

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

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

The *qui tam* lawsuit alleges, among other things, that we violated the False Claims Act by knowingly making false statements, and submitting false records or statements, from at least 2001 to the present, to get false or fraudulent claims paid or approved, and asserts that we have improperly compensated certain of our enrollment counselors in violation of the Title IV law governing compensation of such employees, and as a result, improperly received Title IV program funds. See Regulation of Federal Student Financial Aid Programs Incentive compensation rule. The complaint specifically alleges that some of our compensation practices with respect to our enrollment personnel, including providing non-cash awards, have violated the Title IV law governing compensation. While we believe that our compensation policies and practices at issue in the complaint have not been based on success in enrolling students in violation of applicable law, the Department of Education's regulations and interpretations of the incentive compensation law do not establish clear criteria for compliance in all circumstances and some of our practices, including in respect of non-cash awards, have not been within the scope of any specific safe harbor provided in the compensation regulations. The complaint seeks treble the amount of unspecified damages sustained by the federal government in connection with our receipt of Title IV funding, a civil penalty for each violation of the False Claims Act, attorneys' fees, costs, and interest. We filed a motion to dismiss this case in November 2008, which was denied by the court in February 2009, and we have continued to vigorously contest this lawsuit. If it were determined that any of our compensation practices violated the incentive compensation law, we could experience an adverse outcome in the *qui tam* litigation and be subject to substantial monetary liabilities, fines, and other sanctions, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations and could adversely affect our stock price. We cannot presently predict the ultimate outcome of this *qui tam* case or any liability or other sanctions that may result. It is possible that during the course of the litigation or the related Office of Inspector General investigation other information may be discovered that would adversely affect the outcome of the litigation.

Table of Contents

Pursuant to the court's mandatory scheduling order, we have entered into settlement discussions with respect to the *qui tam* matter with the relator. In connection with such discussions, we are negotiating for a comprehensive settlement that would include, among other things, the resolution by the Office of Inspector General of its investigation. Accordingly, any such settlement would need to be approved not only by the relator, but by the U.S. Department of Justice (which has authority to approve settlements of False Claims Act matters), and the Department of Education. Based on publicly available information, we believe that similar *qui tam* lawsuits involving compensation practices of other post-secondary education institutions have settled (or have resulted in announced charges in anticipation of settlement) in the range of \$4.9 million to \$7.0 million. While we cannot assure you that this matter will be settled on terms acceptable to us or at all, we do not believe that any potential settlement, if in the amount (which is within the range of such other settlements) and on the terms currently under discussion, will materially adversely affect our business, operations, or liquidity, although any charge taken in connection with such a potential settlement would likely be material to our operating results and cash flow for the periods affected by the charge. If such settlement does not occur, we would continue to vigorously defend this lawsuit.

Congress may change the eligibility standards or reduce funding for the Title IV programs, which could reduce our student population, revenue, and profit margin.

Political and budgetary concerns significantly affect the Title IV programs. The Higher Education Act, which is the federal law that governs the Title IV programs, must be periodically reauthorized by Congress, and was most recently reauthorized in August 2008. The new law contains numerous revisions to the requirements governing the Title IV programs. See Regulation Regulation of Federal Student Financial Aid Programs. In addition, Congress must determine funding levels for the Title IV programs on an annual basis, and can change the laws governing the Title IV programs at any time. Because a significant percentage of our revenue is derived from the Title IV programs, any action by Congress that significantly reduces Title IV program funding or our ability or the ability of our students to participate in the Title IV programs, or otherwise requires us to modify our practices with respect to Title IV programs, could increase our costs of compliance, reduce the ability of some students to finance their education at our institution, require us to seek to arrange for other sources of financial aid for our students, and materially decrease our student enrollment, each of which could have a material adverse effect on us.

If we do not meet specific financial responsibility standards established by the Department of Education, we may be required to post a letter of credit or accept other limitations in order to continue participating in the Title IV programs, or we could lose our eligibility to participate in the Title IV programs.

To participate in the Title IV programs, an institution must either satisfy specific quantitative standards of financial responsibility prescribed by the Department of Education, or post a letter of credit in favor of the Department of Education and possibly accept operating restrictions as well. These financial responsibility tests are applied to each institution on an annual basis based on the institution's audited financial statements, and may be applied at other times, such as if the institution undergoes a change in control. These tests may also be applied to an institution's parent company or other related entity. The operating restrictions that may be placed on an institution that does not meet the quantitative standards of financial responsibility include being transferred from the advance payment method of receiving Title IV funds to either the reimbursement or the heightened cash monitoring system, which could result in a significant delay in the institution's receipt of those funds. For example, when we were recertified by the Department of Education to participate in the Title IV programs in May 2005, the Department of Education reviewed our fiscal year 2004 audited financial statements and advised us that our composite score under the Department of Education's financial responsibility formula reflected financial weakness. As a result of this and other concerns about our administrative capability, the Department of Education required us to post a letter of credit, accept restrictions on the growth of our program offerings and enrollment, and receive Title IV funds under the heightened cash monitoring system of payment rather than by advance payment. In 2006 and 2007, the Department of Education eliminated each

of these requirements and restrictions. However, if, in the future, we fail to satisfy the Department of Education's financial responsibility standards, we could experience increased regulatory compliance costs or delays in our receipt of Title IV funds because we could be required to post a letter of credit or be subjected to operating restrictions, or both. Our failure to secure a letter of credit in

Table of Contents

these circumstances could cause us to lose our ability to participate in the Title IV programs, which would materially adversely affect us.

If we do not comply with the Department of Education's administrative capability standards, we could suffer financial penalties, be required to accept other limitations in order to continue participating in the Title IV programs, or lose our eligibility to participate in the Title IV programs.

To continue participating in the Title IV programs, an institution must demonstrate to the Department of Education that the institution is capable of adequately administering the Title IV programs under specific standards prescribed by the Department of Education. These administrative capability criteria require, among other things, that the institution has an adequate number of qualified personnel to administer the Title IV programs, has adequate procedures for disbursing and safeguarding Title IV funds and for maintaining records, submits all required reports and financial statements in a timely manner, and does not have significant problems that affect the institution's ability to administer the Title IV programs. If we fail to satisfy any of these criteria, the Department of Education may assess financial penalties against us, restrict the manner in which we receive Title IV funds to us, require us to post a letter of credit, place us on provisional certification status, or limit or terminate our participation in the Title IV programs, any of which could materially adversely affect us.

We would lose our ability to participate in the Title IV programs if we fail to maintain our institutional accreditation, and our student enrollments could decline if we fail to maintain any of our accreditations or approvals.

An institution must be accredited by an accrediting commission recognized by the Department of Education in order to participate in the Title IV programs. We have institutional accreditation by the Higher Learning Commission, which is an accrediting commission recognized by the Department of Education. To remain accredited, we must continuously meet accreditation standards relating to, among other things, performance, governance, institutional integrity, educational quality, faculty, administrative capability, resources, and financial stability. We were reaccredited by the Higher Learning Commission in 2007, and the next scheduled comprehensive evaluation will be conducted in 2016-2017. While, during the 2007 reaccreditation process, the Higher Learning Commission concluded that we were in compliance with its accreditation standards, it did note certain deficiencies to be addressed by us. See Regulation Accreditation. In February 2009, we filed a monitoring report with the Higher Learning Commission addressing our progress in resolving these deficiencies and in March 2009, we received notification from the Higher Learning Commission that our report was accepted and that no further reports are required. The Higher Learning Commission is currently reviewing our request to operate at nine additional off-campus sites. If we fail to satisfy any of the Higher Learning Commission's standards, we could lose our accreditation by the Higher Learning Commission, which would cause us to lose our eligibility to participate in the Title IV programs and could cause a significant decline in our total student enrollments and have a material adverse effect on us. In addition, many of our individual educational programs are also accredited by specialized accrediting commissions or approved by specialized state agencies. If we fail to satisfy the standards of any of those specialized accrediting commissions or state agencies, we could lose the specialized accreditation or approval for the affected programs, which could result in materially reduced student enrollments in those programs and have a material adverse effect on us.

If we do not maintain our state authorization in Arizona, we may not operate or participate in the Title IV programs.

A school that grants degrees or certificates must be authorized by the relevant education agency of the state in which it is located. We are located in the state of Arizona and are authorized by the Arizona State Board for Private Postsecondary Education. State authorization is also required for our students to be eligible to receive funding under the Title IV programs. To maintain our state authorization, we must continuously meet standards relating to, among

other things, educational programs, facilities, instructional and administrative staff, marketing and recruitment, financial operations, addition of new locations and educational programs, and various operational and administrative procedures. If we fail to satisfy any of these standards,

Table of Contents

we could lose our authorization by the Arizona State Board for Private Postsecondary Education to offer our educational programs, which would also cause us to lose our eligibility to participate in the Title IV programs and have a material adverse effect on us.

If any of the education regulatory agencies that regulate us do not approve or delay their approval of any transaction involving us that constitutes a change in control, our ability to operate or participate in the Title IV programs may be impaired.

If we experience a change in control under the standards of the Department of Education, the Higher Learning Commission, the Arizona State Board for Private Postsecondary Education, or any other applicable state education agency or accrediting commission, we must notify and/or seek the approval of each such agency. These agencies do not have uniform criteria for what constitutes a change in control. Transactions or events that typically constitute a change in control include significant acquisitions or dispositions of the voting stock of an institution or its parent company, and significant changes in the composition of the board of directors of an institution or its parent company. Some of these transactions or events may be beyond our control. Our failure to obtain, or a delay in receiving, approval of any change in control from the Department of Education, the Higher Learning Commission, or the Arizona State Board for Private Postsecondary Education could impair our ability to operate or participate in the Title IV programs, which could have a material adverse effect on our business, prospects, financial condition, and results of operations. Our failure to obtain, or a delay in receiving, approval of any change in control from any other state in which we are currently licensed or authorized, or from any of our specialized accrediting commissions, could require us to suspend our activities in that state or suspend offering the applicable programs until we receive the required approval, or could otherwise impair our operations. The potential adverse effects of a change in control could influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance, or redemption of our stock, which could discourage bids for your shares of our stock and could have an adverse effect on the market price of your shares.

In connection with our initial public offering in November 2008, we submitted a description of the offering to the Department of Education, including a description of a proxy and voting agreement that has been entered into by certain of our stockholders. Pursuant to the agreement, Brent D. Richardson, our Executive Chairman, and Christopher C. Richardson, our General Counsel and a director (collectively, the Richardson Voting Group), controlled the voting power of approximately 42.9% of our total outstanding voting stock after the initial public offering. See Certain Relationships and Related Transactions Voting Agreement. Based on this description, the Department of Education concluded that the initial public offering did not result in a change in control under the Department of Education's regulations. The Higher Learning Commission did consider our initial public offering to be a change in control under its policies and, while it approved our consummation of the offering, it informed us that it would conduct a site visit to confirm the appropriateness of the approval and to evaluate whether we continue to meet the Higher Learning Commission's eligibility criteria. The Higher Learning Commission conducted its site visit in March 2009 and determined, among other things, that the initial public offering was conducted in a manner that did not disrupt our ongoing operations and that no further action would be required as a result of the change in control. As a result, the Higher Learning Commission formally approved the change in control in June 2009. In addition, we notified the Arizona State Board for Private Postsecondary Education of our initial public offering and, based on our communications with that agency, we do not believe that our initial public offering constituted a change in control under Arizona law. We also notified other accrediting commissions and state agencies, as we believed necessary, of our initial public offering and the reasons why we believed the offering did not constitute a change in control under their respective standards, or to determine what was required if any such commission or agency did consider the offering to constitute a change in control. None of the other accrediting commissions and state agencies that we notified of our initial public offering has advised us that it concluded that the offering constituted a change in control under its policies or that it required us to take any further action.

With respect to publicly-traded corporations, like us, Department of Education regulations provide that a change in control occurs if either: (i) there is an event that would obligate the corporation to file a Current

Table of Contents

Report on Form 8-K with the Securities and Exchange Commission, or the SEC, disclosing a change in control, or (ii) the corporation has a stockholder that owns, or has voting control over, at least 25% of the total outstanding voting stock of the corporation and is the largest stockholder of the corporation, and that stockholder ceases to own, or have voting control over, at least 25% of such stock or ceases to be the largest stockholder. The Higher Learning Commission adopted new policies and procedures with respect to changes in control in June 2009, and one such policy provides that an institution is considered to undergo a change in control if a person or group increases or decreases its control of shares to greater than or less than 25% of the total outstanding shares of the stock of a parent corporation that owns or controls the accredited institution and, in such event, requires the institution to obtain its approval in advance of the change. In addition, the standards of the Arizona State Board for Private Postsecondary Education provide that an institution that is owned by a publicly-traded corporation whose control is vested in the voting members of the board of directors, like us, undergoes a change in control if 50% or more of the voting members of the board of directors change within a 12-month period or the chief executive officer of the corporation changes. Based on the number of shares of common stock expected to be sold by us and the selling stockholders in this offering, and the addition of the Endeavour Entities (as defined herein) as parties to the proxy and voting agreement, we believe that the Richardson Voting Group will continue to have voting power over 25% or more of our total outstanding voting stock after the completion of the offering and that this offering will not constitute a change in control under the Department of Education's regulations. In addition, we have been advised by the Higher Learning Commission and the Arizona State Board for Private Postsecondary Education that this offering will not constitute a change in control under their respective rules and policies, but we have not received any indication from the Department of Education whether it will consider this offering to constitute a change in control under its regulations.

Even if this offering will not constitute a change of control under the Department of Education's regulations or the Higher Learning Commission's policies, under the terms of the voting agreement with the Richardson Voting Group, if any person party to the voting agreement transfers shares covered by the proxy in registered or open-market sales, the proxy is no longer effective as to such shares. Accordingly, the number of shares over which the Richardson Voting Group will continue to hold voting power pursuant to the voting agreement will decrease over time as shares held by other parties to the voting agreement are sold, and we may not be aware of these sales since many of the shares subject to the voting agreement are held in street name. If at any time in the future, as a result of such future registered or open-market sales, the number of shares over which the Richardson Voting Group holds voting power falls below 25%, a change in control will occur. At that point, with respect to the Department of Education, we will lose our eligibility to participate in the Title IV programs and must apply to the Department of Education in order to reestablish such eligibility. If we file the required application and follow other procedures, the Department of Education may temporarily certify us on a provisional basis following the change in control, so that our students retain access to Title IV program funds until the Department of Education completes its full review. In addition, the Department of Education will extend such temporary provisional certification if we timely file other required materials. While we expect to file all such applications and other materials within applicable deadlines, there is no assurance that we will be able to do so because we cannot be certain of the percentage of stock that is subject to the Richardson Voting Group at any given time in order to be certain if and when the Richardson Voting Group falls below the applicable 25% threshold. If we fail to meet any of these application and other deadlines, our certification will expire and our students will not be eligible to receive Title IV program funds until the Department of Education completes its full review, which commonly takes several months and may take longer. If the Department of Education approves our application after a change in control, it will certify us on a provisional basis for a period of up to approximately three years, although we cannot predict how the Department of Education will process this provisional recertification or what restrictions may be imposed if such change in control occurs while we remain on month-to-month status and subject to the ongoing investigation by the Office of Inspector General of the Department of Education or the *qui tam* lawsuit. See Regulation Regulatory Standards that May Restrict Institutional Expansion or Other Changes Change in ownership resulting in a change in control.

With respect to the Higher Learning Commission, if we anticipate that the number of shares over which the Richardson Voting Group holds voting power will fall below 25% at any time in the future, we would be required to obtain the approval of the Higher Learning Commission before such event occurs. However,

Table of Contents

because we may be unaware when such event occurs, we would seek the cooperation of the Higher Learning Commission to allow us to arrange an appropriate review procedure at that time since there may not be an opportunity to obtain the Higher Learning Commission's advance review and approval, as is typically required by its policies. In that circumstance, we cannot predict whether the Higher Learning Commission would impose any limitations or conditions on us, or identify any compliance issues related to us in the context of the change in control process, that could result in our loss of accreditation by the Higher Learning Commission. Any such loss of accreditation would result in our loss of eligibility to participate in the Title IV programs and cause a significant decline in our student enrollments.

If a substantial number of our students cannot secure Title IV loans as a result of decreased lender participation in the Title IV programs or if lenders increase the costs or reduce the benefits associated with the Title IV loans they provide, we could be materially adversely affected.

The cumulative impact of recent regulatory and market developments and conditions, including the widespread disruption in the credit and financial markets, has caused some lenders to cease providing Title IV loans to students, including some lenders that previously provided our students with Title IV loans, also known as Federal Family Education program loans, or FFEL loans. Other lenders have reduced the benefits and increased the fees associated with the Title IV loans they provide. We and other schools have had to modify student loan practices in ways that result in higher administrative costs. If the cost of Title IV loans increases or availability decreases, some students may not be able to take out loans and may not enroll in a postsecondary institution. In May 2008, new federal legislation was enacted to attempt to ensure that all eligible students would be able to obtain Title IV loans in the future and that a sufficient number of lenders would continue to provide Title IV loans. Among other things, that legislation:

authorized the Department of Education to purchase Title IV loans from lenders, thereby providing capital to the lenders to enable them to continue making Title IV loans to students; and

permitted the Department of Education to designate institutions eligible to participate in a lender of last resort program, under which federally recognized student loan guaranty agencies would be required to make Title IV loans to all otherwise eligible students at those institutions.

While this legislation appears to have provided some stability to the marketplace for Title IV loans, it is not yet clear if it ultimately will be effective in ensuring students' access to Title IV loans. The environment surrounding access to and cost of student loans remains in a state of flux. The Department of Education proposed new regulations regarding student loans in July 2009, which could go into effect on July 1, 2010, and Congress is in the process of considering legislation to eliminate the FFEL loan program and move all federal student lending into the Federal Direct Loan Program, known as the FDL program. The uncertainty surrounding these issues, and any resolution of these issues that increases loan costs or reduces students' access to Title IV loans, may adversely affect our student enrollments. Although we are approved to participate in the FDL program, because a significant percentage of our revenue is derived from the Title IV programs, any action by Congress that significantly reduces Title IV program funding or our ability or the ability of our students to participate in the Title IV programs could increase our costs of compliance, reduce the ability of some students to finance their education at our institution, require us to seek to arrange for other sources of financial aid for our students and materially decrease our student enrollment, each of which could have a material adverse effect on us. In addition, a transition to the FDL program could cause disruptions in the administration of Title IV program loans to our students if we or the Department of Education encounter difficulties with the systems or processes necessary for increased FDL program loans.

Our failure to comply with new regulations promulgated by the Department of Education could result in financial penalties, or the limitation, suspension, or termination of our continued participation in the Title IV programs.

The Department of Education has been working since December 2008 to develop regulations through a negotiated rulemaking process to carry out the numerous revisions to the Title IV program regulations required by the reauthorization of the Higher Education Act in August 2008. Negotiated rulemaking is a process whereby the Department of Education consults with members of the postsecondary education community to

Table of Contents

identify issues of concern and attempts to agree on proposed regulatory revisions to address those issues before the Department of Education formally proposes any regulations. Following the conclusion of such negotiated rulemaking, in July and August 2009, the Department of Education proposed regulations relating to, among other things, the relationships between schools and lenders of both private and Title IV loans, the approval and oversight of accrediting agencies, and general programmatic requirements applicable to the Title IV programs, including the 90/10 Rule. The Department of Education is expected to publish new final regulations by November 1, 2009, which is the required deadline in order for such regulations to take effect on July 1, 2010. In addition, in May 2009, the Department of Education announced its intent to establish new negotiated rulemaking committees that are expected to begin their discussions as soon as the fall of 2009, and to address a number of significant issues, including: compensation paid by institutions to persons or entities engaged in student recruiting or admission activities; the determination of satisfactory academic progress under different academic calendars; state authorization as a component of institutional eligibility; the definition of a credit hour for purposes of determining program eligibility status, particularly in the context of awarding Pell Grants; verification of information on student financial aid applications; and the definition of a high school diploma as a condition of a student's eligibility for Title IV aid.

The issues addressed in the regulations that have been or are expected to be proposed by the Department of Education, as well as the issues to be addressed in the upcoming negotiated rulemaking process, are broad and complex and concern a number of significant aspects of the Title IV programs, including eligibility and certification, administrative capability, school-lender relationships, the 90/10 Rule, incentive compensation, and student loan default rates. See Regulation Regulation of Student Financial Aid Programs The 90/10 Rule. At this time, we cannot be certain whether and to what extent any changes may affect our ability to remain eligible to participate in the Title IV programs or require us to incur additional costs in connection with our administration of the Title IV programs. Any future changes that jeopardize our eligibility to participate in some or all of the Title IV programs could materially adversely affect us.

An increase in interest rates could adversely affect our ability to attract and retain students.

For our fiscal years ended December 31, 2007 and 2008, we derived cash receipts equal to approximately 70.2% and 74.4%, respectively, of our net revenue from tuition financed under the Title IV programs, which include student loans with interest rates subsidized by the federal government. Additionally, some of our students finance their education through private loans that are not subsidized. If our students' employment circumstances are adversely affected by regional or national economic downturns, they may be more heavily dependent on student loans. Interest rates have reached relatively low levels in recent years, creating a favorable borrowing environment for students. However, in the event interest rates increase or Congress decreases the amount available for federal student aid, our students may have to pay higher interest rates on their loans. Any future increase in interest rates will result in a corresponding increase in educational costs to our existing and prospective students, which could result in a significant reduction in our student population and revenues. Higher interest rates could also contribute to higher default rates with respect to our students' repayment of their education loans. Higher default rates may in turn adversely impact our eligibility to participate in some or all of the Title IV programs, which could result in a significant reduction in our student population and our profitability. See We may lose our eligibility to participate in the Title IV programs if our student loan default rates are too high located elsewhere in Risk Factors for further information.

Our failure to comply with the regulatory requirements of states other than Arizona could result in actions taken by those states that could have a material adverse effect on our enrollments.

Almost every state imposes regulatory requirements on educational institutions that have physical facilities located within the state's boundaries. These regulatory requirements establish standards in areas such as educational programs, facilities, instructional and administrative staff, marketing and recruitment, financial operations, addition of new

locations and educational programs, and various operational and administrative procedures, some of which are different than the standards prescribed by the Department of Education or the Arizona State Board for Private Postsecondary Education. In addition, several states have sought to assert jurisdiction over educational institutions offering online degree programs that have no physical location in the

Table of Contents

state but that have some activity in the state, such as enrolling or offering educational services to students who reside in the state, employing faculty who reside in the state, or advertising to or recruiting prospective students in the state. State regulatory requirements for online education vary among the states, are not well developed in many states, are imprecise or unclear in some states, and can change frequently. In the future, states could coordinate their efforts in order to more aggressively attempt to regulate or restrict schools' offering of online education.

In addition to Arizona, we have determined that our activities in certain states constitute a presence requiring licensure or authorization under the requirements of the state education agency in those states. In certain other states, we have obtained approvals to operate as we have determined necessary in connection with our marketing and recruiting activities. If we fail to comply with state licensing or authorization requirements for a state, or fail to obtain licenses or authorizations when required, we could lose our state licensure or authorization by that state or be subject to other sanctions, including restrictions on our activities in that state, fines, and penalties. The loss of licensure or authorization in a state other than Arizona could prohibit us from recruiting prospective students or offering educational services to current students in that state, which could significantly reduce our enrollments and revenues and materially adversely affect us.

State laws and regulations are not always precise or clear, and regulatory agencies may sometimes disagree with the way we have interpreted or applied these requirements. Any misinterpretation by us of these regulatory requirements or adverse changes in regulations or interpretations thereof by regulators could materially adversely affect us.

The inability of our graduates to obtain a professional license or certification in their chosen field of study could reduce our enrollments and revenues, and potentially lead to student claims against us that could be costly to us.

Many of our students, particularly those in our education and healthcare programs, seek a professional license or certification in their chosen fields following graduation. A student's ability to obtain a professional license or certification depends on several factors, including whether the institution and the student's program were accredited by a particular accrediting commission or approved by a professional association or by the state in which the student seeks employment. Additional factors are outside the control of the institution, such as the individual student's own background and qualifications. If one or more states refuse to recognize a significant number of our students for professional licensing or certification based on factors relating to our institution or programs, the potential growth of those programs would be negatively impacted and we could be exposed to claims or litigation by students or graduates based on their inability to obtain their desired professional license or certification, each of which could materially adversely affect us.

Increased scrutiny and regulation by various governmental agencies of relationships between student loan providers and educational institutions and their employees have produced significant uncertainty concerning restrictions applicable to the administration of both Title IV and private student loan programs and the funding for those programs which, if not satisfactorily or timely resolved, could result in increased regulatory burdens and costs for us and could adversely affect our student enrollments.

During 2007 and 2008, both Title IV and private student loan programs came under increased scrutiny by the Department of Education, Congress, state attorneys general, and other parties. Issues that received extensive attention included allegations of conflicts of interest between some institutions and lenders that provide student loans, questionable incentives given by lenders to some schools and school employees, allegations of deceptive practices in the marketing of student loans, and schools leading students to use certain lenders. Several institutions and lenders were cited for these problems and paid several million dollars in the aggregate to settle those claims. The practices of numerous other schools and lenders were, and in some cases continue to be, examined by government agencies at the federal and state level. The Attorney General of the State of Arizona requested extensive documentation from us and other institutions in Arizona concerning student loan practices, and we provided testimony in response to a subpoena

from the Attorney General of the State of Arizona about such practices. In 2008, without admitting any wrongdoing, we agreed with the Attorney General of the State of Arizona to conclude its investigation of us by executing a Letter of

Table of Contents

Assurance, whereby we agreed to conduct referrals of students to lenders in accordance with our existing policies or any new policies promulgated by the State of Arizona in the future and to reimburse the state for the costs of its investigation in the amount of approximately \$20,000.

As a result of the increased scrutiny of student loan programs, Congress has passed new laws, the Department of Education and the Board of Governors of the Federal Reserve System have promulgated or proposed new and stricter regulations, and several states have adopted codes of conduct or enacted state laws that further regulate the conduct of lenders, schools, and school personnel. These new laws and regulations, among other things, limit schools relationships with lenders, restrict the types of services that schools may receive from lenders, prohibit lenders from providing other types of loans to students in exchange for Title IV loan volume from schools, and require schools and lenders to provide additional information to students concerning institutionally preferred lenders and the terms of available student loans. The environment surrounding access to and cost of student loans remains in a state of flux, with additional legislation and regulatory changes being considered at the state and federal levels. The Department of Education proposed new regulations regarding student loans in July 2009, which could go into effect on July 1, 2010, and Congress is considering legislation to eliminate the FFEL loan program and move all federal student lending into the FDL program. This uncertainty, and any resolution of these issues that increases loan costs or reduces students access to student loans, may adversely affect our student enrollments, which could have an adverse effect on us.

Government agencies, regulatory agencies, and third parties may conduct compliance reviews, bring claims, or initiate litigation against us based on alleged violations of the extensive regulatory requirements applicable to us, which could cause us to pay monetary damages, be sanctioned or limited in our operations, and expend significant resources to defend against those claims.

Because we operate in a highly regulated industry, we are subject to program reviews, audits, investigations, claims of non-compliance, and lawsuits by government agencies, regulatory agencies, students, employees, stockholders, and other third parties alleging non-compliance with applicable legal requirements, many of which are imprecise and subject to interpretation. As we grow larger, this scrutiny of our business may increase. If the result of any such proceeding is unfavorable to us, we may lose or have limitations imposed on our state licensing, accreditation, or Title IV program participation; be required to pay monetary damages (including triple damages in certain whistleblower suits); or be subject to fines, injunctions, or other penalties, any of which could have a material adverse effect on our business, prospects, financial condition, and results of operations. In this regard, we are currently subject to an investigation by the Department of Education's Office of Inspector General, which is focused on the manner in which we have compensated our enrollment counselors and managers, and a *qui tam* lawsuit brought by a former employee alleging violations in the same area. See Risk Factors The Office of Inspector General of the Department of Education has commenced an investigation of Grand Canyon University, which is ongoing and which may result in fines, penalties, other sanctions, and damage to our reputation in the industry, Risk Factors A *qui tam* lawsuit has been filed against us alleging, among other things, that we have improperly compensated certain of our enrollment counselors, and we may incur liability, be subject to sanctions, or experience damage to our reputation as a result of this lawsuit, and Regulation Regulation of Federal Student Financial Aid Programs Incentive compensation rule. Claims and lawsuits brought against us, even if they are without merit, may also result in adverse publicity, damage our reputation, negatively affect the market price of our stock, adversely affect our student enrollments, and reduce the willingness of third parties to do business with us. Even if we adequately address the issues raised by any such proceeding and successfully defend against it, we may have to devote significant financial and management resources to address these issues, which could harm our business.

A decline in the overall growth of enrollment in postsecondary institutions, or in the number of students seeking degrees online or in our core disciplines, could cause us to experience lower enrollment at our schools, which could negatively impact our future growth.

According to a March 2009 report from the NCES, enrollment in degree-granting, postsecondary institutions is projected to grow 10.0% over the ten-year period ending fall 2017 to approximately

Table of Contents

20.1 million. This growth is slower than the 25.8% increase reported in the prior ten-year period ended in fall 2007, when enrollment increased from 14.5 million in 1997 to 18.2 million in 2007. Similarly, a 2008 study by Eduventures, LLC, projects a compound annual growth rate of 12.5% in online postsecondary education enrollment over the five-year period ending fall 2013, which represents an aggregate increase in online enrollment of 1.5 million. This growth is slower than the 25.3% compound annual growth rate in the prior five-year period ending fall 2008, which represented an aggregate increase in online enrollment of 1.3 million. In addition, according to a March 2008 report from the Western Interstate Commission for Higher Education, the number of high school graduates that are eligible to enroll in degree-granting, postsecondary institutions is expected to peak at approximately 3.3 million for the class of 2008, falling in the period between 2007-08 and 2013-14 by about 150,000 in total before resuming a growth pattern for the foreseeable future thereafter. In order to maintain current growth rates, we will need to attract a larger percentage of students in existing markets and expand our markets by creating new academic programs. In addition, if job growth in the fields related to our core disciplines is weaker than expected, as a result of any regional or national economic downturn or otherwise, fewer students may seek the types of degrees that we offer. Our failure to attract new students, or the decisions by prospective students to seek degrees in other disciplines, would have an adverse impact on our future growth.

If our students were unable to obtain private loans from third-party lenders, our business could be adversely affected given our students' reliance on such loans to satisfy their educational expenses.

During the fiscal year ended December 31, 2008, private loans to students at our school represented approximately 2.9% of our revenue (calculated on a cash basis) as compared to 5.1% of revenue in fiscal 2007. These loans were provided pursuant to private loan programs and were made available to eligible students to fund a portion of the students' costs of education not covered by the Title IV programs and state financial aid sources. Private loans are made to our students by lending institutions and are non-recourse to us. The 2008 reauthorization of the Higher Education Act and related proposed and final regulations place significant new restrictions on the relationships between institutions and the providers of private loans, and require that certain specific terms and disclosures accompany such loans. This increased regulatory burden, coupled with recent adverse market conditions for consumer and federally guaranteed student loans (including lenders' difficulties in reselling or syndicating student loan portfolios) have resulted, and could continue to result, in providers of private loans reducing the availability of or increasing the costs associated with providing private loans to postsecondary students. In particular, loans to students with low credit scores who would not otherwise be eligible for credit-based private loans have become increasingly difficult to obtain. Prospective students may find that these increased financing costs make borrowing prohibitively expensive and abandon or delay enrollment in postsecondary education programs. If any of these scenarios were to occur, our students' ability to finance their education could be adversely affected and our student population could decrease, which could have a material adverse effect on our business, prospects, financial condition, and results of operations.

We are subject to sanctions if we pay impermissible commissions, bonuses, or other incentive payments to persons involved in certain recruiting, admissions, or financial aid activities.

A school participating in the Title IV programs may not provide, or contract with a third party that provides, any commission, bonus, or other incentive payment based on success in enrolling students or securing financial aid to any person involved in student recruiting or admission activities or in making decisions regarding the awarding of Title IV program funds. The Department of Education's regulations set forth 12 safe harbors which describe payments and arrangements that do not violate the incentive compensation rule. The Department of Education's regulations make clear that the safe harbors are not a complete list of permissible practices under this law. One of these safe harbors permits adjustments to fixed salary for enrollment personnel provided that such adjustments are not made more than twice during any twelve month period, and that any adjustment is not based solely on the number of students recruited, admitted, enrolled, or awarded financial aid. In addition, such safe harbors do not address non-cash awards

to enrollment personnel.

Table of Contents

As described in **Risk Factors** The Office of Inspector General of the Department of Education has commenced an investigation of Grand Canyon University, which is ongoing and which may result in fines, penalties, other sanctions, and damage to our reputation in the industry, and in **Regulation** Regulation of Federal Student Financial Aid Programs Incentive compensation rule, we are currently subject to an investigation by the Department of Education's Office of Inspector General, which is focused on the manner in which we have compensated our enrollment counselors and managers. In addition, in recent years several for-profit education companies, including us, have been faced with whistleblower lawsuits, known as *qui tam* cases, by current or former employees alleging violations of this prohibition. See **Risk Factors** A *qui tam* lawsuit has been filed against us alleging, among other things, that we have improperly compensated certain of our enrollment counselors, and we may incur liability, be subject to sanctions, or experience damage to our reputation as a result of this lawsuit. While we believe that our compensation policies and practices at issue in the complaint have not been based on success in enrolling students in violation of applicable law, the Department of Education's regulations and interpretations of the incentive compensation law do not establish clear criteria for compliance in all circumstances and some of our practices, including in respect of non-cash awards, have not been within the scope of any specific safe harbor provided in the compensation regulations. If the Department of Education determines as a result of the pending investigation that we have violated this law, if we are found to be liable in the pending *qui tam* action, or if we or any third parties we have engaged otherwise violate this law, we could be fined or sanctioned by the Department of Education, or subjected to other monetary liability or penalties that could be substantial, any of which could harm our reputation, impose significant costs on us, and have a material adverse effect on our business, prospects, financial condition, and results of operations.

Our reputation and our stock price may be negatively affected by adverse publicity or by the actions of other postsecondary educational institutions.

In recent years, regulatory proceedings and litigation have been commenced against various postsecondary educational institutions relating to, among other things, deceptive trade practices, false claims against the government, and non-compliance with Department of Education requirements, state education laws, and state consumer protection laws. These proceedings have been brought by the Department of Education, the U.S. Department of Justice, the SEC, and state governmental agencies, among others. These allegations have attracted adverse media coverage and have been the subject of legislative hearings and regulatory actions at both the federal and state levels, focusing not only on the individual schools but in some cases on the for-profit postsecondary education sector as a whole. Adverse media coverage regarding other for-profit education companies or other educational institutions could damage our reputation, result in lower enrollments, revenues, and operating profit, and have a negative impact on our stock price. Such coverage could also result in increased scrutiny and regulation by the Department of Education, Congress, accrediting commissions, state legislatures, state attorneys general, or other governmental authorities of all educational institutions, including us.

If the percentage of our revenue that is derived from the Title IV programs is too high, we may lose our eligibility to participate in those programs.

A for-profit institution loses its eligibility to participate in the Title IV programs if, under a formula that requires cash basis accounting and other adjustments to the calculation of revenue, it derives more than 90% of its revenues from those programs in two consecutive fiscal years. The period of ineligibility covers at least the next two succeeding fiscal years and any Title IV funds already received by the institution and its students during the period of ineligibility would have to be returned to the applicable lender or the Department of Education. An institution whose rate exceeds 90% for any single year will be placed on provisional certification for at least two fiscal years. The August 2008 reauthorization of the Higher Education Act made significant changes to this revenue requirement, including certain changes to the formula used to calculate a school's ratio. Using the Department of Education's formula that was in effect prior to the August 2008 reauthorization of the Higher Education Act, we have calculated that, for our 2007 and 2008 fiscal years, we derived approximately 74.0% and 78.6%, respectively, of our revenue from the Title IV

programs. We are currently assessing what impact, if any, the revised formula and other changes in federal law will have on our 90/10 calculation. As a result of recent changes in federal law that increased Title IV grant and loan limits, as

Table of Contents

well as the current economic downturn, which has adversely affected the employment circumstances of our students and their parents and increased their reliance on Title IV programs, we expect the percentage of our revenue that we receive from the Title IV programs to continue to increase in the future, making it more difficult for us to satisfy this requirement. Exceeding the 90% threshold such that we lost our eligibility to participate in the Title IV programs would have a material adverse effect on our business, prospects, financial condition, and results of operations.

We may lose our eligibility to participate in the Title IV programs if our student loan default rates are too high.

An institution may lose its eligibility to participate in some or all of the Title IV programs if, for three consecutive years, 25% or more of its students who were required to begin repayment on their student loans in one year default on their payment by the end of the following year. In addition, an institution may lose its eligibility to participate in some or all of the Title IV programs if the default rate of its students exceeds 40% for any single year. The August 2008 reauthorization of the Higher Education Act extends by one year the period for which students' defaults on their loans will be included in the calculation of an institution's default rate, a change that is expected to increase our cohort default rates. The new law also increases the threshold for an institution to lose its eligibility to participate in the relevant Title IV programs from 25% to 30% over three consecutive years, while leaving the threshold at 40% for a single year. These changes to the law take effect for institutions' cohort default rates for federal fiscal year 2009, which are expected to be calculated and issued by the Department of Education in 2012. While our cohort default rates have historically been significantly below these levels, we cannot assure you that this will continue to be the case. For example, we expect our cohort default rate for the 2008 federal fiscal year to increase (but remain well below the Department of Education's thresholds) due primarily to the impact of current economic conditions on our students and former students. In addition, increases in interest rates or declines in income or job losses for our students could contribute to higher default rates on student loans. Exceeding the student loan default rate thresholds and losing our eligibility to participate in the Title IV programs would have a material adverse effect on our business, prospects, financial condition, and results of operations. Any future changes in the formula for calculating student loan default rates, economic conditions, or other factors that cause our default rates to increase, could place us in danger of losing our eligibility to participate in some or all of the Title IV programs and materially adversely affect us.

We are subject to sanctions if we fail to correctly calculate and timely return Title IV program funds for students who withdraw before completing their educational program.

A school participating in the Title IV programs must calculate the amount of unearned Title IV program funds that it has disbursed to students who withdraw from their educational programs before completing such programs and must return those unearned funds to the appropriate lender or the Department of Education in a timely manner, generally within 45 days of the date the school determines that the student has withdrawn. If the unearned funds are not properly calculated and timely returned for a sufficient percentage of students, we may have to post a letter of credit in favor of the Department of Education equal to 25% of the Title IV funds that should have been returned for such students in the prior fiscal year, we may be liable for repayment of Title IV funds and related interest and we could be fined or otherwise sanctioned by the Department of Education, which could increase our cost of regulatory compliance and materially adversely affect us. Further, a failure to comply with these regulatory requirements could result in termination of our ability to participate in the Title IV programs, which would materially affect us.

We cannot offer new programs, expand our operations into certain states, or acquire additional schools if such actions are not timely approved by the applicable regulatory agencies, and we may have to repay Title IV funds disbursed to students enrolled in any such programs, schools, or states if we do not obtain prior approval.

Our expansion efforts include offering new educational programs. In addition, we may increase our operations in additional states and seek to acquire existing schools from other companies. If we are unable to

Table of Contents

obtain the necessary approvals for such new programs, operations, or acquisitions from the Department of Education, the Higher Learning Commission, the Arizona State Board for Private Postsecondary Education, or any other applicable state education agency or accrediting commission, or if we are unable to obtain such approvals in a timely manner, our ability to consummate the planned actions and provide Title IV funds to any affected students would be impaired, which could have a material adverse effect on our expansion plans. If we were to determine erroneously that any such action did not need approval or that we had all required approvals, we could be liable for repayment of the Title IV program funds provided to students in that program or at that location.

Risks Related to Our Business

Our success depends, in part, on the effectiveness of our marketing and advertising programs in recruiting new students.

Building awareness of Grand Canyon University and the programs we offer is critical to our ability to attract prospective students. It is also critical to our success that we convert prospective students to enrolled students in a cost-effective manner and that these enrolled students remain active in our programs. Some of the factors that could prevent us from successfully recruiting, enrolling, and retaining students in our programs include:

the reduced availability of, or higher interest rates and other costs associated with, Title IV loan funds or other sources of financial aid;

the emergence of more successful competitors;

factors related to our marketing, including the costs and effectiveness of Internet advertising and broad-based branding campaigns and recruiting efforts;

performance problems with our online systems;

failure to maintain institutional and specialized accreditations;

the requirements of the education agencies that regulate us which restrict schools' initiation of new programs and modification of existing programs;

the requirements of the education agencies that regulate us which restrict the ways schools can compensate their recruitment personnel;

increased regulation of online education, including in states in which we do not have a physical presence;

restrictions that may be imposed on graduates of online programs that seek certification or licensure in certain states;

student dissatisfaction with our services and programs;

the results of the ongoing investigation by the Department of Education's Office of Inspector General and the pending *qui tam* action regarding the manner in which we have compensated our enrollment personnel, and possible remedial actions or other liability resulting therefrom;

damage to our reputation or other adverse effects as a result of negative publicity in the media, in industry or governmental reports, or otherwise, affecting us or other companies in the for-profit postsecondary

education sector;

price reductions by competitors that we are unwilling or unable to match;