Grand Canyon Education, Inc.
Form 10-Q
August 01, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number: 001-34211

GRAND CANYON EDUCATION, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**20-3356009**
(State or other jurisdiction of	**(I.R.S. Employer**
Incorporation or organization)	**Identification No.)**

3300 W. Camelback Road

Phoenix, Arizona 85017

(Address, including zip code, of principal executive offices)

(602) 639-7500

(Registrant s telephone number, including area code)

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

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

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

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

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

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

The total number of shares of common stock outstanding as of July 27, 2017, was 48,115,342.

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GRAND CANYON EDUCATION, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GRAND CANYON EDUCATION, INC.

Consolidated Income Statements

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	**2017**	**2016**	**2017**	**2016**
Net revenue	$ 218,301	$ 191,279	$ 466,507	$ 418,237
Costs and expenses:				
Instructional costs and services	95,030	84,599	197,604	179,253
Admissions advisory and related	31,085	28,866	63,057	58,410
Advertising	24,776	22,149	49,407	43,256
Marketing and promotional	2,264	2,108	4,724	4,350
General and administrative	10,058	8,809	19,999	19,529
Total costs and expenses	163,213	146,531	334,791	304,798
Operating income	55,088	44,748	131,716	113,439
Interest expense	(495)	(158)	(1,075)	(487)
Interest and other income	739	293	741	2,341
Income before income taxes	55,332	44,883	131,382	115,293
Income tax expense	15,485	17,257	35,623	44,002
Net income	$ 39,847	$ 27,626	$ 95,759	$ 71,291
Earnings per share:				
Basic income per share	$ 0.85	$ 0.60	$ 2.04	$ 1.56
Diluted income per share	$ 0.83	$ 0.59	$ 1.99	$ 1.52
Basic weighted average shares outstanding	47,151	46,004	46,949	45,813
Diluted weighted average shares outstanding	48,192	46,990	48,131	46,925

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

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GRAND CANYON EDUCATION, INC.

Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Net income	$ 39,847	$ 27,626	$ 95,759	$ 71,291
Other comprehensive income, net of tax:				
Unrealized (losses) gains on available-for-sale securities, net of taxes of $10 and $59 for the three months ended June 30, 2017 and 2016, respectively, and $232 and $83 for the six months ended June 30, 2017 and 2016, respectively	(17)	97	376	136
Unrealized losses on hedging derivatives, net of taxes of $42 and $53 for the three months ended June 30, 2017 and 2016, respectively, and $45 and $201 for the six months ended June 30, 2017 and 2016, respectively	(69)	(87)	(74)	(325)
Comprehensive income	$ 39,761	$ 27,636	$ 96,061	$ 71,102

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

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GRAND CANYON EDUCATION, INC.

Consolidated Balance Sheets

(In thousands, except par value)	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS:		
Current assets		
Cash and cash equivalents	$ 66,282	$ 45,976
Restricted cash and cash equivalents	79,440	84,931
Investments	89,414	62,596
Accounts receivable, net	10,933	9,999
Income tax receivable	4,546	4,686
Other current assets	22,156	21,880
Total current assets	272,771	230,068
Property and equipment, net	888,184	855,528
Prepaid royalties	2,911	3,059
Goodwill	2,941	2,941
Other assets	1,756	897
Total assets	$ 1,168,563	$ 1,092,493
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current liabilities		
Accounts payable	$ 22,489	$ 24,824
Accrued compensation and benefits	19,913	19,697
Accrued liabilities	20,641	21,283
Income taxes payable	3,636	2,734
Student deposits	79,520	85,881
Deferred revenue	52,004	40,739
Current portion of notes payable	6,665	31,636
Total current liabilities	204,868	226,794
Other noncurrent liabilities	1,433	1,689
Deferred income taxes, noncurrent	26,778	23,708
Notes payable, less current portion	63,270	66,616
Total liabilities	296,349	318,807
Commitments and contingencies		
Stockholders equity		
Preferred stock, $0.01 par value, 10,000 shares authorized; 0 shares issued and outstanding at June 30, 2017 and December 31, 2016		
	522	515

Common stock, $0.01 par value, 100,000 shares authorized; 52,168 and 51,509 shares issued and 48,053 and 47,559 shares outstanding at June 30, 2017 and December 31, 2016, respectively		
Treasury stock, at cost, 4,115 and 3,950 shares of common stock at June 30, 2017 and December 31, 2016, respectively	(99,051)	(89,394)
Additional paid-in capital	224,735	212,559
Accumulated other comprehensive loss	(608)	(910)
Retained earnings	746,616	650,916
Total stockholders equity	872,214	773,686
Total liabilities and stockholders equity	$ 1,168,563	$ 1,092,493

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

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GRAND CANYON EDUCATION, INC.

Consolidated Statement of Stockholders Equity

(In thousands)

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	
	Shares	Par Value	Shares	Cost	Capital	Loss	Earnings	Total
Balance at December 31, 2016	51,509	$ 515	3,950	$ (89,394)	$ 212,559	$ (910)	$ 650,916	$ 773,686
Cumulative effect from the adoption of accounting pronouncements, net of taxes					59		(59)	
Comprehensive income						302	95,759	96,061
Restricted shares forfeited			16					
Share-based compensation	192	2	149	(9,657)	6,227			(3,428)
Exercise of stock options	467	5			5,890			5,895
Balance at June 30, 2017	52,168	$ 522	4,115	$ (99,051)	$ 224,735	$ (608)	$ 746,616	$ 872,214

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

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GRAND CANYON EDUCATION, INC.

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	Six Months Ended June 30, 2017	2016
Cash flows provided by operating activities:		
Net income	$ 95,759	$ 71,291
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	6,229	5,831
Provision for bad debts	7,830	7,963
Depreciation and amortization	26,856	21,245
Deferred income taxes	3,372	2,478
Other	214	(1,682)
Changes in assets and liabilities:		
Accounts receivable	(8,764)	(8,745)
Prepaid expenses and other	(1,413)	1,221
Accounts payable	(1,708)	(2,386)
Accrued liabilities and employee related liabilities	(439)	11,481
Income taxes receivable/payable	1,042	835
Deferred rent	(222)	(535)
Deferred revenue	11,265	9,344
Student deposits	(6,361)	(5,877)
Net cash provided by operating activities	133,660	112,464
Cash flows used in investing activities:		
Capital expenditures	(50,491)	(115,615)
Purchases of land, building and golf course improvements related to off-site development	(9,374)	(24,769)
Proceeds received from note receivable		501
Return of equity method investment		1,749
Purchases of investments	(52,181)	(23,525)
Proceeds from sale or maturity of investments	25,363	57,449
Net cash used in investing activities	(86,683)	(104,210)
Cash flows (used in) provided by financing activities:		
Principal payments on notes payable and capital lease obligations	(3,400)	(3,831)
Debt issuance costs		(194)
Net borrowings from revolving line of credit	(25,000)	25,000
Repurchase of common shares including shares withheld in lieu of income taxes	(9,657)	(19,227)
Net proceeds from exercise of stock options	5,895	6,972

Net cash (used in) provided by financing activities	(32,162)	8,720
Net increase in cash and cash equivalents and restricted cash	14,815	16,974
Cash and cash equivalents and restricted cash, beginning of period	130,907	98,420
Cash and cash equivalents and restricted cash, end of period	$ 145,722	$ 115,394
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 1,167	$ 481
Cash paid for income taxes	$ 31,718	$ 40,176
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment included in accounts payable	$ 7,118	$ 19,798
Tax benefit of Spirit warrant intangible	$	$ 127
Shortfall tax expense from share-based compensation	$	$ 257

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

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GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

1. Nature of Business

Grand Canyon Education, Inc. (together with its subsidiaries, the University) is a comprehensive regionally accredited university that offers over 220 graduate and undergraduate degree programs, emphases and certificates across nine colleges both online and on ground at our over 270 acre campus in Phoenix, Arizona, at leased facilities and at facilities owned by third party employers. Our undergraduate programs are designed to be innovative and to meet the future needs of employers, while providing students with the needed critical thinking and effective communication skills developed through a Christian-oriented, liberal arts foundation. We offer master s and doctoral degrees in contemporary fields that are designed to provide students with the capacity for transformational leadership in their chosen industry, emphasizing the immediate relevance of theory, application, and evaluation to promote personal and organizational change. The University is accredited by The Higher Learning Commission. The University s wholly-owned subsidiaries are primarily used to facilitate expansion of the University campus.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the University and its wholly-owned subsidiaries. Intercompany transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying unaudited interim consolidated financial statements of the University have been prepared in accordance with U.S. generally accepted accounting principles and pursuant to the rules and regulations of the United States Securities and Exchange Commission and the instructions to Form 10-Q and Article 10. They do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Such interim financial information is unaudited but reflects all adjustments that in the opinion of management are necessary for the fair presentation of the interim periods presented. Interim results are not necessarily indicative of results for a full year. These consolidated financial statements should be read in conjunction with the University s audited financial statements and footnotes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2016 from which the December 31, 2016 balance sheet information was derived.

Restricted Cash and Cash Equivalents

A significant portion of the University s revenue is received from students who participate in government financial aid and assistance programs. Restricted cash and cash equivalents primarily represent amounts received from the federal and state governments under various student aid grant and loan programs, such as Title IV. The University receives these funds subsequent to the completion of the authorization and disbursement process and holds them for the benefit

of the student. The U.S. Department of Education (Department of Education) requires Title IV funds collected in advance of student billings to be restricted until the course begins. The University records all of these amounts as a current asset in restricted cash and cash equivalents. The majority of these funds remains as restricted for an average of 60 to 90 days from the date of receipt.

Investments

The University considers its investments in municipal securities as available-for-sale securities. Available-for-sale securities are carried at fair value, determined using Level 1 and Level 2 of the hierarchy of valuation inputs, with the use of quoted market prices and inputs other than quoted prices that are observable for the assets, with unrealized gains and losses, net of tax, reported as a separate component of other comprehensive income. Unrealized losses considered to be other-than-temporary are recognized currently in earnings. Amortization of premiums, accretion of discounts, interest and dividend income and realized gains and losses are included in interest and other income.

Derivatives and Hedging

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

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GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

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

On February 27, 2013, the University entered into an interest rate corridor to manage its 30 Day LIBOR interest exposure related to its variable rate debt. The fair value of the interest rate corridor instrument as of June 30, 2017 and December 31, 2016 was $372 and $490, respectively, which is included in other assets. The fair value of the derivative instrument was determined using a hypothetical derivative transaction and Level 2 of the hierarchy of valuation inputs. This derivative instrument was originally designated as a cash flow hedge of variable rate debt obligations. The adjustment of $119 and $526 for the six months ended June 30, 2017 and 2016, respectively, for the effective portion of the losses on the derivatives is included as a component of other comprehensive income, net of taxes.

The interest rate corridor instrument reduces variable interest rate risk starting March 1, 2013 through December 20, 2019 with a notional amount of $70,000 as of June 30, 2017. The corridor instrument s terms permits the University to hedge its interest rate risk at several thresholds; the University pays variable interest monthly based on the 30 Day LIBOR rates until that index reaches 1.5%. If 30 Day LIBOR is equal to 1.5% through 3.0%, the University pays 1.5%. If 30 Day LIBOR exceeds 3.0%, the University pays actual 30 Day LIBOR less 1.5%.

As of June 30, 2017, no derivative ineffectiveness was identified. Any ineffectiveness in the University s derivative instrument designated as a hedge is reported in interest expense in the income statement. At June 30, 2017, the University does not expect to reclassify gains or losses on derivative instruments from accumulated other comprehensive income (loss) into earnings during the next 12 months.

Fair Value of Financial Instruments

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

The fair value of investments, primarily municipal securities, were determined using Level 2 of the hierarchy of valuation inputs, with the use of inputs other than quoted prices that are observable for the assets. The unit of account

used for valuation is the individual underlying security. The municipal securities are comprised of city and county bonds related to schools, water and sewer, utilities, transportation, healthcare and housing.

Revenue Recognition

Net revenues consist primarily of tuition and fees derived from courses taught by the University online, on ground at its over 270 acre campus in Phoenix, Arizona, and at facilities it leases or those of employers, as well as from related educational resources that the University provides to its students, such as access to online materials. Tuition revenue and most fees from related educational resources are recognized pro-rata over the applicable period of instruction, net of scholarships provided by the University. For the six months ended June 30, 2017 and 2016, the University s revenue was reduced by approximately $91,703 and $85,308, respectively, as a result of scholarships that the University offered to students. The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods. Certain states in which students reside impose separate, mandatory refund policies, which override the University s policy to the extent in conflict. If a student withdraws at a time when only a portion, or none of the tuition is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the tuition that was not refunded pro-rata over the applicable period of instruction. However, for students that have taken out financial aid to pay their tuition and for which a return of such money to the Department of Education under Title IV is required as a result of his or her withdrawal, the University recognizes revenue after a student withdraws only at the time of cash collection. Sales tax collected from students is excluded from net revenues. Collected but unremitted sales tax is included as an accrued liability in the consolidated balance sheets. The University also charges online students an upfront learning management fee, which is deferred and recognized over the average expected term of a student. Costs that are direct and incremental

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GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

to new online students are also deferred and recognized ratably over the average expected term of a student. Deferred revenue and student deposits in any period represent the excess of tuition, fees, and other student payments received as compared to amounts recognized as revenue on the income statement and are reflected as current liabilities in the accompanying consolidated balance sheet. The University s educational programs have starting and ending dates that differ from its fiscal quarters. Therefore, at the end of each fiscal quarter, a portion of revenue from these programs is not yet earned. Other revenues may be recognized as sales occur or services are performed.

Allowance for Doubtful Accounts

The University records an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of its students to make required payments, which includes the recovery of financial aid funds advanced to a student for amounts in excess of the student s cost of tuition and related fees. The University determines the adequacy of its allowance for doubtful accounts based on an analysis of its historical bad debt experience, current economic trends, the aging of the accounts receivable and student status. The University applies reserves to its receivables based upon an estimate of the risk presented by the age of the receivables and student status. The University writes off accounts receivable balances at the earlier of the time the balances were deemed uncollectible, or one year after the revenue is generated. The University accelerates the write off of inactive student accounts such that the accounts are written off by day 150. The University reflects accounts receivable with an offsetting allowance as long as management believes there is a reasonable possibility of collection. Bad debt expense is recorded as an instructional costs and services expense in the consolidated income statement.

Long-Lived Assets (other than goodwill)

The University evaluates the recoverability of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Instructional Costs and Services

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

Admissions Advisory and Related

Admissions advisory and related expenses include salaries and benefits for admissions advisory personnel as well as an allocation of depreciation, amortization, rent and occupancy costs attributable to the admissions advisory personnel.

Advertising

Advertising expenses include brand advertising, marketing leads and other branding activities. Advertising costs are expensed as incurred.

Marketing and Promotional

Marketing and promotional expenses include salaries, benefits and share-based compensation for marketing personnel, and other promotional expenses. This category also includes an allocation of depreciation, amortization, rent, and occupancy costs attributable to marketing and promotional activities. Marketing and promotional costs are expensed as incurred.

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Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

General and Administrative

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

Commitments and Contingencies

The University accrues for contingent obligations when it is probable that a liability has been incurred and the amount is reasonably estimable. When the University becomes aware of a claim or potential claim, the likelihood of any loss exposure is assessed. If it is probable that a loss will result and the amount of the loss is estimable, the University records a liability for the estimated loss. If the loss is not probable or the amount of the potential loss is not estimable, the University will disclose the claim if the likelihood of a potential loss is reasonably possible and the amount of the potential loss could be material. Estimates that are particularly sensitive to future changes include tax, legal, and other regulatory matters, which are subject to change as events evolve, and as additional information becomes available during the administrative and litigation process. The University expenses legal fees as incurred.

Use of Estimates

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

Segment Information

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

Accounting Pronouncements Adopted in 2017

In March 2016, the FASB issued Compensation Stock Compensation: Improvement to Employee Share-Based Payment Accounting, to simplify certain aspects of the accounting for share-based payment transactions to employees. The new standard requires excess tax benefits and tax deficiencies to be recorded in the consolidated statements of income as a component of the provision for income taxes when stock awards vest or options are exercised. In addition, it eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to

financing activities on the consolidated statements of cash flows. The standard also provides an accounting policy election to account for forfeitures as they occur, allows us to withhold more of an employee s vesting shares for tax withholding purposes without triggering liability accounting, and clarifies that all cash payments made to tax authorities on an employee s behalf for withheld shares should be presented as a financing activity on our consolidated cash flows statement.

The University adopted the new guidance in the first quarter of 2017 which required us to reflect any adjustments as of January 1, 2017. Upon adoption, excess tax benefits or deficiencies from share-based awards or options are now reflected in the consolidated statement of income as a component of the provision for income taxes, whereas previously they were recognized in equity. The University elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change increased additional paid-in capital and decreased retained earnings as of January 1, 2017 by $59, net of tax. The University did not have any previously unrecognized excess tax effects that had not been recorded as a reduction to tax liability.

The University adopted the provisions of the standard impacting the cash flow presentation retrospectively, and accordingly, to conform to the current period presentation, we reclassified $5,484 of excess tax benefits which had been included as a financing activity to an operating activity for the six months ended June 30, 2016 in our consolidated statement of cash flows. The presentation requirement for cash flows related to employee taxes paid for withheld shares had no impact on our consolidated statement of cash flows since such cash flows have historically been presented as a financing activity.

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GRAND CANYON EDUCATION, INC.

Notes to Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

Adoption of the provision of the new standard related to income taxes was adopted prospectively and resulted in a reduction to our provision for income taxes of $13,752 for the six months ended June 30, 2017, due to the recognition of excess tax benefits from restricted stock awards that vested or stock options that were exercised in 2017. Our restricted stock awards vest in March each year so the excess tax benefits and deficiencies is greatest in the first quarter each year. The inclusion of excess tax benefits and deficiencies as a component of our income tax expense will increase volatility within our provision for income taxes as the amount of excess tax benefits or deficiencies from share-based compensation awards are dependent on our stock price at the date the restricted awards vest, our stock price on the date an option is exercised, and the quantity of options exercised.

In August 2016, the FASB issued a new standard that clarifies how certain cash receipts and cash payments are presented and classified in the consolidated statement of cash flows. The University elected to early adopt this guidance in the first quarter of 2017 on a retrospective basis. There was no reclassification impact of the adoption on our consolidated statement of cash flows for the six months ended June 30, 2017 and 2016, as our historical statements have been presented in accordance with this new guidance.

In November 2016, the FASB issued a new standard that requires restricted cash and cash equivalents to be included with the amount of cash and cash equivalents that are reconciled on the consolidated statement of cash flows. The University elected to early adopt this guidance in the first quarter of 2017 on a retrospective basis, and accordingly, to conform to the current period presentation, we reclassified our restricted cash and cash equivalents to be included in the total of cash and cash equivalents presented at the bottom of our consolidated statement of cash flows for both the beginning and ending periods for our six months ended June 30, 2017 and 2016. As a result, the amount of the change in our net cash provided by operating activities no longer includes the impact of the change in restricted cash and cash equivalents for either period.

The following table summarizes the effects related to the adoption of both accounting standards (share-based compensation and restricted cash and cash equivalents) for the six months ended June 30, 2016:

Consolidated Statement of Cash Flows Data:

	June 30, 2016	
	As reported	**As adjusted**
Net cash provided by operating activities	$ 114,024	$ 112,464
Net cash used in investing activities	$ (106,710)	$ (104,210)
Net cash provided by financing activities	$ 14,204	$ 8,720
Net increase in cash and cash equivalents and restricted cash	$ 21,518	$ 16,974

Cash and cash equivalents and restricted cash, beginning of period	$ 23,036	$ 98,420
Cash and cash equivalents and restricted cash, end of period	$ 44,544	$ 115,394

Recent Accounting Pronouncements

In May 2014, the FASB issued *Revenue from Contracts with Customers*, as amended. The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The accounting guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to obtain or fulfill a contract. In July 2015, the FASB approved a one-year delay in the effective date. The University will adopt this new standard January 1, 2018 using either of two acceptable adoption methods: (i) retrospective adoption to each prior reporting period presented with the option to elect certain practical expedients as defined within the standard; or (ii) adoption with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosure as defined within the standard. Management is in the diagnostic phase of assessing the financial and business impacts of implementing, *Revenue from Contracts with Customers*, including identifying revenue sources within the University and developing a preliminary assessment. The majority of our revenues are related to tuition due from our students. Tuition revenues are recognized pro-rata over the applicable period of instruction which the University believes is consistent with the revenue recognition method required by the new standard. Thus, we anticipate the adoption of this standard will not have a material impact on our consolidated financial statements or results of operations. The University is continuing to evaluate the impact the adoption of this standard will have on our other revenues and fees in our consolidated financial statements and the method of adoption to be used. Management expects that there may be some changes as a result of implementing the new standard.

In January 2016, the FASB issued *Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most prominent among the amendments is the requirement for changes in the fair value of equity investments, with

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certain exceptions, to be recognized through net income rather than other comprehensive income (OCI). This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is not permitted. Accordingly, the standard is effective for us on January 1, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In February 2016, the FASB issued *Leases*. The standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and a lease liability on the balance sheet for all leases with lease terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. Accordingly, the standard is effective for us on January 1, 2019 using a modified retrospective transition approach. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The University has begun evaluating the impact that the future adoption of this standard will have on our consolidated financial statements and we believe the adoption will slightly increase our assets and liabilities, and will increase our financial statement disclosures.

In June 2016, the FASB issued *Financial Instruments Credit Losses: Measurement of Credit Losses on Financial Instruments* . The new guidance revises the accounting requirements related to the measurement of credit losses on financial instruments and the timing of when such losses are recorded. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for fiscal years and interim periods within those years, beginning after December 15, 2018. Accordingly, the standard is effective for us on January 1, 2020 using a modified retrospective approach, and we are currently evaluating the impact that the standard will have on our consolidated financial statements.

The University has determined that no other recent accounting pronouncements apply to its operations or could otherwise have a material impact on its consolidated financial statements.

3. Investments

The following is a summary of investments as of June 30, 2017 and December 31, 2016. The University considers all investments as available for sale.

	As of June 30, 2017		
	Adjusted Cost	**Gross Unrealized**	**Gross Unrealized**	**Estimated Fair**

		Gains	(Losses)	Value
Municipal securities	$ 89,501	$ 40	$ (127)	$ 89,414

	As of December 31, 2016			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Municipal securities	$ 62,769	$ 12	$ (185)	$ 62,596

The cash flows of municipal securities are backed by the issuing municipality s credit worthiness. All municipal securities are due in one year or less as of June 30, 2017. For the six months ended June 30, 2017, the net unrealized losses on available-for-sale securities was $54, net of taxes.

4. Net Income Per Common Share

Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflects the assumed conversion of all potentially dilutive securities, consisting of stock options and restricted stock awards, for which the estimated fair value exceeds the exercise price, less shares which could have been purchased with the related proceeds, unless anti-dilutive. For employee equity awards, repurchased shares are also included for any unearned compensation adjusted for tax. The table below reflects the calculation of the weighted average number of common shares outstanding, on an as if converted basis, used in computing basic and diluted earnings per common share.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Denominator:				
Basic weighted average shares outstanding	47,151	46,004	46,949	45,813
Effect of dilutive stock options and restricted stock	1,041	986	1,182	1,112
Diluted weighted average shares outstanding	48,192	46,990	48,131	46,925

Diluted weighted average shares outstanding exclude the incremental effect of unvested restricted stock and shares that would be issued upon the assumed exercise of stock options in accordance with the treasury stock method. For the six months ended June 30, 2017 and 2016, approximately 4 and 434, respectively, of the University s stock options and restricted stock awards outstanding were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive. These options and restricted stock awards could be dilutive in the future.

5. Allowance for Doubtful Accounts

	Balance at Beginning of Period	Charged to Expense	Deductions[1]	Balance at End of Period
Six months ended June 30, 2017	$ 5,918	7,830	(8,179)	$ 5,569
Six months ended June 30, 2016	$ 5,137	7,963	(7,525)	$ 5,575

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

6. Property and Equipment

Property and equipment consist of the following:

	June 30, 2017	December 31, 2016
Land	$ 139,782	$ 127,769
Land improvements	24,684	23,158
Buildings	569,363	559,791

Buildings and leasehold improvements	110,702	105,168
Equipment under capital leases	5,937	5,943
Computer equipment	114,327	108,551
Furniture, fixtures and equipment	60,786	59,300
Internally developed software	33,029	30,407
Other	1,176	1,176
Construction in progress	37,964	19,112
	1,097,750	1,040,375
Less accumulated depreciation and amortization	(209,566)	(184,847)
Property and equipment, net	$ 888,184	$ 855,528

7. Commitments and Contingencies

Legal Matters

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

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

Tax Reserves, Non-Income Tax Related

From time to time the University has exposure to various non-income tax related matters that arise in the ordinary course of business. The University reserve is not material for tax matters where its ultimate exposure is considered probable and the potential loss can be reasonably estimated.

8. Share-Based Compensation

Incentive Plans

Prior to June 2017, the University made grants of restricted stock and stock options under its 2008 Equity Incentive Plan (the 2008 Plan). In January 2017, the Board of Directors of the University approved, and at the University s 2017 annual meeting of stockholders held on June 14, 2017, the University s stockholders adopted, a 2017 Equity Incentive Plan (the 2017 Plan). All future grants of equity incentives will be made from the 2017 Plan.

Restricted Stock

During the six months ended June 30, 2017, the University granted 188 shares of common stock under the 2008 Plan with a service vesting condition to certain of its executives, officers, faculty and employees. The restricted shares have voting rights and vest in five annual installments of 20%, with this first installment vesting in March of the calendar year following the date of grant (the first vesting date) and on each of the four anniversaries of the first vesting date. Upon vesting, shares will be held in lieu of taxes equivalent to the minimum statutory tax withholding required to be paid when the restricted stock vests. During the six months ended June 30, 2017, the University withheld 149 shares of common stock in lieu of taxes at a cost of $9,657 on the restricted stock vesting dates. In June 2017, following the annual stockholders meeting, the University granted 4 shares of common stock under the 2017 Plan to the non-employee members of the University s board of directors. The restricted shares granted to these directors have voting rights and vest on the earlier of (a) the one year anniversary of the date of grant or (b) immediately prior to the following year s annual stockholders meeting.

A summary of the activity related to restricted stock granted under the 2008 Plan and the 2017 Plan since December 31, 2016 is as follows:

	Total Shares	Weighted Average Grant Date Fair Value per Share
Outstanding as of December 31, 2016	993	$ 38.32
Granted	192	$ 70.44
Vested	(371)	$ 32.38
Forfeited, canceled or expired	(16)	$ 41.28
Outstanding as of June 30, 2017	798	$ 48.78

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Stock Options

During the six months ended June 30, 2017, no options were granted. A summary of the activity since December 31, 2016 related to stock options granted under the 2008 Plan is as follows:

	Summary of Stock Options Outstanding			
	Total Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($)(1)
Outstanding as of December 31, 2016	1,272	$ 15.26		
Granted		$		
Exercised	(467)	$ 12.60		
Forfeited, canceled or expired		$		
Outstanding as of June 30, 2017	805	$ 16.82	3.03	$ 49,517
Exercisable as of June 30, 2017	805	$ 16.82	3.03	$ 49,517

(1) Aggregate intrinsic value represents the value of the University s closing stock price on June 30, 2017 ($78.41) in excess of the exercise price multiplied by the number of shares underlying options outstanding or exercisable, as applicable.

Share-based Compensation Expense

The table below outlines share-based compensation expense for the six months ended June 30, 2017 and 2016 related to restricted stock and stock options granted:

	2017	2016
Instructional costs and services	$ 3,921	$ 3,544

Admissions advisory and related expenses	82	105
Marketing and promotional	77	60
General and administrative	2,149	2,122
Share-based compensation expense included in operating expenses	6,229	5,831
Tax effect of share-based compensation	(2,491)	(2,332)
Share-based compensation expense, net of tax	$ 3,738	$ 3,499

9. Regulatory

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

To participate in the Title IV programs, an institution must be authorized to offer its programs of instruction by the relevant agency of the state in which it is located, accredited by an accrediting agency recognized by the Department of Education and certified as eligible by the Department of Education. The Department of Education will certify an institution to participate in the Title IV programs only after the institution has demonstrated compliance with the Higher Education Act and the Department of Education s extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance to the Department of Education on an ongoing basis. The University s accreditation has been reaffirmed by the Higher Learning Commission (HLC) after a comprehensive review of the institution s academic offerings, governance and administration, mission, finances and resources during an on-site visit in November 2016. The accreditation was reaffirmed by the HLC s Institutional Actions council at its meeting on February 28, 2017 with no requirements for any monitoring or interim reports. The comprehensive review occurs every 10 years, along with a mid-term report in year four. As of June 30, 2017, management believes the University is in compliance with the applicable regulations in all material respects.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes that appear elsewhere in this report.

Forward-Looking Statements

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

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

- our failure to comply with the extensive regulatory framework applicable to our industry, including Title IV of the Higher Education Act and the regulations thereunder, state laws and regulatory requirements, and accrediting commission requirements;
- the ability of our students to obtain federal Title IV funds, state financial aid, and private financing;
- potential damage to our reputation or other adverse effects as a result of negative publicity in the media, in the industry or in connection with governmental reports or investigations or otherwise, affecting us or other companies in the for-profit postsecondary education sector;
- risks associated with changes in applicable federal and state laws and regulations and accrediting commission standards including pending rulemaking by the Department of Education;
- competition from other universities in our geographic region and market sector, including competition for students, qualified executives and other personnel;

our ability to properly manage risks and challenges associated with strategic initiatives, including the expansion of our campus, potential acquisitions of, or investments in, new businesses, acquisitions of new properties, or the development of new campuses;

our ability to hire and train new, and develop and train existing employees and faculty;

the pace of growth of our enrollment;

our ability to convert prospective students to enrolled students and to retain active students;

our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis;

industry competition, including competition for students and for qualified executives and other personnel;

risks associated with the competitive environment for marketing our programs;

failure on our part to keep up with advances in technology that could enhance the online experience for our students;

the extent to which obligations under our credit agreement, including the need to comply with restrictive and financial covenants and to pay principal and interest payments, limits our ability to conduct our operations or seek new business opportunities;

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our ability to manage future growth effectively; and

general adverse economic conditions or other developments that affect the job prospects of our students.

Additional factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in this Management s Discussion and Analysis of Financial Condition and Results of Operations and in Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as updated in our subsequent reports filed with the Securities and Exchange Commission (SEC), including any updates found in Part II, Item 1A of this Quarterly Report on Form 10-Q or our other reports on Form 10-Q. You should not put undue reliance on any forward-looking statements. Forward-looking statements speak only as of the date the statements are made and we assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

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Overview

We are a comprehensive regionally accredited university that offers over 220 graduate and undergraduate degree programs, emphases and certificates across nine colleges both online and on ground at our over 270 acre campus in Phoenix, Arizona, at leased facilities and at facilities owned by third party employers of our students. We are committed to providing an academically rigorous educational experience with a focus on professionally relevant programs that meet the objectives of our students. Our undergraduate programs are designed to be innovative and meet the future needs of employers, while providing students with the needed critical thinking and effective communication skills developed through a Christian-oriented, liberal arts foundation. We offer master s and doctoral degrees in contemporary fields that are designed to provide students with the capacity for transformational leadership in their chosen industry, emphasizing the immediate relevance of theory, application, and evaluation to promote personal and organizational change. We believe the growing brand of the University and the value proposition for both traditional aged students attending on our campus in Phoenix, Arizona and working adult students attending on our campus or at off-site locations in cohorts (referred to by us as professional studies students) or online, has enabled us to increase enrollment to approximately 74,500 at June 30, 2017.

End-of-period enrollment increased 10.5% between June 30, 2017 and June 30, 2016, as ground enrollment increased 10.8% and online enrollment increased 10.4% over the prior year. Ground enrollment at June 30, 2017 only includes traditional-aged students that are taking Summer school classes, which is a small percentage of our traditional-aged student body. As of March 31, 2017 ground enrollment had increased 12.0% over the prior year. The Spring semester ends near the end of April each year. We attribute the growth in our ground enrollment between years to our increasing brand recognition and the value proposition that our ground traditional campus affords to traditional-aged students and their parents. After scholarships, our ground traditional students pay tuition, room, board, and fees in an amount that is often half to a third of what it costs to attend a private, traditional university in another state and an amount comparable to what it costs to attend a public university. Our online students pay tuition and fees in an amount that is often less than the cost of other high service online programs such as ours. For example, our largest local competitor s undergraduate tuition for online programs ranges from $490 to $633 per credit hour and its graduate tuition for online programs ranges from $492 to $1,132 per credit hour while our online tuition per credit hour ranges from $355 to $470 for undergraduate programs and $330 to $640 for graduate programs. There are online programs that are less expensive than ours but those programs generally do not provide the full level of support services that we provide to our students. Although our online enrollment continues to grow, as the proportion of traditional colleges and universities providing alternative learning modalities increases, we will face increasing competition for working adult students from such institutions, including those with well-established reputations for excellence. Net revenues increased 11.5% over the first six months of the prior year primarily due to the enrollment growth and due to an increase in ancillary revenues resulting from the increased traditional student enrollment (e.g. housing, food, etc.). The increase in revenue per student between years is primarily due to our residential traditional campus enrollment growing at a rate higher than our working adult enrollment. We have not raised our tuition for our traditional ground programs in eight years and we have not raised tuition for our working adult students since September 2015. Operating income was $131.7 million for the six months ended June 30, 2017, an increase of 16.1% over the $113.4 million in operating income for the six months ended June 30, 2016.

The following is a summary of our student enrollment at June 30, 2017 and 2016 by degree type and by instructional delivery method:

	2017[1]		2016[1]	
	# of Students	% of Total	# of Students	% of Total

Graduate degrees[2]	35,702	47.9%	31,136	46.2%
Undergraduate degree	38,783	52.1%	36,288	53.8%
Total	74,485	100.0%	67,424	100.0%

	2017[1]		2016[1]	
	# of Students	% of Total	# of Students	% of Total
Online[3]	68,470	91.9%	61,994	91.9%
Ground[4]	6,015	8.1%	5,430	8.1%
Total	74,485	100.0%	67,424	100.0%

(1) Enrollment at June 30, 2017 and 2016 represents individual students who attended a course during the last two months of the calendar quarter. Included in enrollment at June 30, 2017 and 2016 are students pursuing non-degree certificates of 1,190 and 1,048, respectively.

(2) Includes 7,324 and 6,739 students pursuing doctoral degrees at June 30, 2017 and 2016, respectively.

(3) As of June 30, 2017 and 2016, 50.3% and 48.6%, respectively, of our working adult students (online and professional studies students) were pursuing graduate degrees.

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

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Critical Accounting Policies and Use of Estimates

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. During the six months ended June 30, 2017, there have been no significant changes in our critical accounting policies.

Key Trends, Developments and Challenges

The key trends, developments and challenges facing the University are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. During the six months ended June 30, 2017, there have been no significant changes in these trends. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Key Trends, Developments and Challenges in our Annual Report on Form 10-K for our fiscal year ended December 31, 2016, which is incorporated herein by reference.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses				
Instructional costs and services	43.5	44.2	42.4	42.9
Admissions advisory and related	14.2	15.1	13.5	14.0
Advertising	11.3	11.6	10.6	10.3
Marketing and promotional	1.0	1.1	1.0	1.0
General and administrative	4.6	4.6	4.3	4.7
Total operating expenses	74.8	76.6	71.8	72.9
Operating income	25.2	23.4	28.2	27.1
Interest expense	(0.2)	(0.1)	(0.2)	(0.1)
Interest income and other income	0.3	0.1	0.2	0.5
Income before income taxes	25.3	23.5	28.2	27.6
Income tax expense	7.1	9.0	7.6	10.5
Net income	18.3	14.4	20.5	17.0

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Net revenue. Our net revenue for the three months ended June 30, 2017 was $218.3 million, an increase of $27.0 million, or 14.1%, as compared to net revenue of $191.3 million for the three months ended June 30, 2016. This increase was primarily due to an increase in ground and online enrollment and, to a lesser extent, an increase in room and board and other student fees, partially offset by an increase in institutional scholarships. We have not raised our

tuition for our traditional ground program in eight years and we have not raised tuition for our working adult students since September 2015. End-of-period enrollment increased 10.5% between June 30, 2017 and June 30, 2016, as ground enrollment increased 10.8%, and online enrollment increased 10.4% over the prior year. Ground enrollment at June 30, 2017 includes traditional-aged students that are taking Summer school classes which is a small percentage of our total traditional-aged student body and professional studies students. The Spring semester for our traditional-aged student body ends near the end of April each year. The ground enrollment growth between years is primarily due to an increase in professional studies students between years. The number of ground traditional students taking summer semester courses is flat year over year. Our Spring 2017 ground enrollment increased 12.0% year over year to 15,900 students and the majority of that increase between years was residential students at our ground traditional campus in Phoenix, Arizona. We attribute the growth in our enrollment between years to our increasing brand recognition and the value proposition we believe we provide to students and their parents. After scholarships, our ground traditional students pay an amount for tuition, room, board, and fees in an amount that is often half to a third of what it costs to attend a private, traditional university in another state and an amount comparable to what it costs to attend a public university. Our online students pay tuition and fees in an amount that is often less than the cost of other high service online programs that compete with us. Although our online enrollment continues to grow, as the proportion of traditional colleges and universities providing alternative learning modalities increases, we will face increasing competition for working adult students from such institutions, including those with well-established reputations for excellence. The increase in revenue per student between years is primarily due to our residential traditional campus enrollment growing at a rate higher than our working adult enrollment. When factoring in room, board and fees, the revenue per student is higher for these students than for our working adult

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students. In addition, we had six additional days of traditional campus revenue in the second quarter of 2017 than in the same quarter in 2016 due to a favorable shift in the timing of our residential traditional campus end dates, as the Spring semester ended later in 2017 than in 2016.

Instructional costs and services expenses. Our instructional costs and services expenses for the three months ended June 30, 2017 were $95.0 million, an increase of $10.4 million, or 12.3%, as compared to instructional costs and services expenses of $84.6 million for the three months ended June 30, 2016. This increase was primarily due to increases in faculty compensation, employee compensation and related expenses including share based compensation, depreciation and amortization and occupancy expense, and other instructional costs and services, of $3.1 million, $2.3 million, $2.9 million, and $2.1 million, respectively. The increase in employee compensation and related expenses and faculty compensation are primarily due to the increase in the number of staff and faculty needed to support the increasing number of students attending the University. The increase in depreciation and amortization and occupancy costs is the result of our placing into service additional buildings to support the growing number of ground traditional students in the Fall of 2016. Our instructional costs and services expenses as a percentage of net revenues decreased 0.7% to 43.5% for the three months ended June 30, 2017, from 44.2% for the three months ended June 30, 2016 primarily due to a decrease in employee compensation and related expenses and other instructional costs and services as a percentage of revenue, partially offset by an increase in depreciation and amortization and occupancy expense as a percentage of revenue over the prior year. Bad debt expense decreased to 1.6% for the three months ended June 30, 2017 from 1.8% for the three months ended June 30, 2016. The decrease in these expenses as a percentage of revenue is due to our ability to leverage them across an increasing revenue base and due to the additional revenue earned during the second quarter as a result of the shift in the timing of our residential traditional end dates.

Admissions advisory and related expenses. Our admissions advisory and related expenses for the three months ended June 30, 2017 were $31.1 million, an increase of $2.2 million, or 7.7%, as compared to admissions advisory and related expenses of $28.9 million for the three months ended June 30, 2016. This increase is primarily the result of increases in employee compensation and related expenses including share based compensation of $2.2 million, primarily due to tenure based salary adjustments. Our admissions advisory and related expenses as a percentage of revenue decreased 0.9% to 14.2% for the three months ended June 30, 2017, from 15.1% for the six months ended June 30, 2016 primarily due to our ability to leverage our admissions advisory personnel across an increasing revenue base and due to the additional revenue earned during the second quarter as a result of the shift in the timing of our residential traditional end dates.

Advertising expenses. Our advertising expenses for the three months ended June 30, 2017 were $24.8 million, an increase of $2.7 million, or 11.9%, as compared to advertising expenses of $22.1 million for the three months ended June 30, 2016. This increase is primarily the result of increased national brand advertising. Our advertising expenses as a percentage of net revenue decreased by 0.3% to 11.3% for the three months ended June 30, 2017, from 11.6% for the three months ended June 30, 2016.

Marketing and promotional expenses. Our marketing and promotional expenses for the three months ended June 30, 2017 were $2.3 million, an increase of $0.2 million, or 7.5%, as compared to marketing and promotional expenses of $2.1 million for the three months ended June 30, 2016. This increase is primarily the result of increases in employee compensation and related expenses including stock based compensation, partially offset by decreases in other promotional expenses of $0.3 million and $0.1 million, respectively. Our marketing and promotional expenses as a percentage of net revenue declined slightly to 1.0% for the three months ended June 30, 2017, from 1.1% for the three months ended June 30, 2016.

General and administrative expenses. Our general and administrative expenses for the three months ended June 30, 2017 were $10.1 million, an increase of $1.3 million, or 14.2%, as compared to general and administrative expenses of $8.8 million for the three months ended June 30, 2016. This increase was primarily due to increases in employee compensation and related expenses including share based compensation, and increases in outside professional costs, including legal, accounting, insurance and other costs, of $0.7 million and $0.6 million, respectively. Our general and administrative expenses as a percentage of net revenue stayed flat at 4.6% for both the three months ended June 30, 2017 and 2016.

Interest expense. Interest expense for the three months ended June 30, 2017 was $0.5 million, an increase of $0.3 million, as compared to interest expense of $0.2 million for the three months ended June 30, 2016. This increase was primarily due to lower capitalized interest as compared to the prior year due to a decrease in capital spending in 2017, partially offset by the decrease in the average balance of our loan facility. Our interest expense increased as a percentage of net revenue by 0.1% to 0.2% for the three months ended June 30, 2017, from 0.1% for the three months ended June 30, 2016.

Interest and other income. Interest and other income for the three months ended June 30, 2017 was $0.7 million, an increase of $0.4 million, as compared to interest and other income of $0.3 million in the three months ended June 30, 2016. The increase was primarily due to higher average investment balances between years.

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Income tax expense. Income tax expense for the three months ended June 30, 2017 was $15.5 million, a decrease of $1.8 million, or 10.3%, as compared to income tax expense of $17.3 million for the three months ended June 30, 2016. This decrease is the result of a decrease in our effective tax rate from 38.4% during the second quarter of 2016 to 28.0% during the second quarter of 2017 partially offset by higher taxable income between periods. The lower effective tax rate year over year is due to our adoption of the share-based compensation standard in the first quarter of 2017, which resulted in the recognition of excess tax benefits from share-based compensation awards that vested or settled in 2017 in the consolidated income statement. The inclusion of excess tax benefits and deficiencies as a component of our income tax expense will increase volatility within our provision for income taxes as the amount of excess tax benefits or deficiencies from share-based compensation awards are dependent on our stock price at the date the restricted awards vest, our stock price on the date an option is exercised, and the quantity of options exercised.

Net income. Our net income for the three months ended June 30, 2017 was $39.8 million, an increase of $12.2 million, as compared to $27.6 million for the three months ended June 30, 2016, due to the factors discussed above.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Net revenue. Our net revenue for the six months ended June 30, 2017 was $466.5 million, an increase of $48.3 million, or 11.5%, as compared to net revenue of $418.2 million for the six months ended June 30, 2016. This increase was primarily due to an increase in ground and online enrollment and, to a lesser extent, an increase in room and board and other student fees, partially offset by an increase in institutional scholarships. We have not raised our tuition for our traditional ground program in eight years and we have not raised tuition for our working adult students since September 2015. End-of-period enrollment increased 10.5% between June 30, 2017 and June 30, 2016, as ground enrollment increased 10.8%, and online enrollment increased 10.4% over the prior year. Ground enrollment at June 30, 2017 includes traditional-aged students that are taking Summer school classes which is a small percentage of our total traditional-aged student body and professional studies students. The Spring semester for our traditional-aged student body ends near the end of April each year. The ground enrollment growth between years is primarily due to an increase in professional studies students between years. The number of ground traditional students taking summer semester courses is flat year over year. Our Spring 2017 ground enrollment increased 12.0% year over year to 15,900 students and the majority of that increase between years was residential students at our ground traditional campus in Phoenix, Arizona. We attribute the growth in our enrollment between years to our increasing brand recognition and the value proposition we believe we provide to students and their parents. After scholarships, our ground traditional students pay an amount for tuition, room, board, and fees in an amount that is often half to a third of what it costs to attend a private, traditional university in another state and an amount comparable to what it costs to attend a public university. Our online students pay tuition and fees in an amount that is often less than the cost of other high service online programs that compete with us. Although our online enrollment continues to grow, as the proportion of traditional colleges and universities providing alternative learning modalities increases, we will face increasing competition for working adult students from such institutions, including those with well-established reputations for excellence. The increase in revenue per student between years is primarily due to our residential traditional campus enrollment growing at a rate higher than our working adult enrollment. When factoring in room, board and fees, the revenue per student is higher for these students than for our working adult students.

Instructional costs and services expenses. Our instructional costs and services expenses for the six months ended June 30, 2017 were $197.6 million, an increase of $18.3 million, or 10.2%, as compared to instructional costs and services expenses of $179.3 million for the six months ended June 30, 2016. This increase was primarily due to increases in faculty compensation, employee compensation and related expenses including share based compensation, depreciation and amortization and occupancy expense, and other instructional compensation and related expenses, of $5.1 million, $4.6 million, $5.5 million, and $3.1 million, respectively. The increase in employee compensation and related expenses and faculty compensation are primarily due to the increase in the number of staff and faculty needed

to support the increasing number of students attending the University. In addition, we have incurred an increase in benefit costs between years. The increase in depreciation and amortization and occupancy costs is the result of our placing into service additional buildings to support the growing number of ground traditional students in the Fall of 2016. Our instructional costs and services expenses as a percentage of net revenues decreased 0.5% to 42.4% for the three months ended June 30, 2017, from 42.9% for the six months ended June 30, 2016 primarily due to a decrease in employee compensation and related expenses, other instructions costs and services, and dues, fees, subscriptions and other instructional supplies as a percentage of revenue, partially offset by an increase in depreciation and amortization and occupancy expense as a percentage of revenue over the prior year. The decrease in these expenses as a percentage of revenue between years is due to our ability to leverage them across an increasing revenue base. Bad debt expense decreased to 1.7% for the six months ended June 30, 2017 from 1.9% for the six months ended June 30, 2016.

Admissions advisory and related expenses. Our admissions advisory and related expenses for the six months ended June 30, 2017 were $63.1 million, an increase of $4.7 million, or 8.0%, as compared to admissions advisory and related expenses of $58.4 million for the six months ended June 30, 2016. This increase is primarily the result of increases in employee compensation and related expenses including share based compensation of $5.0 million, partially offset by a decrease in other advisory related expenses of

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$0.3 million. The increase in employee compensation and related expenses is primarily due to tenure based salary adjustments and an increase in benefit costs between years. Our admissions advisory and related expenses as a percentage of revenue decreased 0.5% to 13.5% for the six months ended June 30, 2017, from 14.0% for the six months ended June 30, 2016 primarily due to our ability to leverage our admissions advisory personnel across an increasing revenue base.

Advertising expenses. Our advertising expenses for the six months ended June 30, 2017 were $49.4 million, an increase of $6.1 million, or 14.2%, as compared to advertising expenses of $43.3 million for the six months ended June 30, 2016. This increase is primarily the result of increased national brand advertising. Our advertising expenses as a percentage of net revenue increased 0.3% to 10.6% for the six months ended June 30, 2017, from 10.3% for the six months ended June 30, 2016.

Marketing and promotional expenses. Our marketing and promotional expenses for the six months ended June 30, 2017 were $4.7 million, an increase of $0.4 million, or 8.6%, as compared to marketing and promotional expenses of $4.3 million for the six months ended June 30, 2016. This increase is primarily the result of increases in employee compensation and related expenses including stock based compensation and benefit expenses, partially offset by a decrease in other promotional expenses of $0.5 million and $0.1 million, respectively. Our marketing and promotional expenses as a percentage of net revenue stayed flat at 1.0% for both the six months ended June 30, 2017 and 2016.

General and administrative expenses. Our general and administrative expenses for the six months ended June 30, 2017 were $20.0 million, an increase of $0.5 million, or 2.4%, as compared to general and administrative expenses of $19.5 million for the six months ended June 30, 2016. This increase was primarily due to increases in employee compensation and related expenses included shared based compensation and benefit costs, partially offset by a decrease in outside professional costs including legal, accounting, insurance and other costs of $1.3 million and $0.8 million, respectively. Our general and administrative expenses as a percentage of net revenue decreased by 0.4% to 4.3% for the six months ended June 30, 2017, from 4.7% for the six months ended June 30, 2016 due to the reduction in outside professional costs between periods.

Interest expense. Interest expense for the six months ended June 30, 2017 was $1.1 million, an increase of $0.6 million, as compared to interest expense of $0.5 million for the six months ended June 30, 2016. This increase was primarily due to higher interest costs from the draw on our revolving line of credit during the first quarter of 2017 and lower capitalized interest due to a decrease in capital spending in 2017. Our interest expense increased as a percentage of net revenue by 0.1% to 0.2% for the six months ended June 30, 2017, from 0.1% for the six months ended June 30, 2016.

Interest and other income. Interest and other income for the six months ended June 30, 2017 was $0.7 million, a decrease of $1.6 million, as compared to interest and other income of $2.3 million in the six months ended June 30, 2016. The decrease was primarily due to the University s proportional share of equity interest income of $1.8 million related to our ownership interest in LoudCloud that was received in the first quarter of 2016.

Income tax expense. Income tax expense for the six months ended June 30, 2017 was $35.6 million, a decrease of $8.4 million, or 19.0%, as compared to income tax expense of $44.0 million for the six months ended June 30, 2016. This decrease is the result of a decrease in our effective tax rate from 38.2% in the first six months of 2016 to 27.1% during the first six months of 2017 partially offset by higher taxable income between periods. The lower effective tax rate year over year is due to our adoption of the share-based compensation standard in the first quarter of 2017, which resulted in the recognition of excess tax benefits from share-based compensation awards that vested or settled in 2017 in the consolidated income statement. The inclusion of excess tax benefits and deficiencies as a component of our income tax expense will increase volatility within our provision for income taxes as the amount of excess tax benefits

or deficiencies from share-based compensation awards are dependent on our stock price at the date the restricted awards vest, our stock price on the date an option is exercised, and the quantity of options exercised. Our restricted stock vests in March each year so the favorable benefit is greatest in the first quarter each year.

Net income. Our net income for the six months ended June 30, 2017 was $95.8 million, an increase of $24.5 million, as compared to $71.3 million for the six months ended June 30, 2016, due to the factors discussed above.

Seasonality

Our net revenue and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in enrollment. Student population varies as a result of new enrollments, graduations, and student attrition. The majority of our traditional ground students do not attend courses during the summer months (May through August), which affects our results for our second and third fiscal quarters. Since a significant amount of our campus costs are fixed, the lower revenue resulting from the decreased ground student enrollment has historically contributed to lower operating margins during those periods. We intend to continue to increase the relative proportion of our students that are ground traditional students. Thus, we expect this summer effect to become more pronounced in future years. Partially offsetting this summer effect in the third quarter has been the sequential quarterly

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increase in enrollments that has occurred as a result of the traditional fall school start. This increase in enrollments also has occurred in the first quarter, corresponding to calendar year matriculation. In addition, we typically experience higher net revenue in the fourth quarter due to its overlap with the semester encompassing the traditional fall school start and in the first quarter due to its overlap with the first semester of the calendar year. A portion of our expenses do not vary proportionately with these fluctuations in net revenue, resulting in higher operating income in the first and fourth quarters relative to other quarters. We expect quarterly fluctuation in operating results to continue as a result of these seasonal patterns.

Liquidity and Capital Resources

Liquidity. We financed our operating activities and capital expenditures during the six months ended June 30, 2017 and 2016 primarily through cash provided by operating activities. Our unrestricted cash and cash equivalents and investments were $155.7 million and $108.6 million at June 30, 2017 and December 31, 2016, respectively. Our restricted cash and cash equivalents at June 30, 2017 and December 31, 2016 were $79.4 million and $84.9 million, respectively. In December 2012, we entered into a new credit agreement, which increased our term loan to $100 million with a maturity date of December 2019. Additionally, this facility, as amended in January 2016, provides a revolving line of credit in the amount of $150 million through December 2017 to be utilized for working capital, capital expenditures and other general corporate purposes. Indebtedness under the credit facility is secured by our assets and is guaranteed by certain of our subsidiaries. No amounts were drawn on the revolver as of June 30, 2017.

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

Share Repurchase Program

Our Board of Directors has authorized the University to repurchase up to an aggregate of $175.0 million of our common stock, from time to time, depending on market conditions and other considerations. The current expiration date on the repurchase authorization by our Board of Directors is December 31, 2017. Repurchases occur at the University s discretion.

Under our share purchase authorization, we may purchase shares in the open market or in privately negotiated transactions, pursuant to the applicable Securities and Exchange Commission rules. The amount and timing of future share repurchases, if any, will be made as market and business conditions warrant.

Since the inception of our share repurchase program, the University has purchased 3.5 million shares of common stock at an aggregate cost of $75.8 million. During the six months ended June 30, 2017 no shares were repurchased by the University. At June 30, 2017, there remains $99.2 million available under our share repurchase authorization.

Cash Flows

Operating Activities. Net cash provided by operating activities for the three months ended June 30, 2017 was $133.7 million as compared to $112.5 million for the six months ended June 30, 2016. The increase in cash generated from operating activities between the six months ended June 30, 2016 and the six months ended June 30, 2017 is primarily due to increased net income and non-cash charges such as depreciation expense as well as changes in other working capital such as accrued liabilities and deferred revenue.

Investing Activities. Net cash used in investing activities was $86.7 million and $104.2 million for the six months ended June 30, 2017 and 2016, respectively. Our cash used in investing activities was primarily related to the purchase of short-term investments and capital expenditures. Purchases of short-term investments net of proceeds of these investments was $26.8 million for the six months ended June 30, 2017. Proceeds from investment, net of purchases of short term investments was $33.9 million for the six months ended June 30, 2016. Capital expenditures were $50.5 million and $115.6 million for the six months ended June 30, 2017 and 2016, respectively. During the six-month period for 2017, capital expenditures primarily consisted of ground campus building projects such as the construction of an additional dormitory to support our growing traditional student enrollment, land acquisitions adjacent to our campus, and purchases of computer equipment, other internal use software projects and furniture and equipment to support our increasing employee headcount. Included in off-site development for 2017 is $9.4 million we spent to finish the building and parking garage in close proximity to our ground traditional campus. Employees that work in two leased office buildings in the Phoenix area were relocated to this new building by the end of 2016. During the six-month period for 2016, capital expenditures primarily consisted of ground campus building projects that started in late 2015 such as three more apartment style residence halls, a 170,000 square foot classroom building for our College of Science, Engineering and Technology, a student service center, and a fourth parking structure, as well as land purchases adjacent to or near our Phoenix campus, and purchases of computer equipment, other internal use software projects and furniture and equipment to support our increasing employee headcount. Included in off-site development during 2016 is $24.8 million related to the off-site office building and parking garage. In addition, during the first six months of 2016, we received a $1.8 million distribution related to our ownership interest in LoudCloud upon its sale to a third party.

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Financing Activities. Net cash used in financing activities was $32.2 million for the six months ended June 30, 2017. Net cash provided by financing activities was $8.7 million for the six months ended June 30, 2016. During the six-month period for 2017, $25.0 million was used to repay the revolving line of credit, $9.7 million was used to purchase common shares withheld in lieu of income taxes resulting from restricted share awards and principal payments on notes payable and capital leases totaled $3.4 million, which amounts were partially offset by proceeds from the exercise of stock options of $5.9 million. During the six-month period for 2016, net cash provided by financing activities consisted of proceeds received from the revolving line of credit of $25.0 million and proceeds from the exercise of stock options of $7.0 million, partially offset by $14.6 million was used to purchase treasury stock in accordance with the University s share repurchase program and $4.6 million was used to purchase common shares withheld in lieu of income taxes resulting from restricted share awards while principal payments on notes payable and capital leases totaled $3.8 million and debt issuance costs for the increase in our revolving line of credit totaled $0.2 million.

Contractual Obligations

The following table sets forth, as of June 30, 2017, the aggregate amounts of our significant contractual obligations and commitments with definitive payment terms due in each of the periods presented (in millions):

		Payments Due by Period			
	Total	Less than 1 Year (1)	2-3 Years	4-5 Years	More than 5 Years
Long term notes payable	$ 69.9	$ 3.3	$ 66.6	$ 0.0	$ 0.0
Capital lease obligations	0.4	0.1	0.3	0.0	0.0
Purchase obligations(2)	36.9	27.2	6.4	2.8	0.5
Operating lease obligations	3.0	0.8	1.3	0.8	0.1
Total contractual obligations	$ 110.2	$ 31.4	$ 74.6	$ 3.6	$ 0.6

(1) Payments due in less than one year represent expected expenditures from July 1, 2017 through December 31, 2017.

(2) The purchase obligation amounts include expected spending by period under contracts that were in effect at June 30, 2017.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Impact of inflation. We believe that inflation has not had a material impact on our results of operations for the six months ended June 30, 2017 or 2016. There can be no assurance that future inflation will not have an adverse impact on our operating results and financial condition.

Market risk. On February 27, 2013, we entered into an interest rate corridor to manage our 30 Day LIBOR interest exposure from the variable rate debt, which debt matures in December 2019. The corridor instrument, which hedges variable interest rate risk starting March 1, 2013 through December 20, 2019 with a notional amount of $70.0 million as of June 30, 2017, permits us to hedge our interest rate risk at several thresholds. Under this arrangement, in addition to the credit spread we will pay variable interest rates based on the 30 Day LIBOR rates monthly until that index reaches 1.5%. If 30 Day LIBOR is equal to 1.5% through 3.0%, we will continue to pay 1.5%. If 30 Day LIBOR exceeds 3.0%, we will pay actual 30 Day LIBOR less 1.5%.

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

Interest rate risk. We manage interest rate risk through the instruments noted above and by investing excess funds in cash equivalents, such as municipal mutual funds tied to various market indices and municipal bonds with a BBB rating or higher bearing variable interest rates, or individual bond coupon rates. Our future interest income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. At June 30, 2017, a 10% increase or decrease in interest rates would not have a material impact on our future earnings, fair values, or cash flows. For information regarding our variable rate debt, see Market risk above.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of June 30, 2017, in ensuring that material information relating to us required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting.

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2016.

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

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Our Board of Directors has authorized the University to repurchase up to an aggregate of $175.0 million of common stock, from time to time, depending on market conditions and other considerations. The current expiration date on the repurchase authorization is December 31, 2017. Repurchases occur at the University s discretion. Repurchases may be made in the open market or in privately negotiated transactions, pursuant to the applicable Securities and Exchange Commission rules. The amount and timing of future share repurchases, if any, will be made as market and business conditions warrant. During the six months ended June 30, 2017, we did not repurchase any shares of common stock. At June 30, 2017, there remains $99.2 million available under our share repurchase authorization.

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The following table sets forth our share repurchases of common stock and our share repurchases in lieu of taxes, which are not included in the repurchase plan totals as they were approved in conjunction with the restricted share awards, during each period in the second quarter of fiscal 2017:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
Share Repurchases				
April 1, 2017 April 30, 2017		$		$ 99,200,000
May 1, 2017 May 31, 2017		$		$ 99,200,000
June 1, 2017 June 30, 2017		$		$ 99,200,000
Total		$		$ 99,200,000
Tax Withholdings				
April 1, 2017 April 30, 2017		$		$
May 1, 2017 May 31, 2017		$		$
June 1, 2017 June 30, 2017	1,822	$ 77.33		$
Total	1,822	$ 77.33		$

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) Exhibits

Number	Description	Method of Filing
3.1	Amended and Restated Certificate of Incorporation.	Incorporated by reference to Exhibit 3.1 to Amendment No. 6 to the University s Registration Statement on Form S-1 filed with the SEC on November 12, 2008.
3.1.1	Certificate of Amendment of Amended and Restated Certificate of Incorporation.	Incorporated by reference to Appendix A to the University s Proxy Statement for its 2016 Annual meeting of Stockholders, filed with the SEC on April 29, 2016.
3.2	Third Amended and Restated Bylaws.	Incorporated by reference to Exhibit 3.1 to the University s Current Report on Form 8-K filed with the SEC on October 29, 2014.
4.1	Specimen of Stock Certificate.	Incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the University s Registration Statement on Form S-1 filed with the SEC on September 29, 2008.
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101.INS	XBRL Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith.

Indicates a management contract or any compensatory plan, contract or arrangement.

This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Exchange Act, and is not to be incorporated by

reference into any filings of the University, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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SIGNATURES

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

GRAND CANYON EDUCATION, INC.

Date: August 1, 2017

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

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101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith.

Indicates a management contract or any compensatory plan, contract or arrangement.

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