

# The City of Hialeah Employees' Retirement System v. Grand Canyon Education, Inc.

**COURT:** United States District Court for the District of Delaware  
**CASE NUMBER:** 1:20-cv-00639  
**CLASS PERIOD:** 01/05/2018 - 01/27/2020  
**CASE CONTACTS:** Katherine M. Sinderson, Gregory V. Varallo, Michael Mathai, Will Horowitz

On May 12, 2020, Bernstein Litowitz Berger & Grossmann filed a class action lawsuit for violations of the federal securities laws in the U.S. District Court for the District of Delaware against Grand Canyon Education, Inc. ("Grand Canyon") and certain of Grand Canyon's senior executives (collectively, "Defendants") on behalf of investors in Grand Canyon common stock between January 5, 2018, and January 27, 2020, inclusive (the "Class Period").

BLB&G filed this action on behalf of its client, the City of Hialeah Employees' Retirement System, and the case is captioned *The City of Hialeah Employees' Retirement System v. Grand Canyon Education, Inc.*, No. 1:20-cv-00639 (D. Del.). The complaint is based on an extensive proprietary investigation and a careful evaluation of the merits of this case. A copy of the complaint is available by clicking on the Case Documents tab on the left-hand side of the page.

## Grand Canyon's Alleged Fraud

Grand Canyon is an education services company incorporated in the State of Delaware. The claims alleged in this case arise from Defendants' misrepresentations and omissions regarding Grand Canyon's spin-off of its education assets to become purported non-profit, independent entity Grand Canyon University ("GCU").

The complaint alleges that Defendants inflated Grand Canyon's financial results by using GCU as an off-balance-sheet entity to which Grand Canyon was able to funnel expenses and costs in exchange for a disproportionate amount of revenue. Defendants repeatedly made false and misleading statements to investors describing GCU as a "non-profit" and "independent" institution and misstating Grand Canyon's role as a third-party provider of education services. As a result of Defendants' misrepresentations, shares of Grand Canyon's common stock traded at artificially inflated prices during the Class Period.

The truth emerged through a series of disclosures beginning on September 9, 2019, when short seller Citron Research published a report examining Grand Canyon's financials and concluding that the Company "is stuffing GCU with expenses to inflate its own profitability and as a result bankrupting GCU."

Then, after the close of market on November 6, 2019, Grand Canyon announced that it had received a letter from the U.S. Department of Education ("DOE") denying its application for designation of GCU as a non-profit. That denial was based on the DOE's finding that GCU was Grand Canyon's "captive client" and GCU "is not the entity *actually operating* [GCU]" (emphasis in the original).

Finally, on January 28, 2020, Citron Research published a second report expanding on the DOE's findings, and citing hundreds of pages of supporting documentation from Grand Canyon that Citron obtained through the Freedom of Information Act. That report described Grand Canyon as the "educational Enron," using a "captive non-reporting subsidiary" to "dump expenses and liabilities, while receiving a disproportionate amount of revenue at inflated margins in order to artificially inflate the stock price." As a result of these disclosures, the price of Grand Canyon common stock declined precipitously.