Grand Canyon Education, Inc.
Form S-1/A
November 19, 2008

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**As filed with the Securities and Exchange Commission on November 19, 2008**
**Registration No. 333-150876**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**

**Amendment No. 7**

**to**

**Form S-1**

**REGISTRATION STATEMENT**
**THE SECURITIES ACT OF 1933**

**Grand Canyon Education, Inc.**
*(Exact Name of Registrant as Specified in Its Charter)*

| **Delaware** | **8221** | **20-3356009** |
|---|---|---|
| *(State or Other Jurisdiction of Incorporation or Organization)* | *(Primary Standard Industrial Classification Code Number)* | *(I.R.S. Employer Identification Number)* |

**3300 W. Camelback Road**
**Phoenix, Arizona 85017**
**(602) 639-7500**
*(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)*

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**General Counsel**
**Grand Canyon Education, Inc.**
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**Phoenix, Arizona 85017**
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*(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)*

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

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

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), shall determine.**

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**Subject to Completion**
**Dated November 19, 2008**

10,500,000 Shares

Grand Canyon Education, Inc.
Common Stock

This is the initial public offering of common stock of Grand Canyon Education, Inc. We are offering 10,500,000 shares of our common stock.

Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between $12.00 and $14.00 per share. We have received approval to list our common stock on the Nasdaq Global Market under the symbol LOPE.

Seventy-five percent (75%) of the gross proceeds from the sale of stock in this offering, before underwriting discounts and commissions and estimated offering expenses, will be paid to our existing stockholders as a special distribution.

**Investing in our common stock involves risks. See Risk Factors beginning on page 11.**

| | Per Share | Total |
|---|---|---|
| Public offering price | $ | $ |
| Underwriting discounts | $ | $ |
| Proceeds, before expenses, to us | $ | $ |

We have granted the underwriters a 30-day option to purchase up to 1,575,000 additional shares of common stock from us at the public offering price, less the underwriting discounts and commissions, to cover over-allotments of shares, if any.

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

Delivery of the shares of common stock will be made on or about , 2008.

*Joint Book-Running Managers*

**Credit Suisse** **Merrill Lynch & Co.**

**BMO Capital Markets William Blair & Company Piper Jaffray**

The date of this prospectus is , 2008.

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EX-23.2


## ABOUT THIS PROSPECTUS

**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. You should assume that the information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock. Our business, financial condition, results of operations, and prospects may have changed since that date.**

Until , 2008 (25 days after the date of this prospectus), all dealers, whether or not participating in this offering, that effect transactions in these securities may be required to deliver a prospectus. This is in addition to the dealer s obligation to deliver a prospectus when acting as an underwriter in this offering and when selling previously unsold allotments or subscriptions.

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## PROSPECTUS SUMMARY

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

### Overview

We are a regionally accredited provider of online postsecondary education services focused on offering graduate and undergraduate degree programs in our core disciplines of education, business, and healthcare. In addition to our online programs, we offer ground programs at our traditional campus in Phoenix, Arizona and onsite at the facilities of employers. We are committed to providing an academically rigorous educational experience with a focus on career-oriented programs that meet the objectives of working adults. We utilize an integrated, innovative approach to marketing, recruiting, and retaining students, which has enabled us to increase enrollment from approximately 3,000 students at the end of 2003 to approximately 22,000 students at September 30, 2008, representing a compound annual growth rate of approximately 52%. At December 31, 2007, our enrollment was approximately 14,800, 85% of our students were enrolled in our online programs, and 62% of our students were pursuing master s degrees.

Our three core disciplines of education, business, and healthcare represent large markets with attractive employment opportunities. According to a March 2008 report from the U.S. Department of Education, National Center for Education Statistics, or NCES, these disciplines ranked as three of the four most popular fields of postsecondary education, based on degrees conferred in the 2005-06 school year. The U.S. Department of Labor, Bureau of Labor Statistics, or BLS, estimated in its 2008-09 Career Guide that these fields comprised over 40 million jobs in 2006, many of which require postsecondary education credentials. Furthermore, the BLS has projected that the education, business, and healthcare fields will generate approximately six million new jobs between 2006 and 2016.

We primarily focus on recruiting and educating working adults, whom we define as students age 25 or older who are pursuing a degree while employed. As of September 30, 2008, approximately 92% of our online students were age 25 or older. We believe that working adults are attracted to the convenience and flexibility of our online programs because they can study and interact with faculty and classmates during times that suit their schedules. We also believe that working adults represent an attractive student population because they are better able to finance their education, more readily recognize the benefits of a postsecondary degree, and have higher persistence and completion rates than students generally.

We have experienced significant growth in enrollment, net revenue, and operating income over the last several years. Our enrollment at December 31, 2007 was approximately 14,800, representing an increase of approximately 38% over our enrollment at December 31, 2006. Our net revenue and operating income for the year ended December 31, 2007 were $99.3 million and $4.3 million, respectively, representing increases of 37.7% and 42.8%, respectively, over the year ended December 31, 2006. Our enrollment at September 30, 2008 was approximately 22,000, representing an increase of approximately 63% over our enrollment at September 30, 2007. Our net revenue and operating income for the nine months ended September 30, 2008 were $109.6 million, and $9.0 million, respectively, representing increases of 60.1% and 305.5%, respectively, over the nine months ended September 30, 2007. We seek to achieve continued growth in a manner that reinforces our reputation for providing academically rigorous, career-oriented educational programs that advance the careers of our students.

We have been regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools, or the Higher Learning Commission, and its predecessor since 1968, and we were reaccredited by the Higher Learning Commission in 2007 for the maximum term of ten years. In addition, we have specialized accreditations for certain programs from the Association of Collegiate Business Schools and Programs, the Commission on Collegiate Nursing Education, and the Commission on Accreditation of Athletic



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Training Education. We believe that our regional accreditation, together with these specialized accreditations, reflect the quality of our programs, enhance their marketability, and improve the employability of our graduates.

We were founded as Grand Canyon College, a traditional, private, non-profit college, in 1949 and moved to our existing campus in Phoenix, Arizona in 1951. In February 2004, several of our current stockholders acquired Grand Canyon University and converted it to a for-profit institution. Since then, we have enhanced our senior management team, expanded our online platform and programs, and initiated a marketing and branding effort to further differentiate us in the markets in which we operate and support our continued growth.

**Industry**

The United States market for postsecondary education represents a large and growing opportunity. According to the March 2008 NCES report, total revenue for all degree-granting postsecondary institutions was over $385 billion for the 2004-05 school year. In addition, according to a September 2008 NCES report, approximately 18.0 million students were projected to be enrolled in postsecondary institutions in 2007 and the number was projected to grow to 18.6 million by 2010. We believe that future growth in this market will be driven, in part, by the increasing number of job openings in occupations that require bachelor s or master s degrees, which a November 2007 report based on BLS data has projected will grow approximately 17% and 19%, respectively, between 2006 and 2016, or nearly double the growth rate the BLS projected for occupations that do not require postsecondary degrees. Moreover, according to U.S. Census Bureau data, individuals with a postsecondary degree are able to obtain a significant compensation premium relative to individuals without a degree.

The market for online postsecondary education is growing more rapidly than the overall postsecondary market. A 2007 study by Eduventures, LLC, an education consulting and research firm, projected that from 2002 to 2007 enrollment in online postsecondary programs increased from approximately 0.5 million to approximately 1.8 million, representing a compound annual growth rate of approximately 30.4%. In comparison, in September 2008 the NCES projected a compound annual growth rate of 1.6% in enrollment in postsecondary programs overall during the same period. We believe this growth has been driven by a number of factors, including the greater convenience and flexibility of online programs as compared to ground-based programs and the increased acceptance of online programs among academics and employers. According to a 2006 survey by the Sloan Consortium, a trade group focused on online education, 79.1% of chief academic officers surveyed at institutions with 15,000 or more students, most of which offer online programs, and 61.9% of all chief academic officers surveyed, believe that online learning outcomes are equal or superior to traditional face-to-face instruction.

**Competitive Strengths**

We believe we have the following competitive strengths:

*Established presence in targeted, high demand disciplines.* We have an established presence within our three core disciplines of education, business, and healthcare. We believe our focused approach enables us to develop our academic reputation and brand identity within our core disciplines, recruit and retain quality faculty and staff members, and meet the educational and career objectives of our students.

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

*Innovative marketing, recruiting, and retention strategy.* We have developed an integrated, innovative approach to student marketing, recruitment, and retention to reach our targeted students. We also proactively provide support to

students at key points during their consideration of, and enrollment at, Grand Canyon University to enhance the probability of student enrollment and retention.

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

*Complementary online capabilities and campus-based tradition.* We believe that our online capabilities, combined with our nearly 60-year heritage as a traditional campus-based university, differentiate us in the for-profit postsecondary market and enhance the reputation of our degree programs among prospective students and employers.

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

**Growth Strategies**

We intend to pursue the following growth strategies:

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

*Expand online program and degree offerings.* We develop and offer new programs that we believe have attractive demand characteristics. We launched 17 new online program offerings in 2007 and have launched twelve in the first nine months of 2008, including our first doctoral degree program. Our new program offerings typically build on existing programs and offer our students the opportunity to pursue their specific educational objectives while allowing us to expand our program offerings with only modest incremental investment.

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

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

*Leverage infrastructure and drive earnings growth.* We have made significant investments in our people, processes, and technology infrastructure since 2004. We believe these investments have prepared us to deliver our academic programs to a much larger student population with only modest incremental investment. We intend to leverage our historical investments as we increase our enrollment, which we believe will allow us to increase our operating margins over time.

**Risks Affecting Us**

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

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

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

- we experience any student, regulatory, reputational, or other events that adversely affect our graduate degree offerings, from which we currently derive a significant portion of our revenues;

- we experience damage to our reputation or other adverse effects in connection with any compliance audit; regulatory action; investigation, including the investigation of Grand Canyon University currently being conducted by the Office of Inspector General of the U.S. Department of Education; or litigation, including the pending *qui tam* action regarding the manner in which we have compensated our enrollment personnel; or as a result of negative publicity affecting us or other companies in the for-profit postsecondary education sector;

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

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

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

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

**Corporate Information**

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

**Accreditation**

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

**Industry Data**

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

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## OFFERING SUMMARY

| | |
|---|---|
| Common stock offered by us | 10,500,000 shares |
| Common stock outstanding after this offering | 43,559,714 shares |
| Use of proceeds | We estimate that the net proceeds to us from this offering will be approximately $120.8 million, or approximately $139.9 million if the underwriters exercise their over-allotment option in full, based on the midpoint of the price range set forth on the cover page of this prospectus and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. |

As described in Use of Proceeds and Special Distribution, we will use the proceeds of this offering to pay a special distribution to our stockholders of record as of November 18, 2008, in the amount of 75% of the gross proceeds received by us from the sale of stock in this offering, including any proceeds we receive from the underwriters exercise of their over-allotment option, before underwriting discounts and commissions and estimated offering expenses. We intend to use the remaining proceeds to pay the expenses of this offering and for general corporate purposes.

The payment of the special distribution in the amount described above permits a return of capital to all of our stockholders as of the record date, and does so without significantly decreasing our capital resources or requiring these stockholders to sell their shares. Of the estimated aggregate amount of the special distribution of $102.4 million (exclusive of any amounts that may be received from the underwriters exercise of the over-allotment option), assuming an initial public offering price of $13.00 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, $54.3 million will be paid in respect of shares of our capital stock over which our directors and executive officers are deemed to exercise sole or shared voting or investment power. These proceeds will be allocated as set forth in the following table.

| | Special Distribution (In thousands) |
|---|---|
| ***Directors*** | |
| Chad N. Heath[(1)] | $ 30,772 |
| D. Mark Dorman[(1)] | $ 30,772 |
| ***Executive Officers*** | |
| Brent D. Richardson | $ 11,218 |
| John E. Crowley | $ 1,102 |
| Christopher C. Richardson | $ 11,225 |
| ***All directors and executive officers as a group*** | $ 54,316 |

(1) Represents shares owned by Endeavour Capital Fund IV, L.P. and certain affiliated funds. D. Mark Dorman and Chad N. Heath, two of our directors, are managing directors of Endeavour Capital IV, LLC, the general partner of such funds.

| | |
|---|---|
| | See Special Distribution and Certain Relationships and Related Transactions Special Distribution for additional information regarding the amount and the beneficiaries of the special distribution. |
| Dividend policy | Except with respect to the special distribution, we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. |
| Risk factors | You should carefully read and consider the information set forth under the heading titled Risk Factors and all other information set forth in this prospectus before deciding to invest in shares of our common stock. |
| Proposed Nasdaq Global Market symbol | LOPE |

The number of shares of our common stock to be outstanding following this offering is based on the number of shares of our common stock outstanding as of September 30, 2008, and excludes 5,249,921 shares of common stock reserved for future issuance under our stock-based compensation plans. The 5,249,921 shares reserved for future issuance includes 108,899 fully vested restricted shares to be granted to Brian E. Mueller, our Chief Executive Officer, and 731,102 fully vested and 2,585,784 unvested stock options to be granted to employees and a director immediately following the effectiveness of the offering at the initial public offering price.

Unless otherwise indicated, this prospectus reflects and assumes the following:

- no exercise by the underwriters of their option to purchase up to 1,575,000 additional shares from us;
- a 1,826-for-one split of our outstanding common stock effected on September 29, 2008;
- the automatic conversion of all outstanding shares of Series A convertible preferred stock into 10,870,178 shares of common stock upon the closing of the offering;
- the filing of an amendment to our certificate of incorporation to provide for the automatic conversion of all outstanding shares of Series C preferred stock into 2,061,538 shares of common stock upon the closing of the offering based on a conversion price equal to the initial public offering price per share, assuming an initial public offering price of $13.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus;
- the exercise of a warrant to purchase 909,348 shares of our common stock for $0.58 per share, which warrant was exercised in November 2008;
- the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the effectiveness of this offering; and
- the rounding of all fractional share amounts to the nearest whole number.

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## SUMMARY FINANCIAL AND OTHER DATA

The following table sets forth our summary financial and other data as of the dates and for the periods indicated. The statement of operations and other data, excluding period end enrollment, for each of the years in the three-year period ended December 31, 2007, have been derived from our audited financial statements, which are included elsewhere in this prospectus. The statement of operations and other data, excluding period end enrollment, for each of the nine month periods ended September 30, 2007 and 2008, and the balance sheet data as of September 30, 2008, have been derived from our unaudited financial statements, which are presented elsewhere in this prospectus and include, in the opinion of management, all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of such data. Our historical results are not necessarily indicative of our results for any future period.

You should read the following summary financial and other data in conjunction with Selected Financial and Other Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, and our financial statements and related notes included elsewhere in this prospectus.

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2007 | 2008 |
| | | (Restated)[1] | | (Unaudited) | |
| | (In thousands, except enrollment and per share data) | | | | |
| **Statement of Operations Data:** | | | | | |
| Net revenue | $ 51,793 | $ 72,111 | $ 99,326 | $ 68,472 | $ 109,626 |
| Costs and expenses: | | | | | |
| Instructional costs and services | 28,063 | 31,287 | 39,050 | 27,531 | 36,995 |
| Selling and promotional | 14,047 | 20,093 | 35,148 | 24,291 | 46,035 |
| General and administrative | 12,968 | 15,011 | 17,001 | 11,848 | 15,992 |
| Royalty to former owner | 1,619 | 2,678 | 3,782 | 2,585 | 1,612 |
| Total costs and expenses | 56,697 | 69,069 | 94,981 | 66,255 | 100,634 |
| Operating income (loss) | (4,904) | 3,042 | 4,345 | 2,217 | 8,992 |
| Interest expense | (3,098) | (2,827) | (2,975) | (2,236) | (2,156) |
| Interest income | 276 | 912 | 1,172 | 887 | 508 |
| Income (loss) before income taxes | (7,726) | 1,127 | 2,542 | 868 | 7,344 |
| Income tax expense (benefit)[2] | (3,440) | 529 | 1,016 | 347 | 2,868 |
| Net income (loss) | (4,286) | 598 | 1,526 | 521 | 4,476 |
| Preferred dividends | | (527) | (349) | (251) | (791) |
| Net income available (loss attributable) to common stockholders | $ (4,286) | $ 71 | $ 1,177 | $ 270 | $ 3,685 |
| Earnings (loss) per common share | | | | | |
| Basic | $ (0.23) | $ 0.00 | $ 0.06 | $ 0.01 | $ 0.19 |

| | | | | | |
|---|---|---|---|---|---|
| Diluted | $ (0.23) | $ 0.00 | $ 0.03 | $ 0.01 | $ 0.11 |
| Shares used in computing earnings (loss) per common share | | | | | |
| Basic | 18,470 | 18,853 | 18,923 | 18,885 | 19,133 |
| Diluted | 18,470 | 36,858 | 35,143 | 35,189 | 32,097 |
| Pro forma earnings per common share (Unaudited)[3] | | | | | |
| Basic | | | $ 0.03 | | $ 0.09 |
| Diluted | | | $ 0.03 | | $ 0.09 |
| Shares used in computing pro forma earnings per common share (Unaudited)[3] | | | | | |
| Basic | | | 40,321 | | 40,455 |
| Diluted | | | 45,015 | | 41,722 |

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| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2007 | 2008 |
| | | (Restated)[1] | | (Unaudited) | |
| | (In thousands, except enrollment and per share data) | | | | |
| **Other Data:** | | | | | |
| Capital expenditures | $ 817 | $ 2,387 | $ 7,406 | $ 5,136 | $ 6,015 |
| Depreciation and amortization | $ 1,879 | $ 2,396 | $ 3,300 | $ 2,319 | $ 3,676 |
| Adjusted EBITDA[4] | $ (895) | $ 9,074 | $ 11,723 | $ 7,309 | $ 14,568 |
| Period end enrollment: | | | | | |
| Online | 6,212 | 8,406 | 12,497 | 11,306 | 19,287 |
| Ground | 2,210 | 2,256 | 2,257 | 2,193 | 2,670 |

| | As of September 30, 2008 | | |
|---|---|---|---|
| | Actual | Pro Forma[3] | Pro Forma, as Adjusted[5] |
| | (Unaudited) (In thousands) | | |
| **Balance Sheet Data:** | | | |
| Cash and cash equivalents | $ 22,227 | $ 22,753 | $ 43,904 |
| Total assets | 105,618 | 106,144 | 122,927 |
| Capital lease obligations (including short-term) | 30,775 | 30,775 | 30,775 |
| Other indebtedness (including short-term indebtedness) | 1,814 | 1,814 | 1,814 |
| Preferred stock | 32,739 | | |
| Total stockholders equity (deficit)[3][3] | (7,457) | (76,567) | 44,278 |

(1) Our financial statements at December 31, 2006 and 2007 and for each of the three years in the period ended December 31, 2007 have been restated. See Note 3, Restatement of Financial Statements, in our financial statements that are included elsewhere in this prospectus.

(2) On August 24, 2005, we converted from a limited liability company to a taxable corporation. For all periods subsequent to such date, we have been subject to corporate-level U.S. federal and state income taxes.

(3) As described in Use of Proceeds and Special Distribution, we will use the proceeds of this offering to pay a special distribution to our stockholders of record as of November 18, 2008, in the amount of 75% of the gross proceeds received by us from the sale of stock in this offering, including any proceeds we receive from the underwriters exercise of their over-allotment option, before underwriting discounts and commissions and estimated offering expenses. Since the special distribution represents distributions to existing stockholders to be made from the proceeds of an initial public offering, the pro forma balance sheet as of September 30, 2008 reflecting the distribution, but not giving effect to the offering proceeds, is presented. In addition, since the amount of the special distribution exceeds net income for the twelve-month period ended September 30, 2008, pro forma earnings per common share, basic and diluted, are presented for the year ended December 31, 2007

and for the nine-month period ended September 30, 2008, which amounts give effect to the number of shares that would be required to be issued at an assumed initial public offering price of $13.00 per share to pay the amount of dividends that exceeds net income for the twelve-month period ended September 30, 2008. The pro forma balance sheet and earnings per common share data also reflect the exercise of the warrant to purchase 909,348 shares of our common stock for $0.58 per share and assume the conversion of all outstanding shares of Series A convertible preferred stock into 10,870,178 shares of common stock upon the closing of the offering and the conversion of all outstanding shares of Series C preferred stock into 2,061,538 shares of common stock upon the closing of the offering based on a conversion price equal to $13.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus.

(4) Adjusted EBITDA is defined as net income (loss) plus interest expense net of interest income, plus income tax expense (benefit), and plus depreciation and amortization (EBITDA), as adjusted for (i) royalty payments

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incurred pursuant to an agreement with our former owner that has been terminated as of April 15, 2008, as discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Factors affecting comparability Settlement with former owner and Note 2 to our financial statements that are included elsewhere in this prospectus, and (ii) management fees and expenses that are no longer paid or that will no longer be payable following completion of this offering.

We present Adjusted EBITDA because we consider it to be an important supplemental measure of our operating performance. We also make certain compensation decisions based, in part, on our operating performance, as measured by Adjusted EBITDA. See Compensation Discussion and Analysis Impact of Performance on Compensation. All of the adjustments made in our calculation of Adjusted EBITDA are adjustments to items that management does not consider to be reflective of our core operating performance. Management considers our core operating performance to be that which can be affected by our managers in any particular period through their management of the resources that affect our underlying revenue and profit generating operations during that period. Management fees and expenses and royalty expenses paid to our former owner are not considered reflective of our core operating performance.

Our management uses Adjusted EBITDA:

in developing our internal budgets and strategic plan;

as a measurement of operating performance;

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

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

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

The following table provides a reconciliation of net income (loss) to Adjusted EBITDA, which is a non-GAAP measure, for the periods indicated:

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2007 | 2008 |
| | | (Restated)(1) | | (Unaudited) | |
| | (In thousands) | | | | |
| Net income (loss) | $ (4,286) | $ 598 | $ 1,526 | $ 521 | $ 4,476 |
| Plus: interest expense net of interest income | 2,822 | 1,915 | 1,803 | 1,349 | 1,648 |

| | | | | | |
|---|---|---|---|---|---|
| Plus: income tax expense (benefit) | (3,440) | 529 | 1,016 | 347 | 2,868 |
| Plus: depreciation and amortization | 1,879 | 2,396 | 3,300 | 2,319 | 3,676 |
| EBITDA | (3,025) | 5,438 | 7,645 | 4,536 | 12,668 |
| Plus: royalty to former owner[(a)] | 1,619 | 2,678 | 3,782 | 2,585 | 1,612 |
| Plus: management fees and expenses[(b)] | 511 | 958 | 296 | 188 | 288 |
| Adjusted EBITDA | $ (895) | $ 9,074 | $ 11,723 | $ 7,309 | $ 14,568 |

(a) Reflects the royalty fee arrangement with the former owner of Grand Canyon University in which we agreed to pay a stated percentage of cash revenue generated by our online programs. As a result of the settlement of a dispute with our former owner, we are no longer obligated to pay this royalty,

although the settlement includes a prepayment of future royalties that will be amortized in 2008 and future periods. See Management s Discussion and Analysis of Financial Condition and Results of Operations Factors affecting comparability Settlement with former owner and Note 2 to our financial statements, which are included elsewhere in this prospectus.

(b) Reflects management fees and expenses of $0.1 million, $0.3 million, and $0.3 million for the years ended December 31, 2005, 2006, and 2007, respectively, and $0.2 million and $0.3 million for the nine month periods ended September 30, 2007 and 2008, respectively, to the general partner of Endeavour Capital, and an aggregate of $0.4 million and $0.7 million for the years ended December 31, 2005 and 2006, respectively, to an entity affiliated with a former director and another affiliated with a significant stockholder, in each case following their investment in us. The agreements relating to these arrangements have all terminated or will terminate by their terms upon the closing of this offering. See Certain Relationships and Related Transactions.

(5) For a description of the offering and pro forma adjustments, see Capitalization.

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## RISK FACTORS

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

### Risks Related to Our Industry

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

For our fiscal years ended December 31, 2006 and 2007, we derived cash receipts equal to approximately 67.9% and 70.2%, respectively, of our net revenue from tuition financed under federal student financial aid programs, referred to in this prospectus as the Title IV programs, which are administered by the U.S. Department of Education, or Department of Education. To participate in the Title IV programs, a school must be authorized by the appropriate state education agency or agencies, be accredited by an accrediting commission recognized by the Department of Education, and be certified as an eligible institution by the Department of Education. In addition, our operations and programs are regulated by other state education agencies and additional accrediting commissions. As a result of these requirements, we are subject to extensive regulation by the Arizona State Board for Private Postsecondary Education and education agencies of other states, the Higher Learning Commission, which is our primary accrediting commission, specialized accrediting commissions, and the Department of Education. These regulatory requirements cover the vast majority of our operations, including our educational programs, instructional and administrative staff, administrative procedures, marketing, recruiting, financial operations, and financial condition. These regulatory requirements also affect our ability to open additional schools and locations, add new educational programs, change existing educational programs, and change our corporate or ownership structure. The agencies that regulate our operations periodically revise their requirements and modify their interpretations of existing requirements. Regulatory requirements are not always precise and clear, and regulatory agencies may sometimes disagree with the way we have interpreted or applied these requirements. Any misinterpretation by us of regulatory requirements could materially adversely affect us.

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

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

Department of Education certification to participate in the Title IV programs lasts a maximum of six years, and institutions are thus required to seek recertification from the Department of Education on a regular basis in order to continue their participation in the Title IV programs. An institution must also apply for recertification by the Department of Education if it undergoes a change in control, as defined by Department of Education regulations, and may be subject to similar review if it expands its operations or educational programs in certain ways.

Our most recent recertification, which was issued on a provisional basis in May 2005 after an extended review by the Department of Education following the change in control that occurred in February 2004,

contained a number of conditions on our continued participation in the Title IV programs. At that time we were required by the Department of Education to post a letter of credit, accept restrictions on the growth of our program offerings and enrollment, and receive certain Title IV funds under the heightened cash monitoring system of payment (pursuant to which an institution is required to credit students with Title IV funds prior to obtaining those funds from the Department of Education) rather than by advance payment (pursuant to which an institution receives Title IV funds from the Department of Education in advance of disbursement to students). In October 2006, the Department of Education eliminated the letter of credit requirement and allowed the growth restrictions to expire, and in August 2007, it eliminated the heightened cash monitoring restrictions and returned us to the advance payment method. We submitted our application for recertification in March 2008 in anticipation of the expiration of our provisional certification on June 30, 2008. The Department of Education did not make a decision on our recertification application by June 30, 2008 and therefore our participation in the Title IV programs has been automatically extended on a month-to-month basis until the Department of Education makes its decision. See Regulation Regulation of Federal Student Financial Aid Programs Eligibility and certification procedures. There can be no assurance that the Department of Education will recertify us while the investigation by the Office of Inspector General of the Department of Education is being conducted, while the *qui tam* lawsuit is pending, or at all, or that it will not impose restrictions as a condition to approving our pending recertification application or with respect to any future recertification. If the Department of Education does not renew or withdraws our certification to participate in the Title IV programs at any time, our students would no longer be able to receive Title IV program funds. Similarly, the Department of Education could renew our certification, but restrict or delay our students receipt of Title IV funds, limit the number of students to whom we could disburse such funds, or place other restrictions on us. Any of these outcomes would have a material adverse effect on our enrollments and us.

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

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

We are currently reviewing documents and emails that may be responsive to the Office of Inspector General s subpoena. The outcome of the Office of Inspector General investigation may depend in part on information contained in these materials or any information or testimony that may be provided by former employees or other third parties.

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

effect on our business, prospects, financial condition, and results of operations. We are cooperating with the Office of Inspector General to facilitate its investigation, but

cannot presently predict the ultimate outcome of the investigation or any liability or other sanctions that might result.

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

On September 11, 2008, we were served with a *qui tam* lawsuit that had been filed against us in August 2007, in the United States District Court for the District of Arizona by a then-current employee on behalf of the federal government. All proceedings in the lawsuit had been under seal until September 5, 2008, when the court unsealed the first amended complaint, which had been filed on August 11, 2008. The *qui tam* lawsuit alleges, among other things, that we violated the False Claims Act by knowingly making false statements, and submitting false records or statements, from at least 2001 to the present, to get false or fraudulent claims paid or approved, and asserts that we have improperly compensated certain of our enrollment counselors in violation of the Title IV law governing compensation of such employees, and as a result, improperly received Title IV program funds. See Regulation Regulation of Federal Student Financial Aid Programs Incentive compensation rule. The complaint specifically alleges that some of our compensation practices with respect to our enrollment personnel, including providing non-cash awards, have violated the Title IV law governing compensation. While we believe that our compensation policies and practices at issue in the complaint have not been based on success in enrolling students in violation of applicable law, the Department of Education s regulations and interpretations of the incentive compensation law do not establish clear criteria for compliance in all circumstances and some of our practices, including in respect of non-cash awards, have not been within the scope of any specific safe harbor provided in the compensation regulations. The complaint seeks treble the amount of unspecified damages sustained by the federal government in connection with our receipt of Title IV funding, a civil penalty for each violation of the False Claims Act, attorneys fees, costs, and interest.

A *qui tam* case is a civil lawsuit brought by one or more individuals (a relator ) on behalf of the federal government for an alleged submission to the government of a false claim for payment. The relator, often a current or former employee, is entitled to a share of the government s recovery in the case. A *qui tam* action is always filed under seal and remains under seal until the government decides whether to intervene in the case. If the government intervenes, it takes over primary control of the litigation. If the government declines to intervene in the case, the relator may nonetheless elect to continue to pursue the litigation at his or her own expense on behalf of the government. In our case, the *qui tam* lawsuit was initially filed under seal in August 2007 and was unsealed and served on us following the government s decision not to intervene at this time.

If it were determined that any of our compensation practices violated the incentive compensation law, we could experience an adverse outcome in the *qui tam* litigation and be subject to substantial monetary liabilities, fines, and other sanctions, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations and could adversely affect our stock price. We cannot presently predict the ultimate outcome of this *qui tam* case or any liability that might result.

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

Political and budgetary concerns significantly affect the Title IV programs. The Higher Education Act, which is the federal law that governs the Title IV programs, must be periodically reauthorized by Congress, and was most recently reauthorized in August 2008. The new law contains numerous revisions to the requirements governing the Title IV programs. See Regulation Regulation of Federal Student Financial Aid Programs. In addition, Congress must determine funding levels for the Title IV programs on an annual basis, and can change the laws governing the Title IV programs at any time. Because a significant percentage of our revenue is derived from the Title IV programs, any

action by Congress that significantly reduces Title IV program funding or our ability or the ability of our students to participate in the Title IV programs could require us to seek to arrange for other sources of financial aid for our students and could materially decrease our student enrollment. Such a decrease in our enrollment could have a material adverse effect on us.

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Congressional action could also require us to modify our practices in ways that could increase our administrative and regulatory costs.

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

To participate in the Title IV programs, an institution must either satisfy specific quantitative standards of financial responsibility prescribed by the Department of Education, or post a letter of credit in favor of the Department of Education and possibly accept operating restrictions as well. These financial responsibility tests are applied to each institution on an annual basis based on the institution s audited financial statements, and may be applied at other times, such as if the institution undergoes a change in control. These tests may also be applied to an institution s parent company or other related entity. The operating restrictions that may be placed on an institution that does not meet the quantitative standards of financial responsibility include being transferred from the advance payment method of receiving Title IV funds to either the reimbursement or the heightened cash monitoring system, which could result in a significant delay in the institution s receipt of those funds. For example, when we were recertified by the Department of Education to participate in the Title IV programs in May 2005 following the change in control that occurred in February 2004, the Department of Education reviewed our fiscal year 2004 audited financial statements and advised us that our composite score, which is a standard of financial responsibility derived from a formula established by the Department of Education, reflected financial weakness. As a result of this and other concerns about our administrative capability, the Department of Education required us to post a letter of credit, accept restrictions on the growth of our program offerings and enrollment, and receive Title IV funds under the heightened cash monitoring system of payment rather than by advance payment. In October 2006, the Department of Education eliminated the letter of credit requirement and allowed the growth restrictions to expire, and in August 2007, it eliminated the heightened cash monitoring restrictions and returned us to the advance payment method. However, if, in the future, we fail to satisfy the Department of Education s financial responsibility standards, we could experience increased regulatory compliance costs or delays in our receipt of Title IV funds because we could be required to post a letter of credit or be subjected to operating restrictions, or both. Our failure to secure a letter of credit in these circumstances could cause us to lose our ability to participate in the Title IV programs, which would materially adversely affect us.

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

To continue participating in the Title IV programs, an institution must demonstrate to the Department of Education that the institution is capable of adequately administering the Title IV programs under specific standards prescribed by the Department of Education. These administrative capability criteria require, among other things, that the institution has an adequate number of qualified personnel to administer the Title IV programs, has adequate procedures for disbursing and safeguarding Title IV funds and for maintaining records, submits all required reports and financial statements in a timely manner, and does not have significant problems that affect the institution s ability to administer the Title IV programs. If we fail to satisfy any of these criteria, the Department of Education may assess financial penalties against us, restrict the manner in which the Department of Education delivers Title IV funds to us, place us on provisional certification status, or limit or terminate our participation in the Title IV programs, any of which could materially adversely affect us. When we were recertified by the Department of Education to participate in the Title IV programs in May 2005 following the change in control that occurred in February 2004, the Department of Education required us to post a letter of credit, accept restrictions on the growth of our program offerings and enrollment, and receive Title IV funds under the heightened cash monitoring system of payment rather than by advance payment, due to the Department of Education s concerns about our administrative capability combined with our financial weakness under the Department of Education s standards of financial responsibility.

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

An institution must be accredited by an accrediting commission recognized by the Department of Education in order to participate in the Title IV programs. We have institutional accreditation by the Higher Learning Commission, which is an accrediting commission recognized by the Department of Education. To remain accredited, we must continuously meet accreditation standards relating to, among other things, performance, governance, institutional integrity, educational quality, faculty, administrative capability, resources, and financial stability. We were reaccredited by the Higher Learning Commission in 2007 for the maximum term of 10 years. While the Higher Learning Commission concluded that we were in compliance with its accreditation standards, it did note certain deficiencies to be addressed by us. See Regulation Accreditation. In February 2009, we must file a monitoring report with the Higher Learning Commission addressing our progress in resolving these deficiencies. If we fail to resolve the Higher Learning Commission s concerns, the Higher Learning Commission could ask for another monitoring report, send a team to confirm progress in addressing the deficiencies, or determine that we are not making adequate progress in addressing the Higher Learning Commission s concerns. If we fail to satisfy any of the Higher Learning Commission s standards, or fail to address the deficiencies noted in our last review, we could lose our accreditation by the Higher Learning Commission, which would cause us to lose our eligibility to participate in the Title IV programs and could cause a significant decline in our total student enrollments and have a material adverse effect on us. In addition, many of our individual educational programs are also accredited by specialized accrediting commissions or approved by specialized state agencies. If we fail to satisfy the standards of any of those specialized accrediting commissions or state agencies, we could lose the specialized accreditation or approval for the affected programs, which could result in materially reduced student enrollments in those programs and have a material adverse effect on us.

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

A school that grants degrees or certificates must be authorized by the relevant education agency of the state in which it is located. We are located in the state of Arizona and are authorized by the Arizona State Board for Private Postsecondary Education. State authorization is also required for our students to be eligible to receive funding under the Title IV programs. To maintain our state authorization, we must continuously meet standards relating to, among other things, educational programs, facilities, instructional and administrative staff, marketing and recruitment, financial operations, addition of new locations and educational programs, and various operational and administrative procedures. If we fail to satisfy any of these standards, we could lose our authorization by the Arizona State Board for Private Postsecondary Education to offer our educational programs, which would also cause us to lose our eligibility to participate in the Title IV programs and have a material adverse effect on us.

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

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

to obtain Title IV loans in the future and that a sufficient number of lenders will continue to provide Title IV loans. Among other things, the new legislation:

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

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

We cannot predict if this legislation will be effective in ensuring students access to Title IV loans. If a substantial number of lenders cease to participate in the Title IV loan programs, increase the costs of student access to such programs, or reduce the benefits available under such programs, our students may not have access to such loans, which could cause our enrollments to decline and have a material adverse effect on us.

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

For our fiscal years ended December 31, 2006 and 2007 we derived cash receipts equal to approximately 67.9% and 70.2%, respectively, of our net revenue from tuition financed under the Title IV programs, which include student loans with interest rates subsidized by the federal government. Additionally, some of our students finance their education through private loans that are not subsidized. If our students employment circumstances are adversely affected by regional or national economic downturns, they may be more heavily dependent on student loans. Interest rates have reached relatively low levels in recent years, creating a favorable borrowing environment for students. However, in the event interest rates increase or Congress decreases the amount available for federal student aid, our students may have to pay higher interest rates on their loans. Any future increase in interest rates will result in a corresponding increase in educational costs to our existing and prospective students, which could result in a significant reduction in our student population and revenues. Higher interest rates could also contribute to higher default rates with respect to our students repayment of their education loans. Higher default rates may in turn adversely impact our eligibility to participate in some or all of the Title IV programs, which could result in a significant reduction in our student population and our profitability. See We may lose our eligibility to participate in the Title IV programs if our student loan default rates are too high located elsewhere in Risk Factors for further information.

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

Almost every state imposes regulatory requirements on educational institutions that have physical facilities located within the state s boundaries. These regulatory requirements establish standards in areas such as educational programs, facilities, instructional and administrative staff, marketing and recruitment, financial operations, addition of new locations and educational programs, and various operational and administrative procedures, some of which are different than the standards prescribed by the Department of Education or the Arizona State Board for Private Postsecondary Education. In addition, several states have sought to assert jurisdiction over educational institutions offering online degree programs that have no physical location or other presence in the state but that have some activity in the state, such as enrolling or offering educational services to students who reside in the state, employing faculty who reside in the state, or advertising to or recruiting prospective students in the state. State regulatory requirements for online education vary among the states, are not well developed in many states, are imprecise or unclear in some states, and can change frequently. In the future, states could coordinate their efforts in order to more aggressively attempt to regulate or restrict schools offering of online education.

In addition to Arizona, we have determined that our activities in certain states constitute a presence requiring licensure or authorization under the requirements of the state education agency in those states. In certain other states, we have obtained approvals to operate as we have determined necessary in connection with our marketing and recruiting activities. If we fail to comply with state licensing or authorization requirements for a state, or fail to obtain licenses or authorizations when required, we could lose our state licensure or authorization by that state or be subject to other

sanctions, including restrictions on our activities in that state, fines, and penalties. The loss of licensure or authorization in a state other than Arizona could prohibit us from recruiting prospective students or offering educational services to current students in that state, which could significantly reduce our enrollments and revenues and materially adversely effect us.

State laws and regulations are not always precise or clear, and regulatory agencies may sometimes disagree with the way we have interpreted or applied these requirements. Any misinterpretation by us of these

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regulatory requirements or adverse changes in regulations or interpretations thereof by regulators could materially adversely affect us.

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

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

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

During 2007 and 2008, student loan programs, including the Title IV programs, have come under increased scrutiny by the Department of Education, Congress, state attorneys general, and other parties. Issues that have received extensive attention include allegations of conflicts of interest between some institutions and lenders that provide Title IV loans, questionable incentives given by lenders to some schools and school employees, allegations of deceptive practices in the marketing of student loans, and schools leading students to use certain lenders. Several institutions and lenders have been cited for these problems and have paid several million dollars in the aggregate to settle those claims. The practices of numerous other schools and lenders are being examined by government agencies at the federal and state level. The Attorney General of the State of Arizona requested extensive documentation and information from us and other institutions in Arizona concerning student loan practices, and we provided testimony in response to a subpoena from the Attorney General of the State of Arizona about such practices. We have agreed with the Attorney General of the State of Arizona to conclude this matter by executing a Letter of Assurance, whereby we will agree to conduct referrals of students to lenders in accordance with our existing policies or any new policies promulgated by the State of Arizona in the future, and by reimbursing the state for the costs of its investigation in the amount of approximately $20,000.

As a result of this scrutiny, Congress has passed new laws, the Department of Education has enacted stricter regulations, and several states have adopted codes of conduct or enacted state laws that further regulate the conduct of lenders, schools, and school personnel. These new laws and regulations, among other things, limit schools relationships with lenders, restrict the types of services that schools may receive from lenders, prohibit lenders from providing other types of loans to students in exchange for Title IV loan volume from schools, require schools to provide additional information to students concerning institutionally preferred lenders, and significantly reduce the amount of federal payments to lenders who participate in the Title IV loan programs. The environment surrounding access to and cost of student loans remains in a state of flux, with reviews of many institutions and lenders still pending and with additional legislation and regulatory changes being actively considered at the federal and state levels. The uncertainty surrounding these issues, and any resolution of these issues that increases loan costs or reduces students access to Title IV loans, may adversely affect our student enrollments, which could have an adverse effect on

us.

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

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

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

According to a September 2008 report from the NCES, enrollment in degree-granting, postsecondary institutions is projected to grow 12.0% over the ten-year period ending fall 2016 to approximately 19.9 million. This growth is slower than the 23.6% increase reported in the prior ten-year period ended in fall 2006, when enrollment increased from 14.4 million in 1996 to 17.8 million in 2006. In addition, according to a March 2008 report from the Western Interstate Commission for Higher Education, the number of high school graduates that are eligible to enroll in degree-granting, postsecondary institutions is expected to peak at approximately 3.3 million for the class of 2008, falling in the period between 2007-08 and 2013-14 by about 150,000 in total before resuming a growth pattern for the foreseeable future thereafter. In order to maintain current growth rates, we will need to attract a larger percentage of students in existing markets and expand our markets by creating new academic programs. In addition, if job growth in the fields related to our core disciplines is weaker than expected, as a result of any regional or national economic downturn or otherwise, including since the 2007 BLS report predicting strong job growth in these disciplines was completed, fewer students may seek the types of degrees that we offer. Our failure to attract new students, or the decisions by prospective students to seek degrees in other disciplines, would have an adverse impact on our future growth.

***If our students were unable to obtain private loans from third-party lenders, our business could be adversely affected given our increasing reliance on such lenders as a source of net revenue.***

During the fiscal year ended December 31, 2007, private loans to students at our school represented approximately 5.1% of our revenue (calculated on a cash basis) as compared to 2.5% of revenue in fiscal 2006 and 1.9% of revenue in fiscal 2005. These loans were provided pursuant to private loan programs and were made available to eligible students to fund a portion of the students costs of education not covered by the Title IV programs and state financial aid sources. Private loans are made to our students by lending

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institutions and are non-recourse to us. Recent adverse market conditions for consumer and federally guaranteed student loans (including lenders increasing difficulties in reselling or syndicating student loan portfolios) have resulted, and could continue to result, in providers of private loans reducing the availability of or increasing the costs associated with providing private loans to postsecondary students. In particular, loans to students with low credit scores who would not otherwise be eligible for credit-based private loans have become increasingly difficult to obtain. Prospective students may find that these increased financing costs make borrowing prohibitively expensive and abandon or delay enrollment in postsecondary education programs. If any of these scenarios were to occur, our students ability to finance their education could be adversely affected and our student population could decrease, which could have a material adverse effect on our business, prospects, financial condition, and results of operations.

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

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

We have submitted a description of the offering to the Department of Education, including a description of a voting agreement that certain of our stockholders will enter into in connection with this offering. See Certain Relationships and Related Transactions Voting Agreement. The Department of Education has informed us that the offering will not trigger a change in ownership resulting in a change in control under the Department of Education s regulations.

The Higher Learning Commission has informed us that it will consider the offering to be a change in control under its policies, and we have obtained the Higher Learning Commission s approval to consummate the offering. As a result of its determination that the offering will be a change in control, the Higher Learning Commission has informed us that it will conduct a site visit within six months of consummation of the offering to confirm the appropriateness of the approval and to evaluate whether we continue to meet the Higher Learning Commission s eligibility criteria. In addition, based on our communications with the Arizona State Board for Private Postsecondary Education, we believe the offering will be a change in control under Arizona law. Accordingly, following the consummation of the offering, we will be required to file an application with the Arizona State Board for Private Postsecondary Education in order to obtain such approval. We cannot predict whether the Higher Learning Commission or the Arizona State Board for Private Postsecondary Education will impose any limitations or conditions on us, or identify any compliance issues related to us in the context of the change in control process, that could result in our loss of accreditation or authorization by such agency, as applicable. Any such loss of accreditation or authorization would result in our loss of eligibility to participate in the Title IV programs and cause a significant decline in our student enrollments.

We also notified other accrediting commissions and state agencies, as we believed necessary, of this offering and the reasons why we believe this offering will not constitute a change in control under their

respective standards, or to determine what is required if any such commission or agency does consider the offering to constitute a change in control.

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

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

As described in Risk Factors The Office of Inspector General of the Department of Education has commenced an investigation of Grand Canyon University, which is ongoing and which may result in fines, penalties, other sanctions, and damage to our reputation in the industry, and in Regulation Regulation of Federal Student Financial Aid Programs Incentive compensation rule, we are currently subject to an investigation by the Department of Education s Office of Inspector General, which we believe is focused on the manner in which we have compensated our enrollment counselors and managers. In addition, in recent years several for-profit education companies, including us, have been faced with whistleblower lawsuits, known as *qui tam* cases, by current or former employees alleging violations of this prohibition. See Risk Factors We were recently notified that a *qui tam* lawsuit has been filed against us alleging, among other things, that we have improperly compensated certain of our enrollment counselors, and we may incur liability, be subject to sanctions, or experience damage to our reputation as a result of this lawsuit. If the Department of Education determines as a result of the pending investigation that we have violated this law, if we are found to be liable in the pending *qui tam* action, or if we or any third parties we have engaged otherwise violate this law, we could be fined or sanctioned by the Department of Education, or subjected to other monetary liability or penalties that could be substantial, any of which could harm our reputation, impose significant costs on us, and have a material adverse effect on our business, prospects, financial condition, and results of operations.

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

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

and have a negative impact on our stock price. Such coverage could also result in increased scrutiny and regulation by the Department of Education, Congress, accrediting commissions, state legislatures, state attorneys general, or other governmental authorities of all educational institutions, including us.

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

A for-profit institution loses its eligibility to participate in the Title IV programs if, under a formula that requires cash basis accounting and other adjustments to the calculation of revenue, it derives more than 90% of its revenues from those programs in any fiscal year. The period of ineligibility is at least the next succeeding fiscal year, and any Title IV funds already received by the institution and its students in that succeeding year would have to be returned to the applicable lender or the Department of Education. Using the Department of Education s formula for this test, we have calculated that, for our 2006 and 2007 fiscal years, we derived approximately 71.5% and 74.0%, respectively, of our revenue from the Title IV programs. The August 2008 reauthorization of the Higher Education Act makes significant changes to this revenue requirement, effective upon the date of the law s enactment. Under the new law, an institution will be subject to loss of eligibility to participate in the Title IV programs only if it exceeds the 90% threshold for two consecutive years, the period of ineligibility is extended to at least two years, and an institution whose rate exceeds 90% for any single year will be placed on provisional certification. Recent changes in federal law that increased Title IV grant and loan limits, and any additional increases in the future, may result in an increase in the revenues we receive from the Title IV programs. Economic downturns that adversely affect our students employment circumstances could also increase their reliance on Title IV programs. These developments could make it more difficult for us to satisfy this requirement. Exceeding the 90% threshold and losing our eligibility to participate in the Title IV programs would have a material adverse effect on our business, prospects, financial condition, and results of operations.

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

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

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

A school participating in the Title IV programs must calculate the amount of unearned Title IV program funds that it has disbursed to students who withdraw from their educational programs before completing such programs and must return those unearned funds to the appropriate lender or the Department of Education in a timely manner, generally within 45 days of the date the school determines that the student has withdrawn. If the unearned funds are not properly calculated and timely returned for a sufficient percentage of students, we may have to post a letter of credit in favor of the Department of Education equal to 25% of the Title IV funds that should have been returned for such students in

the prior fiscal year, and we could be fined or otherwise sanctioned by the Department of Education, which could increase our cost of regulatory compliance and materially adversely affect us.

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

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

## Risks Related to Our Business

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

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

- the reduced availability of, or higher interest rates and other costs associated with, Title IV loan funds or other sources of financial aid;
- the emergence of more successful competitors;
- factors related to our marketing, including the costs and effectiveness of Internet advertising and broad-based branding campaigns and recruiting efforts;
- performance problems with our online systems;
- failure to maintain institutional and specialized accreditations;
- the requirements of the education agencies that regulate us which restrict schools initiation of new programs and modification of existing programs;
- the requirements of the education agencies that regulate us which restrict the ways schools can compensate their recruitment personnel;
- increased regulation of online education, including in states in which we do not have a physical presence;
- restrictions that may be imposed on graduates of online programs that seek certification or licensure in certain states;
- student dissatisfaction with our services and programs;

adverse publicity regarding us, our competitors, or online or for-profit education generally;

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

a decline in the acceptance of online education;

an adverse economic or other development that affects job prospects in our core disciplines; and

a decrease in the perceived or actual economic benefits that students derive from our programs.

If we are unable to continue to develop awareness of Grand Canyon University and the programs we offer, and to recruit, enroll, and retain students, our enrollments would suffer and our ability to increase revenues and maintain profitability would be significantly impaired.

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***If we are unable to hire and train new and existing employees responsible for student recruitment, the effectiveness of our student recruiting efforts would be adversely affected.***

In order to support our planned revenue growth we intend to hire, develop, and train a significant number of additional employees responsible for student recruitment and retain and continue to develop and train our current student recruitment personnel. Our ability to develop and maintain a strong student recruiting function may be affected by a number of factors, including our ability to integrate and motivate our enrollment counselors, our ability to effectively train our enrollment counselors, the length of time it takes new enrollment counselors to become productive, regulatory restrictions on the method of compensating enrollment counselors, and the competition in hiring and retaining enrollment counselors. If we are unable to hire, develop, and retain a sufficient number of qualified enrollment counselors, our ability to increase enrollments would be adversely affected.

***We will incur increased costs as a result of being a public company, and the requirements of being a public company may divert management attention from our business.***

As a public company, we will be subject to a number of additional requirements, including the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act and the listing standards of Nasdaq. These requirements will cause us to incur increased costs and might place a strain on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting, and also requires that our internal controls be assessed by management and attested to by our auditors as of December 31 of each year commencing with our year ending December 31, 2009. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight will be required. As a result, our management s attention might be diverted from other business concerns, which could have a material adverse effect on our business, prospects, financial condition, and results of operations. Furthermore, we might not be able to retain our independent directors or attract new independent directors for our committees.

***We have material weaknesses in our internal control over financial reporting. If we fail to develop or maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our common stock.***

During the preparation of our financial statements for 2005, 2006, and 2007, and for the six month period ended June 30, 2008, our management identified material weaknesses in our internal control over financial reporting, as defined in the standards established by the American Institute of Certified Public Accountants, that affected our financial statements for each of the periods covered by such statements. See Management s Discussion and Analysis of Financial Condition and Results of Operations Internal Control Over Financial Reporting. We have restated our financial statements as of December 31, 2006 and 2007 and for the years ended December 31, 2005, 2006, and 2007. See Note 3, Restatement of Financial Statements, to our financial statements.

We are currently in the process of remediating these material weaknesses, but have not yet been able to complete our remediation efforts. See Management s Discussion and Analysis of Financial Condition and Results of Operations Internal Control Over Financial Reporting. It will take additional time to design, implement, and test the controls and procedures required to enable our management to conclude that our internal control over financial reporting is effective. We cannot at this time estimate how long it will take to complete our remediation efforts. We cannot assure you that measures we plan to take will be effective in mitigating or preventing significant deficiencies or material weaknesses in our internal control over financial reporting. Any failure to maintain or implement required new or

improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting that will be required when

the SEC s rules under Section 404 of the Sarbanes-Oxley Act of 2002 become applicable to us beginning with our Annual Report on Form 10-K for the year ending December 31, 2009, to be filed in early 2010. The existence of a material weakness could result in errors in our financial statements that could result in further restatements of our financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

***We operate in a highly competitive industry, and competitors with greater resources could harm our business.***

The postsecondary education market is highly fragmented and competitive. We compete for students with traditional public and private two-year and four-year colleges and universities and other for-profit schools, including those that offer online learning programs. Many public and private schools, colleges, and universities, including most major colleges and universities, offer online programs. We expect to experience additional competition in the future as more colleges, universities, and for-profit schools offer an increasing number of online programs. Public institutions receive substantial government subsidies, and public and private non-profit institutions have access to government and foundation grants, tax-deductible contributions, and other financial resources generally not available to for-profit schools. Accordingly, public and private non-profit institutions may have instructional and support resources superior to those in the for-profit sector, and public institutions can offer substantially lower tuition prices. Some of our competitors in both the public and private sectors also have substantially greater financial and other resources than we do. We may not be able to compete successfully against current or future competitors and may face competitive pressures that could adversely affect our business, prospects, financial condition, and results of operations. These competitive factors could cause our enrollments, revenues, and profitability to significantly decrease. See Business Competition for further information.

***Capacity constraints, system disruptions, or security breaches in our online computer networks could have a material adverse effect on our ability to attract and retain students.***

The performance and reliability of the infrastructure of our online operations are critical to our reputation and to our ability to attract and retain students. Any computer system disruption or failure, or a sudden and significant increase in traffic on the servers that host our online operations, may result in our online courses and programs being unavailable for a period of time. In addition, any significant failure of our computer networks or servers could disrupt our on-campus operations. Individual, sustained, or repeated occurrences could significantly damage the reputation of our online operations and result in a loss of potential or existing students. Additionally, our online operations are vulnerable to interruption or malfunction due to events beyond our control, including natural disasters and network and telecommunications failures. Our computer networks may also be vulnerable to unauthorized access, computer hackers, computer viruses, and other security problems. A user who circumvents security measures could misappropriate proprietary information or cause interruptions to or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these incidents. Any interruption to our online operations could have a material adverse effect on our ability to attract students to our online programs and to retain those students.

***We may not be able to successfully implement our growth strategy if we are not able to improve the content of our existing academic programs or to develop new programs on a timely basis and in a cost-effective manner, or at all.***

We continually seek to improve the content of our existing programs and develop new programs in order to meet changing market needs. The success of any of our programs and courses, both ground and online, depends in part on our ability to expand the content of our existing programs, develop new programs in a cost-effective manner, and meet the needs of existing and prospective students and employers in a timely manner, as well as on the acceptance of our actions by existing or prospective students and employers. As of September 30, 2008, we offered 79 fully online programs, 17 of which we introduced in 2007, 12 of which we introduced in the first nine months of 2008, and many

of which were based on our existing ground programs. In the future, we may develop programs solely, or initially, for online use, which may pose new challenges, including the need to develop course content without having an existing program on which such content can

be based. Even if we are able to develop acceptable new programs, we may not be able to introduce these new programs in a timely fashion or as quickly as our competitors are able to introduce competing programs. If we do not respond adequately to changes in market conditions, our ability to attract and retain students could be impaired and our business, prospects, financial condition, and results of operations could suffer.

The development and approval of new programs and courses, both ground and online, are subject to requirements and limitations imposed by the Department of Education, state licensing agencies, and the relevant accrediting commissions, and in certain cases, such as with our newly approved doctoral program in education, involves a process that can take several years to complete. The imposition of restrictions on the initiation of new educational programs by any of our regulatory agencies, or delays in obtaining approvals of such programs, may delay our expansion plans. Establishing new academic programs or modifying existing academic programs may also require us to make investments in specialized personnel, increase marketing efforts, and reallocate resources. We may have limited experience with the subject matter of new programs.

If we are unable to expand our existing programs, offer new programs on a timely basis or in a cost-effective manner, or otherwise manage effectively the operations of newly established programs, our business, prospects, financial condition, and results of operations could be adversely affected.

***Our failure to keep pace with changing market needs and technology could harm our ability to attract students.***

Our success depends to a large extent on the willingness of employers to employ, promote, or increase the pay of our graduates. Increasingly, employers demand that their new employees possess appropriate technical and analytical skills and also appropriate interpersonal skills, such as communication, and teamwork skills. These skills can evolve rapidly in a changing economic and technological environment. Accordingly, it is important that our educational programs evolve in response to those economic and technological changes. The expansion of existing academic programs and the development of new programs may not be accepted by current or prospective students or by the employers of our graduates. Even if we are able to develop acceptable new programs, we may not be able to begin offering those new programs in a timely fashion or as quickly as our competitors offer similar programs. If we are unable to adequately respond to changes in market requirements due to regulatory or financial constraints, unusually rapid technological changes, or other factors, the rates at which our graduates obtain jobs in their fields of study could suffer, our ability to attract and retain students could be impaired, and our business, prospects, financial condition, and results of operations could be adversely affected.

***If we do not maintain existing, and develop additional, relationships with employers, our future growth may be impaired.***

We currently have relationships with large school districts and healthcare systems, primarily in Arizona, and also recently began seeking relationships with national and international employers, to provide their employees with the opportunity to obtain degrees through us while continuing their employment. These relationships are an important part of our strategy as they provide us with a steady source of potential working adult students for particular programs and also serve to increase our reputation among high-profile employers. If we are unable to develop new relationships, or if our existing relationships deteriorate or end as a result of economic conditions affecting employers or otherwise, our efforts to seek these sources of potential working adult students will be impaired, and this could materially and adversely affect our business, prospects, financial condition, and results of operations.

***Our failure to effectively manage our growth could harm our business.***

Our business recently has experienced rapid growth. Growth and expansion of our operations may place a significant strain on our resources and increase demands on our executive management team, management information and

reporting systems, financial management controls and personnel, and regulatory compliance systems and personnel. We may not be able to maintain or accelerate our current growth rate, effectively manage our expanding operations, or achieve planned growth on a timely or profitable basis. If we are unable to manage our growth effectively, we may experience operating inefficiencies and our earnings may be materially adversely affected.

***Our success depends upon our ability to recruit and retain key personnel.***

Our success to date has largely depended on, and will continue to depend on, the skills, efforts, and motivation of our executive officers, who generally have significant experience with our company and within the education industry. Our success also largely depends on our ability to attract and retain highly qualified faculty, school administrators, and additional corporate management personnel. We may have difficulties in locating and hiring qualified personnel and in retaining such personnel once hired. In addition, because we operate in a highly competitive industry, our hiring of qualified executives or other personnel may cause us or such persons to be subject to lawsuits alleging misappropriation of trade secrets, improper solicitation of employees, or other claims. Other than non-compete agreements of limited duration that we have with certain executive officers, we have not historically sought non-compete agreements with key personnel and they may leave and subsequently compete against us. The loss of the services of any of our key personnel, many of whom are not party to employment agreements with us, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could cause our business to suffer.

***The protection of our operations through exclusive proprietary rights and intellectual property is limited, and from time to time we encounter disputes relating to our use of intellectual property of third parties, any of which could harm our operations and prospects.***

In the ordinary course of our business we develop intellectual property of many kinds that is or will be the subject of copyright, trademark, service mark, patent, trade secret, or other protections. This intellectual property includes but is not limited to courseware materials and business know-how and internal processes and procedures developed to respond to the requirements of operating our business and to comply with the rules and regulations of various education regulatory agencies. We rely on a combination of copyrights, trademarks, service marks, trade secrets, domain names, and agreements to protect our intellectual property. We rely on service mark and trademark protection in the United States to protect our rights to the mark Grand Canyon University, as well as distinctive logos and other marks associated with our services. We rely on agreements under which we obtain rights to use course content developed by faculty members and other third party content experts, as well as license agreements pursuant to which we license the right to brand certain of our program offerings. We cannot assure you that the measures that we take will be adequate or that we have secured, or will be able to secure, appropriate protections for all of our proprietary rights in the United States or select foreign jurisdictions, or that third parties will not infringe upon or violate our proprietary rights. Unauthorized third parties may attempt to duplicate or copy the proprietary aspects of our curricula, online resource material, and other content, and offer competing programs to ours.

In particular, we license the right to utilize the name of Ken Blanchard in connection with our business school and Executive MBA programs and have spent significant resources in related branding efforts. Nevertheless, our license agreement with Blanchard Education, LLC has a fixed term and may not necessarily be extended in the future. In addition, third parties may attempt to develop competing programs or copy aspects of our curriculum, online resource material, quality management, and other proprietary content. The termination of this license agreement, or attempts to compete with or duplicate our programs, if successful, could adversely affect our business. Protecting these types of intellectual property rights can be difficult, particularly as it relates to the development by our competitors of competing courses and programs.

We may from time to time encounter disputes over rights and obligations concerning intellectual property, and we may not prevail in these disputes. In certain instances, we may not have obtained sufficient rights in the content of a course. Third parties may raise a claim against us alleging an infringement or violation of the intellectual property of that third party. Some third-party intellectual property rights may be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid those intellectual property rights. Any such intellectual property claim could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether such claim has merit, and we may be required to alter the content of our classes or pay

monetary damages, which may be significant.

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***We are subject to laws and regulations as a result of our collection and use of personal information, and any violations of such laws or regulations, or any breach, theft, or loss of such information, could adversely affect our reputation and operations.***

Possession and use of personal information in our operations subjects us to risks and costs that could harm our business. We collect, use, and retain large amounts of personal information regarding our applicants, students, faculty, staff, and their families, including social security numbers, tax return information, personal and family financial data, and credit card numbers. We also collect and maintain personal information of our employees in the ordinary course of our business. Our services can be accessed globally through the Internet. Therefore, we may be subject to the application of national privacy laws in countries outside the U.S. from which applicants and students access our services. Such privacy laws could impose conditions that limit the way we market and provide our services.

Our computer networks and the networks of certain of our vendors that hold and manage confidential information on our behalf may be vulnerable to unauthorized access, employee theft or misuse, computer hackers, computer viruses, and other security threats. Confidential information may also inadvertently become available to third parties when we integrate systems or migrate data to our servers following an acquisition of a school or in connection with periodic hardware or software upgrades.

Due to the sensitive nature of the personal information stored on our servers, our networks may be targeted by hackers seeking to access this data. A user who circumvents security measures could misappropriate sensitive information or cause interruptions or malfunctions in our operations. Although we use security and business controls to limit access and use of personal information, a third party may be able to circumvent those security and business controls, which could result in a breach of student or employee privacy. In addition, errors in the storage, use, or transmission of personal information could result in a breach of privacy for current or prospective students or employees. Possession and use of personal information in our operations also subjects us to legislative and regulatory burdens that could require notification of data breaches and restrict our use of personal information, and a violation of any laws or regulations relating to the collection or use of personal information could result in the imposition of fines against us. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches. A major breach, theft, or loss of personal information regarding our students and their families or our employees that is held by us or our vendors, or a violation of laws or regulations relating to the same, could have a material adverse effect on our reputation and result in further regulation and oversight by federal and state authorities and increased costs of compliance.

***We operate in a highly competitive market with rapid technological change, and we may not have the resources needed to compete successfully.***

Online education is a highly competitive market that is characterized by rapid changes in students technological requirements and expectations and evolving market standards. Our competitors vary in size and organization, and we compete for students with traditional public and private two-year and four-year colleges and universities and other for-profit schools, including those that offer online learning programs. Each of these competitors may develop platforms or other technologies, including technologies such as streaming video, that allow for greater levels of interactivity between faculty and students, that are superior to the platform and technology we use, and these differences may affect our ability to recruit and retain students. We may not have the resources necessary to acquire or compete with technologies being developed by our competitors, which may render our online delivery format less competitive or obsolete.

***At present we derive a significant portion of our revenues and operating income from our graduate programs.***

As of September 30, 2008, approximately 56% of our students were graduate students. Although we anticipate that this percentage will decline over time due as a result of our planned growth emphasis in our undergraduate business and liberal arts programs, if we were to experience any event that adversely affected our graduate offerings or the attractiveness of our programs to prospective graduate students, our business, prospects, financial condition, and results of operations could be significantly and adversely affected.

***We may incur liability for the unauthorized duplication or distribution of class materials posted online for class discussions.***

In some instances, our faculty members or our students may post various articles or other third-party content on class discussion boards. Third parties may raise claims against us for the unauthorized duplication of material posted online for class discussions. Any such claims could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether the claims have merit. Our general liability insurance may not cover potential claims of this type adequately or at all, and we may be required to alter the content of our courses or pay monetary damages, which may be significant.

***We use third-party software for our online classroom, and if the provider of that software were to cease to do business or was acquired by a competitor, we may have difficulty maintaining the software required for our online classroom or updating it for future technological changes, which could adversely affect our performance.***

Our online classroom employs the ANGEL Learning Management Suite pursuant to a license from ANGEL Learning, Inc. The ANGEL system is a web-based portal that stores, manages, and delivers course content; enables assignment uploading; provides interactive communication between students and faculty; and supplies online evaluation tools. We rely on ANGEL Learning, Inc. for administrative support of the ANGEL system and, if ANGEL Learning, Inc. ceased to operate or was unable or unwilling to continue to provide us with services or upgrades on a timely basis, we may have difficulty maintaining the software required for our online classroom or updating it for future technological changes. Any failure to maintain our online classroom would have an adverse impact on our operations, damage our reputation, and limit our ability to attract and retain students.

***Seasonal and other fluctuations in our results of operations could adversely affect the trading price of our common stock.***

Our net revenue and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in enrollment, and are typically lowest in our second fiscal quarter and highest in our fourth fiscal quarter. Accordingly, our results in any quarter may not indicate the results we may achieve in any subsequent quarter or for the full year. Student population varies as a result of new enrollments, graduations, and student attrition. A significant portion of our general and administrative expenses do not vary proportionately with fluctuations in revenues. We expect quarterly fluctuations in operating results to continue as a result of seasonal enrollment patterns. Such patterns may change, however, as a result of new program introductions, the timing of colloquia and events, and increased enrollments of students. These fluctuations may result in volatility or have an adverse effect on the market price of our common stock.

***We only recently began operating as a for-profit company and have a limited operating history as a for-profit company. Accordingly, our historical and recent financial and business results may not necessarily be representative of what they will be in the future.***

We have only operated as a for-profit company with private ownership interests since February 2004. We have a limited operating history as a for-profit business on which you can evaluate our management decisions, business strategy, and financial results. Moreover, until October 2006, we operated under various Department of Education limitations on our growth and activities. As a result, our historical and recent financial and business results may not necessarily be representative of what they will be in the future. We are subject to risks, uncertainties, expenses, and difficulties associated with changing and implementing our business strategy that are not typically encountered by established for-profit companies. As a result, we may not be able to operate effectively as a for-profit corporation. It is possible that we may incur significant operating losses in the future and that we may not be able to achieve or sustain long-term profitability.

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***Our current success and future growth depend on the continued acceptance of the Internet and the corresponding growth in users seeking educational services on the Internet.***

Our business relies in part on the Internet for its success. A number of factors could inhibit the continued acceptance of the Internet and adversely affect our profitability, including:

- inadequate Internet infrastructure;
- security and privacy concerns;
- the unavailability of cost-effective Internet service and other technological factors; and
- changes in government regulation of Internet use.

If Internet use decreases, or if the number of Internet users seeking educational services on the Internet does not increase, our business may not grow as planned.

***Government regulations relating to the Internet could increase our cost of doing business, affect our ability to grow or otherwise have a material adverse effect on our business.***

The increasing popularity and use of the Internet and other online services has led and may lead to the adoption of new laws and regulatory practices in the United States or foreign countries and to new interpretations of existing laws and regulations. These new laws and interpretations may relate to issues such as online privacy, copyrights, trademarks and service marks, sales taxes, fair business practices, and the requirement that online education institutions qualify to do business as foreign corporations or be licensed in one or more jurisdictions where they have no physical location or other presence. New laws and regulations or interpretations thereof related to doing business over the Internet could increase our costs and materially and adversely affect our business, prospects, financial condition, and results of operations.

***A reclassification of our online faculty by federal or state authorities from independent contractor to employee status could materially increase our costs.***

A majority of our faculty at September 30, 2008 were online faculty, whom we treat as independent contractors. Because we classify our online faculty as independent contractors, we do not withhold federal or state income or other employment-related taxes, make federal or state unemployment tax or Federal Insurance Contributions Act, or FICA, payments or provide workers compensation insurance with respect to our online faculty. The determination of whether online faculty members are properly classified as independent contractors or as employees is based upon the facts and circumstances of our relationship with our online faculty members. Federal or state authorities may challenge our classification as incorrect and assert that our online faculty members must be classified as employees. In the event that we were to reclassify our online faculty as employees, we would be required to withhold the appropriate taxes, make unemployment tax and FICA payments, and pay for workers compensation insurance and additional payroll processing costs. If we had reclassified our online faculty members as employees for 2007, we estimate our additional tax, workers compensation insurance, and payroll processing payments would have been approximately $1.2 million for that year. The amount of additional tax and insurance payments would increase in the future as the total amount we pay to online faculty increases. In addition to these known costs, we could be subject to retroactive taxes and penalties, which may be significant, by federal and state authorities, which could adversely affect our business, prospects, financial condition, and results of operations.

***We may incur significant costs complying with the Americans with Disabilities Act and similar laws.***

Under the Americans with Disabilities Act of 1990, or the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. Additional federal, state, and local laws also may require modifications to our properties, or restrict our ability to renovate our properties. For example, the Fair Housing Amendments Act of 1988, or FHAA, requires apartment properties first occupied after March 13, 1990 to be accessible to the handicapped. We have not conducted an audit or investigation of all of our properties to determine our compliance with present requirements. Noncompliance with the ADA or FHAA could result in the imposition of fines or an award or damages to private litigants and also could result in an order to correct any non-complying feature. We cannot predict the ultimate amount of the cost of

compliance with the ADA, FHAA, or other legislation. If we incur substantial costs to comply with the ADA, FHAA, or any other legislation, we could be materially and adversely affected.

***Our failure to comply with environmental laws and regulations governing our activities could result in financial penalties and other costs.***

We use hazardous materials at our ground campus and generate small quantities of waste, such as used oil, antifreeze, paint, car batteries, and laboratory materials. As a result, we are subject to a variety of environmental laws and regulations governing, among other things, the use, storage, and disposal of solid and hazardous substances and waste, and the clean-up of contamination at our facilities or off-site locations to which we send or have sent waste for disposal. In the event we do not maintain compliance with any of these laws and regulations, or are responsible for a spill or release of hazardous materials, we could incur significant costs for clean-up, damages, and fines, or penalties which could adversely impact our business, prospects, financial condition, and results of operations.

***If we expand in the future into new markets outside the United States, we would be subject to risks inherent in non-domestic operations.***

If we acquire schools or establish programs in new markets outside the United States, we will face risks that are inherent in non-domestic operations, including the complexity of operations across borders, new regulatory regimes, currency exchange rate fluctuations, monetary policy risks, such as inflation, hyperinflation and deflation, and potential political and economic instability in the countries into which we expand.

***Our failure to obtain additional capital in the future could adversely affect our ability to grow.***

We believe that the proceeds from this offering being retained by us, funds from operations, cash, and investments will be adequate to fund our current operating and growth plans for the foreseeable future. However, we may need additional financing in order to finance our continued growth, particularly if we pursue any acquisitions. The amount, timing, and terms of such additional financing will vary principally depending on the timing and size of new program offerings, the timing and size of acquisitions we may seek to consummate, and the amount of cash flows from our operations. To the extent that we require additional financing in the future, such financing may not be available on terms acceptable to us or at all, and, consequently, we may not be able to fully implement our growth strategy.

***If we are not able to integrate acquired schools, our business could be harmed.***

From time to time, we may pursue acquisitions of other schools. Integrating acquired operations into our institution involves significant risks and uncertainties, including:

- inability to maintain uniform standards, controls, policies, and procedures;
- distraction of management s attention from normal business operations during the integration process;
- inability to obtain, or delay in obtaining, approval of the acquisition from the necessary regulatory agencies, or the imposition of operating restrictions or a letter of credit requirement on us or on the acquired school by any of those regulatory agencies;
- expenses associated with the integration efforts; and
- unidentified issues not discovered in our due diligence process, including legal contingencies.

If we complete one or more acquisitions and are unable to integrate acquired operations successfully, our business could suffer.

**Risks Related to the Offering**

***There is no existing market for our common stock, and we do not know if one will develop to provide you with adequate liquidity.***

Immediately prior to this offering, there has been no public market for our common stock. An active and liquid public market for our common stock may not develop or be sustained after this offering. The price of our common stock in any such market may be higher or lower than the price you pay. If you purchase shares

of common stock in this offering, you will pay a price that was not established in a competitive market. Rather, you will pay the price that we negotiated with the representatives of the underwriters and such price may not be indicative of prices that will prevail in the open market following this offering.

***The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.***

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price of our common stock could fluctuate significantly for various reasons, which include:

- our quarterly or annual earnings or earnings of other companies in our industry;
- the public s reaction to our press releases, our other public announcements, and our filings with the SEC;
- changes in earnings estimates or recommendations by research analysts who track our common stock or the stocks of other companies in our industry;
- changes in our number of enrolled students;
- new laws or regulations or new interpretations of laws or regulations applicable to our business;
- seasonal variations in our student population;
- the availability and cost of Title IV funds, other student financial aid, and private loans;
- the failure to maintain or keep in good standing our regulatory approvals and accreditations;
- changes in accounting standards, policies, guidance, interpretations, or principles;
- changes in general conditions in the U.S. and global economies or financial markets, including those resulting from war, incidents of terrorism, or responses to such events;
- an adverse economic or other development that affects job prospects in our core disciplines;
- litigation involving our company, or investigations or audits by regulators into the operations of our company or our competitors, including the investigation of Grand Canyon University currently being conducted by the Office of Inspector General of the Department of Education, and the pending *qui tam* action regarding the manner in which we have compensated our enrollment personnel; and
- sales of common stock by our directors, executive officers, and significant stockholders.

In addition, in recent years, the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of these companies. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our stock price.

***Our executive officers, directors, and principal existing stockholders will continue to own a large percentage of our voting stock after this offering, which may allow them to collectively control substantially all matters requiring***

***stockholder approval and, in the case of certain of our principal stockholders, will have other unique rights that may afford them access to our management.***

Our directors, executive officers, and principal existing stockholders will beneficially own approximately 31,300,615 shares, or 71.7%, of our common stock upon the completion of this offering. Our directors and executive officers will beneficially own in the aggregate approximately 29,465,485 shares, or 67.5%, of our common stock after the offering. In addition, pursuant to a voting agreement entered into among Brent Richardson, Chris Richardson, and certain of our existing stockholders, the Richardsons will have voting control over approximately 44.5% or our common stock effective upon completion of the offering. See Certain Relationships and Related Transactions Voting Agreement. Accordingly, the Richardsons could significantly influence the outcome of any actions requiring the vote or consent of stockholders, including elections of directors, amendments to our certificate of incorporation and bylaws, mergers, going private transactions, and other extraordinary transactions, and any decisions concerning the terms of any of these

transactions. The ownership and voting positions of these stockholders may have the effect of delaying, deterring, or preventing a change in control or a change in the composition of our board of directors. These stockholders may also use their contractual rights, including access to management, and their large ownership position to address their own interests, which may be different from those of our other stockholders, including investors in this offering.

***Your percentage ownership in us may be diluted by future issuances of capital stock, which could reduce your influence over matters on which stockholders vote.***

Following the completion of this offering, our board of directors has the authority, without action or vote of our stockholders, to issue all or any part of our authorized but unissued shares of common stock, including shares issuable upon the exercise of options, shares that may be issued to satisfy our payment obligations under our incentive plans, or shares of our authorized but unissued preferred stock. Issuances of common stock or voting preferred stock would reduce your influence over matters on which our stockholders vote, and, in the case of issuances of preferred stock, likely would result in your interest in us being subject to the prior rights of holders of that preferred stock.

***The sale of a substantial number of shares of our common stock after this offering may cause the market price of shares of our common stock to decline.***

Sales of our common stock by existing investors may begin shortly after the completion of this offering. Sales of a substantial number of shares of our common stock in the public market following this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. The shares of our common stock outstanding prior to this offering will be eligible for sale in the public market at various times in the future. All of our directors, executive officers, and stockholders agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock until 180 days after the date of this prospectus, except with the prior written consent of the representatives identified in the section of this prospectus entitled Underwriting. Upon expiration of this lock-up period, up to approximately 33,059,714 additional shares of common stock may be eligible for sale in the public market without restriction, and up to approximately 27,370,832 shares of common stock held by affiliates may become eligible for sale, subject to the restrictions under Rule 144 of the Securities Act of 1933, as amended, or the Securities Act.

***You will incur immediate and substantial dilution in the net tangible book value of your shares.***

If you purchase shares in this offering, the value of your shares based on our actual book value will immediately be less than the price you paid. This reduction in the value of your equity is known as dilution. This dilution occurs in large part because our earlier investors paid substantially less than the initial public offering price when they purchased their shares of our common stock. Based upon the issuance and sale of 10,500,000 shares of our common stock by us in this offering at an assumed initial public offering price of $13.00 per share, the midpoint of the price range set forth on the cover page of this prospectus, you will incur immediate dilution of $12.05 in the net tangible book value per share. A $1.00 increase or decrease in the assumed initial public offering price of $13.00 per share would increase or decrease, as applicable, our pro forma as-adjusted net tangible book value per share of common stock by $0.04, and increase or decrease, as applicable, the dilution per share of common stock to new investors by $0.96, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us and after payment of the special distribution to our existing stockholders. If the underwriters exercise their over-allotment option, or if outstanding options to purchase our common stock are exercised, investors will experience additional dilution. For more information, see Dilution.

***Provisions in our charter documents and the Delaware General Corporation Law could make it more difficult for a third party to acquire us and could discourage a takeover and adversely affect existing stockholders.***

Anti-takeover provisions of our certificate of incorporation, bylaws, the Delaware General Corporation Law, or DGCL, and regulations of state and federal education agencies could diminish the opportunity for

stockholders to participate in acquisition proposals at a price above the then-current market price of our common stock. For example, while we have no present plans to issue any preferred stock, our board of directors, without further stockholder approval, may issue shares of undesignated preferred stock and fix the powers, preferences, rights, and limitations of such class or series, which could adversely affect the voting power of your shares. In addition, our bylaws provide for an advance notice procedure for nomination of candidates to our board of directors that could have the effect of delaying, deterring, or preventing a change in control. Further, as a Delaware corporation, we are subject to provisions of the DGCL regarding business combinations, which can deter attempted takeovers in certain situations. The approval requirements of the Department of Education, our regional accrediting commission, and state education agencies for a change in control transaction could also delay, deter, or prevent a transaction that would result in a change in control. We may, in the future, consider adopting additional anti-takeover measures. The authority of our board to issue undesignated preferred or other capital stock and the anti-takeover provisions of the DGCL, as well as other current and any future anti-takeover measures adopted by us, may, in certain circumstances, delay, deter, or prevent takeover attempts and other changes in control of the company not approved by our board of directors. See Description of Capital Stock for further information.

***We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.***

After we make the special distribution to our existing stockholders using the proceeds of this offering as described under Use of Proceeds, we do not expect to pay dividends on shares of our common stock in the foreseeable future and intend to use cash to grow our business. The payment of cash dividends in the future, if any, will be at the discretion of our board of directors and will depend upon such factors as earnings levels, capital requirements, our overall financial condition, and any other factors deemed relevant by our board of directors. Consequently, your only opportunity to achieve a positive return on your investment in us will be if the market price of our common stock appreciates.

***We will have broad discretion in applying the net proceeds of this offering and may not use those proceeds in ways that will enhance the market value of our common stock.***

We have significant flexibility in applying the net proceeds we will receive in this offering. We will use a substantial portion of the proceeds that we receive from the sale of stock in this offering to fund the special distribution payable to our existing stockholders and will use the remainder to pay the expenses of this offering and for general corporate purposes. As part of your investment decision, you will not be able to assess or direct how we apply these net proceeds. If we do not apply these funds effectively, we may lose significant business opportunities. Furthermore, our stock price could decline if the market does not view our use of the net proceeds from this offering favorably.

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## FORWARD-LOOKING STATEMENTS

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

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

- our failure to comply with the extensive regulatory framework applicable to our industry, including Title IV of the Higher Education Act and the regulations thereunder, state laws and regulatory requirements, and accrediting commission requirements;
- the results of the ongoing investigation by the Department of Education s Office of Inspector General and the pending *qui tam* action regarding the manner in which we have compensated our enrollment personnel, and possible remedial actions or other liability resulting therefrom;
- the ability of our students to obtain federal Title IV funds, state financial aid, and private financing;
- risks associated with changes in applicable federal and state laws and regulations and accrediting commission standards;
- our ability to hire and train new, and develop and train existing, enrollment counselors;
- the pace of growth of our enrollment;
- our ability to convert prospective students to enrolled students and to retain active students;
- our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis;
- industry competition, including competition for qualified executives and other personnel;
- risks associated with the competitive environment for marketing our programs;
- failure on our part to keep up with advances in technology that could enhance the online experience for our students;

- our ability to manage future growth effectively;
- general adverse economic conditions or other developments that affect job prospects in our core disciplines; and
- other factors discussed under the headings Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business, and Regulation.

Forward-looking statements speak only as of the date the statements are made. You should not put undue reliance on any forward-looking statements. 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.

## USE OF PROCEEDS

The net proceeds from the sale of 10,500,000 shares of our common stock offered by us in this offering will be approximately $120.8 million (or approximately $139.9 million if the underwriters exercise their over-allotment option in full), assuming an initial public offering price of $13.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

We will pay a special distribution of 75% of the gross proceeds of this offering, including any proceeds we receive from the underwriters exercise of their over-allotment option, that will be payable promptly upon the completion of this offering (and following the exercise of the over-allotment option, if applicable) to our stockholders of record as of November 18, 2008. We will make this distribution upon completion of the offering. See Special Distribution for further information.

We will use the remaining proceeds that we receive from this offering and from the underwriters exercise of their over-allotment option to pay the expenses of this offering and for general corporate purposes.

Each $1.00 increase or decrease in the assumed public offering price of $13.00 per share would increase or decrease, as applicable, the aggregate amount of the special distribution by $7.9 million, the per share amount of the special distribution by $0.24 on an as-if converted basis and the net proceeds to us by approximately $1.9 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and, with respect to the net proceeds to us, after deducting estimated underwriting discounts and commissions and the special distribution noted above. Similarly, any increase or decrease in the number of shares that we sell in the offering will increase or decrease the special distribution and our net proceeds in proportion to such increase or decrease, as applicable, multiplied by the offering price per share, with respect to our net proceeds, less underwriting discounts and commissions.

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## SPECIAL DISTRIBUTION

We will pay a special distribution of 75% of the gross proceeds of this offering, including any proceeds we receive from the underwriters exercise of their over-allotment option, that will be paid promptly upon the completion of this offering (and following the exercise of the over-allotment option, if applicable) to our stockholders of record as of November 18, 2008. Of the estimated aggregate amount of the special distribution of $102.4 million (exclusive of any amounts that may be received from the underwriters exercise of the over-allotment option), assuming an initial public offering price of $13.00 per share, which is the midpoint of the price range set forth on the cover of this prospectus, $54.3 million will be paid in respect of shares of our capital stock over which our directors and executive officers are deemed to exercise sole or shared voting or investment power. These proceeds will be allocated among our directors and executive officers, as well as persons known to us to own beneficially 5% or more of our outstanding common stock, as set forth in the following table.

| Name of Beneficial Owner | Date of Acquisition of Shares to Which Special Distribution Relates | Original Acquisition Cost of Shares to Which Special Distribution Relates[(1)] | Amount of Special Distribution[(2)] |
|---|---|---|---|
| | | (In thousands) | |
| ***5% Stockholders*** | | | |
| Endeavour Capital Fund IV, L.P. and affiliates[(3)] | | | |
| Series A convertible preferred stock | August 24, 2005 | $ 16,000 | $ 27,979 |
| Series C preferred stock | December 18, 2007 | 5,863 | 2,793 |
| Total | | 21,863 | 30,772 |
| 220 GCU, L.P. and affiliates[(4)] | | | |
| Common stock | February 2, 2004 | 3,042 | 14,544 |
| Series A convertible preferred stock | August 24, 2005 | 3,250 | 5,683 |
| Series C preferred stock | December 18, 2007 | 3,271 | 1,558 |
| Total | | 9,563 | 21,785 |
| Staci L. Buse[(5)] | | | |
| Common stock | February 2, 2004 | 1,443 | 10,773 |
| Series C preferred stock | December 18, 2007 | 934 | 445 |
| Total | | 2,377 | 11,218 |
| Significant Ventures, LLC | | | |
| Common stock | February 2, 2004 | 36 | 7,778 |
| Series C preferred stock | December 18, 2007 | 1,223 | 583 |
| Total | | 1,259 | 8,361 |
| ***Directors*** | | | |
| Chad N. Heath[(3)] | | | |

| | | | | | |
|---|---|---|---|---|---|
| Series A convertible preferred stock | August 24, 2005 | | 16,000 | | 27,979 |
| Series C preferred stock | December 18, 2007 | | 5,863 | | 2,793 |
| Total | | | 21,863 | | 30,772 |
| D. Mark Dorman[3] | | | | | |
| Series A convertible preferred stock | August 24, 2005 | | 16,000 | | 27,979 |
| Series C preferred stock | December 18, 2007 | | 5,863 | | 2,793 |
| Total | | | 21,863 | | 30,772 |
| ***Executive Officers*** | | | | | |
| Brent D. Richardson[5] | | | | | |
| Common stock | February 2, 2004 | | 1,443 | | 10,773 |
| Series C preferred stock | December 18, 2007 | | 934 | | 445 |
| Total | | | 2,377 | | 11,218 |
| John E. Crowley[6] | | | | | |
| Common stock | February 2, 2004 | | 164 | | 1,046 |
| Series C preferred stock | December 18, 2007 | | 117 | | 56 |
| Total | | | 281 | | 1,102 |
| Christopher C. Richardson[5] | | | | | |
| Common stock | February 2, 2004 | | 1,443 | | 10,780 |
| Series C preferred stock | December 18, 2007 | | 934 | | 445 |
| Total | | | 2,377 | | 11,225 |
| ***All directors and executive officers as a group*** | | $ | 26,898 | $ | 54,316 |

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(1) On August 24, 2005, we converted from a limited liability company to a taxable corporation. The reported acquisition cost of shares of common stock represents the value of the capital contributions originally made to acquire the limited liability company interests that were converted into common stock upon such conversion plus capital contributions for which no additional interests were issued, less capital distributions.

(2) The special distribution is being paid in respect of our common stock, Series A convertible preferred stock, and Series C preferred stock, in each case on an as-converted basis. Upon the closing of this offering, shares of the Series A convertible preferred stock will convert into shares of common stock on a 1,826-for-one basis and shares of the Series C preferred stock will convert into shares of common stock at a rate equal to their liquidation preference per share divided by the initial public offering price per share, which is estimated to be $13.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus.

(3) Represents shares held of record by Endeavour Capital Fund IV, L.P., Endeavour Associates Fund IV, L.P., and Endeavour Capital Parallel Fund IV, L.P., which we refer to as the Endeavour Entities. Messrs. Chad N. Heath and D. Mark Dorman, each of whom is a managing director of Endeavour Capital IV, LLC, the general partner for each of the Endeavour Entities, are members of our board of directors.

(4) Represents shares held of record by 220 GCU, L.P., 220 Education, L.P., 220-SigEd, L.P., and SV One, L.P.

(5) Represents shares held of record by Rich Crow Enterprises, LLC and Masters Online, LLC, of which Brent Richardson, Chris Richardson, and Staci Buse are members and, in each case, which are attributable to, and beneficially owned by, Brent Richardson, Chris Richardson, or Staci Buse, as applicable.

(6) Represents shares held of record by Rich Crow Enterprises, LLC, of which John Crowley is a member, which are attributable to, and beneficially owned by, John Crowley.

See Certain Relationships and Related Transactions Special Distribution and Beneficial Ownership of Common Stock for additional information regarding the beneficiaries of the special distribution and share ownership.

## DIVIDEND POLICY

Except as described under Special Distribution above, we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. The payment of any dividends in the future will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, earnings, capital requirements, contractual restrictions, outstanding indebtedness, and other factors deemed relevant by our board. As a result, you will need to sell your shares of common stock to realize a return on your investment, and you may not be able to sell your shares at or above the price you paid for them.

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## CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2008:

on an actual basis;

on a pro forma basis, giving effect to:

(i) the automatic conversion of all outstanding shares of Series A convertible preferred stock into 10,870,178 shares of common stock upon the closing of the offering; and

(ii) the automatic conversion of all outstanding shares of Series C preferred stock into 2,061,538 shares of common stock upon the closing of the offering at a conversion rate equal to their liquidation preference per share divided by the initial public offering price per share, which is estimated to be $13.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus; and

(iii) the exercise in November 2008 of the warrant to purchase 909,348 shares of our common stock for $0.58 per share; and

on a pro forma, as adjusted basis, giving effect to the pro forma adjustments above, as well as:

(i) our sale of 10,500,000 shares of our common stock in this offering (at an assumed initial public offering price of $13.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus) and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us; and

(ii) the payment of a special distribution to our existing stockholders of 75% of the gross proceeds from the sale of common stock by us in this offering, including any proceeds we receive from the underwriters exercise of their over-allotment option, which will occur promptly upon the consummation of this offering (and the closing of the exercise of the over-allotment option, if applicable).

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You should read this table together with Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations, Description of Capital Stock, and our financial statements and related notes included elsewhere in this prospectus.

| | As of September 30, 2008 | | |
|---|---|---|---|
| | Actual | Pro Forma | Pro Forma, as Adjusted |
| | (In thousands, except share data) | | |
| Cash and cash equivalents[(1)] | $ 22,227 | $ 22,753 | $ 43,904 |
| Capital lease obligations | 30,775 | $ 30,775 | $ 30,775 |
| Other indebtedness | 1,814 | $ 1,814 | $ 1,814 |
| Series A convertible preferred stock: $0.01 par value; 9,700 shares authorized, 5,953 shares issued and outstanding, actual; no shares authorized, issued, and outstanding, pro forma and pro forma, as adjusted | 18,610 | | |
| Series B convertible preferred stock: $0.01 par value; 2,200 shares authorized, no shares issued and outstanding, actual; no shares authorized, issued, and outstanding, pro forma and pro forma, as adjusted | | | |
| Series C preferred stock: $0.01 par value; 3,900 shares authorized, 3,829 shares issued and outstanding, actual; no shares authorized, issued, and outstanding, pro forma and pro forma, as adjusted | 14,129 | | |
| Stockholders equity: | | | |
| Undesignated preferred stock: $0.01 par value; no shares authorized, issued and outstanding, actual and pro forma; 10,000,000 shares authorized, no shares issued and outstanding, pro forma, as adjusted | | | |
| Common stock: $0.01 par value; 100,000,000 shares authorized, 19,218,650 shares issued and outstanding, actual; 100,000,000 shares authorized, 33,059,714 shares issued and outstanding, pro forma; 100,000,000 shares authorized, 43,559,714 shares issued and outstanding pro forma, as adjusted | 192 | 331 | 436 |
| Additional paid-in capital[(1)] | 6,238 | 39,364 | 57,729 |
| Accumulated other comprehensive income | 11 | 11 | 11 |
| Accumulated deficit | (13,898) | (13,898) | (13,898) |
| Total stockholders equity (deficit) | (7,457) | 25,808 | 44,278 |
| Total capitalization | $ 57,871 | $ 58,397 | $ 76,867 |

(1) A $1.00 increase or decrease in the assumed initial public offering price of $13.00 per share would increase or decrease cash and cash equivalents by $1.9 million, would increase or decrease additional paid-in capital by $1.9 million, and would increase or decrease total stockholders equity and total capitalization by $1.9 million, after deducting the underwriting discount, and the payment of the special distribution to our existing stockholders

as described in Special Distribution. Similarly, any increase or decrease in the number of shares that we sell in the offering will increase or decrease our net proceeds in proportion to such increase or decrease, as applicable, multiplied by the offering price per share, less underwriting discounts and commissions.

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## DILUTION

Purchasers of the common stock in the offering will suffer an immediate and substantial dilution in net tangible book value per share. Dilution is the amount by which the initial public offering price paid by purchasers of shares of our common stock exceeds the net tangible book value per share of our common stock after the offering.

As of September 30, 2008, our pro forma net tangible book value would have been $22.9 million or, $0.69 per share. Pro forma net tangible book value per share represents the amount of our total tangible assets reduced by our total liabilities, divided by the number of shares of common stock outstanding after giving effect to the conversion of all outstanding classes of preferred stock into common stock, and the exercise in November 2008 of the warrant to purchase 909,348 shares of our common stock.

Pro forma as adjusted net tangible book value per share represents the amount of total tangible assets reduced by our total liabilities, divided by the number of shares of common stock outstanding after giving effect to the conversion of all outstanding classes of preferred stock into common stock, the exercise in November 2008 of the warrant to purchase 909,348 shares of our common stock, the payment of the estimated amount of the special distribution to certain of our existing stockholders and the sale of 10,500,000 shares of common stock in the offering at an initial public offering price of $13.00 per share, the midpoint of the price range set forth on the cover page of this prospectus. Our pro forma as adjusted net tangible book value as of September 30, 2008 would have been $41.3 million, or $0.95 per share. This represents an immediate increase in net tangible book value of $0.26 per share to existing stockholders and an immediate dilution of $12.05 per share to new investors purchasing shares in the offering. The following table illustrates this per share dilution:

| | | |
|---|---|---|
| Assumed initial public offering price per share of common stock | | $ 13.00 |
| Pro forma net tangible book value per share of common stock as of September 30, 2008 | $ 0.69 | |
| Increase per share of common stock attributable to new investors | 2.97 | |
| Decrease per share of common stock after payment of underwriting discounts and commission and estimated offering expenses by us | (0.36) | |
| Decrease per share of common stock after payment of the special distribution to certain of our existing stockholders | (2.35) | |
| Pro forma as adjusted net tangible book value per share of common stock after this offering | | 0.95 |
| Dilution per share of common stock to new investors | | $ 12.05 |

Our pro forma as adjusted net tangible book value will be $45.0 million, or $1.00 per share, and the dilution per share of common stock to new investors will be $12.00, if the underwriters over-allotment option is exercised in full.

A $1.00 increase or decrease in the assumed initial public offering price of $13.00 per share would increase or decrease, as applicable, our as pro forma adjusted net tangible book value per share of common stock by $0.04, and increase or decrease, as applicable, the dilution per share of common stock to new investors by $0.96, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. Similarly, any

increase or decrease in the number of shares that we sell in the offering will increase or decrease our net proceeds in proportion to such increase or decrease, as applicable, multiplied by the offering price per share, less underwriting discounts and commissions and offering expenses.

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The following table sets forth, as of September 30, 2008, on the pro forma as-adjusted basis described above, the differences between existing stockholders, including the effect of the exercise in November 2008 of the warrant to purchase 909,348 shares of our common stock, and new investors with respect to the total number of shares of common stock purchased from us, the total consideration paid, and the average price per share paid before deducting underwriting discounts and commissions and estimated offering expenses payable by us, at an assumed initial public offering price of $13.00 per share of common stock, which is the midpoint of the range set forth on the cover page of this prospectus:

| | Shares Purchased | | Total Consideration | | Average Price Per Share |
|---|---|---|---|---|---|
| | Number | Percent | Amount | Percent | |
| | (Dollars in thousands) | | | | |
| Existing stockholders | 33,059,714 | 75.9% | $ 40,827 | 23.0% | $ 1.23 |
| New investors | 10,500,000 | 24.1% | 136,500 | 77.0% | $ 13.00 |
| Total | 43,559,714 | 100.0% | $ 177,327 | 100.0% | $ 4.07 |

A $1.00 increase or decrease in the assumed initial public offering price of $13.00 per share would increase or decrease, as applicable, total consideration paid by new investors, total consideration paid by all stockholders and average price per share paid by all stockholders by $10.5 million, $10.5 million, and $0.26, respectively, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same. Similarly, any increase or decrease in the number of shares that we sell in the offering will increase or decrease our net proceeds in proportion to such increase or decrease, as applicable, multiplied by the offering price per share, less underwriting discounts and commissions. This table does not give effect to the payment of the special distribution to existing stockholders.

If the underwriters over-allotment option is exercised in full, the number of shares held by existing stockholders after this offering would be 33,059,714, or 73.2%, and the number of shares held by new investors would increase to 12,075,000, or 26.8%, of the total number of shares of our common stock outstanding after this offering.

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## SELECTED FINANCIAL AND OTHER DATA

The following table sets forth selected financial and other data as of the dates and for the periods indicated. The statement of operations and other data, excluding period end enrollment, for the years ended December 31, 2005, 2006, and 2007, and the balance sheet data as of December 31, 2006 and 2007, have been derived from our audited financial statements, which are included elsewhere in this prospectus. The selected statement of operations and other data for the period from February 2, 2004 (date of inception) through December 31, 2004, and the selected balance sheet data as of December 31, 2004 and 2005 have been derived from our unaudited financial statements, which are not included in this prospectus. The statement of operations and other data, excluding period end enrollment, for each of the nine month periods ended September 30, 2007 and 2008, and the balance sheet data as of September 30, 2008, have been derived from our unaudited financial statements, which are presented elsewhere in this prospectus and include, in the opinion of management, all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of such data. Our historical results are not necessarily indicative of our results for any future period.

You should read the following selected financial and other data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this prospectus.

| | February 2, 2004 to December 31, 2004[2] | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|
| | | 2005 | 2006 | 2007 | 2007 | 2008 |
| | (Unaudited) | | (Restated)[1] | | (Unaudited) | |
| | (In thousands, except enrollment and per share data) | | | | | |
| **Statement of Operations Data:** | | | | | | |
| Net revenue | $ 25,629 | $ 51,793 | $ 72,111 | $ 99,326 | $ 68,472 | $ 109,626 |
| Costs and expenses: | | | | | | |
| Instructional costs and services | 19,705 | 28,063 | 31,287 | 39,050 | 27,531 | 36,995 |
| Selling and promotional | 9,735 | 14,047 | 20,093 | 35,148 | 24,291 | 46,035 |
| General and administrative | 10,828 | 12,968 | 15,011 | 17,001 | 11,848 | 15,992 |
| Royalty to former owner | 448 | 1,619 | 2,678 | 3,782 | 2,585 | 1,612 |
| Total costs and expenses | 40,716 | 56,697 | 69,069 | 94,981 | 66,255 | 100,634 |
| Operating income (loss) | (15,087) | (4,904) | 3,042 | 4,345 | 2,217 | 8,992 |
| Interest expense | (1,135) | (3,098) | (2,827) | (2,975) | (2,236) | (2,156) |
| Interest income | 10 | 276 | 912 | 1,172 | 887 | 508 |
| Income (loss) before income taxes | (16,212) | (7,726) | 1,127 | 2,542 | 868 | 7,344 |
| Income tax expense (benefit)[3] | | (3,440) | 529 | 1,016 | 347 | 2,868 |
| Net income (loss) | (16,212) | (4,286) | 598 | 1,526 | 521 | 4,476 |
| Preferred dividends | | | (527) | (349) | (251) | (791) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income available (loss attributable) to common stockholders | $ (16,212) | $ (4,286) | $ 71 | $ 1,177 | $ 270 | $ 3,685 |
| Earnings (loss) per common share | | | | | | |
| Basic | N/A | $ (0.23) | $ 0.00 | $ 0.06 | $ 0.01 | $ 0.19 |
| Diluted | N/A | $ (0.23) | $ 0.00 | $ 0.03 | $ 0.01 | $ 0.11 |
| Shares used in computing earnings (loss) per common share | | | | | | |
| Basic | N/A | 18,470 | 18,853 | 18,923 | 18,885 | 19,133 |
| Diluted | N/A | 18,470 | 36,858 | 35,143 | 35,189 | 32,097 |
| Pro forma earnings per common share (Unaudited)[4] | | | | | | |
| Basic | | | | $ 0.03 | | $ 0.09 |
| Diluted | | | | $ 0.03 | | $ 0.09 |
| Shares used in computing pro forma earnings per common share (Unaudited)[4] | | | | | | |
| Basic | | | | 40,321 | | 40,455 |
| Diluted | | | | 45,015 | | 41,722 |

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| | February 2, 2004 to December 31, 2004[2] | Year Ended December 31, 2005 | 2006 | 2007 | Nine Months Ended September 30, 2007 | 2008 |
|---|---|---|---|---|---|---|
| | (Unaudited) | (Restated)[1] | | | (Unaudited) | |
| | (In thousands, except enrollment and per share data) | | | | | |
| **Other Data:** | | | | | | |
| Capital expenditures | $ 24,376 | $ 817 | $ 2,387 | $ 7,406 | $ 5,136 | $ 6,015 |
| Depreciation and amortization | $ 1,136 | $ 1,879 | $ 2,396 | $ 3,300 | $ 2,319 | $ 3,676 |
| Adjusted EBITDA[5] | $ (13,503) | $ (895) | $ 9,074 | $ 11,723 | $ 7,309 | $ 14,568 |
| Period end enrollment: | | | | | | |
| Online | 3,141 | 6,212 | 8,406 | 12,497 | 11,306 | 19,287 |
| Ground | 1,852 | 2,210 | 2,256 | 2,257 | 2,193 | 2,670 |

| | As of December 31, 2004 | 2005 | 2006 | 2007 | As of September 30, 2008 Actual | Pro Forma[4] |
|---|---|---|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Restated)[1] | | (Unaudited) | |
| | (In thousands) | | | | | |
| **Balance Sheet Data:** | | | | | | |
| Cash and cash equivalents | $ 3,476 | $ 2,579 | $ 14,361 | $ 23,210 | $ 22,227 | $ 22,753 |
| Total assets | 30,892 | 51,859 | 61,232 | 88,568 | 105,618 | 106,144 |
| Capital lease obligations (including short-term) | 24,360 | 24,789 | 29,728 | 29,228 | 30,775 | 30,775 |
| Other indebtedness (including short-term indebtedness) | 4,511 | 2,635 | 2,462 | 2,408 | 1,814 | 1,814 |
| Preferred stock | | 25,590 | 21,390 | 31,948 | 32,739 | |
| Total stockholders /members deficit[2][4] | (7,645) | (12,111) | (11,723) | (10,386) | (7,457) | (76,567) |

(1) Our financial statements at December 31, 2006, and 2007 and for each of the three years in the period ended December 31, 2007 have been restated. See Note 3, Restatement of Financial Statements, in our financial statements that are included elsewhere in this prospectus.

(2) On February 2, 2004, we acquired the assets of Grand Canyon University from a non-profit foundation and converted its operations from non-profit to for-profit status. While the university has continuously operated since 1949, for accounting and financial statement reporting purposes, we treat the date of acquisition and conversion to for-profit status as the date of inception of our business.

(3) On August 24, 2005, we converted from a limited liability company to a taxable corporation. For all periods subsequent to such date, we have been subject to corporate-level U.S. federal and state income taxes.

(4)

As described in Use of Proceeds and Special Distribution, we will use the proceeds of this offering to pay a special distribution to our stockholders of record as of November 18, 2008, in the amount of 75% of the gross proceeds received by us from the sale of stock in this offering, including any proceeds we receive from the underwriters exercise of their over-allotment option, before underwriting discounts and commissions and estimated offering expenses. Since the special distribution represents distributions to existing stockholders to be made from the proceeds of an initial public offering, the pro forma balance sheet as of September 30, 2008 reflecting the distribution, but not giving effect to the offering proceeds, is presented. In addition, since the amount of the special distribution exceeds net income for the twelve-month period ended September 30, 2008, pro forma earnings per common share, basic and diluted, are presented for the year ended December 31, 2007 and for the nine-month period ended September 30, 2008, which amounts give effect to the number of shares that would be required to be issued at an assumed initial public offering price of $13.00 per share to pay the amount of dividends that exceeds net income for the twelve-month period ended September 30, 2008. The pro forma balance sheet and earnings per common share data also reflect the exercise of the warrant to purchase 909,348 shares of our common stock for $0.58 per share and assume the conversion of all outstanding shares of Series A convertible preferred stock into 10,870,178 shares of common stock upon the closing of the offering and the conversion of all outstanding shares of Series C preferred stock into 2,061,538 shares of common stock

upon the closing of the offering based on a conversion price equal to $13.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus.

(5) Adjusted EBITDA is defined as net income (loss) plus interest expense net of interest income, plus income tax expense (benefit), and plus depreciation and amortization (EBITDA), as adjusted for (i) royalty payments incurred pursuant to an agreement with our former owner that has been terminated as of April 15, 2008, as discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Factors affecting comparability Settlement with former owner and Note 2 to our financial statements that are included elsewhere in this prospectus, and (ii) management fees and expenses that are no longer paid or that will no longer be payable following completion of this offering.

We present Adjusted EBITDA because we consider it to be an important supplemental measure of our operating performance. We also make certain compensation decisions based, in part, on our operating performance, as measured by Adjusted EBITDA. See Compensation Discussion and Analysis Impact of Performance on Compensation. All of the adjustments made in our calculation of Adjusted EBITDA are adjustments to items that management does not consider to be reflective of our core operating performance. Management considers our core operating performance to be that which can be affected by our managers in any particular period through their management of the resources that affect our underlying revenue and profit generating operations during that period. Management fees and expenses and royalty expenses paid to our former owner are not considered reflective of our core operating performance.

Our management uses Adjusted EBITDA:

- in developing our internal budgets and strategic plan;
- as a measurement of operating performance;
- as a factor in evaluating the performance of our management for compensation purposes; and
- in presentations to the members of our board of directors to enable our board to have the same measurement basis of operating performance as are used by management to compare our current operating results with corresponding prior periods and with the results of other companies in our industry.

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

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

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2005 | 2006 Restated[1] | 2007 | 2007 | 2008 |
| | | | | (Unaudited) | |
| | (In thousands) | | | | |
| Net income (loss) | $ (4,286) | $ 598 | $ 1,526 | $ 521 | $ 4,476 |
| Plus: interest expense net of interest income | 2,822 | 1,915 | 1,803 | 1,349 | 1,648 |
| Plus: income tax expense (benefit) | (3,440) | 529 | 1,016 | 347 | 2,868 |
| Plus: depreciation and amortization | 1,879 | 2,396 | 3,300 | 2,319 | 3,676 |
| EBITDA | (3,025) | 5,438 | 7,645 | 4,536 | 12,668 |
| Plus: royalty to former owner[a] | 1,619 | 2,678 | 3,782 | 2,585 | 1,612 |
| Plus: management fees and expenses[b] | 511 | 958 | 296 | 188 | 288 |
| Adjusted EBITDA | $ (895) | $ 9,074 | $ 11,723 | $ 7,309 | $ 14,568 |

(a) Reflects the royalty fee arrangement with the former owner of Grand Canyon University in which we agreed to pay a stated percentage of cash revenue generated by our online programs. As a result of the settlement of a dispute with the former owner, we are no longer obligated to pay this royalty, although the settlement includes a prepayment of future royalties that will be amortized in 2008 and future periods. See Management s Discussion and Analysis of Financial Condition and Results of Operations Factors affecting comparability Settlement with former owner and Note 2 to our financial statements that are included elsewhere in this prospectus.

(b) Reflects management fees and expenses of $0.1 million, $0.3 million, and $0.3 million for the years ended December 31, 2005, 2006, and 2007, respectively, and $0.2 million and $0.3 million for the nine month periods ended September 30, 2007 and 2008, respectively, to the general partner of Endeavour Capital, and an aggregate of $0.4 million and $0.7 million for the years ended December 31, 2005 and 2006, respectively, to an entity affiliated with a former director and another affiliated with a significant stockholder, in each case following their investment in us. The agreements relating to these arrangements have all terminated or will terminate by their terms upon the closing of this offering. See Certain Relationships and Related Transactions.

## 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 our financial statements and related notes that appear elsewhere in this prospectus. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors and Forward-Looking Statements.*

### Overview

#### *General*

We are a regionally accredited provider of online postsecondary education services focused on offering graduate and undergraduate degree programs in our core disciplines of education, business, and healthcare. In addition to our online programs, we offer ground programs at our traditional campus in Phoenix, Arizona and onsite at the facilities of employers. At September 30, 2008, we had approximately 22,000 students. At December 31, 2007 we had approximately 14,800 students, 85% of whom were enrolled in our online programs, with 62% pursuing master s degrees. Since we acquired Grand Canyon University in February 2004, we have enhanced our senior management team, expanded our online platform, increased our program offerings, and initiated a marketing and branding effort to further differentiate us in the markets in which we operate. We have also made investments to enhance our student and technology support services. We believe the changes we have instituted, combined with our management expertise, provide a platform that will support continued enrollment and revenue growth.

In 2003, the Board of Trustees of the former owner initiated a process to evaluate alternatives as a result of the school s poor financial condition and, in February 2004, several of our current stockholders acquired the assets of the school and converted it to a for-profit institution. In May 2005, following this change in control, the Department of Education recertified us to continue participating in the Title IV programs on a provisional basis, subject to certain restrictions and requirements, including requirements to post a letter of credit, accept restrictions on the growth of our program offerings and enrollment, and receive Title IV funds under the heightened cash monitoring system of payment (pursuant to which an institution is required to credit students with Title IV funds prior to obtaining those funds from the Department of Education). In October 2006, based on our significantly improved financial condition and performance since the change in control, the Department of Education eliminated the letter of credit requirement and allowed the growth restrictions to expire. In 2007, the Department of Education eliminated the heightened cash monitoring restrictions and returned us to the advance payment method (pursuant to which an institution receives Title IV funds from the Department of Education in advance of disbursement to students).

#### *Regulatory*

For our fiscal years ended December 31, 2006 and 2007, we derived cash receipts equal to approximately 67.9% and 70.2%, respectively, of our net revenue from tuition financed through federal student financial aid programs authorized by Title IV of the Higher Education Act. The following trends and uncertainties may affect the availability of or our participation in the Title IV programs.

During 2007 and 2008, student loan programs, including the Title IV programs, have come under increased scrutiny by the Department of Education, Congress, state attorneys general, and other parties, including with respect to lending

practices related to such programs and potential conflicts of interest between educational institutions and their lenders. The Attorney General of the State of Arizona requested extensive documentation and information from us and other institutions in Arizona concerning student loan practices, and we provided testimony in response to a subpoena from the Attorney General of the State of Arizona about such practices. We have agreed with the Attorney General of the State of Arizona to conclude this matter by executing a Letter of Assurance, whereby we will agree to conduct referrals of students to lenders in accordance with our existing policies or any new policies promulgated by the State of Arizona in the future, and by reimbursing the state for the costs of its investigation in the amount of approximately $20,000. As a result of this nationwide scrutiny, Congress has passed new laws, the Department of Education has enacted

stricter regulations, and several states have adopted codes of conduct or enacted state laws that further regulate the conduct of lenders, schools, and school personnel. The effect of such actions may be to increase the cost of participating in the Title IV programs and other student loan programs, although we are unable to calculate such potential costs at this time.

In addition, the recent disruption in the credit markets and adverse market conditions for consumer loans in general have affected the student lending marketplace, causing some lenders to cease providing Title IV loans to students and causing others to reduce the benefits and increase the fees for the Title IV loans they provide. While some of the lenders we regularly engage with have announced decisions to stop participating in the Title IV loan market generally, to date there have been no material disruptions in the availability of Title IV loans to our students. We have been approved by the Department of Education to participate in the Federal Direct Loan Program, under which the Department of Education rather than a private lender makes the loans to students, and we are prepared for our students to begin receiving loans under that program if we determine that such lending is necessary to continue our students access to Title IV loans. The conditions in the market, including the effect of recent legislation aimed at broadening access to Title IV loans, are continuing to evolve and the ultimate impact of such market conditions on our business, if any, cannot be predicted. See Regulation Regulation of Federal Student Financial Aid Programs.

Also, in recent years, several for-profit education companies have been faced with whistleblower lawsuits, known as *qui tam* cases, brought by current or former employees alleging that their institution had made impermissible incentive payments to admissions employees. The employees bringing such lawsuits typically seek, for themselves and for the federal government, substantial financial penalties against the subject company. In this regard, on September 11, 2008, we were served with a *qui tam* lawsuit that had been filed against us in August 2007 in the United States District Court for the District of Arizona by a then-current employee on behalf of the federal government. All proceedings in the lawsuit had been under seal until September 5, 2008, when the court unsealed the first amended complaint, which had been filed on August 11, 2008. The lawsuit alleges, among other things, that we have improperly compensated certain of our enrollment counselors in violation of the Title IV law governing compensation of such employees, and as a result, improperly received Title IV program funds. See Risk Factors We were recently notified that a *qui tam* lawsuit has been filed against us alleging, among other things, that we have improperly compensated certain of our enrollment counselors, and we may incur liability, be subject to sanctions, or experience damage to our reputation as a result of this lawsuit, Business Legal Proceedings, and Regulation Regulation of Federal Student Financial Aid Programs Incentive compensation rule. Further, on August 14, 2008, the Office of Inspector General of the Department of Education served an administrative subpoena on Grand Canyon University requiring us to provide certain records and information related to performance reviews and salary adjustments for all of our enrollment counselors and managers from January 1, 2004 to the present. See Risk Factors The Office of Inspector General of the Department of Education has commenced an investigation of Grand Canyon University, which is ongoing and which may result in fines, penalties, other sanctions, and damage to our reputation in the industry, and Regulation Regulation of Federal Student Financial Aid Programs Incentive compensation rule. If it were determined that any of our compensation practices violated the incentive compensation law, we could be subject to substantial monetary liabilities, fines, and other sanctions or could suffer an adverse outcome in the *qui tam* litigation, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations and could adversely affect our stock price.

## Key financial metrics

### *Net revenue*

Net revenue consists principally of tuition, room and board charges attributable to students residing on our ground campus, application and graduation fees, and commissions we earn from bookstore and publication sales, less scholarships. Factors affecting our net revenue include: (i) the number of students who are enrolled and who remain

enrolled in our courses; (ii) the number of credit hours per student; (iii) our degree and program mix; (iv) changes in our tuition rates; (v) the amount of the scholarships that we offer; (vi) the number of students housed in, and the rent charged for, our on-campus student apartments and dormitories; and (vii) the number of students who purchase books from our bookstore.

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We define enrollments for a particular time period as the number of students registered in a course on the last day of classes for each program within that financial reporting period. We offer three 16-week semesters in a calendar year, with two starts available per semester for our online students and for students who typically take evening courses on-campus or onsite at the facilities of their employer, whom we refer to as professional studies ground students, and one start available per semester for our traditional ground students. Enrollments are a function of the number of continuing students at the beginning of each period and new enrollments during the period, which are offset by graduations, withdrawals, and inactive students during the period. Inactive students for a particular period include students who are not registered in a class and, therefore, are not generating net revenue for that period, but who have not withdrawn from Grand Canyon University.

We believe that the principal factors that affect our enrollments and net revenue are the number and breadth of the programs we offer; the attractiveness of our program offerings and learning experience, particularly for career-oriented adults who are seeking pay increases or job opportunities that are directly tied to higher educational attainment; the effectiveness of our marketing, recruiting and retention efforts, which is affected by the number and seniority of our enrollment counselors and other recruiting personnel; the quality of our academic programs and student services; the convenience and flexibility of our online delivery platform; the availability and cost of federal and other funding for student financial aid; the seasonality of our net revenue, which is enrollment driven and is typically lowest in our second fiscal quarter and highest in our fourth fiscal quarter; and general economic conditions, particularly as they might affect job prospects in our core disciplines.

The following is a summary of our student enrollment at December 31, 2005, 2006, and 2007 and September 30, 2007 and 2008 (which included less than 100 students pursuing non-degree certificates in each period) by degree type and by instructional delivery method:

| | December 31, | | | | | | September 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | | 2007 | | 2008 | |
| | # | % | # | % | # | % | # | % | # | % |
| Master s degree | 6,204 | 73.7 | 7,812 | 73.3 | 9,156 | 62.1 | 8,634 | 64.0 | 12,286 | 56.0 |
| Bachelor s degree | 2,218 | 26.3 | 2,850 | 26.7 | 5,598 | 37.9 | 4,865 | 36.0 | 9,671 | 44.0 |
| Total | 8,422 | 100.0 | 10,662 | 100.0 | 14,754 | 100.0 | 13,499 | 100.0 | 21,957 | 100.0 |

| | December 31, | | | | | | September 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | | 2007 | | 2008 | |
| | # | % | # | % | # | % | # | % | # | % |
| Online | 6,212 | 73.8 | 8,406 | 78.8 | 12,497 | 84.7 | 11,306 | 83.8 | 19,287 | 87.8 |
| Ground* | 2,210 | 26.2 | 2,256 | 21.2 | 2,257 | 15.3 | 2,193 | 16.2 | 2,670 | 12.2 |
| Total | 8,422 | 100.0 | 10,662 | 100.0 | 14,754 | 100.0 | 13,499 | 100.0 | 21,957 | 100.0 |

* Includes our traditional on-campus students, as well as our professional studies ground students.

For the 2008-09 academic year (the academic year that began in May 2008), our prices per credit hour are $395 for undergraduate online and professional studies courses, $420 for graduate online courses (other than graduate nursing), $510 for graduate online nursing courses, and $645 for undergraduate courses for ground students. The overall price of each course varies based upon the number of credit hours per course (with most courses representing three credit hours), the degree level of the program, and the discipline. In addition, we charge a fixed $7,740 block tuition for undergraduate ground students taking between 12 and 18 credit hours per semester, with an additional $645 per credit hour for credits in excess of 18. A traditional undergraduate degree typically requires a minimum of 120 credit hours. The minimum number of credit hours required for a master s degree and overall cost for such a degree varies by program, although such programs typically require approximately 36 credit hours. Our new doctoral program in education, which is first being offered in the 2008-09 academic year, costs $770 per credit hour and requires approximately 60 credit hours.

Based on current tuition rates, tuition for a full program would equate to approximately $15,000 for an online master s program, approximately $47,000 for a full four-year online bachelor s program, and

approximately $62,000 for a full four-year bachelor s program taken on our ground campus. The tuition amounts referred to above assume no reductions for transfer credits or scholarships, which many of our students utilize to reduce their total program costs. The amount of tuition received from our students for a full program is reduced to the extent credits are transferred from other institutions. Additionally, tuition is reduced for some of our students by scholarships. For the years ended December 31, 2006 and 2007, revenue was reduced by approximately $8.0 million and $10.3 million, respectively, as a result of scholarships that we offered to our students. For the nine months ended September 30, 2007 and 2008, we offered scholarships with a total value of approximately $6.6 million and $11.9 million, respectively.

Tuition increases for students in our online and professional studies ground programs range from 5.0% to 5.3% for our 2008-09 academic year as compared to 2.6% to 4.2% in the prior academic year. Tuition increases have not historically been, and may not in the future be, consistent across our programs due to market conditions and differences in operating costs of individual programs. Tuition for our traditional ground programs increased 11.2% for our 2008-09 academic year, as compared to 16.0% for the prior academic year. The larger increases for our traditional ground programs generally reflect recovery from a significant decrease in ground tuition rates that we implemented shortly after the 2004 acquisition in an effort to stabilize enrollments and revenues.

We derive a majority of our net revenue from tuition financed by the Title IV programs. For the years ended December 31, 2006 and 2007, we derived cash receipts equal to approximately 67.9%, and 70.2%, respectively, of our net revenue from Title IV programs. Our students also rely on scholarships, personal savings, private loans, and employer tuition reimbursements to pay a portion of their tuition and related expenses. During fiscal 2007, payments derived from private loans constituted approximately 5.1% of our net revenue. Third party lenders independently determine whether a loan to a student is classified as subprime, and, based on these determinations, payments derived from subprime loans have historically constituted less than 0.2% of our net revenue. Our future revenues could be affected if and to the extent the Department of Education restricts our participation in the Title IV programs, as it did during the period between 2005 and 2007. Current conditions in the credit markets have adversely affected the environment surrounding access to and cost of student loans. The legislative and regulatory environment is also changing, and new federal legislation was recently enacted pursuant to which the Department of Education is authorized to buy Title IV loans and implement a lender of last resort program in certain circumstances. See Risk Factors and Regulation Regulation of Federal Student Financial Aid Programs. We do not believe these market and regulatory conditions have adversely affected us to date, but we cannot predict whether the new legislation will improve access to Title IV funding or the impact of any of these developments on future performance.

***Costs and expenses***

*Instructional cost and services.* Instructional cost and services consist primarily of costs related to the administration and delivery of our educational programs. This expense category includes salaries and benefits for full-time and adjunct faculty and administrative personnel, costs associated with online faculty, information technology costs, curriculum and new program development costs, and costs associated with other support groups that provide service directly to the students. This category also includes an allocation of depreciation, amortization, rent, and occupancy costs attributable to the provision of educational services. Classroom facilities are leased or, in some cases, are provided by the students employers at no charge to us. We expect instructional costs and services as a percentage of tuition and other net revenue to continue to decline as we leverage our support services that are in place over a larger tuition and enrollment base.

*Selling and promotional.* Selling and promotional expenses include salaries and benefits of personnel engaged in the marketing, recruitment, and retention of students, as well as advertising costs associated with purchasing leads, hosting events and seminars, and producing marketing materials. Our selling and promotional expenses are generally affected by the cost of advertising media and leads, the efficiency of our marketing and recruiting efforts, salaries, and

benefits for our enrollment personnel, and expenditures on advertising initiatives for new and existing academic programs. This category also includes an allocation of depreciation, amortization, rent, and occupancy costs attributable to selling and promotional activities. Selling and promotional costs are expensed as incurred. As a result of the removal of our growth restrictions in October 2006, we more than quadrupled the number of our enrollment counselors between December 31, 2006

and September 30, 2008 in an effort to increase our recruiting activities and enroll prospective students. We also leased new enrollment centers in Arizona and Utah, and we intend to continue to increase the number of our enrollment counselors in these centers to increase enrollment and enhance student retention. We incur immediate expenses in connection with hiring new enrollment counselors while these individuals undergo training, and typically do not achieve full productivity or generate enrollments from these enrollment counselors until four to six months after their dates of hire.

Selling and promotional costs also include revenue share arrangements with related parties pursuant to which we pay a percentage of the net revenue that we actually receive from applicants recruited by those entities that matriculate at Grand Canyon University. The related party bears all costs associated with the recruitment of these applicants. For the years ended December 31, 2005, 2006, and 2007, and for the nine month periods ended September 30, 2007 and 2008, we expensed approximately $2.8 million, $3.7 million, $4.3 million, $3.1 million, and $4.3 million, respectively, pursuant to these arrangements. As we increase our internal recruiting, marketing, and enrollment staff, we expect this revenue share as a proportion of total revenue to decline.

*General and administrative.* General and administrative expenses include salaries and benefits of employees engaged in corporate management, finance, human resources, facilities, compliance, and other corporate functions. General and administrative expenses also include bad debt expense and an allocation of depreciation, amortization, rent and occupancy costs attributable to general and administrative functions.

*Royalty to former owner.* In connection with our February 2004 acquisition of the assets of Grand Canyon University by several of our current stockholders, we entered into a royalty fee arrangement with the former owner in which we agreed to pay a stated percentage of cash revenue generated by our online programs. For the years ended December 31, 2005, 2006, and 2007, and for the nine month periods ended September 30, 2007 and 2008, we expensed $1.6 million, $2.7 million, $3.8 million, $2.6 million, and $1.6 million, respectively, in connection with this arrangement. This arrangement has been terminated, as discussed below.

*Interest expense.* Interest expense consists primarily of interest charges on our capital lease obligations and on the outstanding balances of our notes payable and line of credit.

### Factors affecting comparability

We have set forth below selected factors that we believe have had, or can be expected to have, a significant effect on the comparability of recent or future results of operations:

***Conversion to corporate status.*** On August 24, 2005, we converted from a Delaware limited liability company to a Delaware corporation pursuant to Section 265 of the DGCL. As a limited liability company, we were treated as a partnership for U.S. federal and state income tax purposes and, as such, we were not subject to taxation. For all periods subsequent to such date, we have been and will continue to be subject to corporate-level U.S. federal and state income taxes.

***Public company expenses.*** Upon consummation of our initial public offering, we will become a public company, and will have our shares listed for trading on the Nasdaq Global Market. As a result, we will need to comply with laws, regulations, and requirements that we did not need to comply with as a private company, including certain provisions of the Sarbanes-Oxley Act of 2002, related SEC regulations, and the requirements of Nasdaq. Compliance with the requirements of being a public company will require us to increase our general and administrative expenses in order to pay our employees, legal counsel, and accountants to assist us in, among other things, external reporting, instituting and monitoring a more comprehensive compliance and board governance function, establishing and maintaining internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, and

preparing and distributing periodic public reports in compliance with our obligations under the federal securities laws. In addition, being a public company will make it more expensive for us to obtain director and officer liability insurance. We estimate that incremental annual public company costs will be between $3.0 million and $4.0 million.

***Settlement with former owner.*** To resolve a dispute with our former owner arising from our acquisition of Grand Canyon University and subsequent lease of our campus, we entered into a standstill agreement in September 2007 pursuant to which we agreed with the former owner to stay all pending legal proceedings

through April 15, 2008. In accordance with the terms of the standstill agreement, we made an initial non-refundable $3.0 million payment to the former owner in October 2007 and made an additional $19.5 million payment to the former owner in April 2008, with these amounts serving as consideration for: (i) the satisfaction in full of all past and future royalties due to the former owner under a royalty agreement; (ii) the acquisition by us of a parcel of real estate owned by the former owner on our campus; (iii) the termination of a sublease agreement pursuant to which the former owner leased office space on our campus; (iv) the assumption by us of all future payment obligations in respect of certain gift annuities made to the school by donors prior to the acquisition; (v) the cancellation of a warrant we issued to the former owner in the lease transaction; and (vi) the satisfaction in full of a $1.25 million loan made by the former owner to us in the lease transaction (including all accrued and unpaid interest thereon). Most of the amounts payable to the former owner under the royalty arrangement in 2005, and all of the amounts payable in 2006 and 2007, were accrued and not paid due to the dispute. A portion of the settlement payments has been treated as a prepaid royalty asset that will be amortized over 20 years at approximately $0.3 million per year, which differs from the historical royalty expense.

***Management fees and expenses.*** In connection with an August 2005 investment led by Endeavour Capital, we entered into a professional services agreement with Endeavour Capital s general partner. Concurrent with the closing of this offering, the professional services agreement will terminate by its terms. For the years ended December 31, 2005, 2006, and 2007, and for the nine month periods ended September 30, 2007 and 2008, we incurred $0.1 million, $0.3 million, $0.3 million, $0.2 million, and $0.3 million, respectively, in fees and expenses under this agreement. In addition, through December 31, 2006, we were party to two additional professional services agreements, one with an entity affiliated with a former director and another affiliated with a significant stockholder, both of which terminated in accordance with their respective terms in 2006. For the years ended December 31, 2005 and 2006, we paid an aggregate of $0.4 million and $0.7 million, respectively, under these agreements. See Certain Relationships and Related Transactions located elsewhere in this prospectus for additional information.

***Stock-based and other executive compensation.*** Prior to this offering, we have not granted or issued any stock-based compensation. Accordingly, we have not recognized any stock-based compensation expense. Upon the consummation of this offering, we intend to make substantial awards to our directors, officers, and employees, including certain grants to our new Chief Executive Officer and to other employees that will be fully vested upon grant. As a result, we expect to incur non-cash, stock-based compensation expenses in future periods, including expenses of approximately $5.9 million in the fourth quarter of 2008.

***General and administrative expenses.*** In July 2008, we hired a new Chief Executive Officer, Chief Financial Officer, and Executive Vice President, as well as other financial and accounting personnel. Accordingly, compensation expenses, as reflected in our general and administrative expenses, will be higher beginning in the third quarter of 2008.

In connection with the Office of Inspector General investigation and the *qui tam* litigation, we expect to incur increased legal expenses associated with responding to and/or defending such matters, including an estimated $1.1 million in the fourth quarter of 2008 as compared to the approximately $0.2 million in legal expenses incurred in the fourth quarter of 2007.

***License agreement.*** In June 2004, we entered into a license agreement with Blanchard Education, LLC ( Blanchard ) relating to our use of the Ken Blanchard name for our College of Business. The license agreement remains in effect (unless terminated earlier) until February 6, 2016. Under the terms of that agreement, we agreed to pay Blanchard royalties and to issue to Blanchard up to 498 shares of common stock, with the actual number of shares to be issued to be contingent upon our achievement of stated enrollment levels in the College of Business programs during the term of the agreement. On December 31, 2006, it became probable that Blanchard would earn 100 shares under this agreement associated with the first enrollment threshold and, during the third quarter 2007, those 100 shares were

earned due to the enrollment threshold being met. On May 9, 2008, the terms of the agreement were amended, pursuant to which Blanchard was issued a total of 200 shares of common stock in full settlement of all shares owed and contingently owed under this agreement. Thus, an additional 100 shares became earned on that date and all remaining performance conditions based on enrollment thresholds were terminated. The shares issued were valued at the

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date the shares were earned and have been treated as a prepaid royalty asset that will be amortized over the remaining term of the license agreement. We will recognize approximately $0.4 million per year in amortization expense related to the issuance of the common stock through February 2016.

## Internal Control Over Financial Reporting

***Overview.*** We have material weaknesses in internal control over financial reporting. In connection with the preparation of our 2005, 2006, and 2007 financial statements, and our financial statements for the six month period ended June 30, 2008, we identified matters involving our internal control over financial reporting that constituted material weaknesses as defined under the standards of the American Institute of Certified Public Accountants and caused us to conclude that there was more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis by our employees in the normal course of performing their assigned functions. We have restated our financial statements as of December 31, 2006 and 2007 and for the years ended December 31, 2005, 2006, and 2007. See Note 3, Restatement of Financial Statements, to our financial statements, which are included elsewhere in this prospectus.

***Material weaknesses.*** In connection with the preparation of our 2005, 2006, and 2007 financial statements, and our financial statements for the six month period ended June 30, 2008, we identified errors regarding our accounting for the following transactions:

- In connection with our formation in February 2004, an entity owned in part by our Executive Chairman and our General Counsel contributed certain intangible assets to us, and we improperly recorded these contributed assets at our estimate of their fair value rather than at their carryover basis.

- In connection with our acquisition of Grand Canyon University from the former owner in February 2004, we improperly accounted for a perpetual royalty arrangement between us and the former owner as goodwill rather than as a current period expense. Later, in connection with a settlement agreement we entered into with the former owner in 2007 that provided for a termination of this royalty arrangement, we improperly accounted for a partial settlement payment as a current period expense rather than as a prepaid royalty subject to amortization.

- In connection with our entry into a lease agreement for our ground campus and buildings in June 2004, we improperly accounted for the arrangement as an operating lease rather than accounting for certain components of the lease as a capital lease.

- In all periods, we failed to properly account for the issuance of certain common stock and equity linked instruments to third parties.

- During the six month period ended June 30, 2008, we concluded that a significant increase in our allowance for doubtful accounts was required. A portion of the increase has been determined to be the correction of an error from prior periods and thus the accompanying financial statements have been restated to reflect this increase.

- We failed to properly account for deferred taxes at the date of conversion from a limited liability company to a corporation.

We believe that certain of the control deficiencies related to these errors constitute material weaknesses in our internal control over financial reporting. Such material weaknesses related to our lack of processes and controls that would ensure the proper recording of assets, expenses, leases, and equity instruments in accordance with GAAP.

Management is committed to remediating the control deficiencies that constitute the material weaknesses described herein by implementing changes to our internal control over financial reporting. We have implemented a number of significant changes and improvements in our internal control over financial reporting during fiscal year 2008. Our Chief Financial Officer has taken responsibility for implementing

changes and improvements in the internal control over financial reporting and remediate the control deficiencies that gave rise to the material weaknesses. Specifically, these changes include:

- engaging a new Chief Financial Officer and hiring additional financial and accounting personnel, all of whom have experience managing or working in the corporate accounting department of a large publicly traded education company;
- making numerous process changes in the financial reporting area, including additional oversight and review; and
- conducting training of our accounting staff for purposes of enabling them to recognize and properly account for transactions of the type described above.

Management plans to continue to implement further changes and improvements during the remainder of the current fiscal year. We cannot assure you that the measures we have taken to date and plan to take will remediate the material weaknesses we have identified. Our current independent registered public accounting firm has not evaluated the measures we have taken or plan to take in order to address the material weaknesses described above.

## Critical Accounting Policies and Estimates

The discussion of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. During the preparation of these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions, including those discussed below. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our financial statements.

We believe that the following critical accounting policies involve our more significant judgments and estimates used in the preparation of our financial statements:

***Revenue recognition.*** Tuition revenue is recognized monthly over the applicable period of instruction. 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 statement of operations and are reflected as current liabilities on our balance sheet. Our educational programs have starting and ending dates that differ from our fiscal quarters. Therefore, at the end of each fiscal quarter, a portion of our revenue from these programs is not yet earned in accordance with the SEC s Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements*. If a student withdraws prior to the end of the third week of a semester, we refund all or a portion of tuition already paid pursuant to our refund policy, which generally results in a reduction in deferred revenue and student deposits.

***Allowance for doubtful accounts.*** Bad debt expense is recorded as a general and administrative expense. We record an allowance for doubtful accounts for estimated losses resulting from the inability, failure, or refusal of our students to make required payments. We determine the adequacy of our allowance for doubtful accounts based on an analysis of our aging of our accounts receivable and historical bad debt experience. We generally write off accounts receivable balances deemed uncollectible at the time the account is returned by an outside collection agency. However, we continue to reflect accounts receivable with offsetting allowances as long as management believes there is a reasonable possibility of collection. As a result, our allowance for doubtful accounts has increased on an annual basis

as bad debt expense has exceeded amounts written off. During the second half of 2008, we expect to begin to write off existing and new doubtful accounts no later than one year after the revenue is generated, which will likely result in a significant reduction in our accounts receivable and related allowances. We believe our reserves are adequate to cover any write offs we may make.

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***Long-Lived Assets.*** We evaluate 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.

***Income taxes.*** On August 24, 2005, we converted from a limited liability company to a corporation. For all periods subsequent to such date, we have been and will continue to be subject to corporate-level U.S. federal and state income taxes. Effective January 1, 2008, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ). FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We account for income taxes as prescribed by Statement of Financial Accounting Standards ( SFAS ) No. 109, *Accounting for Income Taxes* ( SFAS No. 109 ). SFAS No. 109 prescribes the use of the asset and liability method to compute the differences between the tax basis of assets and liabilities and the related financial amounts using currently enacted tax laws. We have deferred tax assets, which are subject to periodic recoverability assessments. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that more likely than not will be realized. Realization of the deferred tax assets is principally dependent upon achievement of projected future taxable income offset by deferred tax liabilities. We evaluate the realizability of the deferred tax assets annually. Since becoming a taxable corporation, we have not recorded any valuation allowances to date on our deferred income tax assets.

**Results of Operations**

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

| | **Year Ended December 31,** | | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|---|
| | **2005** | **2006** | **2007** | **2007** | **2008** |
| | | **(Restated)[1]** | | **(Unaudited)** | |
| Net revenue | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Operating expenses | | | | | |
| Instructional cost and services | 54.2 | 43.4 | 39.3 | 40.2 | 33.7 |
| Selling and promotional | 27.1 | 27.9 | 35.4 | 35.5 | 42.0 |
| General and administrative | 25.0 | 20.8 | 17.1 | 17.3 | 14.6 |
| Royalty to former owner | 3.2 | 3.7 | 3.8 | 3.8 | 1.5 |
| Total operating expenses | 109.5 | 95.8 | 95.6 | 96.8 | 91.8 |
| Operating income (loss) | (9.5) | 4.2 | 4.4 | 3.2 | 8.2 |
| Interest expense | (5.9) | (3.9) | (3.0) | (3.2) | (2.0) |
| Interest income | 0.5 | 1.2 | 1.2 | 1.3 | 0.5 |
| Income (loss) before income taxes | (14.9) | 1.5 | 2.6 | 1.3 | 6.7 |
| Income tax expense (benefit) | (6.6) | 0.7 | 1.0 | 0.5 | 2.6 |
| Net income (loss) | (8.3) | 0.8 | 1.6 | 0.8 | 4.1 |

(1) Our financial statements at December 31, 2006 and 2007 and for each of the three years in the period ended December 31, 2007 have been restated. See Note 3, Restatement of Financial Statements, included in our financial statements, which are presented elsewhere in this prospectus.

***Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007***

*Net revenue.* Our net revenue for the nine months ended September 30, 2008 was $109.6 million, an increase of $41.1 million, or 60.1%, as compared to net revenue of $68.5 million for the nine months ended September 30, 2007. This increase was primarily due to increased enrollment and, to a lesser extent, increases in the average tuition per student caused by tuition price increases and an increase in the average credits per student, partially offset by an increase in institutional scholarships. End-of-period enrollment increased 62.7% between September 30, 2007 and 2008, as we were able to continue our growth and increase our recruitment, marketing, and enrollment operations following the elimination of the Department of Education s growth restrictions in October 2006.

*Instructional cost and services expenses.* Our instructional cost and services expenses for the nine months ended September 30, 2008 were $37.0 million, an increase of $9.5 million, or 34.4%, as compared to instructional cost and services expenses of $27.5 million for the nine months ended September 30, 2007. This increase was primarily due to increases in instructional compensation and related expenses, faculty compensation, depreciation and amortization, and other miscellaneous instructional costs and services of $3.5 million, $2.9 million, $1.0 million, and $2.1 million, respectively. These increases are all attributable to the increased headcount (both staff and faculty) needed to provide student instruction and support services as a result of the increase in enrollments. Our instructional cost and services expenses as a percentage of net revenue decreased by 6.5% to 33.7% for the nine months ended September 30, 2008, as compared to 40.2% for the nine months ended September 30, 2007. This decrease was a result of the continued shift of our student population to online programs and our ability to leverage the relatively fixed cost structure of our campus-based facilities and ground faculty across an increasing revenue base.

*Selling and promotional expenses.* Our selling and promotional expenses for the nine months ended September 30, 2008 were $46.0 million, an increase of $21.7 million, or 89.5%, as compared to selling and promotional expenses of $24.3 million for the nine months ended September 30, 2007. This increase was primarily due to increases in selling and promotional employee compensation and related expenses, advertising, revenue sharing expense, and other selling and promotional related costs of $12.9 million, $6.5 million, $1.2 million, and $1.1 million, respectively. These increases were driven by a substantial expansion in our marketing efforts following the removal of our growth restrictions by the Department of Education, which resulted in an increase in recruitment, marketing, and enrollment staffing, the opening of new enrollment facilities in Arizona and Utah, and expenses related to our revenue sharing arrangement. Our selling and promotional expenses as a percentage of net revenue increased by 6.5% to 42.0% for the nine months ended September 30, 2008, from 35.5% for the nine months ended September 30, 2007. This increase occurred as a result of a significant increase in the number of our enrollment counselors to increase our efforts to enroll prospective students and also increased lead purchases to support the additional enrollment counselors. In this regard, we incur immediate expenses in connection with hiring new enrollment counselors while these individuals undergo training, and typically do not achieve full productivity or generate enrollments from these enrollment counselors until four to six months after their dates of hire. We plan to continue to add additional enrollment counselors in the future, although the number of additional hires as a percentage of the total headcount is expected to decrease, and we therefore plan to reduce selling and promotional expenses as a percentage of net revenue in the future.

*General and administrative expenses.* Our general and administrative expenses for the nine months ended September 30, 2008 were $16.0 million, an increase of $4.1 million, or 35.0%, as compared to general and administrative expenses of $11.9 million for the nine months ended September 30, 2007. This increase was primarily due to increases in legal, audit and corporate insurance; bad debt expense; employee compensation; and other general and administrative expenses of $1.1 million, $1.0 million, $0.8 million and $1.2 million, respectively. The increase in legal, audit, and corporate insurance is primarily related to legal costs associated with the Sungard matter, which went to arbitration in the second quarter of fiscal 2008, as well as costs incurred related to the OIG investigation. See

Business Legal Proceedings. Bad debt expense increased to $5.3 million for the nine months ended September 30, 2008 from $4.3 million for the nine months ended September 30, 2007 as a result of an increase in net revenue. The other general and administrative expense increase was attributable to expenditures made to continue to support the growth of our business. Our general

and administrative expenses as a percentage of net revenue decreased by 2.4% to 14.9% for the nine months ended September 30, 2008, from 17.3% for the nine months ended September 30, 2007, primarily due to a decrease in our bad debt expense and employee compensation and related benefits as a percentage of net revenue between periods from 6.3% and 4.3% of revenue during the first nine months of 2007, respectively, to 4.8% and 3.4% of net revenue during the first nine months of 2008, respectively. The improvement in bad debt expense as a percentage of net revenue is primarily due to an improvement in our aging between periods and an increased revenue base. The decrease in employee compensation and related benefits as a percentage of net revenue is the result of us leveraging our current staffing over a larger revenue base.

*Royalty to former owner.* In connection with our royalty fee arrangement with the former owner related to online revenue, we incurred royalty expenses for the nine months ended September 30, 2008 of $1.6 million, a decrease of $1.0 million, or 37.6%, as compared to royalty expenses incurred of $2.6 million for the nine months ended September 30, 2007 as a result of the elimination of the obligation to pay royalties to the former owner effective April 15, 2008. As discussed above, the only related expense in future periods will be the approximately $0.3 million in annual amortization of the prepaid royalty asset that was established as a result of payments made to eliminate this future obligation. Our royalty expense as a percentage of net revenue decreased to 1.5% for the nine months ended September 30, 2008 from 3.8% for the nine months ended September 30, 2007.

*Interest expense.* Our interest expense for both the nine month periods ended September 30, 2008 and 2007 was $2.2 million as the average level of borrowings remained fairly consistent between periods.

*Interest income.* Our interest income for the nine months ended September 30, 2008 was $0.5 million, a decrease of $0.3 million from $0.8 million for the nine months ended September 30, 2007, as a result of decreased levels of cash and cash equivalents.

*Income tax expense.* Income tax expense for the nine months ended September 30, 2008 was $2.8 million, an increase of $2.5 million from $0.3 million for the nine months ended September 30, 2007. This increase was primarily attributable to increased income before income taxes, partially offset by a slight decrease in our effective income tax rate to 39.1% from 40.0%.

*Net income.* Our net income for the nine months ended September 30, 2008 was $4.5 million, an increase of $4.0 million, or 760%, as compared to net income of $0.5 million for the nine months ended September 30, 2007, due to the factors discussed above.

***Year Ended December 31, 2007 Compared to Year Ended December 31, 2006***

*Net revenue.* Our net revenue for the year ended December 31, 2007 was $99.3 million, an increase of $27.2 million, or 37.7%, as compared to net revenue of $72.1 million for the year ended December 31, 2006. This increase was primarily due to increased enrollment and, to a lesser extent, increases in tuition rates, including a 2.6% to 4.2% tuition increase for students in our online programs that took effect in May 2007, partially offset by an increase in institutional scholarships. End-of-period enrollment increased 38.4% in 2007 compared to 2006, as we were able to continue our growth and increase our recruitment, marketing, and enrollment operations following the elimination of the Department of Education s growth restrictions in October 2006.

*Instructional cost and services expenses.* Our instructional cost and services expenses for the year ended December 31, 2007 were $39.1 million, an increase of $7.8 million, or 24.8%, as compared to instructional cost and services expenses of $31.3 million for the year ended December 31, 2006. This increase was primarily due to increases in instructional compensation expense and student support services as a result of the increase in enrollments and the addition of certain academic support services, such as the establishment of our Office of Assessment and

Institutional Research. Our instructional cost and services expenses as a percentage of net revenue decreased by 4.1% to 39.3% for the year ended December 31, 2007, as compared to 43.4% for the year ended December 31, 2006. This decrease was a result of the continued shift of our student population to online programs and our ability to leverage the relatively fixed cost structure of our campus-based facilities and ground faculty across an increasing revenue base.

*Selling and promotional expenses.* Our selling and promotional expenses for the year ended December 31, 2007 were $35.1 million, an increase of $15.1 million, or 74.9%, as compared to selling and promotional expenses of $20.1 million for the year ended December 31, 2006. This increase was driven by a substantial expansion in our marketing efforts following the removal of our growth restrictions by the Department of Education, which resulted in an increase in recruitment, marketing, and enrollment staffing, the opening of new enrollment facilities in Arizona and Utah, and expenses related to our revenue sharing arrangement. Our selling and promotional expenses as a percentage of net revenue increased by 7.5% to 35.4% for the year ended December 31, 2007, from 27.9% for the year ended December 31, 2006. This increase occurred as a result of a significant increase in the number of our enrollment counselors to increase our efforts to enroll prospective students and also increased marketing and retention staffing. In this regard, we incur immediate expenses in connection with hiring new enrollment counselors while these individuals undergo training, and typically do not achieve full productivity or generate enrollments from these enrollment counselors until four to six months after their dates of hire.

*General and administrative expenses.* Our general and administrative expenses for the year ended December 31, 2007 were $17.0 million, an increase of $2.0 million, or 13.3%, as compared to general and administrative expenses of $15.0 million for the year ended December 31, 2006. Bad debt expense increased to $6.3 million for the year ended December 31, 2007 from $4.7 million for the year ended December 31, 2006 primarily as a result of a proportional increase in net revenue. The general and administrative expense increase was also attributable to expenditures made to continue to support the growth of our business. Our general and administrative expenses as a percentage of net revenue decreased by 3.7% to 17.1% for the year ended December 31, 2007, from 20.8% for the year ended December 31, 2006, as we benefited from leveraging our prior infrastructure investments over a larger enrollment and revenue base.

*Royalty to former owner.* In connection with our royalty fee arrangement with the former owner related to online revenue, we incurred royalty expenses for the year ended December 31, 2007 of $3.8 million, an increase of $1.1 million, or 41.2%, as compared to royalty expenses incurred of $2.7 million for the year ended December 31, 2006. Our royalty expense as a percentage of net revenue remained relatively steady for the years ended December 31, 2007 and 2006, increasing to 3.8% from 3.7%.

*Interest expense.* Interest expense for the year ended December 31, 2007 was $3.0 million, an increase of $0.2 million, from $2.8 million for the year ended December 31, 2006 due to a higher average level of borrowings in 2007.

*Interest income.* Interest income for the year ended December 31, 2007 was $1.2 million, an increase of $0.3 million, or 28.5%, from $0.9 million for the year ended December 31, 2006, as a result of increased levels of cash and cash equivalents, offset by slightly lower interest rates.

*Income tax expense.* Income tax expense for the year ended December 31, 2007 was $1.0 million, an increase of $0.5 million, or 92.1%, from $0.5 million for the year ended December 31, 2006. This increase was primarily attributable to increased income before income taxes, partially offset by a decrease in our effective income tax rate to 40.0% from 46.9%.

*Net income.* Our net income for the year ended December 31, 2007 was $1.5 million, an increase of $0.9 million, or 155.2%, as compared to net income of $0.6 million for the year ended December 31, 2006, due to the factors discussed above.

***Year Ended December 31, 2006 Compared to Year Ended December 31, 2005***

*Net revenue.* Our net revenue for the year ended December 31, 2006 was $72.1 million, an increase of $20.3 million, or 39.2%, as compared to net revenue of $51.8 million for the year ended December 31, 2005. This increase was primarily due to increased enrollment, increases in tuition rates, including a 8.3% to 12.5% tuition increase for students in our online programs that took effect in May 2006, and reduced levels of institutional scholarships. End-of-period enrollment increased 26.6% in 2006 compared to 2005, as a result of improved productivity in our recruitment, marketing, and enrollment operations and the launch of many of our

ground programs in an online delivery format, as limited by the growth restrictions imposed by the Department of Education, which were eliminated in October 2006.

*Instruction cost and services expenses.* Our instructional cost and services expenses for the year ended December 31, 2006 were $31.3 million, an increase of $3.2 million, or 11.5%, as compared to instructional cost and services expenses of $28.1 million for the year ended December 31, 2005. This increase was primarily due to increases in instructional compensation expense and student support services as a result of the increase in enrollments. Our instructional cost and services expenses as a percentage of net revenue decreased by 10.8% to 43.4% for the year ended December 31, 2006, as compared to 54.2% for the year ended December 31, 2005. This decrease in 2006 was a result of the continued shift of our student population to online programs, our ability to leverage the relatively fixed cost structure of our campus-based facilities and ground faculty across an increasing revenue base, and more efficient course scheduling and faculty utilization.

*Selling and promotional expenses.* Our selling and promotional expenses for the year ended December 31, 2006 were $20.1 million, an increase of $6.0 million, or 43.0%, as compared to selling and promotional expenses of $14.0 million for the year ended December 31, 2005. As a percentage of net revenue, our selling and promotional expenses remained relatively steady for the years ended December 31, 2006 and 2005, increasing to 27.9% from 27.1%.

*General and administrative expenses.* Our general and administrative expenses for the year ended December 31, 2006 were $15.0 million, an increase of $2.0 million, or 15.8%, as compared to general and administrative expenses of $13.0 million for the year ended December 31, 2005. Bad debt expense increased to $4.7 million for the year ended December 31, 2006 from $2.6 million for the year ended December 31, 2005 due to an increase in net revenue and management s assessment of our rapidly growing student base and changes in payment trends. Our general and administrative expenses as a percentage of net revenue decreased by 4.2% to 20.8% for the year ended December 31, 2006, from 25.0% for the year ended December 31, 2005, as we benefited from leveraging our prior infrastructure investments over a larger enrollment and revenue base.

*Royalty to former owner.* In connection with our royalty fee arrangement with our former owner, we incurred royalty expenses for the year ended December 31, 2006 of $2.7 million, an increase of $1.1 million, or 65.4%, as compared to royalty expenses incurred of $1.6 million for the year ended December 31, 2005. Our royalty expense as a percentage of net revenue increased by 0.6% to 3.7% for the year ended December 31, 2006, from 3.1% for the year ended December 31, 2005. These increases were attributable to the increase in our net revenue derived from our online programs, which grew at a faster rate than other revenue sources.

*Interest expense.* Interest expense for the year ended December 31, 2006 was $2.8 million, a decrease of $0.3 million, or 8.7%, from $3.1 million for the year ended December 31, 2005. The decrease was primarily due to a lower average level of borrowings in 2006.

*Interest income.* Interest income for the year ended December 31, 2006 was $0.9 million, an increase of $0.6 million, from $0.3 million for the year ended December 31, 2005 as a result of increased levels of cash and cash equivalents earning interest.

*Income tax expense (benefit).* Income tax expense for the year ended December 31, 2006 was $0.5 million, an increase of $4.0 million from income tax benefit of $3.4 million for the year ended December 31, 2005. This increase was primarily attributable to our net income before income taxes and a change in our effective income tax rate to 46.9% from 44.5%.

*Net income (loss).* Our net income for the year ended December 31, 2006 was $0.6 million, an increase of $4.9 million as compared to net loss of $4.3 million for the year ended December 31, 2006 due to the factors discussed above.

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## Quarterly Results and Seasonality

The following tables set forth certain unaudited financial and operating data in the first and second quarters of 2008 and each quarter during the years ended December 31, 2006 and 2007. We believe that the unaudited information reflects all adjustments, which include only normal and recurring adjustments, necessary to present fairly the information below.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| | (In thousands, except enrollment data) (unaudited) (restated) | | | |
| **2006** | | | | |
| **Net revenue** | $ 16,695 | $ 16,009 | $ 17,580 | $ 21,827 |
| **Costs and expenses:** | | | | |
| Instructional costs and services | 7,545 | 7,154 | 7,540 | 9,048 |
| Selling and promotional | 4,449 | 4,515 | 5,376 | 5,753 |
| General and administrative | 3,215 | 3,645 | 3,645 | 4,506 |
| Royalty to former owner | 438 | 387 | 1,354 | 499 |
| Total costs and expenses | 15,647 | 15,701 | 17,915 | 19,806 |
| **Operating income (loss)** | 1,048 | 308 | (335) | 2,021 |
| Net interest expense | (215) | (499) | (317) | (884) |
| Income (loss) before income taxes | 833 | (191) | (652) | 1,137 |
| Income tax expense (benefit) | 391 | (90) | (306) | 534 |
| **Net income (loss)** | $ 442 | $ (101) | $ (346) | $ 603 |
| **Period end enrollment** | 9,088 | 8,137 | 10,217 | 10,662 |
| **2007** | | | | |
| **Net revenue** | $ 23,213 | $ 20,858 | $ 24,401 | $ 30,854 |
| **Costs and expenses:** | | | | |
| Instructional costs and services | 8,845 | 8,710 | 9,976 | 11,519 |
| Selling and promotional | 6,008 | 8,178 | 10,105 | 10,857 |
| General and administrative | 3,614 | 4,763 | 3,471 | 5,153 |
| Royalty to former owner | 607 | 1,022 | 956 | 1,197 |
| Total costs and expenses | 19,074 | 22,673 | 24,508 | 28,726 |
| **Operating income (loss)** | 4,139 | (1,815) | (107) | 2,128 |
| Net interest expense | (448) | (375) | (526) | (454) |
| Income (loss) before income taxes | 3,691 | (2,190) | (633) | 1,674 |
| Income tax expense (benefit) | 1,475 | (875) | (253) | 669 |
| **Net income (loss)** | $ 2,216 | $ (1,315) | $ (380) | $ 1,005 |

| | | | | |
|---|---|---|---|---|
| **Period end enrollment** | 11,397 | 10,332 | 13,499 | 14,754 |
| **2008** | | | | |
| **Net revenue** | $ 35,709 | $ 34,566 | $ 39,351 | |
| **Costs and expenses:** | | | | |
| Instructional costs and services | 11,620 | 12,408 | 12,967 | |
| Selling and promotional | 12,586 | 14,887 | 18,562 | |
| General and administrative | 4,541 | 6,419 | 5,032 | |
| Royalty to former owner | 1,022 | 466 | 124 | |
| Total costs and expenses | 29,769 | 34,180 | 36,685 | |
| **Operating income** | 5,940 | 386 | 2,666 | |
| Net interest expense | (560) | (515) | (573) | |
| Income (loss) before income taxes | 5,380 | (129) | 2,093 | |
| Income tax expense (benefit) | 2,076 | (49) | 841 | |
| **Net income (loss)** | $ 3,304 | $ (80) | $ 1,252 | |
| **Period end enrollment** | 17,486 | 16,510 | 21,957 | |

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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. A portion of our ground students do not attend courses during the summer months (June through August), which affects our results for our second and third fiscal quarters. Because a significant amount of our campus costs are fixed, the lower revenue resulting from the decreased enrollment has historically contributed to operating losses during those periods. As we increase the relative proportion of our online students, we expect this summer effect to lessen. Partially offsetting this summer effect in the third quarter has been the sequential quarterly increase in enrollments that has occurred as a result of the traditional fall school start. This increase in enrollments also has occurred in the first quarter, corresponding to calendar year matriculation. In addition, we typically experience higher net revenue in the fourth quarter due to its overlap with the semester encompassing the traditional fall school start and in the first quarter due to its overlap with the first semester of the calendar year. A portion of our expenses do not vary proportionately with fluctuations in net revenue, resulting in higher operating income in the first and fourth quarters relative to other quarters. We expect quarterly fluctuations 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 years ended December 31, 2005, 2006, and 2007 and the first nine months of 2008 primarily through cash provided by operating activities and several private placements of securities. Our unrestricted cash, cash equivalents, and marketable securities were $14.4 million, $23.2 million, and $22.2 million at December 31, 2006 and 2007 and September 30, 2008, respectively.

During 2007, we entered into a line of credit arrangement with a bank for $6.0 million. As of December 31, 2007, the entire $6.0 million was drawn. We repaid this line in full in February 2008 and we terminated the facility in May 2008.

A significant portion of our net revenue is derived from tuition financed by the Title IV programs. Federal regulations dictate the timing of disbursements under the Title IV programs. Students must apply for new loans and grants each academic year, which starts July 1 for Title IV purposes. Loan funds are generally provided by lenders in multiple disbursements for each academic year. The disbursements are usually received by the start of the second week of the semester. These factors, together with the timing of our students beginning their programs, affect our operating cash flow. We believe we have a favorable working capital profile as these Title IV funds and a significant portion of other tuition and fees are typically received by the start of the second week of a semester and the revenue is recognized and the related expenses are incurred over the duration of the semester, which reduces the impact of the growth in our accounts receivables associated with our enrollment growth.

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, will provide adequate funds for ongoing operations, planned capital expenditures, and working capital requirements for at least the next 24 months.

*Operating Activities.* Net cash provided by operating activities for the nine months ended September 30, 2008 was $18.1 million. Excluding the payment of $19.5 million that was made to our former owner in April 2008 to satisfy in full all past royalties due under the royalty agreement and the elimination of the existing obligation to pay royalties for online student revenues in perpetuity, net cash provided by operating activities for the nine months ended September 30, 2008 would have been $30.4 million. Net cash provided by operating activities for the year ended December 31, 2007 was $7.1 million. Our operating cash flows were affected by our dispute with our former owner; as previously discussed, during 2007 we accrued $3.8 million of royalties payable to our former owner and funded a $3.0 million deposit in connection with a preliminary settlement of that dispute with our former owner. Excluding the accrual and payment to our former owner, net cash provided by operating activities would have been $6.3 million. Our

tax payments exceeded our tax expense as our $5.0 million of income taxes paid represented a majority of our 2006 and 2007 tax obligations.

Net cash provided by operating activities for the year ended December 31, 2006 was $6.8 million. As previously discussed, we accrued $2.7 million of royalties payable to our former owner during fiscal year 2006. Excluding the accrued royalties to our former owner, net cash provided by operating activities would have been $4.1 million. Our tax expense exceeded our income taxes paid as a significant portion of our income tax payable for fiscal year 2006 was paid in early 2007.

Net cash used in operating activities for the year ended December 31, 2005 was $7.0 million which was primarily driven by our net loss. During the period, we accrued $1.0 million of royalties payable to our former owner. Excluding the accrued royalties to our former owner, net cash used in operating activities would have been $8.0 million.

*Investing Activities.* Net cash provided by (used in) investing activities was $(10.0) million, $6.7 million, and $(7.6) million for the years ended December 31, 2005, 2006, and 2007, respectively, and $(6.1) million for the nine months ended September 30, 2008. Our cash used in investing activities is primarily related to the purchase of property, plant, and equipment and leasehold improvements. In 2005, we purchased $9.2 million of investments related to a letter of credit required by the Department of Education and associated with our growth restrictions. This letter of credit was released in 2006, resulting in investment proceeds of $9.0 million. Capital expenditures were $0.8 million, $2.4 million and $7.4 million for the years ended December 31, 2005, 2006, and 2007, respectively, and $6.0 million for the nine months ended September 30, 2008. A majority of our historical capital expenditures are related to our ground campus in Phoenix, Arizona. Our online business does not require significant capital expenditures and we expect capital expenditures to represent a decreasing percentage of net revenue in the future. However, we will continue to invest in computer equipment and office furniture and fixtures to support our increasing employee headcounts.

*Financing Activities.* Net cash provided by (used in) financing activities was $16.0 million, $(1.7) million, and $9.3 million for the years ended December 31, 2005, 2006, and 2007, respectively, and $(13.1) million for the nine months ended September 30, 2008. During these periods, principal payments on notes payable, capital lease obligations and our line of credit were offset by private placements of securities by our stockholders and amounts drawn on our line of credit. Net cash used in financing activities for the nine months ended September 30, 2008 also included the $6.0 million related to the repurchase of a warrant from our former owner pursuant to the standstill agreement.

**Contractual Obligations**

The following table sets forth, as of December 31, 2007, 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** | **Years 2-3** | **Years 4-5** | **More than 5 Years** |
| Long term debt[1] | $ 2.4 | $ 0.6 | $ 1.3 | $ 0.5 | $ 0.0 |
| Capital lease obligations[1] | 52.5 | 3.7 | 7.0 | 6.8 | 35.0 |
| Tenant improvement obligations[1] | 2.3 | | 2.3 | | |
| Operating lease obligations[2] | 30.4 | 2.2 | 4.2 | 3.7 | 20.3 |
| Total contractual obligations | $ 87.6 | $ 6.5 | $ 14.8 | $ 11.0 | $ 55.3 |

(1) See Note 8, Notes Payable and Capital Lease Obligations, to our financial statements, which are included elsewhere in this prospectus, for a discussion of our long term debt and capital lease obligations.

(2) See Note 9, Commitments and Contingencies, to our financial statements, which are included elsewhere in this prospectus, for a discussion of our operating lease obligations.

The foregoing obligations exclude potential royalty payments to Blanchard Education, LLC under our license agreement, the amounts of which are contingent on tuition revenue from certain of our business programs.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have 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.

**Impact of Inflation**

We believe that inflation has not had a material impact on our results of operations for the years ended December 31, 2005, 2006, or 2007 and the nine months ended September 30, 2008. There can be no assurance that future inflation will not have an adverse impact on our operating results and financial condition.

**Non-GAAP Discussion**

In addition to our GAAP results, we use Adjusted EBITDA as a supplemental measure of our operating performance and as part of our compensation determinations. Adjusted EBITDA is not required by or presented in accordance with GAAP and should not be considered as an alternative to net income, operating income, or any other performance measure derived in accordance with GAAP, or as an alternative to cash flow from operating activities or as a measure of our liquidity.

In this prospectus, Adjusted EBITDA is defined as net income (loss) plus interest expense net of interest income, plus income tax expense (benefit), and plus depreciation and amortization (EBITDA), as adjusted for (i) royalty payments incurred pursuant to an agreement with our former owner that has been terminated as of April 15, 2008, as discussed above and in Note 2 to our financial statements, which are included elsewhere in this prospectus, and (ii) management fees and expenses that are no longer paid or that will no longer be payable following completion of this offering.

We present Adjusted EBITDA because we consider it to be an important supplemental measure of our operating performance. We also make certain compensation decisions based, in part, on our operating performance, as measured by Adjusted EBITDA. See Compensation Discussion and Analysis Impact of Performance on Compensation. All of the adjustments made in our calculation of Adjusted EBITDA are adjustments to items that management does not consider to be reflective of our core operating performance. Management considers our core operating performance to be that which can be affected by our managers in any particular period through their management of the resources that affect our underlying revenue and profit generating operations during that period. Management fees and expenses and royalty expenses paid to our former owner are not considered reflective of our core performance. We believe Adjusted EBITDA allows us to compare our current operating results with corresponding historical periods and with the operational performance of other companies in our industry because it does not give effect to potential differences caused by variations in capital structures (affecting relative interest expense, including the impact of write-offs of deferred financing costs when companies refinance their indebtedness), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the book amortization of intangibles (affecting relative amortization expense), and other items that we do not consider reflective of underlying operating performance. We also present Adjusted EBITDA because we believe it is frequently used by securities analysts, investors, and other interested parties as a measure of performance.

In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments described above. Our presentation of Adjusted EBITDA should not be construed as an inference that our

future results will be unaffected by expenses that are unusual, non-routine, or non-recurring. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are that it does reflect:

- cash expenditures for capital expenditures or contractual commitments;
- changes in, or cash requirements for, our working capital requirements;

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interest expense, or the cash requirements necessary to service interest or principal payments on our indebtedness;

the cost or cash required to replace assets that are being depreciated or amortized; and

the impact on our reported results of earnings or charges resulting from (i) royalties to our prior owner, including amortization of royalties prepaid in connection with our settlement, or (ii) management fees and expenses that were payable until completion of this offering.

In addition, other companies, including other companies in our industry, may calculate these measures differently than we do, limiting the usefulness of Adjusted EBITDA as a comparative measure. Because of these limitations, Adjusted EBITDA should not be considered as a substitute for net income, operating income, or any other performance measure derived in accordance with GAAP, or as an alternative to cash flow from operating activities or as a measure of our liquidity. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally. For more information, see our financial statements and the notes to those statements included elsewhere in this prospectus.

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

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2007 | 2008 |
| | | Restated[a] | | (Unaudited) | |
| | (In thousands) | | | | |
| Net income (loss) | $ (4,286) | $ 598 | $ 1,526 | $ 521 | $ 4,476 |
| Plus: interest expense net of interest income | 2,822 | 1,915 | 1,803 | 1,349 | 1,648 |
| Plus: income tax expense (benefit) | (3,440) | 529 | 1,016 | 347 | 2,868 |
| Plus: depreciation and amortization | 1,879 | 2,396 | 3,300 | 2,319 | 3,676 |
| EBITDA | (3,025) | 5,438 | 7,645 | 4,536 | 12,668 |
| Plus: royalty to former owner[b] | 1,619 | 2,678 | 3,782 | 2,585 | 1,612 |
| Plus: management fees and expenses[c] | 511 | 958 | 296 | 188 | 288 |
| Adjusted EBITDA | $ (895) | $ 9,074 | $ 11,723 | $ 7,309 | $ 14,568 |

(a) Our financial statements at December 31, 2006 and 2007 and for each of the three years in the period ended December 31, 2007 have been restated. See Note 3, Restatement of Financial Statements in our financial statements that are included elsewhere in this prospectus.

(b) Reflects the royalty fee arrangement with the former owner of Grand Canyon University in which we agreed to pay a stated percentage of cash revenue generated by our online programs. As a result of the settlement of a dispute with the former owner, we are no longer obligated to pay this royalty, although the settlement includes a

prepayment of future royalties that will be amortized in 2008 and future periods. See Note 2 to our financial statements included with this prospectus.

(c) Reflects management fees and expenses of $0.1 million, $0.3 million, and $0.3 million for the years ended December 31, 2005, 2006, and 2007, respectively, and $0.2 million and $0.3 million for the nine month periods ended September 30, 2007 and 2008, respectively, to the general partner of Endeavour Capital, and an aggregate of $0.4 million and $0.7 million for the years ended December 31, 2005 and 2006, respectively, to an entity affiliated with a former director and another affiliated with a significant stockholder following their investment in us. The agreements relating to these arrangements have all terminated or will terminate by their terms upon the closing of this offering. See Certain Relationships and Related Transactions.

To date, we have not granted or issued any stock-based compensation. We have adopted and implemented a stock incentive plan pursuant to which we will periodically grant awards to our directors, officers, employees, and other eligible participants. Upon the consummation of this offering and pursuant to this plan, we intend to make substantial awards to our new Chief Executive Officer and to other employees, a significant

portion of which will be fully vested upon grant. As a result, we expect to incur non-cash, stock-based compensation expenses in future periods, including expenses of approximately $5.9 million in the fourth quarter of 2008. Although we believe that equity-plan related compensation will be a key element of our employee relations and long-term incentives, we intend to exclude it as an expense when evaluating our core operating performance in any particular period. Accordingly, following this offering, we intend to include stock-based compensation expenses, along with management fees and expenses, royalty expenses to our former owner, and any other expenses and income that we do not consider reflective of our core operating performance, as adjustments when calculating Adjusted EBITDA.

**Quantitative and Qualitative Disclosure About Risk**

*Market risk.* 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.

*Interest rate risk.* We manage interest rate risk by investing excess funds in cash equivalents and marketable securities bearing variable interest rates, which are tied to various market indices. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. At December 31, 2007 and September 30, 2008, a 10% increase or decrease in interest rates would not have a material impact on our future earnings, fair values, or cash flows. All of our notes payable and capital lease obligations are fixed rate instruments and are not subject to fluctuations in interest rates.

**Recent Accounting Pronouncements**

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* ( FIN 48 ). This interpretation, among other things, creates a two step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions, and it has expanded disclosures. We adopted FIN 48 on January 1, 2008, and its adoption did not have a material impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ) which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under GAAP and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted SFAS No. 157 on January 1, 2008, and its adoption did not have a material impact on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* ( SFAS No. 159 ). This standard permits entities to choose to measure financial instruments and certain other items at fair value and is effective for the first fiscal year beginning after November 15, 2007. SFAS No. 159 must be applied prospectively, and the effect of the first re-measurement to fair value, if any, should be reported as a cumulative - effect adjustment to the opening balance of retained earnings. We adopted of SFAS No. 159 on January 1, 2008 and its adoption did not have a material impact on our financial position or results of operations.

## BUSINESS

### Overview

We are a regionally accredited provider of online postsecondary education services focused on offering graduate and undergraduate degree programs in our core disciplines of education, business, and healthcare. In addition to our online programs, we offer ground programs at our traditional campus in Phoenix, Arizona and onsite at the facilities of employers. We are committed to providing an academically rigorous educational experience with a focus on career-oriented programs that meet the objectives of working adults. We utilize an integrated, innovative approach to marketing, recruiting, and retaining students, which has enabled us to increase enrollment from approximately 3,000 students at the end of 2003 to approximately 22,000 students at September 30, 2008, representing a compound annual growth rate of approximately 52%. At December 31, 2007, our enrollment was approximately 14,800, 85% of our students were enrolled in our online programs, and 62% of our students were pursuing master s degrees.

Our three core disciplines of education, business, and healthcare represent large markets with attractive employment opportunities. According to a March 2008 report from the U.S. Department of Education, National Center for Education Statistics, or NCES, these disciplines ranked as three of the four most popular fields of postsecondary education, based on degrees conferred in the 2005-06 school year. The U.S. Department of Labor Bureau of Labor Statistics, or BLS, estimated in its 2008-09 Career Guide that these fields comprised over 40 million jobs in 2006, many of which require postsecondary education credentials. Furthermore, the BLS has projected that the education, business, and healthcare fields will generate approximately six million new jobs between 2006 and 2016.

We primarily focus on recruiting and educating working adults, whom we define as students age 25 or older who are pursuing a degree while employed. As of September 30, 2008, approximately 92% of our online students were age 25 or older. We believe that working adults are attracted to the convenience and flexibility of our online programs because they can study and interact with faculty and classmates during times that suit their schedules. We also believe that working adults represent an attractive student population because they are better able to finance their education, more readily recognize the benefits of a postsecondary degree, and have higher persistence and completion rates than students generally.

We have experienced significant growth in enrollment, net revenue, and operating income over the last several years. Our enrollment at December 31, 2007 was approximately 14,800, representing an increase of approximately 38% over our enrollment at December 31, 2006. Our net revenue and operating income for the year ended December 31, 2007 were $99.3 million and $4.3 million, respectively, representing increases of 37.7% and 42.8%, respectively, over the year ended December 31, 2006. Our enrollment at September 30, 2008 was approximately 22,000, representing an increase of approximately 63% over our enrollment at September 30, 2007. Our net revenue and operating income for the nine months ended September 30, 2008 were $109.6 million and $9.0 million, respectively, representing increases of 60.1% and 305.5%, respectively, over the nine months ended September 30, 2007. We believe our growth is the result of a combination of factors, including our:

- focus on our core disciplines of education, business, and healthcare;
- convenient and flexible online delivery platform targeted at working adults;
- innovative marketing, recruitment, and retention approach; and
- expanding portfolio of academically rigorous, career-oriented program offerings.

We seek to achieve continued growth in a manner that reinforces our reputation for providing academically rigorous, career-oriented educational programs that advance the careers of our students. As part of our efforts to ensure that our students graduate with the knowledge, competencies, and skills that will enable them to succeed following graduation, we have established an Office of Assessment and Institutional Research to monitor student and faculty performance and improve student satisfaction.

We have been regionally accredited by the Higher Learning Commission and its predecessor since 1968, and we were reaccredited in 2007 for the maximum term of ten years. We are regulated by the Department of Education as a result of our participation in the federal student financial aid programs authorized by Title IV of the Higher Education Act, and, at the state level, we are licensed to operate and offer our programs by the Arizona State Board for Private Postsecondary Education. In addition, we have specialized accreditations for certain programs from the Association of Collegiate Business Schools and Programs, the Commission on Collegiate Nursing Education, and the Commission on Accreditation of Athletic Training Education. We believe that our institution-wide state authorization and regional accreditation, together with these specialized accreditations, reflect the quality of our programs, enhance their marketability, and improve the employability of our graduates.

**History**

Grand Canyon College was founded in Prescott, Arizona in 1949 as a traditional, private, non-profit college and moved to its existing campus in Phoenix, Arizona in 1951. Established as a Baptist-affiliated institution with a strong emphasis on religious studies, the school initially focused on offering bachelor s degree programs in education. Over the years, the school expanded its curricula to include programs in the sciences, nursing, business, music, and arts. The college obtained regional accreditation in 1968 from the Commission on Institutions of Higher Education, North Central Association of Colleges and Schools, the predecessor to the Higher Learning Commission, and began offering nursing programs in the early 1980s and master s degree programs in education and business in the 1980s. In 1989, it achieved university status and became Grand Canyon University. The university introduced its first distance learning programs in 1997, and launched its first online programs in 2003 in business and education. In early 2000, it discontinued its Baptist affiliation and became a non-denominational Christian university.

In late 2003, the school s Board of Trustees initiated a process to evaluate alternatives as a result of the school s poor financial condition and, in February 2004, several of our current stockholders acquired the assets of the school and converted its operations to a for-profit institution. In May 2005, following this change in control, the Department of Education recertified us to continue participating in the Title IV programs on a provisional basis, subject to certain restrictions and requirements. In its review, the Department of Education concluded that we did not satisfy its standards of financial responsibility and identified other concerns about our administrative capability. As a result, the Department of Education required us to post a letter of credit, accept restrictions on the growth of our program offerings and enrollment, and receive Title IV funds under the heightened cash monitoring system. At this time, our lead institutional investor, Endeavour Capital, invested in us and provided the capital to support the letter of credit requirement as well as other working capital needs. In October 2006, based on our significantly improved financial condition and performance, the Department of Education eliminated the letter of credit requirement and allowed the growth restrictions to expire. In 2007, the Department of Education eliminated the heightened cash monitoring restrictions and returned us to the advance payment method.

Since February 2004, we have enhanced our senior management team, expanded our online platform, increased our program offerings, and initiated a marketing and branding effort to further differentiate us in the markets in which we operate. We have also made investments to enhance our student and technology support services. We believe these investments, combined with our management expertise, provide a platform that will support continued enrollment and revenue growth. Many of our ground programs continue to include Christian study requirements. While our online programs do not have such requirements, many include ethics requirements and offer religious courses as electives.

**Industry**

*Postsecondary education.* The United States market for postsecondary education represents a large and growing opportunity. According to the March 2008 NCES report, total revenue for all degree-granting postsecondary institutions was over $385 billion for the 2004-05 school year. In addition, according to a September 2008 NCES

report, the number of students enrolled in postsecondary institutions was projected to be approximately 18.0 million in 2007 and the number was projected to grow to 18.6 million by 2010. We

believe that future growth in this market will be driven, in part, by an increasing number of job openings in occupations that require bachelor s or master s degrees. A November 2007 report based on BLS data has projected the number of such jobs to grow approximately 17% and 19%, respectively, between 2006 and 2016, or nearly double the growth rate the BLS projects for occupations that do not require postsecondary degrees. Moreover, individuals with a postsecondary degree are able to obtain a significant wage premium relative to individuals without a degree. According to the U.S. Census Bureau, in 2006, the median income for individuals age 25 years or older with a bachelor s or master s degree was approximately 70% or 102% higher, respectively, than for a high school graduate of the same age with no college education.

According to the March 2008 NCES report, as of 2007 71% of adults age 25 years or older did not possess a bachelor s or higher degree. In the September 2008 report, the NCES estimated that, as of 2006, adults age 25 years or older represented 39% of total U.S. postsecondary enrollments, or approximately 6.9 million students. We believe many of these students are pursuing a postsecondary degree while employed in order to increase their compensation or enhance their opportunities for career advancement, often with their current employer. We further believe that working adult students represent an attractive student population because they are better able to finance their education, more readily recognize the benefits of a postsecondary degree, and have higher persistence and completion rates than students generally. We expect that adults age 25 years or older will continue to represent a large and growing segment of the postsecondary education market.

*Online postsecondary education.* The market for online postsecondary education is growing more rapidly than the overall postsecondary market. A 2007 study by Eduventures, LLC, an education consulting and research firm, projected that from 2002 to 2007 enrollment in online postsecondary programs increased from approximately 0.5 million to approximately 1.8 million, representing a compound annual growth rate of approximately 30.4%. In comparison, in September 2008 the NCES projected a compound annual growth rate of 1.6% in enrollment in postsecondary programs overall during the same period. We believe this growth has been driven by a number of factors, including the greater convenience and flexibility of online programs as compared to ground-based programs and the increased acceptance of online programs among academics and employers. According to a 2006 survey by the Sloan Consortium, a trade group focused on online education, 79.1% of chief academic officers surveyed at institutions with 15,000 or more students, most of which offer online programs, and 61.9% of all chief academic officers surveyed, believe that online learning outcomes are equal or superior to traditional face-to-face instruction.

*Education, business, and healthcare.* The education, business, and healthcare sectors represent a large and growing market for postsecondary education. According to the March 2008 NCES report, these fields ranked as three of the four most popular fields of postsecondary education, based on degrees conferred in the 2005-06 school year. We believe the popularity of these fields is driven by the number and growth of employment opportunities. According to its 2008-09 Career Guide, the BLS estimates that in 2006 these three fields employed more than 40 million people in jobs that often require a postsecondary degree. Furthermore, the BLS has projected that these sectors will generate approximately six million incremental jobs between 2006 and 2016, not including job openings resulting from natural attrition. We believe there is a significant opportunity for education providers that focus on offering students a career-focused education in sectors of the workforce with strong job prospects, particularly where demand for employees is growing but supply is limited. In a 2007 report, the BLS stated that:

> Education services was the second largest industry in the United States and accounted for approximately 13 million jobs. Nearly half of these jobs were teaching positions that require at least a bachelor s degree, and some required a master s or doctoral degree. The BLS projected that job openings in the education services sector will grow by 1.4 million between 2006 and 2016 as a result of overall population growth and a nationwide focus on improving education and access to education.

Management, business, and financial occupations comprised 15 million jobs across all industries. The BLS projected that job opportunities in this field will grow 10% between 2006 and 2016, adding a total of 1.6 million jobs during that period.

Healthcare was the largest industry in the United States, accounting for approximately 14 million jobs and encompassing seven of the 20 fastest growing occupations. The BLS projected that employment growth in the healthcare sector will increase by 3.0 million jobs between 2006 and 2016 principally due to increased demand for healthcare services as a result of growth in the population in older age groups, rising life expectancy, and advances in medical technology.

## Competitive Strengths

We believe we have the following competitive strengths:

*Established presence in targeted, high demand disciplines.* We have an established presence within our three core disciplines of education, business, and healthcare, which, according to the March 2008 NCES report, ranked as three of the four most popular fields of postsecondary education, based on degrees conferred in the 2005-06 school year. We offer our students career-oriented, academically rigorous educational programs, supported by specialized courses within their select disciplines, which enable them to advance their career prospects in these sectors. We seek to leverage our historical presence in these disciplines with key branding relationships, such as our relationship with business author and industry leader Ken Blanchard, to differentiate our reputation in the market place. We believe our focused approach enables us to develop our academic reputation and brand identity within our core disciplines, recruit and retain quality faculty and staff members, and meet the educational and career objectives of our students.

*Focus on graduate degrees for working adults.* We have designed our program offerings and our online delivery platform to meet the needs of working adults, particularly those seeking graduate degrees to obtain pay increases or job promotions that are directly tied to higher educational attainment. We believe that working adults are attracted to the convenience and flexibility of our online delivery platform because they can study and interact with faculty and classmates during times that suit their schedules. We also believe that working adults represent an attractive student population because they are better able to finance their education, more readily recognize the benefits of a postsecondary degree, and have higher persistence and completion rates than students generally. At September 30, 2008, approximately 60.0% of our online students were enrolled in graduate degree programs.

*Innovative marketing, recruiting, and retention strategy.* We have developed an integrated, innovative approach to student marketing, recruitment, and retention to reach our targeted students. We utilize Internet marketing, seminar and event-based marketing, referrals, and employer relationships to reach our targeted students. We provide our enrollment counselors, who serve as our primary contact with prospective students during the recruitment process, with career advancement opportunities that promote longevity and an entrepreneurial drive. We believe that our enrollment counselors help project a consistent message regarding our programs and increase the success rate of converting leads to new enrollments. Finally, we have implemented a detailed process for recruiting, enrolling, and retaining new students through which we proactively provide support to students at key points during their consideration of, and enrollment at, Grand Canyon University to enhance the probability of student enrollment and retention.

*Commitment to offering academically rigorous, career-oriented programs.* We are committed to offering academically rigorous educational programs that are designed to help our students achieve their career objectives. Our programs are taught by qualified faculty, substantially all of whom hold at least a master s degree and often have practical experience in their respective fields. We continually review and assess our programs and faculty to ensure that our programs provide the knowledge and skills that lead to successful student outcomes. We provide extensive student support services, including administrative, library, career, and technology support services, to help maximize the success of our students. Our Office of Assessment and Institutional Research manages our efforts to track student and faculty performance by monitoring student outcomes and developing transparent, measurable outcomes-based

education programs.

*Complementary online capabilities and campus-based tradition.* We believe that our online capabilities, combined with our nearly 60-year heritage as a traditional campus-based university, differentiate us in the for-profit postsecondary market and enhance the reputation of our degree programs among students and employers. Our online students benefit from our flexible, interactive online platform, which we believe

offers a highly effective delivery medium for our programs, yet are enrolled in a university with a traditional campus, faculty, facilities, and athletic programs. We require our online faculty to undergo training in the delivery of online programs before teaching their initial course, while our full-time ground faculty help maintain the consistency and quality of our online programs by supervising and conducting peer reviews of our online faculty, and participating as subject matter experts in the development of our online curricula. Our campus also offers our ground students, faculty, and staff an opportunity to participate in a traditional college experience.

*Experienced executive management team with strong operating track-record.* Our executive management team possesses extensive experience in the management and operation of publicly-traded for-profit, postsecondary education companies, as well as other educational services businesses, including in the areas of marketing to, recruiting, and retaining students pursuing online and other distance education degree offerings. Our Executive Chairman and former Chief Executive Officer, Brent Richardson, has worked in the education services sector for more than 20 years and has extensive experience in content development and prospective student identification and recruitment. Dr. Kathy Player, our President, has been with Grand Canyon University for 10 years, has played a key role in developing our reputation for academic rigor and quality, and has been instrumental in developing our Office of Assessment and Institutional Research.

Effective July 1, 2008, we hired Brian Mueller, Stan Meyer, and Dan Bachus to serve as our Chief Executive Officer, Executive Vice President, and Chief Financial Officer, respectively. Mr. Mueller has been involved in the education industry for over 25 years, most recently as the president of Apollo Group, Inc., a for-profit, postsecondary education company and the parent company of the University of Phoenix. Mr. Meyer, who also has over 25 years of experience in the education industry, most recently served as the executive vice president of marketing and enrollment for Apollo Group, Inc. Mr. Bachus, who is a certified public accountant, has worked in the education industry for approximately seven years, including as the chief accounting officer and controller for Apollo Group, Inc.

**Growth Strategies**

We intend to pursue the following growth strategies:

*Increase enrollment in existing programs.* We continue to increase enrollment in our three core disciplines by identifying, enrolling, and retaining students seeking careers in the education, business, and healthcare fields. We believe, due to the depth of the market in our core disciplines, that our existing programs, some of which were only recently launched, provide ample opportunity for growth. Our three core disciplines serve markets that currently comprise over 40 million jobs, many of which require postsecondary education, and the BLS has projected in its 2008-09 Career Guide that these sectors will continue to grow. In 2007, we increased the number of our enrollment counselors by over 200 to increase our efforts to enroll prospective students in these fields. We intend to continue to increase the number of our enrollment counselors and our marketing personnel, and to provide these individuals with the training and resources necessary to effectively and efficiently drive enrollment growth and student retention.

*Expand online program and degree offerings.* We develop and offer new programs that we believe have attractive demand characteristics. We launched 17 new online program offerings in 2007, including the Ken Blanchard Executive MBA program, and twelve new online programs in the first nine months of 2008, including our first doctoral degree program, a Doctorate of Education in Organizational Leadership. Our new program offerings typically build on existing programs and incorporate additional specialized courses, which offers our students the opportunity to pursue programs that address their specific educational objectives while allowing us to expand our program offerings with only modest incremental investment. We also seek to add new programs in additional targeted disciplines, such as our recently launched programs in psychology and digital media.

*Further enhance our brand recognition.* We continue to enhance our brand recognition by pursuing online and offline marketing campaigns, establishing strategic branding relationships with recognized industry leaders, and developing complementary resources in our core disciplines that increase the overall awareness of our offerings. In our marketing efforts, we emphasize the academic rigor and career orientation of our programs.

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We seek to promote our brand by establishing relationships with industry leaders, such as Ken Blanchard, who have recognizable identities with potential students and further validate the quality and relevance of our program offerings.

*Expand relationships with private sector and government employers.* We seek additional relationships with health care systems, school districts, emergency services providers, and other employers through which we can market our offerings to their employees. As evidence of our success in these initiatives to date, in the first nine months of 2008, we taught courses at 29 hospitals and had direct billing arrangements with 28 employers covering programs being pursued by approximately 2,100 of their employees. We recently established a national account sales team, consisting of professionals with significant sales and marketing experience, that seeks to develop strategic relationships on a regional, national, and international basis across a wide range of employers. These relationships provide leads for our programs, build our recognition among employers in our core disciplines, and enable us to identify new programs and degrees that are in demand by students and employers.

*Leverage infrastructure and drive earnings growth.* We have made significant investments in our people, processes, and technology infrastructure since 2004. We believe these investments have prepared us to deliver our academic programs to a much larger student population with only modest incremental investment. Our current infrastructure is capable of supporting a significantly larger number of enrollment counselors, and we intend to expand this group in order to continue to drive enrollment growth. We implemented a new learning management system in 2007 to better serve the demands of our growing student population and have expanded our student and technology support capabilities to support a larger student base. We have also invested in administrative and management personnel and systems to prepare for our anticipated growth. We intend to leverage our historical investments as we increase our enrollment, which we believe will allow us to increase our operating margins over time.

**Our Approach to Academic Quality**

Some of the key elements that we focus on to promote a high level of academic quality include:

*Academically rigorous, career oriented curricula.* We create academically rigorous curricula that are designed to enable all students to gain the foundational knowledge, professional competencies, and demonstrable skills required to be successful in their chosen fields. Our curriculum is designed and delivered by faculty that are committed to delivering a high quality, rigorous education. We design our curricula to address specific career-oriented objectives that we believe working adult students in the disciplines we serve are seeking. Through this combination, we believe that we produce graduates that can compete and become leaders in their chosen fields.

*Qualified faculty.* We demonstrate our commitment to high quality education by hiring and contracting qualified faculty with relevant practical experience. Substantially all of our current faculty members hold at least a master s degree in their respective field and approximately 29% of our faculty members hold a doctoral degree. Many of our faculty members are able to integrate relevant, practical experiences from their professional careers into the courses they teach. We invest in the professional development of our faculty members by providing training in ground and online teaching techniques, hosting events and discussion forums that foster sharing of best practices, and continually assessing teaching effectiveness through peer reviews and student evaluations.

*Standardized course design.* We employ a standardized curriculum development process to ensure a consistent learning experience with frequent faculty-student interaction in our courses. We thereafter continuously review our programs in an effort to ensure that they remain consistent, up-to-date, and effective in producing the desired learning outcomes. We also regularly review student surveys to identify opportunities for course modifications and upgrades.

*Effective student services.* We establish teams comprised of academic and administrative personnel that act as the primary support contact point for each of our students, beginning at the application stage and continuing through graduation. In recent years, we have also concentrated on improving the technology used to support student learning, including enhancing our online

learning platform and further improving student services through the implementation of online interfaces. As a result, many of our support services, including academic, administrative, library, and career services, are accessible online, generally allowing users to access these services at a time and in a manner that is generally convenient to them.

*Continual academic oversight.* We have centralized the academic oversight and assessment functions for all of our programs through our Office of Assessment and Institutional Research, which continuously evaluates the academic content, delivery method, faculty performance, and desired learning outcomes for each of our programs. We continuously assess outcomes data to determine whether our students graduate with the knowledge, competencies, and skills that are necessary to succeed in the workplace. The Office and Assessment and Institutional Research also initiates and manages periodic examinations of our curricula by internal and external reviewers to evaluate and verify program quality and workplace applicability. Based on these processes and student feedback, we determine whether to modify or discontinue programs that do not meet our standards or market needs, or to create new programs. The Office and Assessment and Institutional Research also oversees regular reviews of our programs conducted by accrediting commissions.

We also offer, for both our online and ground programs, the following features in an effort to enrich the academic experience of current and prospective students:

*Flexibility in program delivery.* We also seek to meet market demands by providing students with the flexibility to take courses exclusively online or to combine online coursework with various campus and onsite options. For example, based on market demand, particularly in connection with our nursing programs, we have established satellite locations at multiple hospitals that allow nursing students to take clinical courses onsite while completing other course work online. We have established similar onsite arrangements with other major employers, including schools and school districts through which students can pursue student teaching opportunities. This flexibility raises our profile among employers, encourages students to take and complete courses and eliminates inconveniences that tend to lessen student persistence.

*Small class size.* At September 30, 2008, over 90% of our online classes had 25 or fewer students, with no classes exceeding 40 students, and over 80% of our ground classes had 25 or fewer students. These class sizes provide each student with the opportunity to interact directly with course faculty and to receive individualized feedback and attention while also affording our faculty with the opportunity to engage proactively with a manageable number of students. We believe this interaction enhances the academic quality of our programs by promoting opportunities for students to participate actively and thus build the requisite knowledge, competencies, and skills.

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**Accreditation and Program Approvals**

We believe that the quality of our academic programs is evidenced by the college- and program-specific accreditations and approvals that we have pursued and obtained. Grand Canyon University has been continually accredited by the Higher Learning Commission and its predecessor since 1968, obtaining its most recent ten-year reaccreditation in 2007. We are licensed in Arizona by the Arizona State Board for Private Postsecondary Education. In addition, we have obtained the following specialized accreditations and approvals for our core program offerings:

| College | Specialized Accreditations and Program Approvals | Current Period |
| --- | --- | --- |
| *College of Education* | The Arizona State Board of Education approves our College of Education to offer Institutional Recommendations for the certification of elementary, secondary, and special education teachers and school administrators. | 2008 - 2010 |
| *Ken Blanchard College of Business* | The Association of Collegiate Business Schools and Programs accredits our Master of Business Administration degree program and our Bachelor of Science degree programs in Accounting, Business Administration, and Marketing. | 2007 - 2017 |
| *College of Nursing and Health Sciences* | | |