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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Grand Canyon Education second-quarter earnings call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Brian Roberts, General Counsel. Sir, you may begin.

Brian Roberts - *Grand Canyon Education, Inc. - General Counsel*

Thank you, operator. Good afternoon and thank you for joining us today on this conference call to discuss Grand Canyon's 2016 second-quarter results. Speaking on today's call is our President and CEO, Brian Mueller; and our CFO, Dan Bachus.

This call is scheduled to last one hour. During the Q&A period, we will try to answer all of your questions, and we apologize in advance if there are questions that we are unable to address due to time constraints.

I would like to remind you that many of our comments today will contain forward-looking statements with respect to GCU's future performance that involve risks and uncertainties. Various factors could cause GCU's actual results to be materially different from any future results expressed or implied by such forward-looking statements.

These factors are discussed in GCU's SEC filings, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2015; our Quarterly Reports on Form 10-Q; and our current reports on Form 8-K. We recommend that all investors thoroughly review these reports before taking a financial position in GCU, and we do not undertake any obligation to update anyone with regard to forward-looking statements made during this conference call.

And with that, I will turn the call over to Brian.

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

Good afternoon, and thank you for joining Grand Canyon University's second-quarter fiscal year 2016 conference call. In the second quarter of 2016, enrollments grew by 7.1% and revenues grew by 9.5%. New online enrollments grew in the high-single digits. Operating margins are at 23.4% for the quarter.

Our faculty and staff continue to bring amazing creativity and innovation to their work as they inspire, teach, and serve our students. I again want to thank them for everything they are doing to produce these results.

We are extremely excited to start the new school year. We will begin the 2016 year -- 2016/2017 year with approximately 17,500 students on our traditional campus. The average incoming GPA of our new students will be approximately 3.5. There will be about 1,200 students in our Honors College, and their average incoming GPA will be approximately 4.1. We now have nine colleges and 200 academic programs and certificates.

We started the third quarter with approximately 62,000 students attending our online campus, which is 7.5% over the prior year. 48.6% of these students are studying at the graduate level, which is up 140 basis points from a year ago. 62.6% of our students are studying in areas that produce the highest graduation rates.

Our second-quarter online persistence rate was 91.8%, which is 10 basis points over second-quarter of the prior year. I want to remind you that when we arrived in 2008, the online persistence rate of students was in the mid-70s. To this point, in the 2016 calendar year, 11.7% of new students starts are in academic programs rolled out in the last two years.

An important part of our strategy is to recognize the direction of the economy and to create academic programs that will prepare students to pursue careers that impact the changing economy. We will continue to make a significant investment in new program development. This calendar year alone, we will initiate 40 new programs and certificates, which will allow us to continue to grow the online campus at between 6 and 8 percentage points per year.

When students arrive on campus the next few weeks, they will be greeted by $162 million of additional educational infrastructure. Our CapEx expense reached an apex this year and will go down to under $100 million next year. This year, we have completed three new apartment-style residence halls; 170,000 square foot engineering building; two parking garages; a student life building; and three new athletic facilities that will be finished in the spring semester. A new online administration building, which we have decided to keep on our balance sheet, will be completed December 1st of this year.

In addition to the physical infrastructure, the students will be introduced to unprecedented levels of academic support. We continue to teach our students in small class sizes averaging less than 25 on our traditional campus, and less than 15 in the online campus. We have eight academic excellence centers spread throughout our 300-acre campus. The centers are open 8 a.m. till midnight Monday through Friday; 10 a.m. to 4 p.m. on Saturday; and 5 p.m. to 10 p.m. on Sunday.

Students can get academic help from professors, professional tutors, and peers in each of these centers. We also have two virtual learning networks, 24 special learning communities, and the nine colleges will meet with all their students once a year to talk about special academic opportunities, internships, and potential career opportunities.

Co-curricular participation will reach an all-time high this year. There will be five major theater productions, four dance concerts, and seven major choir concerts. Our debate team will participate in six high-level national competitions and try to improve on their remarkable Top 30 in the Country ranking.

We expect over 9,000 students will participate in intramural sports and 800 students will participate in club sports. We are entering the fourth year of transition to Division I athletics, and just recently received a favorable response to the report we submitted, and we were moved successfully to the fourth year of transition. This year's basketball schedule includes games against national powerhouses like Duke and Arizona on the road, and Louisville and San Diego State at home.

Now, turning to the results of operations. Net revenues were $191.3 million in the second quarter of 2016, an increase of $16.6 million or 9.5% from $174.7 million in the prior year period. Operating margin for second-quarter 2016 was 23.4% compared to 24.2% for the same period in 2015. Net income was $27.6 million for the second quarter of 2016 compared to $25.8 million in the prior-year period.

After-tax margin was 14.4% compared to 14.8% for the same period in 2015. As we have discussed previously, we anticipate that our margin in the second and third quarters will decline on a year-over-year basis as the ground enrollment continues to grow as a percentage of our total enrollment, as a majority of these students do not attend courses during the summer months May through August, and a large percentage of our expenses are fixed during that time.

Instructional costs and services grew from $75.4 million in the second quarter of 2015 to $84.6 million in the second quarter of 2016, an increase of $9.2 million or 12.3%. This increase is primarily due to the increase in the number of faculty and staff to support the increasing number of students attending the University, and increased benefit costs between years.

In addition, we continue to see an increase in occupancy costs, including depreciation and amortization, as a result of us placing into service additional buildings to support the growing number of ground traditional students, and an increase in dues, fees, subscriptions and other instructional supplies, primarily due to increased licensing fees related to educational resources, and increased food costs associated with a higher number of residential students.

As a percent of revenue, instructional costs and services increased 110 basis points to 44.2%, due to the factors described earlier. Admissions, advisory and related expenses as a percentage of revenue decreased to 15.1% from 15.7%, primarily due to our ability to leverage our admissions advisory personnel across an increasing revenue base.

Advertising expenses as a percent of net revenue increased 110 basis points from 10.5% in Q2 2015 to 11.6% in Q2 2016, as we expanded our media advertising campaign. The early results of this are very encouraging. Marketing and promotional expenses as a percent of net revenue increased 10 basis points from 1% in quarter-two 2015 to 1.1% in Q2 of 2016.

When we first started talking about the University's goals, we were talking about margins that would not exceed 20%. Without raising tuition on the traditional campus in eight years, and with very minimal tuition increases on our online campus, we have significantly exceeded our margin expectations. The students, both ground and online, have benefited significantly from the financial performance of the institution in many ways, especially as we compare our students' average debt levels to students at both private and public universities.

We are going to make fairly significant investments in three areas in the upcoming year. First is in the program development, which we discussed earlier. Second, our advertising budget will continue to be approximately 100 basis points higher than prior years in order to continue to build the unique brand of the institution. We think this is important because of a number of factors that are changing in the overall higher education landscape.

Third, the entire range of counseling services that we are providing students has been a major factor in the University's success. We will continue to increase the investment we are making in our people. In this case, the investment will impact our employees that provide counseling services to students. This will provide them with more significant career opportunities and we believe will increase our already high employee retention rate.

As Dan will discuss in the guidance section, this will impact margins slightly for the rest of the year. Continuing to invest in program development, building the University's brand, and building greater levels of tenure in our counseling force, will allow us to continue to grow the University at the rates that we have established.

With that, I would like to turn it over to Dan Bachus, our CFO, to give you a little more color on our second -- 2016 second-quarter, talk about changes in the income statement, balance sheet and other items, as well as to provide detailed information on our guidance for the second-half of 2016.

Dan Bachus - *Grand Canyon Education, Inc. - CFO*

Thanks, Brian. Revenue per student was up year-over-year, due to an increase in ground enrollment as a percentage of total enrollment during the spring semester and an increase in the revenue per student year-over-year for ground students. When factoring in room, board, and fees, the revenue per student is higher for ground students than for our online students.

Online revenue per student was flat year-over-year as the 1% tuition price increase in September 2015 was offset by the continued mix shift in lower revenue per student per day programs. Scholarships as a percentage of revenue decreased from 14.9% in the second quarter of 2015 to 14.2% in the second quarter of 2016, due primarily to a decrease in the traditional scholarship rate year-over-year as a percentage of total revenue, due to an increase in ancillary revenues. Online scholarships as a percentage of related revenue were flat year-over-year.

Bad debt expense as a percentage of revenue decreased to 1.8% in Q2 2016 from 2% in Q2 2015, primarily due to favorable improvements in collections, but also due to an increase in retention rates. Our effective tax rate for the second quarter of 2016 was 38.4% as compared to 39% in the second quarter of 2015. The lower tax rate in the second quarter of 2016 over the prior year was primarily due to the continued phase-in of market sourcing for apportionment of Arizona sales and a 0.5% decrease in the Arizona corporate tax rate.

We repurchased 396,000 shares of our common stock at an aggregate cost of $14.6 million during the first quarter of 2016. And although we had no share repurchases during our second quarter of 2016, we have spent $782,000 in share buybacks in July of 2016.

Turning to the balance sheet and cash flows, total cash, unrestricted and restricted in short-term investments, at June 30, 2016, was $164.8 million. Accounts Receivable, net of the allowance for doubtful accounts, is $9.1 million at June 30, 2016, which represents four days sales outstanding compared to $8.2 million or 4.1 days sales outstanding at the end of the second quarter of 2015.

CapEx in the second quarter of 2016, excluding our off-site development of $17.1 million, was approximately $65.8 million or 34.4% of net revenue. This was expected as we prepared for our fall 2016 students start and the ground infrastructure needed for our growing student base. Construction on three more apartment-style residence halls; 170,000 square foot classroom building for our College of Science, Engineering and Technology; a student service center and a fourth parking garage for the fall 2016/2017 school year, are all either completed or near completion on or under budget.

We still estimate that 2016 CapEx will be approximately $180 million, excluding the off-site office building and parking garage that I will discuss in a second. We have no further material land acquisitions planned, although if opportunities similar to those that occurred in the first quarter of 2016 occur, we will strongly consider them.

Included in off-site development in the second quarter of 2016 is approximately $17.1 million related to an off-site office building and parking garage that is in close proximity to our ground traditional campus. Employees that work in two leased office buildings in the Phoenix area will be consolidated into this new building when it's completed in late 2016.

Although the University is currently funding the construction of the building and parking garage, the University marketed these along with a refurbished -- recently refurbished office building in the same development as part of a sale-leaseback transaction. Although we've received a number of offers, we did not receive an offer at an attractive enough cap rate for us to sell. Thus, it is currently our intention to continue to own this property.

Our cash flow from operations, along with the availability on our line of credit, gives us the flexibility to continue to own these assets. We did borrow $25 million against our line of credit in June, which we anticipate repaying in full by the end of the year.

Last, I would like to provide updated color on guidance we have provided for 2016. As you probably noticed, we have again provided estimates for each quarter of 2016. We do this because our financial results continue to become more seasonal due to the significant growth of our ground traditional campus.

A large percentage of these students will only attend classes between the end of August and the end of April. However, a large percentage of the ground traditional campus costs are fixed, and these costs continue to grow due to our growth. We must hire additional support staff to service the increasing student body in the spring or summer of each year, so that they are trained and can start working with the soon-to-be-students when these students are ready to be registered for the fall semester.

Thus, we anticipate our margins will be up year-over-year in the first and fourth quarters, and down in the second and third quarters. Our second-quarter ground enrollment was higher than we expected, as we ultimately had more summer school enrollments than anticipated.

Our second-quarter online enrollment was also higher than what we expected, as we saw less summertime drops than anticipated, and new enrollments were better than expected. We have increased our enrollment expectations by 400 students and revenue by $1 million in the third quarter due to these trends. We have raised fourth-quarter enrollment guidance by 200 students, but have not raised revenue guidance, as although we anticipate higher online revenues than originally projected, it currently appears as if room and board revenue for ground traditional students will be slightly less than projected.

We had estimated that residential students as a percentage of our traditional student enrollment would increase year-over-year, but it now appears as if it will remain flat. As a reminder, our revenue per student is being slightly impacted by changes between 2015 and 2016, when the traditional campus semesters begin and end, and when the online breaks occur. We estimate the effects of these changes are $1.9 million of additional revenue in Q1, $1.3 million less in revenue in Q2, $5.5 million less revenue in Q3, and $4.5 million additional revenue in Q4.

The net change of $400,000 is revenue that will be pushed into 2017, and the large movement of revenue between Q3 and Q4 is due to the fall semester beginning four days later in August this year.

On the expense side, expenses in the second quarter were under our expectations in most categories, as we made a concerted effort to reduce certain costs during the summer months other than advertising, where we were more than the original projection due to the expansion of our media advertising campaign.

In addition, certain expenses we expected to be incurred in the second quarter were not incurred until the third quarter. We plan to continue to invest more than originally anticipated in media advertising, and during September, we will increase our investment in our counseling services. We estimate the impact of the increased investment and timing differences to be $1.5 million in the third quarter, and the impact of increased investment to be $1 million in the fourth quarter.

Even with these additional investments, excluding the effect of the contributions made in lieu of state income taxes that I will discuss in a minute, we have raised full-year margin guidance by 20 basis points. We have adjusted Q3 and Q4 margins and EPS to reflect the financial impact of the contributions made in lieu of state income taxes made in July.

As you might recall, these payments, which totaled $4 million in July 2016 and $2.75 million in July 2015, are included in General and Administrative expenses in the third quarter of each year, and these payments reduce, dollar-for-dollar, our state income tax. Three-quarters of the lower tax rate is reflected in the third quarter as we true up our annual effective tax rate, and the remaining is reflected in a lower tax rate in the fourth quarter.

We estimate that net interest expense will be approximately $250,000 for both the third and fourth quarters, as we will have slightly higher average borrowings and less capitalized interest. We estimate that our effective tax rate for the third quarter of 2016 and the fourth quarter of 2016 will be 34.7% and 37.6%, respectively, including the effect of the contributions, and 38.6% in each quarter ignoring the contributions. Our estimate of weighted average shares outstanding has been reduced from last quarter.

Last, although not included in the guidance provided, we will be recognizing a $3.4 million charge in the third quarter of 2016, and a $600,000 charge in the fourth quarter of 2016 related to the early termination of an off-site lease as we consolidate the majority of our employees on or near campus.

I will now turn the call over to the moderator so that we can answer questions.

QUESTIONS AND ANSWERS

Operator

Peter Appert, Piper Jaffray.

Peter Appert - *Piper Jaffray & Co. - Analyst*

So, Brian or Dan, the CapEx decline next year is pretty dramatic. Obviously, it suggests pretty dramatic improvement in your free cash flow. So two questions. One is just how you're thinking about priorities in terms of deployment of that cash flow. Are you comfortable just accumulating significant amounts of cash on the balance sheet?

And then secondly, should we think about 2017 as just a pause in spending? Does the spending pick up again in 2018 or beyond? Or is that the new level of CapEx going forward?

Dan Bachus - *Grand Canyon Education, Inc. - CFO*

Well, the reason there, it's going to be quite a bit less, is that we have -- two reasons. One, we have, over the last four or five years, built the stuff that does not need to be replicated with more students. And so the Student Union and the library, and the arena and certain athletic facilities -- those are one-time things.

Once you have them, you don't have to build additional ones because you have additional students. So that heavy lifting is one of the reasons.

And the second reason is that we have built out in advance this year. And so we are a little out in front from a residence hall perspective; a little bit out in front from a classroom perspective. So, for the first -- and so that puts us in a nice spot -- and you are right. We will start accumulating cash.

I would say that for the first six months or so, we are going to accumulate cash, and we are going to let that build. But then, going forward, as we go from the 17,000 students to the between 25,000 and 30,000 students on our campus here, we won't have to again have -- you know, we, again, built out in advance the heavy lifting. A lot of that is done. And so we're not going to return to $160 million or $170 million a year. It will be probably $100 million or less as we go forward. (multiple speakers)

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

Now, as the cash continues to accumulate, we will consider stock buyback and that would probably be our -- the thing that we would go to in addition to just accumulating the cash.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Great. Thank you. And then second question, Brian, the -- just help me understand better the need for increased ad spending. You've had such great momentum from an enrollment perspective. What drives the need to spend more?

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

You know, there are just some very interesting things happening in higher education that we stand on a very positive side of those things. The students are taking five and six years to graduate from four-year programs. They are borrowing increased dollars as a result of those fifth and sixth years that they are staying at a campus to complete programs. And while that's happening, our students are graduating in less than four years.

As I talk to students, which I do frequently, it's hard to find students that took a full four years to graduate. More and more, students are trying -- are figuring out how to use the flexibility of our programs to cut a semester or two off of the total time they spend here.

When they go home for summer break, for example, not only do they go home to work, but they frequently will take two courses online, because we have that flexibility. Over 150 of our programs are delivered online. And so you do that for two summers, you cut a semester out of the time it takes you to complete.

And so we want to talk about those things as reasons people should consider Grand Canyon. It shouldn't take five or six years to graduate. It really, for a lot of students, doesn't need to take four years. But people have it in their mind that it needs to take four years and they have to borrow a certain amount of money.

So, the average borrowing levels of our students are going down. The average time to completion is going down for very good reasons, and we want to use that as part of the -- as the -- as part of our building a brand that's very unique in this space.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Okay. And then do you think that then translates into potentially faster growth in ground enrollments?

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

Maybe some. Maybe some. But it will certainly keep the trend going of us keep building a stronger and stronger student body. You mean that -- our Honors College now is up to 1,200 students and the average incoming GPA of those students is 4.1. And the greatest thing about those students is they come in with tremendous academic capabilities.

They are very ambitious; but after three or four years, they don't want to leave. And so many of them are staying to complete Masters degrees in four years or maybe five years. And so it will certainly, we believe, allow us to keep building a stronger and stronger student body.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Got it. Understood. Thanks very much.

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

You bet.

Operator

Nick Nikitas, Baird.

Nick Nikitas - *Robert W. Baird & Company, Inc. - Analyst*

Just sticking with the online enrollment, the nice increase, can you guys talk about was that just mostly a driver of the increased spend in the quarter? How are things tracking from like a conversion ratio online currently?

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

Things are tracking really well. You know the -- we have -- as I move forward, a decreasing reliance on affiliate generated leads. Search is really -- the amount of interest in Grand Canyon is really going up, and so the amount of interest we are getting through people doing their own searches is going up.

And so we are getting higher quality interest. We're getting higher conversion rates with that kind of advertising. And our -- and you've seen the trend, I mean, in the last three or four quarters, our Admissions Advisory expense as a percent of revenue keeps going down.

And so, those things are moving in a positive direction. But like I told Peter before, we are challenging a lot of the sacred cows in higher education that are really to families' and students' benefit. The fact that students -- many students are finishing in less than four years for a reduced amount of debt, getting started on their careers a year early, they are starting to understand better the time value of money -- those are all things that we want to communicate to middle-class families.

Nick Nikitas - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then I guess just from a mix perspective, is it pretty similar online with the majority within the Southwest still? Or how is the brand awareness, I guess, moving outside of the Southwest region?

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

You know, it's still -- we're pretty -- we are focused still -- you know, focused more in the Southwest than the rest of the part of the country, especially because the California system is so -- under so much pressure. We grew about 7% -- a little over 7%, but we grew in California about 14.5%.

And so, there's a lot of people in California looking for opportunities, both traditional students and nontraditional students. National cable TV buy is still very effective, though. And so we are still growing nationally. But California, we are developing a very strong relationship with the community colleges in California. And there -- I just talked with a student yesterday who came from the community college system. She had earned 60 credits and she came here because she realized that with 12 months of school, she could be done.

And she is done. And -- but she didn't want to leave, so she is staying around. We hired her. But California is very good for us. The rest of the Southwest is, but we are still growing in other areas of the country too.

Nick Nikitas - *Robert W. Baird & Company, Inc. - Analyst*

Okay, and then I guess just switching to the on ground campus. Can you just -- how you guys feeling about the applications heading into the fall period? And then I know you mentioned being at 17,500 on ground. Just how is that tracking year-over-year and on-campus, I guess, with the buildout with the facilities you feel you guys have sufficient capacity to fit everyone?

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

Yes. Yes, the -- we are going to be right at about 17,500, which is what we anticipated, so we feel good about that. But we also knew that we had built out in advance. And so, we won't need additional residence halls next year, and we won't need any additional classroom space next year.

The 170,000 square feet engineering building is one that is near completion. It's our second engineering building. We are extremely excited to open that up, but it will only be about half capacity this first year, and then it will start to fill up the second year. The people that run our classroom -- or responsible for scheduling our classrooms are very excited about us being out in front of it this year.

Nick Nikitas - *Robert W. Baird & Company, Inc. - Analyst*

Okay, great. Thanks for taking the questions.

Operator

Sara Gubins, Bank of America.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Given the incremental investments that you talked about, how should we think about your margins going forward beyond 2016? And I'm wondering if you see enough levers that we should still expect the potential for margin expansion? Or is the potential that they could be perhaps down, given incremental investment?

Dan Bachus - *Grand Canyon Education, Inc. - CFO*

You know, we haven't obviously spent a lot of time on 2017 yet, but I think the goal for the University would be to continue to drive small but steady margin expansion. And so, the hope is that the investments that we're making will translate as you go into 2017, maybe even the second-half of 2017 and 2018 into margin expansion. So, this isn't changing our thoughts long-term about slight annual margin expansions.

Sara Gubins - *BofA Merrill Lynch - Analyst*

And the incremental spend on advertising, do you view that as a temporary measure to highlight some of the things that you talked about? Or is that more of an incremental step-up that's likely just to stay higher on an ongoing basis?

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

If I had to sit here and wave the magic wand right now, I would say for a year or so, maybe a year and a half, and then we would hope that it would drop. And so, who knows? I mean, it's a very fluid situation with regards to higher ed enrollments.

Really there's -- nothing like this has really ever happened before, where a traditional campus has gone from 900 students to 17,000 students in a period of five or six years. And so, it's a first time around for all of us. But we've held that -- the 10% number or just a little under, where we've purposely decided to go up a little bit. I am hoping that that's a temporary thing for a year and a half, and then it would go back down.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay, great. And then in terms of program development, Brian, you have talked on prior calls about the areas of focus. Anything new to highlight in program development?

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

No. It's really computer science. It's information technology. It's the engineering programs; big data; a lot of STEM-related things, both on the ground and online. That's our biggest focus in terms of expansion.

And then there's always niche programs that you add into the programs that we've had for a longer period of time -- things like autism on the education site is something that's really growing. And so we look to add things to our business programs and our healthcare programs, but the biggest majority of the expansion in the last year has been in engineering, computer science, and information technology.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Got it. Okay. And then just last question, a regulatory question. Based on your assessment of the defense repayment regulations, is there any reason to think that you might be required to post letters of credit?

Dan Bachus - *Grand Canyon Education, Inc. - CFO*

No, we're hopeful not. Obviously the one part of the regulations that we as a public company have to watch is what a material event is under those new regulations. Our concern is these events obviously happen for universities all the time, both not-for-profit and for-profit. And when they occur for not-for-profits, nobody seems to know about them. And so they wouldn't be forced to post their letter of credit; where, with us, because of SEC regulations, we have to disclose those, and then will that qualify?

So, with that said, I don't think there's anything that we are currently looking at that would make us think we are going to have to post a letter of credit, but you know, as things evolve, we'll have to watch that.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Operator

Trace Urdan, Credit Suisse.

Trace Urdan - *Credit Suisse - Analyst*

I wanted to ask a follow-up to Sara's question about the program development. And it sounds like your -- it sounds like from your comments that maybe you are introducing new online programs at a slightly more elevated pace. And I'm wondering two things.

One is, is there anything you can tell us about the existing programs that might be changing or that you can anticipate might be changing?

And then the other question is, does this in any way change the kind of profitability if you are sort of enrolling a smaller number of students into a greater number of programs? Does that have any kind of an impact that might be noticeable in terms of gross margin, sort of the efficiency of classroom usage and that kind of thing?

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

The answer to the second question is, no, we don't anticipate that. We are making an investment but we don't believe that that investment will be material in terms of our overall financials.

The answer to the first question, though, is really an important one, in my opinion. I think the whole country is finding out that the more generic programs, that the largest numbers of students in our country are enrolled in, our programs that are not as productive in terms of their impact on a person's career as maybe they once were.

As a higher percentage of all Americans earn advanced degrees, those more general programs don't carry as much weight in the marketplace as they used to. And I've been saying this for a couple of years now. I think if you are going to be effective and productive in this education space, you really have to spend a lot of time anticipating where the economy is going.

And we now have five Advisory Boards with 87 different companies represented on those Advisory Boards, most of them located in the Southwest. And there they meet on a very regular basis. And we review our programs, and we review the requirements that they have in terms of hiring people in the future. And that is really the biggest source of where we are getting our information as we build out the programs.

And I think that's going to be a growing trend. I think an increasingly sophisticated public, especially at the graduate level, they're going to be looking for more niche programs that give them an advantage and a leg up in the marketplace. And I think that's one of the things that has become part of our brand that has allowed us to be successful.

But we don't expect for there to be -- the investment that we've already made in that area has been substantial. We've got a huge department there that does research and then development, and -- but we've already made that investment.

Trace Urdan - *Credit Suisse - Analyst*

Okay. That's very helpful. Just circling back, though. Is there anything going on with some of your larger programs in either nursing or education, other than just law of large numbers issues that would be worth mentioning?

Brian Mueller - *Grand Canyon Education, Inc. - President and CEO*

The RN to BSN program is not growing as fast as it did. But that -- I don't think that that is the result of the things I've talked about. There is an increasing level of competition in that area. Education isn't growing as fast as it once did, although we are coming out with some really popular programs that's causing it to continue to grow.

And so yes, those -- if you remember, five or six years ago, we had three big colleges. It was business, it was education, and it was healthcare and nursing. We now have nine colleges. And so this has happened over time where we have prepared in advance for those very large programs to slow as a percentage of the overall growth, and for these other programs to make up for that lack of growth in those bigger general programs.

Trace Urdan - *Credit Suisse - Analyst*

Okay, great. Thanks, Brian.

Brian Roberts - *Grand Canyon Education, Inc. - General Counsel*

Yes. With that, we've reached the end of our second-quarter conference call. We appreciate your time and interest in Grand Canyon Education. If you still have questions, please contact either Dan Bacchus or Bob Romantic. Thank you very much.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.
