

Bridgepoint Education Inc  
Form 10-Q  
November 06, 2015

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34272

---

BRIDGEPOINT EDUCATION, INC.  
(Exact name of registrant as specified in its charter)

---

Delaware	59-3551629
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

13500 Evening Creek Drive North  
San Diego, CA 92128  
(Address, including zip code, of principal executive offices)

(858) 668-2586  
(Registrant's telephone number, including area code)

---

None

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
--	---	--	--

Edgar Filing: Bridgepoint Education Inc - Form 10-Q

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

The total number of shares of common stock outstanding as of October 29, 2015, was 45,782,583.

---

---

BRIDGEPOINT EDUCATION, INC.  
FORM 10-Q  
INDEX

<u>PART I—FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Condensed Consolidated Statement of Stockholders' Equity</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
<u>Item 4. Controls and Procedures</u>	<u>41</u>
<u>PART II—OTHER INFORMATION</u>	<u>43</u>
<u>Item 1. Legal Proceedings</u>	<u>43</u>
<u>Item 1A. Risk Factors</u>	<u>43</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>45</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>45</u>
<u>Item 5. Other Information</u>	<u>45</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>SIGNATURES</u>	<u>47</u>

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

## BRIDGEPOINT EDUCATION, INC.

## Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except par value)

	As of September 30, 2015	As of December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$242,673	\$207,003
Restricted cash	24,591	25,934
Investments	21,902	12,051
Accounts receivable, net	30,793	21,274
Student loans receivable, net	928	1,003
Deferred income taxes	12,757	21,301
Prepaid expenses and other current assets	33,577	22,818
Total current assets	367,221	311,384
Property and equipment, net	30,560	78,219
Investments	71,364	111,557
Student loans receivable, net	7,607	9,510
Goodwill and intangibles, net	22,221	24,775
Deferred income taxes	4,118	20,175
Other long-term assets	2,209	2,475
Total assets	\$505,300	\$558,095
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$2,128	\$1,013
Accrued liabilities	72,364	51,403
Deferred revenue and student deposits	89,614	108,048
Total current liabilities	164,106	160,464
Rent liability	21,397	22,098
Other long-term liabilities	11,902	9,652
Total liabilities	197,405	192,214
Commitments and contingencies (see Note 14)		
Stockholders' equity:		
Preferred stock, \$0.01 par value:		
20,000 shares authorized; zero shares issued and outstanding at both September 30, 2015, and December 31, 2014	—	—
Common stock, \$0.01 par value:		
300,000 shares authorized; 63,340 issued and 45,783 outstanding at September 30, 2015; 62,957 issued and 45,400 outstanding at December 31, 2014	633	630
Additional paid-in capital	186,375	180,720
Retained earnings	458,008	521,775
Accumulated other comprehensive loss	(52)	(175)
Treasury stock, 17,557 shares at cost at both September 30, 2015, and December 31, 2014	(337,069)	(337,069)
Total stockholders' equity	307,895	365,881
Total liabilities and stockholders' equity	\$505,300	\$558,095

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

**BRIDGEPOINT EDUCATION, INC.**
**Condensed Consolidated Statements of Income**

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 140,762	\$ 162,654	\$ 430,337	\$ 491,446
Costs and expenses:				
Instructional costs and services	69,197	79,707	215,656	239,641
Admissions advisory and marketing	47,794	56,783	148,636	178,079
General and administrative	13,346	15,583	42,914	48,589
Restructuring and impairment charges	44,904	—	59,322	—
Total costs and expenses	175,241	152,073	466,528	466,309
Operating income (loss)	(34,479)	) 10,581	(36,191)	) 25,137
Other income, net	465	1,080	1,499	2,159
Income (loss) before income taxes	(34,014)	) 11,661	(34,692)	) 27,296
Income tax expense	28,732	5,370	29,075	12,380
Net income (loss)	\$(62,746)	) \$6,291	\$(63,767)	) \$14,916
Earnings (loss) per share:				
Basic	\$(1.37)	) \$0.14	\$(1.40)	) \$0.33
Diluted	(1.37)	) 0.14	(1.40)	) 0.32
Weighted average number of common shares outstanding used in computing earnings per share:				
Basic	45,754	45,301	45,620	45,145
Diluted	45,754	46,474	45,620	46,495

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

BRIDGEPOINT EDUCATION, INC.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Net income (loss)	\$(62,746	) \$6,291	\$(63,767	) \$14,916	
Other comprehensive income (loss), net of tax:					
Unrealized gains (losses) on investments	(12	) (123	) 123	(195	)
Comprehensive income (loss)	\$(62,758	) \$6,168	\$(63,644	) \$14,721	

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

## BRIDGEPOINT EDUCATION, INC.

## Condensed Consolidated Statement of Stockholders' Equity

(Unaudited)

(In thousands)

	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2014	62,957	\$630	\$180,720	\$521,775	\$ (175 )	\$(337,069 )	\$365,881
Stock-based compensation	—	—	7,324	—	—	—	7,324
Exercise of stock options	166	1	259	—	—	—	260
Excess tax benefit of option exercises and restricted stock, net of tax shortfall	—	—	(770 )	—	—	—	(770 )
Stock issued under employee stock purchase plan	16	—	136	—	—	—	136
Stock issued under stock incentive plan, net of shares held for taxes	201	2	(1,294 )	—	—	—	(1,292 )
Net loss	—	—	—	(63,767 )	—	—	(63,767 )
Unrealized gains on investments, net of tax	—	—	—	—	123	—	123
Balance at September 30, 2015	63,340	\$633	\$186,375	\$458,008	\$ (52 )	\$(337,069 )	\$307,895

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



## BRIDGEPOINT EDUCATION, INC.

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	\$(63,767 )	\$14,916
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for bad debts	24,269	21,961
Depreciation and amortization	15,403	17,914
Amortization of premium/discount	364	85
Deferred income taxes	24,081	1,124
Stock-based compensation	7,324	7,891
Excess tax benefit of option exercises	(426 )	(1,171 )
Loss on impairment of student loans receivable	1,207	1,466
Net gain (loss) on marketable securities	125	(22 )
Loss on termination of leased space	13,540	—
Loss on impairment of fixed assets	38,855	80
Changes in operating assets and liabilities:		
Restricted cash	7,712	12,202
Accounts receivable	(33,524 )	(30,314 )
Prepaid expenses and other current assets	5,537	3,317
Student loans receivable	831	763
Other long-term assets	266	368
Accounts payable and accrued liabilities	(2,883 )	(532 )
Deferred revenue and student deposits	(18,313 )	(23,600 )
Other liabilities	(3,960 )	(1,864 )
Net cash provided by operating activities	16,641	24,584
Cash flows from investing activities:		
Capital expenditures	(2,324 )	(9,644 )
Purchases of investments	(20,242 )	(87,855 )
Non-operating restricted cash	(6,369 )	(29 )
Capitalized costs for intangible assets	(1,761 )	(2,957 )
Sales and maturities of investments	50,195	50,000
Net cash provided by (used in) investing activities	19,499	(50,485 )
Cash flows from financing activities:		
Proceeds from exercise of stock options	260	3,076
Excess tax benefit of option exercises	426	1,171
Proceeds from the issuance of stock under employee stock purchase plan	136	—
Tax withholdings on issuance of stock awards	(1,292 )	(2,093 )
Net cash (used in) provided by financing activities	(470 )	2,154
Net increase (decrease) in cash and cash equivalents	35,670	(23,747 )
Cash and cash equivalents at beginning of period	207,003	212,526
Cash and cash equivalents at end of period	\$242,673	\$188,779
Supplemental disclosure of non-cash transactions:		
Purchase of equipment included in accounts payable and accrued liabilities	\$70	\$910

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



BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Nature of Business

Bridgepoint Education, Inc. (together with its subsidiaries, the “Company”), incorporated in 1999, is a provider of postsecondary education services. Its wholly-owned subsidiaries, Ashford University® and University of the Rockies<sup>SM</sup>, are regionally accredited academic institutions that offer associate's, bachelor's, master's and doctoral programs online, as well as at their traditional campuses located in Iowa and Colorado, respectively.

Announced in the third quarter of 2015, Ashford University's campus in Iowa will be closing after the 2015-2016 academic year, following the implementation of the teach-out plan. For further information, refer to Note 3, “Restructuring and Impairment Charges.”

2. Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Bridgepoint Education, Inc. and its wholly-owned subsidiaries. Intercompany transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the Securities and Exchange Commission (the “SEC”) on March 10, 2015. In the opinion of management, these financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary to present a fair statement of the Company's condensed consolidated financial position, results of operations and cash flows as of and for the periods presented.

Operating results for any interim period are not necessarily indicative of the results that may be expected for the full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP for complete annual financial statements.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Restricted Cash

The Company's restricted cash is primarily held in money market accounts, and is excluded from cash and cash equivalents on the Company's consolidated balance sheets and statements of cash flows. The majority of restricted cash represents funds held for students from Title IV financial aid program funds that result in credit balances on a student's account. Changes in this restricted cash are included in the Company's condensed consolidated statements of cash flows as cash flows from operating activities. To a lesser extent, restricted cash also represents amounts held as collateral for letters of credit. Changes in this restricted cash are included in the Company's condensed consolidated statements of cash flows as cash flows from investing activities.

BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605, Revenue Recognition. This literature is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This standard can be adopted using one of two retrospective application methods. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date, which defer the effective date of ASU 2014-09 by one year, to fiscal years beginning after December 15, 2017. The Company continues to evaluate the impacts, if any, the adoption of ASU 2014-09 and ASU 2015-14 will have on the Company's financial position or results of operations.

In January 2015, the FASB issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20). This update simplifies the income statement presentation requirements and eliminates from GAAP the concept of extraordinary items, and essentially deletes the requirements in Subtopic 225-20. However, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments may be applied prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company adopted ASU 2015-01 effective April 1, 2015, and such adoption does not have a material effect on the Company's consolidated financial statements.

3. Restructuring and Impairment Charges

During the three and nine months ended September 30, 2015, the Company initiated various restructuring plans to better align its resources with its business strategy. The related restructuring charges are primarily comprised of i) charges related to the write off of certain fixed assets and assets abandoned, ii) student transfer agreement costs, iii) severance costs related to headcount reductions made in connection with restructuring plans and iv) estimated lease losses related to facilities vacated or consolidated under restructuring plans. These charges were recorded in the restructuring and impairment charges line item on the Company's condensed consolidated statements of income for the three and nine months ended September 30, 2015.

On July 7, 2015, the Company committed to the implementation of a plan to close Ashford University's campus in Clinton, Iowa (the “Clinton Campus”) following the 2015-2016 academic year, at the end of May 2016. The Ashford University Board of Trustees made the decision to close the Clinton Campus following an ongoing review of the University's strategic direction and as a result of the University's inability to meet campus enrollment requirements despite its best efforts to continue maintaining and operating the Clinton Campus. The closure of the Clinton Campus is intended to realign the Company's operations to focus on its core mission of leveraging technology to create innovative solutions that advance learning. As this closure of the Clinton Campus does not meet the criteria for discontinued operations under ASC 360, Property, Plant and Equipment, the results of operations are reported within continuing operations for all periods presented.

Primarily as a result of this planned campus closure, during the three and nine months ended September 30, 2015, the Company recognized asset impairment charges of \$37.3 million and \$38.6 million, respectively, relating to the write off of certain fixed assets.

With the planned closure of the Clinton Campus, ground-based students will be provided resources for future education based upon their agreement. The Company recorded restructuring charges relating to future cash expenditures for student transfer agreement costs of approximately \$4.3 million during each of the three and nine

months ended September 30, 2015. This estimate is based upon several assumptions that are subject to change, including student decisions regarding transfer.

The Company also implemented various reductions in force during fiscal 2015 to help better align personnel resources with the decline in enrollment. During the three and nine months ended September 30, 2015, the Company recognized \$2.1

## BRIDGEPOINT EDUCATION, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

million and \$2.9 million, respectively, as restructuring charges relating to severance costs for wages and benefits resulting from the reduction in force. The Company estimates that it will record an additional \$2.5 million in future restructuring and asset impairment charges related to severance and retention charges for the closure of the Clinton Campus.

As part of its continued efforts to streamline operations, the Company vacated or consolidated properties in Denver and San Diego, and reassessed its obligations on non-cancelable leases. During the three and nine months ended September 30, 2015, the Company recorded \$1.2 million and \$13.5 million, respectively, as restructuring charges relating to lease exit and other costs.

These amounts were recorded in the restructuring and impairment charges line item on the Company's condensed consolidated statements of income for the three and nine months ended September 30, 2015. A summary of the charges are below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Asset impairment	\$37,300	\$—	\$38,612	\$—
Student transfer agreement costs	4,275	—	4,275	—
Severance costs	2,120	—	2,895	—
Lease exit and other costs	1,209	—	13,540	—
Total restructuring and impairment charges	\$44,904	\$—	\$59,322	\$—

## 4. Investments

The following tables summarize the fair value information of short-term and long-term investments as of September 30, 2015 and December 31, 2014, respectively (in thousands):

	As of September 30, 2015			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$1,238	\$—	\$—	\$1,238
Corporate notes and bonds	—	47,026	—	47,026
U.S. government and agency securities	—	20,002	—	20,002
Certificates of deposit	—	25,000	—	25,000
Total	\$1,238	\$92,028	\$—	\$93,266
	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$1,071	\$—	\$—	\$1,071
Corporate notes and bonds	—	62,550	—	62,550
U.S. government and agency securities	—	34,987	—	34,987
Certificates of deposit	—	25,000	—	25,000
Total	\$1,071	\$122,537	\$—	\$123,608

The tables above include amounts related to investments classified as other investments, such as certificates of deposit, which are carried at amortized cost. The amortized cost of such investments approximated fair value at each balance sheet date. The assumptions used in these fair value estimates are considered as other observable inputs and are therefore categorized as Level 2 measurements under the accounting guidance. The Company's Level 2 investments are valued using readily available pricing sources that utilize market observable inputs, including the current interest rate for similar types of instruments.

## BRIDGEPOINT EDUCATION, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

The Company records the changes in unrealized gains and losses on its investments arising during the period in other comprehensive income. For the three months ended September 30, 2015 and 2014, the Company recorded net unrealized losses of \$12,000 and \$123,000, respectively, in other comprehensive income, which were net of tax expense of \$5,000 and tax benefit of \$26,000, respectively. For the nine months ended September 30, 2015 and 2014, the Company recorded net unrealized gains of \$123,000 and net unrealized losses \$195,000, respectively, in other comprehensive income, which were net of tax expense of \$66,000 and tax benefit of \$73,000, respectively. During the nine months ended September 30, 2015, the Company reclassified \$61,000 out of accumulated other comprehensive income, which was realized as a net loss on marketable securities in the consolidated statement of income for the period within other income, net. There was no such reclassification in the nine months ended September 30, 2014.

## 5. Accounts Receivable

Accounts receivable, net, consist of the following (in thousands):

	As of September 30, 2015	As of December 31, 2014
Accounts receivable	\$57,328	\$48,841
Less allowance for doubtful accounts	(26,535)	(27,567)
Accounts receivable, net	\$30,793	\$21,274

As of September 30, 2015 and December 31, 2014, there was an immaterial amount included within net accounts receivable with a payment due date of greater than one year.

The following table presents the changes in the allowance for doubtful accounts for the periods indicated (in thousands):

	Beginning Balance	Charged to Expense	Deductions(1)	Ending Balance
Allowance for doubtful accounts:				
For the nine months ended September 30, 2015	\$(27,567)	\$24,249	\$(25,281)	\$(26,535)
For the nine months ended September 30, 2014	\$(26,901)	21,957	(21,177)	\$(27,681)

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

## 6. Student Loans Receivable

Student loans receivable, net, consist of the following (in thousands):

	As of September 30, 2015	As of December 31, 2014
Short-term:		
Student loans receivable (non-tuition related)	\$455	\$509
Student loans receivable (tuition related)	582	626
Current student loans receivable	1,037	1,135
Less allowance for doubtful accounts	(109)	(132)
Student loans receivable, net	\$928	\$1,003

## BRIDGEPOINT EDUCATION, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Long-term:	As of September 30, 2015	As of December 31, 2014
Student loans receivable (non-tuition related)	\$3,402	\$4,805
Student loans receivable (tuition related)	5,611	6,068
Non-current student loans receivable	9,013	10,873
Less allowance for doubtful accounts	(1,406	) (1,363
Student loans receivable, net	\$7,607	\$9,510

Student loans receivable is presented net of any related discount, and the balances approximated fair value at each balance sheet date. The Company estimates the fair value of the student loans receivable by discounting the future cash flows using an interest rate of 4.5%, which approximates the interest rates used in similar arrangements. The assumptions used in this estimate are considered unobservable inputs and are therefore categorized as Level 3 measurements under the accounting guidance.

Revenue recognized related to student loans was immaterial during each of the three and nine months ended September 30, 2015 and 2014, respectively. The following table presents the changes in the allowance for doubtful accounts for the periods indicated (in thousands):

	Beginning Balance	Charged to Expense	Deductions(1)	Ending Balance
Allowance for student loans receivable (tuition related):				
For the nine months ended September 30, 2015	\$(1,495	) \$20	\$—	\$(1,515
For the nine months ended September 30, 2014	\$(2,144	) 4	981	\$(1,167

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

For the non-tuition related student loans receivable, the Company monitors the credit quality of the borrower using credit scores, aging history of the loan and delinquency trending. The loan reserve methodology is reviewed on a quarterly basis. Delinquency is the main factor in determining if a loan is impaired. If a loan were determined to be impaired, interest would no longer accrue. For the three and nine months ended September 30, 2015, \$0.3 million and \$1.2 million, respectively, of student loans were impaired. As of September 30, 2015, \$5.6 million of student loans had been placed on non-accrual status.

As of September 30, 2015, the delinquency status of gross student loans receivable was as follows (in thousands):

120 days and less	\$13,595
From 121 - 270 days	963
Greater than 270 days	3,616
Total gross student loans receivable	18,174
Less: Amounts reserved or impaired	(7,129
Less: Discount on student loans receivable	(2,510
Total student loans receivable, net	\$8,535



## BRIDGEPOINT EDUCATION, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

## 7. Other Significant Balance Sheet Accounts

## Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	As of September 30, 2015	As of December 31, 2014
Prepaid expenses	\$7,884	\$8,500
Prepaid licenses	2,857	5,598
Prepaid income taxes	2,127	2,945
Prepaid insurance	1,939	1,508
Interest receivable	378	424
Insurance recoverable	17,646	3,040
Other current assets	746	803
Total prepaid expenses and other current assets	\$33,577	\$22,818

## Property and Equipment, Net

Property and equipment, net, consist of the following (in thousands):

	As of September 30, 2015	As of December 31, 2014
Land	\$—	\$7,091
Buildings	—	29,540
Furniture and office equipment	63,322	81,030
Software	12,533	12,454
Leasehold improvements	11,155	21,096
Vehicles	22	147
Campus assets held and used	6,075	—
Total property and equipment	93,107	151,358
Less accumulated depreciation and amortization	(62,547)	(73,139)
Total property and equipment, net	\$30,560	\$78,219

On July 7, 2015, the Company committed to the implementation of a plan to close the Clinton Campus following the 2015-2016 academic year, at the end of May 2016. As a result, the Company recognized an impairment charge relating to the write off of certain fixed assets. For further details, see Note 3 “Restructuring and Impairment Charges.” The remaining assets of the Clinton Campus are valued at \$6.1 million as of September 30, 2015, and are classified as held and used.

## BRIDGEPOINT EDUCATION, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

## Goodwill and Intangibles, Net

Goodwill and intangibles, net, consist of the following (in thousands):

	September 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:			
Capitalized curriculum costs	\$ 19,931	\$(12,914	) \$ 7,017
Purchased intangible assets	15,850	(3,213	) 12,637
Total definite-lived intangible assets	\$ 35,781	\$(16,127	) \$ 19,654
Goodwill and indefinite-lived intangibles			2,567
Total goodwill and intangibles, net			\$ 22,221

	December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:			
Capitalized curriculum costs	\$ 18,174	\$(9,526	) \$ 8,648
Purchased intangible assets	15,850	(2,290	) 13,560
Total definite-lived intangible assets	\$ 34,024	\$(11,816	) \$ 22,208
Goodwill and indefinite-lived intangibles			2,567
Total goodwill and intangibles, net			\$ 24,775

For the three months ended September 30, 2015 and September 30, 2014, amortization expense was \$1.4 million and \$1.5 million, respectively. For the nine months ended September 30, 2015 and September 30, 2014, amortization expense was \$4.3 million and \$4.2 million, respectively.

The following table summarizes the estimated remaining amortization expense as of each fiscal year ended below (in thousands):

Year Ended December	
31,	
2015	\$ 1,347
2016	4,571
2017	3,052
2018	1,973
2019	1,311
Thereafter	7,400
Total future amortization expense	\$ 19,654

## BRIDGEPOINT EDUCATION, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

## Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	As of September 30, 2015	As of December 31, 2014
Accrued salaries and wages	\$7,620	\$8,250
Accrued bonus	2,595	2,720
Accrued vacation	9,798	9,771
Accrued litigation and fees	720	542
Accrued expenses	16,977	16,623
Student transfer agreement costs	2,584	—
Rent liability	12,606	8,528
Accrued insurance liability	19,464	4,520
Accrued income taxes payable	—	449
Total accrued liabilities	\$72,364	\$51,403

## Deferred Revenue and Student Deposits

Deferred revenue and student deposits consist of the following (in thousands):

	As of September 30, 2015	As of December 31, 2014
Deferred revenue	\$35,628	\$26,445
Student deposits	53,986	81,603
Total deferred revenue and student deposits	\$89,614	\$108,048

## Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	As of September 30, 2015	As of December 31, 2014
Uncertain tax positions	\$7,932	\$7,586
Legal settlements	332	1,000
Student transfer agreement costs	1,692	—
Other long-term liabilities	1,946	1,066
Total other long-term liabilities	\$11,902	\$9,652

## 8. Credit Facilities

The Company previously had a \$50 million revolving line of credit (the “Facility”) pursuant to an Amended and Restated Revolving Credit Agreement (the “Revolving Credit Agreement”) with the lenders signatory thereto and Comerica Bank (“Comerica”). The Facility had an original term of three years and expired on April 13, 2015. The Revolving Credit Agreement amended, restated and superseded any prior loan documents. Up through the date of expiration of the Facility, the Company had no borrowings outstanding under the Facility.

BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Under the Revolving Credit Agreement and the documents executed in connection therewith (collectively, the “Facility Loan Documents”), the lenders also agreed to make loans to the Company and issue letters of credit on the Company's behalf, subject to specific terms and conditions. The Company had previously used the availability under the Facility to issue letters of credit, but subsequent to the expiration of the Facility, the Company collateralized the letters of credit with cash in the aggregate amount of \$6.4 million, which is included as restricted cash as of September 30, 2015.

Interest and fees accruing under the Facility were payable quarterly in arrears and principal was payable at maturity. For any advance under the Facility, interest would accrue at either the “Base Rate” or the “Eurodollar-based Rate,” at the Company's option.

The Facility Loan Documents contained other customary affirmative, negative and financial maintenance covenants, representations and warranties, events of default, and remedies upon an event of default, including the acceleration of debt and the right to foreclose on the collateral securing the Facility. Up through the date of expiration of the Facility, the Company had no outstanding financial covenants in the Facility Loan Documents.

**Surety Bond Facility**

As part of its normal business operations, the Company is required to provide surety bonds in certain states in which the Company does business. In May 2009, the Company entered into a surety bond facility with an insurance company to provide such bonds when required. As of September 30, 2015, the Company's total available surety bond facility was \$12.0 million and the surety had issued bonds totaling \$3.4 million on the Company's behalf under such facility.

**9. Lease Obligations**

**Operating leases**

The Company leases certain office facilities and office equipment under non-cancelable lease arrangements that expire at various dates through 2023. The office leases contain certain renewal options. Rent expense under non-cancelable operating lease arrangements is accounted for on a straight-line basis and totaled \$33.0 million and \$26.6 million for the nine-month periods ending September 30, 2015 and 2014, respectively.

In August 2015, the Company signed an agreement to terminate a portion of its office facilities lease in Denver, which was originally set to expire in March 2023. See further information in Note 3, “Restructuring and Impairment Charges.”

The following table summarizes the future minimum rental payments under non-cancelable operating lease arrangements in effect at September 30, 2015 (in thousands):

Year Ended	
December 31,	
2015	\$8,813
2016	36,019
2017	35,914
2018	31,285
2019	20,876
Thereafter	16,694
Total minimum payments	\$149,601

**10. Earnings (Loss) Per Share**

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period.

## BRIDGEPOINT EDUCATION, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Diluted earnings per share is calculated by dividing net income available to common stockholders by the sum of (i) the weighted average number of common shares outstanding for the period and (ii) potentially dilutive securities outstanding during the period, if the effect is dilutive. Potentially dilutive securities for the periods presented may include incremental shares of common stock issuable upon the exercise of stock options and upon the settlement of restricted stock units (“RSUs”) and performance stock units (“PSUs”).

The following table sets forth the computation of basic and diluted earnings (loss) per share for the periods indicated (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income (loss)	\$(62,746 )	\$6,291	\$(63,767 )	\$14,916
Denominator:				
Weighted average number of common shares outstanding	45,754	45,301	45,620	45,145
Effect of dilutive options and stock units	—	1,173	—	1,350
Diluted weighted average number of common shares outstanding	45,754	46,474	45,620	46,495
Earnings (loss) per share:				
Basic earnings (loss) per share	\$(1.37 )	\$0.14	\$(1.40 )	\$0.33
Diluted earnings (loss) per share	\$(1.37 )	\$0.14	\$(1.40 )	\$0.32

For the periods indicated below, the computation of diluted common shares outstanding excludes stock options, RSUs and PSUs, as applicable, because their effect was anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Options	5,147	2,765	5,116	2,661
Stock units	691	—	673	—

## 11. Stock-Based Compensation

The Company recorded \$1.7 million and \$2.8 million of stock-based compensation expense for the three months ended September 30, 2015 and 2014, respectively, and \$7.3 million and \$7.9 million of stock-based compensation expense for the nine months ended September 30, 2015 and 2014, respectively.

The related income tax benefit was \$0.6 million and \$1.1 million for the three months ended September 30, 2015 and 2014, respectively, and \$2.7 million and \$3.0 million for the nine months ended September 30, 2015 and 2014, respectively.

The Company granted 28,060 RSUs during the three months ended September 30, 2015 at a grant date fair value of \$8.08. During the three months ended September 30, 2015, there were 10,320 RSUs which vested.

The Company did not grant any PSUs, and no PSUs vested during the three months ended September 30, 2015. The Company did not grant any options to purchase shares of common stock during the three months ended September 30, 2015. During the three months ended September 30, 2015, options to purchase 57,756 shares of common stock were exercised.

As of September 30, 2015, there was unrecognized compensation cost of \$17.3 million related to the combined unvested stock options, RSUs and PSUs.

## BRIDGEPOINT EDUCATION, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

## 12. Income Taxes

Each reporting period, the Company estimates the likelihood that it will be able to recover its deferred tax assets, which represent timing differences in the recognition of certain tax deductions for accounting and tax purposes. The realization of deferred tax assets is dependent, in part, upon future taxable income. Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, the Company considers all available evidence, including past operating results, estimates of future taxable income given current business conditions affecting the Company, and the feasibility of ongoing tax planning strategies.

Through the end of the second quarter of 2015, the Company forecasted three years of cumulative income through 2015 and did not expect any significant changes in 2016 that would cause the three year cumulative income to move to a loss. Based on the history of cumulative income and no significant changes in 2016, the Company believed that it would have sufficient taxable income in future years to realize its net deferred tax assets.

In the third quarter of 2015, there were several pieces of negative evidence that have contributed to the Company's conclusion that a valuation allowance is appropriate against all deferred tax assets that rely upon future taxable income for their realization. This new negative evidence includes i) a third quarter significant pre-tax loss, ii) projections that show the company will be in a 3-year cumulative loss position by 2016, and iii) continued difficult business and regulatory environment for for-profit education institutions. After weighing all positive and negative evidence, the Company has concluded it will not rely upon future taxable income to support realizability of deferred tax assets and, therefore, has recorded a valuation allowance against the assets in the third quarter.

The Company's estimated annual effective income tax rate that was applied to normal, recurring operations for the nine months ended September 30, 2015 was (10.3)% and included \$21.2 million of valuation allowance recorded through the effective income tax rate. The Company's actual effective income tax rate was (83.8)% for the nine months ended September 30, 2015 and included \$24.9 million of valuation allowance recorded as a discrete item in the current quarter. In addition to the valuation allowance, the Company's estimated annual effective income tax rate differed from the Company's estimated annual effective income tax rate due to increases in reserves for unrecognized tax benefits and related accrued interest in the current year. The following is a summary of the components of the valuation allowance recorded in the current quarter (in thousands):

Net deferred tax assets at December 31, 2014	\$41.5	
2014 return to provision adjustments	(0.1)	)
Gross up for indefinite-lived intangible deferred tax liability	0.7	
Net deferred tax assets at December 31, 2014, as adjusted	\$42.1	
Temporary differences at December 31, 2014 that reverse in 2015 and reduce taxes paid	(17.2)	)
Valuation allowance recorded in third quarter of 2015 for future amortization expense	\$24.9	
Temporary differences originating in 2015 expense	\$38.1	
Anticipated reversals of temporary differences that can carryback for tax refunds	(16.9)	)
Valuation allowance recorded in the third quarter of 2015 through effective tax rate	\$21.2	

Total valuation allowance recorded in the third quarter of 2015 \$46.1

The Company intends to maintain a valuation allowance against its deferred tax assets until sufficient positive evidence exists to support its reversal.

At September 30, 2015 and December 31, 2014, the Company had \$20.6 million and \$20.9 million, respectively, of gross unrecognized tax benefits, of which \$13.4 million and \$13.6 million, respectively, would impact the effective income tax rate if recognized.



BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

The tax years 2002 through 2014 are open to examination by major taxing jurisdictions to which the Company is subject. The California Franchise Tax Board is auditing the Company's 2008 through 2012 California income tax returns. The Company is also subject to various other state audits. With respect to all audits, the Company does not expect any significant adjustments to amounts already reserved.

In connection with the California Franchise Tax Board audit, in 2014 the Company filed a refund claim for years 2008 through 2010 for approximately \$12.6 million. However, the Company will not recognize any income statement benefit in its financial statements related to the refund claim until the final resolution of the audit.

It is reasonably possible that the total amount of the unrecognized tax benefit will change during the next 12 months. However, the Company does not expect any potential change to have a material effect on the Company's results of operations or financial position in the next year.

The Company's continuing practice is to recognize interest and penalties related to uncertain tax positions in income tax expense. Accrued interest and penalties related to uncertain tax positions as of September 30, 2015 and December 31, 2014 was \$2.1 million and \$1.9 million, respectively.

### 13. Regulatory

The Company is subject to extensive regulation by federal and state governmental agencies and accrediting bodies. In particular, the Higher Education Act of 1965, as amended (the "Higher Education Act"), and the regulations promulgated thereunder by the U.S. Department of Education (the "Department") subject the Company to significant regulatory scrutiny on the basis of numerous standards that institutions of higher education must satisfy in order to participate in the various federal student financial assistance programs under Title IV of the Higher Education Act. Ashford University is regionally accredited by WASC Senior College and University Commission ("WSCUC"), formerly referred to as WASC. University of the Rockies is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools.

#### Department of Education Program Review of Ashford University

In July 2014, the Company and Ashford University received notification from the Department that it intended to conduct an ordinary course program review of Ashford University's administration of federal student financial aid (Title IV) programs in which the university participates. The review, which commenced on August 25, 2014 and is currently ongoing, covers federal financial aid years 2012-2013 and 2013-2014, as well as compliance with the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the "Clery Act"), the Drug-Free Schools and Communities Act and related regulations.

#### WSCUC Grant of Initial Accreditation of Ashford University

In July 2013, WSCUC granted Initial Accreditation to Ashford University for five years, until July 15, 2018. In December 2013, Ashford University effected its transition to WSCUC accreditation and designated its San Diego, California facilities as its main campus and its Clinton, Iowa campus as an additional location. As part of a continuing monitoring process, Ashford University hosted a visiting team from WSCUC in a special visit in April 2015. In July 2015, Ashford University received an Action Letter from WSCUC outlining the findings arising out of its team's special visit. The Action Letter stated that the WSCUC visiting team found substantial evidence that Ashford University continues to make sustained progress in all six areas recommended by WSCUC in 2013.

WSCUC also performs Mid-Cycle Reviews of its accredited institutions near the midpoint of their periods of accreditation, as required by the Department. The purpose of the Mid-Cycle Review is to identify problems with an institution's or program's continued compliance with agency standards while taking into account institutional or program strengths and stability. The Mid-Cycle Review report will focus particularly on student achievement, including indicators of educational effectiveness, retention and graduation data.



BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Licensure by California BPPE

To be eligible to participate in Title IV programs, an institution must be legally authorized to offer its educational programs by the states in which it is physically located. Effective July 2011, the Department established new requirements to determine if an institution is considered to be legally authorized by a state. In connection with its transition to WSCUC accreditation, Ashford University designated its San Diego, California facilities as its main campus for Title IV purposes and submitted an Application for Approval to Operate an Accredited Institution to the State of California, Department of Consumer Affairs, Bureau for Private Postsecondary Education ("BPPE") on September 10, 2013.

In April 2014, the application was granted, and the university was approved by BPPE to operate in California until July 15, 2018. As a result, Ashford University is no longer exempt from certain laws and regulations applicable to private, post-secondary educational institutions. These laws and regulations entail certain California reporting requirements, including but not limited to, graduation, employment and licensing data, certain changes of ownership and control, faculty and programs, and student refund policies, as well as the triggering of other state and federal student employment data reporting and disclosure requirements.

Negotiated Rulemaking and Other Executive Action

The Department held Program Integrity and Improvement negotiated rulemaking sessions in February through May 2014 that focused on topics including, but not limited to, cash management of Title IV program funds, state authorization for programs offering distance or correspondence education, credit and clock hour conversions, the retaking of coursework, and the definition of "adverse credit" for PLUS loan borrowers. No consensus resulted from the rulemaking sessions. As a result, the Department had discretion to propose Program Integrity regulations in these areas. In August 2014, the Department published a Notice of Proposed Rulemaking proposing new regulations regarding the federal Direct PLUS loan program. The final regulations, effective July 1, 2015, update the standard for determining if a potential parent or student borrower has an adverse credit history for purposes of eligibility for a PLUS loan. Specifically, the regulations revise the definition of "adverse credit history" and require that parents and students who have an adverse credit history, but who are approved for a PLUS loan on the basis of extenuating circumstances or who obtain an endorser for the PLUS loan, must receive loan counseling before receiving the loan. Three negotiated rulemaking sessions between January and March of 2014 resulted in draft regulations to enact changes to the Clery Act required by the enactment of the Violence Against Women Act ("VAWA"). The Department published final regulations in the Federal Register on October 20, 2014, effective July 1, 2015. Among other things, VAWA requires institutions to compile statistics for additional incidents to those currently required by the Clery Act and include certain policies, procedures and programs pertaining to these incidents in annual security reports.

On September 3, 2014, the Department published a notice in the Federal Register to announce its intention to establish a negotiated rulemaking committee to prepare proposed regulations for the William D. Ford "Federal Direct Loan Program" authorized by the Higher Education Act. Two public hearings were held in October and November 2014. On December 19, 2014, the Department published a notice to announce its intention to establish the committee to (i) prepare proposed regulations to establish a new Pay as You Earn repayment plan for those not covered by the existing Federal Direct Loan Program and (ii) establish procedures for Federal Family Education Loan Program ("FFEL Program") loan holders to use to identify U.S. military services members who may be eligible for a lower interest rate on their FFEL Program loans. The committee met in February, March and April of 2015. On July 9, 2015, the Department published a Notice of Proposed Rulemaking proposing to amend the regulations governing the Federal Direct Loan Program to create a new income-contingent repayment plan in accordance with President Obama's initiative to allow more Federal Direct Loan Program borrowers to cap their loan payments at 10% of their monthly income.

On October 30, 2014, the Obama administration announced that the Department will lead an effort to formalize an interagency task force to conduct oversight of for-profit institutions of higher education, especially regarding alleged unfair, deceptive, and abusive policies and practices. The task force will include the Departments of Justice, Treasury

and Veterans Affairs, as well as the Consumer Financial Protection Bureau, Federal Trade Commission, Securities and Exchange Commission, and state Attorneys General. The stated purpose of the task force is to “coordinate...activities and promote information sharing to protect students from unfair, deceptive, and abusive policies and practices.”

BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

On March 24, 2015, the Department's Office of Inspector General (the "OIG") issued a final audit report titled "Federal Student Aid's Oversight of Schools' Compliance with the Incentive Compensation Ban." In its report, the OIG concluded that the Department's Office of Federal Student Aid (the "FSA") failed to (i) revise its enforcement procedures and guidance after the Department eliminated the incentive compensation safe harbors in 2010, (ii) develop procedures and guidance on appropriate enforcement action and (iii) properly resolve incentive compensation ban findings. In response to the report, the OIG and the FSA agreed on corrective action that may increase scrutiny and enforcement action related to payment of incentive compensation.

On May 18, 2015, the Department published a Notice of Proposed Rulemaking to amend cash management regulations related to Title IV program funds. The proposed regulations address student access to Title IV program funds, financial account fees and the opening of financial accounts. The proposed regulations also clarify how the Department treats previously passed coursework for Title IV eligibility purposes, and streamline the requirements for converting clock hours to credit hours.

On June 8, 2015, the Department held a press conference and released a document entitled "Fact Sheet: Protecting Students from Abusive Career Colleges" in which the Department announced processes that will be established to assist students who may have been the victims of fraud in gaining relief under the "defense to repayment" provisions of the federal Direct Loan program regulations. Rarely used in the past, the defense to repayment provisions allow a student to assert as a defense against repayment of federal Direct Loans any commission of fraud or other violation of applicable state law by the school related to such loans or the educational services paid for. The processes outlined by the Department on June 8 include (i) extending debt relief eligibility to groups of students where possible, (ii) providing loan forbearance and pausing payments while claims are being resolved, (iii) appointing a Special Master dedicated to borrower defense issues for students who believe they have a defense to repayment, (iv) establishing a streamlined process and (v) building a better system for debt relief for the future. The Department noted that building a better system for debt relief would involve developing new regulations to clarify and streamline loan forgiveness under the defense to repayment provisions, while maintaining or enhancing current consumer protection standards and strengthening provisions that hold schools accountable for actions that result in loan discharges.

On August 20, 2015, the Department announced its intention to establish a negotiated rulemaking committee to prepare proposed regulations for the Federal Student Aid programs authorized under Title IV of the Higher Education Act. The committee will include representatives of organizations or groups with interests that are significantly affected by the subject matter of the proposed regulations. The Department also announced public hearings at which interested parties may comment on the topics suggested by the Department and may suggest additional topics that should be considered for action by the negotiating committee. In addition, the Department announced that it will accept written comments on the topics suggested by the Department and suggestions for additional issues that should be considered for action by the negotiating committee. As part of this process, the Department intends to convene a committee to develop proposed regulations for determining which acts or omissions of an institution of higher education a borrower may assert as a defense to repayment of a loan made under the Federal Direct Loan Program ("borrower defenses") and the consequences of such borrower defenses for borrowers, institutions, and the Secretary. Specifically, the Department intends to address: (1) the procedures to be used for a borrower to establish a defense to repayment; (2) the criteria that the Department will use to identify acts or omissions of an institution that constitute defenses to repayment of Federal Direct Loans to the Secretary; (3) the standards and procedures that the Department will use to determine the liability of the institution participating in the Federal Direct Loan Program for amounts based on borrower defenses; and (4) the effect of borrower defenses on institutional capability assessments.

BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

14. Commitments and Contingencies

Litigation

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. When the Company becomes aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. In accordance with authoritative guidance, the Company records loss contingencies in its financial statements only for matters in which losses are probable and can be reasonably estimated. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum estimated liability. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the Company discloses the nature of the specific claim if the likelihood of a potential loss is reasonably possible and the amount involved is material. The Company continuously assesses the potential liability related to the Company's pending litigation and revises its estimates when additional information becomes available. Below is a list of material legal proceedings to which the Company or its subsidiaries is a party.

Compliance Audit by the Department's Office of the Inspector General

In January 2011, Ashford University received a final audit report from the OIG regarding the compliance audit commenced in May 2008 and covering the period July 1, 2006 through June 30, 2007. The audit covered Ashford University's administration of Title IV program funds, including compliance with regulations governing institutional and student eligibility, awards and disbursements of Title IV program funds, verification of awards and returns of unearned funds during that period, and its compensation of financial aid and recruiting personnel during the period May 10, 2005 through June 30, 2009.

The final audit report contained audit findings, in each case for the period July 1, 2006 through June 30, 2007, which are applicable to award year 2006-2007. Each finding was accompanied by one or more recommendations to the FSA. Ashford University provided the FSA a detailed response to the OIG's final audit report in February 2011. In June 2011, in connection with two of the six findings, the FSA requested that Ashford University conduct a file review of the return to Title IV fund calculations for all Title IV recipients who withdrew from distance education programs during the 2006-2007 award year. The institution cooperated with the request and supplied the information within the time frame required. If the FSA were to determine to assess a monetary liability or commence other administrative action, Ashford University would have an opportunity to contest the assessment or proposed action through administrative proceedings, with the right to seek review of any final administrative action in the federal courts.

The outcome of this audit is uncertain at this point because of the many questions of fact and law that may arise. At present, the Company cannot reasonably estimate a range of loss for this action based on the information available to the Company. Accordingly, the Company has not accrued any liability associated with this matter.

Iowa Attorney General Civil Investigation of Ashford University

In February 2011, Ashford University received from the Attorney General of the State of Iowa (the "Iowa Attorney General") a Civil Investigative Demand and Notice of Intent to Proceed (the "CID") relating to the Iowa Attorney General's investigation of whether certain of the university's business practices comply with Iowa consumer laws. Pursuant to the CID, the Iowa Attorney General requested documents and detailed information for the time period January 1, 2008 to present. On numerous occasions, representatives from the Company and Ashford University met with the Iowa Attorney General to discuss the status of the investigation and the Iowa Attorney General's allegations against the Company that had been communicated to the Company in June 2013. As a result of these meetings, on May 15, 2014, the Iowa Attorney General, the Company and Ashford University entered into an Assurance of Voluntary Compliance (the "AVC") in full resolution of the CID and the Iowa Attorney General's allegations. The AVC, in which the Company and Ashford University do not admit any liability, contains several components including injunctive relief, nonmonetary remedies and a payment to the Iowa Attorney General to be used for restitution to Iowa consumers, costs and fees. The AVC also provides for the appointment of a settlement administrator for a period of three years to review the Company's and Ashford University's compliance with the terms of the AVC. The Company had originally accrued \$9.0 million back in 2013 related to this matter, which represented its best estimate of the total

restitution, cost of non-monetary remedies and future legal costs. The remaining accrual of \$1.1 million as of September 30, 2015 is split between both current and long-term liabilities.

BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

New York Attorney General Investigation of Bridgepoint Education, Inc.

In May 2011, the Company received from the Attorney General of the State of New York (the “NY Attorney General”) a subpoena relating to the NY Attorney General's investigation of whether the Company and its academic institutions have complied with certain New York state consumer protection, securities and finance laws. Pursuant to the subpoena, the NY Attorney General has requested from the Company and its academic institutions documents and detailed information for the time period March 17, 2005 to present. The Company is cooperating with the investigation and cannot predict the eventual scope, duration or outcome of the investigation at this time.

North Carolina Attorney General Investigation of Ashford University

In September 2011, Ashford University received from the Attorney General of the State of North Carolina (the “NC Attorney General”) an Investigative Demand relating to the NC Attorney General's investigation of whether the university's business practices complied with North Carolina consumer protection laws. Pursuant to the Investigative Demand, the NC Attorney General has requested from Ashford University documents and detailed information for the time period January 1, 2008 to present. Ashford University is cooperating with the investigation and cannot predict the eventual scope, duration or outcome of the investigation at this time.

California Attorney General Investigation of For-Profit Educational Institutions

In January 2013, the Company received from the Attorney General of the State of California (the “CA Attorney General”) an Investigative Subpoena relating to the CA Attorney General's investigation of for-profit educational institutions. Pursuant to the Investigative Subpoena, the CA Attorney General has requested documents and detailed information for the time period March 1, 2009 to present. On July 24, 2013, the CA Attorney General filed a petition to enforce certain categories of the Investigative Subpoena related to recorded calls and electronic marketing data. On September 25, 2013, the Company reached an agreement with the CA Attorney General to produce certain categories of the documents requested in the petition and stipulated to continue the hearing on the petition to enforce from October 3, 2013 to January 9, 2014. On January 13, 2014 and June 19, 2014, the Company received additional Investigative Subpoenas from the CA Attorney General each requesting additional documents and information for the time period March 1, 2009 through the current date. Representatives from the Company have met with the CA Attorney General's office on several occasions to discuss the status of the investigation, additional information requests, and specific concerns related to possible unfair business practices in connection with the Company's recruitment of students and debt collection practices. The Company cannot predict the eventual scope, duration or outcome of the investigation at this time. As a result, the Company cannot reasonably estimate a range of loss for this action and accordingly has not accrued any liability associated with this action.

Massachusetts Attorney General Investigation of Bridgepoint Education, Inc. and Ashford University

On July 21, 2014, the Company and Ashford University received from the Attorney General of the State of Massachusetts (the “MA Attorney General”) a Civil Investigative Demand relating to the MA Attorney General's investigation of for-profit educational institutions and whether the university's business practices complied with Massachusetts consumer protection laws. Pursuant to the Civil Investigative Demand, the MA Attorney General has requested from the Company and Ashford University documents and information for the time period January 1, 2006, to present. The Company is cooperating with the investigation and cannot predict the eventual scope, duration or outcome of the investigation at this time.

Securities & Exchange Commission Subpoena of Bridgepoint Education, Inc.

On July 22, 2014, the Company received from the SEC a subpoena relating to certain of the Company's accounting practices, including revenue recognition, receivables and other matters relating to the Company's previously disclosed intention to restate its financial statements for fiscal year ended December 31, 2013 and revise its financial statements for the years ended December 31, 2011 and 2012, and the prior revision of the Company's financial statements for the fiscal year ended December 31, 2012. Pursuant to the subpoena, the SEC has requested from the Company documents and detailed information for the time period January 1, 2009 to present. The Company is cooperating with the investigation and cannot predict the eventual scope, duration or outcome of the investigation at this time. As a result,

the Company cannot reasonably estimate a range of loss for this action and accordingly has not accrued any liability associated with this action.

BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Consumer Financial Protection Bureau Subpoena of Bridgepoint Education, Inc. and Ashford University  
On August 10, 2015, the Company and Ashford University received from the Consumer Financial Protection Bureau (the “CFPB”) Civil Investigative Demands related to the CFPB's investigation to determine whether for-profit post-secondary-education companies or other unnamed persons have engaged in or are engaging in unlawful acts or practices related to the advertising, marketing or origination of private student loans. The Company and Ashford University have provided documents, testimony and other information to the CFPB, and cannot predict the eventual scope, duration or outcome of the investigation at this time. As a result, the Company cannot reasonably estimate a range of loss for this action and accordingly has not accrued any liability associated with this action.

Securities Class Actions

Consolidated Securities Class Action

On July 13, 2012, a securities class action complaint was filed in the U.S. District Court for the Southern District of California by Donald K. Franke naming the Company, Andrew Clark, Daniel Devine and Jane McAuliffe as defendants for allegedly making false and materially misleading statements regarding the Company's business and financial results, specifically the concealment of accreditation problems at Ashford University. The complaint asserts a putative class period stemming from May 3, 2011 to July 6, 2012. A substantially similar complaint was also filed in the same court by Luke Sacharczyk on July 17, 2012 making similar allegations against the Company, Andrew Clark and Daniel Devine. The Sacharczyk complaint asserts a putative class period stemming from May 3, 2011 to July 12, 2012. On July 26, 2012, another purported securities class action complaint was filed in the same court by David Stein against the same defendants based upon the same general set of allegations and class period. The complaints allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 10b-5 promulgated thereunder and seek unspecified monetary relief, interest, and attorneys' fees.

On October 22, 2012, the Sacharczyk and Stein actions were consolidated with the Franke action and the Court appointed the City of Atlanta General Employees' Pension Fund and the Teamsters Local 677 Health Services & Insurance Plan as lead plaintiffs. A consolidated complaint was filed on December 21, 2012 and the Company filed a motion to dismiss on February 19, 2013. On September 13, 2013, the Court granted the motion to dismiss with leave to amend for alleged misrepresentations relating to Ashford University's quality of education, the WSCUC accreditation process and the Company's financial forecasts. The Court denied the motion to dismiss for alleged misrepresentations concerning Ashford University's persistence rates.

Following the conclusion of discovery, in September 2015, we entered into an agreement in principle with the plaintiffs to settle the litigation for \$15.5 million, which we believe will be funded by our insurance carriers. The settlement agreement is subject to final approval by the Court, which we expect to occur during fiscal year 2016.

Zamir v. Bridgepoint Education, Inc., et al.

On February 24, 2015, a securities class action complaint was filed in the U.S. District Court for the Southern District of California by Nelda Zamir naming the Company, Andrew Clark and Daniel Devine as defendants. The complaint asserts violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder, claiming that the defendants made false and materially misleading statements and failed to disclose material adverse facts regarding the Company's business, operations and prospects, specifically regarding the Company's improper application of revenue recognition methodology to assess collectability of funds owed by students. The complaint asserts a putative class period stemming from August 7, 2012 to May 30, 2014 and seeks unspecified monetary relief, interest and attorneys' fees. On July 15, 2015, the Court granted plaintiff's motion for appointment as lead plaintiff and for appointment of lead counsel.



BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

On September 18, 2015, the plaintiff filed a substantially similar amended complaint that asserts a putative class period stemming from March 12, 2013 to May 30, 2014. The amended complaint also names Patrick Hackett, Adarsh Sarma, Warburg Pincus & Co., Warburg Pincus LLC, Warburg Pincus Partners LLC, and Warburg Pincus Private Equity VIII, L.P. as additional defendants. The Company intends to vigorously defend against this action and anticipates filing a motion to dismiss in November 2015. However, the outcome of this legal proceeding is uncertain at this point because of the many questions of fact and law that may arise. Based on information available to the Company at present, it cannot reasonably estimate a range of loss for this action. Accordingly, the Company has not accrued any liability associated with this action.

Shareholder Derivative Actions

In re Bridgepoint, Inc. Shareholder Derivative Action

On July 24, 2012, a shareholder derivative complaint was filed in California Superior Court by Alonzo Martinez. In the complaint, the plaintiff asserts a derivative claim on the Company's behalf against certain of its current and former officers and directors. The complaint is captioned Martinez v. Clark, et al. and generally alleges that the individual defendants breached their fiduciary duties of candor, good faith and loyalty, wasted corporate assets and were unjustly enriched. The lawsuit seeks unspecified monetary relief and disgorgement on behalf of the Company, as well as other equitable relief and attorneys' fees. On September 28, 2012, a substantially similar shareholder derivative complaint was filed in California Superior Court by David Adolph-Laroche. In the complaint, the plaintiff asserts a derivative claim on the Company's behalf against certain of its current and former officers and directors. The complaint is captioned Adolph-Laroche v. Clark, et al. and generally alleges that the individual defendants breached their fiduciary duties of candor, good faith and loyalty, wasted corporate assets and were unjustly enriched.

On October 11, 2012, the Adolph-Laroche action was consolidated with the Martinez action and the case is now captioned In re Bridgepoint, Inc. Shareholder Derivative Action. A consolidated complaint was filed on December 18, 2012 and the defendants filed a motion to stay the case while the underlying securities class action is pending. The motion was granted by the Court on April 11, 2013. A status conference was held on October 10, 2013, during which the Court ordered the stay continued for the duration of discovery in the securities class action, but permitted the plaintiff to receive copies of any discovery responses served in the underlying securities class action.

Cannon v. Clark, et al.

On November 1, 2013, a shareholder derivative complaint was filed in the U.S. District Court for the Southern District of California by James Cannon. In the complaint, the plaintiff asserts a derivative claim on the Company's behalf against certain of its current officers and directors. The complaint is captioned Cannon v. Clark, et al. and is substantially similar to the previously filed California State Court derivative action now captioned In re Bridgepoint, Inc. Shareholder Derivative Action. In the complaint, plaintiff generally alleges that the individual defendants breached their fiduciary duties of candor, good faith and loyalty, wasted corporate assets and were unjustly enriched. The lawsuit seeks unspecified monetary relief and disgorgement on behalf of the Company, as well as other equitable relief and attorneys' fees. Pursuant to a stipulation among the parties, on January 6, 2014, the Court ordered the case stayed during discovery in the underlying securities class action, but permitted the plaintiff to receive copies of any discovery responses served in the underlying securities class action.

Di Giovanni v. Clark, et al., and Craig-Johnston v. Clark, et al.

On December 9, 2013, two nearly identical shareholder derivative complaints were filed in the United States District Court for the Southern District of California. The complaints assert derivative claims on the Company's behalf against the members of the Company's board of directors as well as against Warburg Pincus & Co., Warburg Pincus LLC, Warburg Pincus Partners LLC, and Warburg Pincus Private Equity VIII, L.P. The two complaints are captioned Di Giovanni v. Clark, et al. and Craig-Johnston v. Clark, et al. The complaints generally allege that all of the defendants breached their fiduciary duties and were unjustly enriched and that the individual defendants wasted corporate assets in connection with the tender offer commenced by the Company on November 13, 2013. The lawsuits seek unspecified monetary relief and disgorgement, as well as other equitable relief and attorneys' fees. On February 28,

2014, the defendants filed motions to dismiss, which were granted by the Court on October 17, 2014. The plaintiffs filed a notice of appeal on December 8, 2014 and the case is currently under appeal with the United States Court of Appeals for the Ninth Circuit.

BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Klein v. Clark, et al.

On January 9, 2014, a shareholder derivative complaint was filed in the Superior Court of the State of California in San Diego. The complaint asserts derivative claims on the Company's behalf against the members of the Company's board of directors as well as against Warburg Pincus & Co., Warburg Pincus LLC, Warburg Pincus Partners LLC, and Warburg Pincus Private Equity VIII, L.P. The complaint is captioned Klein v. Clark, et al. and generally alleges that all of the defendants breached their fiduciary duties and were unjustly enriched and that the individual defendants wasted corporate assets in connection with the tender offer commenced by the Company on November 13, 2013. The lawsuit seeks unspecified monetary relief and disgorgement, as well as other equitable relief and attorneys' fees. On March 21, 2014, the Court granted the parties' stipulation to stay the case until the motions to dismiss in the related federal derivative action were decided. On November 14, 2014, the Court dismissed the case but retained jurisdiction in the event the dismissal in the federal case is reversed on appeal by the United States Court of Appeals for the Ninth Circuit.

Reardon v. Clark, et al.

On March 18, 2015, a shareholder derivative complaint was filed in the Superior Court of the State of California in San Diego. The complaint asserts derivative claims on the Company's behalf against certain of its current and former officers and directors. The complaint is captioned Reardon v. Clark, et al. and generally alleges that the individual defendants breached their fiduciary duties of candor, good faith and loyalty, wasted corporate assets and were unjustly enriched. The lawsuit seeks unspecified monetary relief and disgorgement, as well as other equitable relief and attorneys' fees. Pursuant to a stipulation among the parties, on May 27, 2015, the Court ordered the case stayed during discovery in the underlying Zamir securities class action, but permitted the plaintiff to receive copies of any discovery conducted in the underlying Zamir securities class action.

Guzman v. Bridgepoint Education, Inc.

In January 2011, Betty Guzman filed a class action lawsuit against the Company, Ashford University and University of the Rockies in the U.S. District Court for the Southern District of California. The complaint is captioned Guzman v. Bridgepoint Education, Inc., et al. and generally alleges that the defendants engaged in misrepresentation and other unlawful behavior in their efforts to recruit and retain students. The complaint asserts a putative class period of March 1, 2005 through the present. In March 2011, the defendants filed a motion to dismiss the complaint, which was granted by the Court with leave to amend in October 2011.

In January 2012, the plaintiff filed a first amended complaint asserting similar claims and the same class period, and the defendants filed another motion to dismiss. In May 2012, the Court granted University of the Rockies' motion to dismiss and granted in part and denied in part the motion to dismiss filed by the Company and Ashford University. The Court also granted the plaintiff leave to file a second amended complaint. In August 2012, the plaintiff filed a second amended complaint asserting similar claims and the same class period. The second amended complaint seeks unspecified monetary relief, disgorgement of all profits, various other equitable relief, and attorneys' fees. The defendants filed a motion to strike portions of the second amended complaint, which was granted in part and denied in part. On April 30, 2014, the plaintiff filed a motion for class certification, which was denied by the Court on March 26, 2015. On April 9, 2015, the plaintiff filed a petition for permission to appeal the denial of class certification with the United States Court of Appeals for the Ninth Circuit, which was denied by the Court of Appeals on June 9, 2015. On October 13, 2015, the parties entered into an agreement to settle the case for an immaterial amount and have filed a stipulation with the Court to dismiss the case with prejudice.

BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Qui Tam Complaints

In December 2012, the Company received notice that the U.S. Department of Justice had declined to intervene in a qui tam complaint filed in the U.S. District Court for the Southern District of California by Ryan Ferguson and Mark T. Pacheco under the federal False Claims Act on March 10, 2011 and unsealed on December 26, 2012. The complaint is captioned United States of America, ex rel., Ryan Ferguson and Mark T. Pacheco v. Bridgepoint Education, Inc., Ashford University and University of the Rockies. The qui tam complaint alleges, among other things, that since March 10, 2005, the Company caused its institutions, Ashford University and University of the Rockies, to violate the federal False Claims Act by falsely certifying to the U.S. Department of Education that the institutions were in compliance with various regulations governing the Title IV programs, including those that require compliance with federal rules regarding the payment of incentive compensation to enrollment personnel, student disclosures, and misrepresentation in connection with the institutions' participation in the Title IV programs. The complaint seeks significant damages, penalties and other relief. On April 30, 2013, the relators petitioned the Court for voluntary dismissal of the complaint without prejudice. The U.S. Department of Justice filed a notice stipulating to the dismissal and the Court granted the dismissal on June 12, 2013.

In January 2013, the Company received notice that the U.S. Department of Justice had declined to intervene in a qui tam complaint filed in the U.S. District Court for the Southern District of California by James Carter and Roger Lengyel under the federal False Claims Act on July 2, 2010 and unsealed on January 2, 2013. The complaint is captioned United States of America, ex rel., James Carter and Roger Lengyel v. Bridgepoint Education, Inc., Ashford University. The qui tam complaint alleges, among other things, that since March 2005, the Company and Ashford University have violated the federal False Claims Act by falsely certifying to the U.S. Department of Education that Ashford University was in compliance with federal rules regarding the payment of incentive compensation to enrollment personnel in connection with the institution's participation in Title IV programs. Pursuant to a stipulation between the parties, the relators filed an amended complaint on May 10, 2013. The amended complaint is substantially similar to the original complaint and seeks significant damages, penalties and other relief.

In March 2015, the Company filed a motion to dismiss the case pursuant to the public disclosure bar, which was granted without leave to amend by the Court on August 17, 2015. The relators filed a notice of appeal on September 15, 2015 and the case is currently under appeal with the United States Court of Appeals for the Ninth Circuit. The outcome of this legal proceeding is uncertain at this point because of the many questions of fact and law that may arise. Based on information available to the Company at present, it cannot reasonably estimate a range of loss for this action. Accordingly, the Company has not accrued any liability associated with this action.

Cavazos v. Ashford University

On June 22, 2015, Diamond Cavazos filed a purported class action against Ashford University in the Superior Court of the State of California in San Diego. The complaint is captioned Diamond Cavazos v. Ashford University, LLC and generally alleges various wage and hour claims under California law for failure to pay overtime, failure to pay minimum wages and failure to provide rest and meal breaks. The lawsuit seeks back pay, the cost of benefits, penalties and interest on behalf of the putative class members, as well as other equitable relief and attorneys' fees. Before responding to the complaint, the parties entered into an agreement to settle the case for an immaterial amount and have filed a stipulation with the Court to dismiss the case with prejudice.

Coleman et al. v. Ashford University

On June 4, 2015, Brandy Coleman and a group of seven other former employees filed a purported class action against Ashford University in the Superior Court of the State of California in San Diego. The complaint is captioned Brandy Coleman v. Ashford University, LLC and generally alleges violations of the California WARN Act for back pay and benefits associated with the termination of the plaintiffs' employment in May 2015. The lawsuit seeks unpaid wages, penalties and interest on behalf of the putative class members, as well as other equitable relief and attorneys' fees. Before responding to the complaint, the parties entered into an agreement to settle the case for an immaterial amount and have filed a stipulation with the Court to dismiss the case with prejudice.



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

The following Management's Discussions and Analysis of Financial Condition and Results of Operations should be read in conjunction with our condensed consolidated financial statements and related notes thereto included in Part I, Item 1 of this report. For additional information regarding our financial condition and results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the Securities and Exchange Commission (the "SEC") on March 10, 2015 (the "Form 10-K"), as well as our consolidated financial statements and related notes thereto included in Part II, Item 8 of the Form 10-K.

Unless the context indicates otherwise, in this report the terms "Bridgepoint," "the Company," "we," "us" and "our" refer to Bridgepoint Education, Inc., a Delaware corporation, and its wholly owned and indirect subsidiaries.

Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact may be forward-looking statements. Such forward-looking statements may include, among others, statements regarding future events, our future financial performance and operating results, strategies, expectations, the competitive environment, regulation and the availability of financial resources, including, without limitation, statements regarding:

- our ability to successfully remediate the control deficiencies that gave rise to the material weakness in our internal control over financial reporting discussed in Part I, Item 4, "Controls and Procedures";
- Ashford University's operation of an accredited institution subject to the requirements of the California Bureau for Private Postsecondary Education;
- our ability to comply with the extensive and continually evolving regulatory framework applicable to us and our institutions, including Title IV of the Higher Education Act of 1965, as amended (the "Higher Education Act"), and its implementing regulations, the newly issued Gainful Employment rules and regulations, state laws and regulatory requirements, and accrediting agency requirements;
- expectations regarding financial position, results of operations, liquidity and enrollment trends at our institutions;
- projections, predictions, expectations, estimates or forecasts as to our business, financial and operating results and future economic performance;
- expectations regarding the closure of Ashford University's campus in Clinton, Iowa (the "Clinton Campus") after the 2015-2016 academic year;
- new initiatives focused on student success and academic quality;
- changes in our student fee structure;
- expectations regarding the adequacy of our cash and cash equivalents and other sources of liquidity for ongoing operations;
- expectations regarding investment in online and other advertising and capital expenditures;
- our anticipated seasonal fluctuations in results of operations;
- management's goals and objectives; and
- other similar matters that are not historical facts.

Forward-looking statements may generally be identified by the use of words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar expressions, as well as statements in the future tense.

Forward-looking statements should not be interpreted 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 such statements are made and the current good faith beliefs,

expectations and assumptions of management regarding future events. Such statements 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. For a discussion of some of these risks and uncertainties, see Part II, Item 1A, "Risk Factors" as well as the discussion of such risks and uncertainties contained in our other filings with the SEC, including the Form 10-K.

All forward-looking statements in this report are qualified in their entirety by the cautionary statements included in this report, and you should not put undue reliance on any forward-looking statements. These forward-looking statements speak only as of the date of this report. We assume no obligation to update or revise any forward-looking statements contained herein to reflect actual results or any changes in our assumptions or expectations or any other factors affecting such forward-looking statements, except to the extent required by applicable securities laws. If we do update or revise 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.

#### Overview

We are a provider of postsecondary education services. Our academic institutions, Ashford University® and University of the Rockies<sup>SM</sup>, offer associate's, bachelor's, master's and doctoral programs online as well as at their traditional campuses located in Iowa and Colorado, respectively. On July 7, 2015, the Ashford University Board of Trustees made the decision to close Ashford University's campus in Iowa after the 2015-2016 academic year, at the end of May 2016, following the implementation of a one-year teach-out plan.

As of September 30, 2015, our institutions offered approximately 1,680 courses, 80 degree programs and 150 specializations. We are also focused on developing innovative new technologies to improve the way students learn, such as Constellation®, our proprietary learning platform, and the mobile learning applications offered by our institutions.

#### Key operating data

In evaluating our operating performance, our management focuses in large part on our revenue, operating income (loss) and period-end enrollment at our academic institutions, both online and campus-based. The following table, which should be read in conjunction with our condensed consolidated financial statements contained elsewhere in this report, presents our key operating data for the three and nine months ended September 30, 2015 and 2014 (in thousands, except for enrollment data):

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014		2014	
Consolidated Statement of Income Data:				
Revenue	\$140,762	\$162,654	\$430,337	\$491,446
Operating income (loss)	\$(34,479)	\$10,581	\$(36,191)	\$25,137
Consolidated Other Data:				
Period-end enrollment (1)				
Online	49,449	58,725	49,449	58,725
Campus	533	827	533	827
Total	49,982	59,552	49,982	59,552

We define period-end enrollment as the number of active students on the last day of the financial reporting period.

- (1) A student is considered active if the student has attended a class within the prior 15 days or is on an institutionally-approved break not to exceed 45 days, unless the student has graduated or provided a notice of withdrawal.

#### Key enrollment trends

Enrollment at our combined academic institutions decreased 16.1% as compared to the same period last year, from 59,552 students at September 30, 2014 to 49,982 students at September 30, 2015. Enrollment also decreased 10.5% since the end of the preceding fiscal year, from 55,823 students at December 31, 2014 to 49,982 students at September 30, 2015.





In recent years, we have experienced a general decline in overall student enrollment, revenue and operating income. We believe the decline is a result of a general weakening in the overall industry due to regulatory scrutiny, as well as the initiatives our institutions have put in place to help ensure student preparedness, raise academic quality and improve student outcomes.

One area in which we are experiencing positive enrollment trends is within our corporate partnership program. This program provides companies with the opportunity to allow their employees to pursue and complete a college degree without incurring any student debt. While this program is still relatively small compared to our total enrollment, it continues to expand.

Trends and uncertainties regarding revenue and continuing operations

In recent years, Ashford University made many changes to its operations and business initiatives as part of its reapplication for initial accreditation from WASC Senior College and University Commission, or WSCUC, formerly referred to as WASC. These initiatives included hiring new leadership, implementing smaller class sizes, expanding minimum age-levels for students, implementing the Ashford Promise (an initiative that allows online students a full refund for all tuition and fees through the third week of their first class), hiring additional full-time faculty, and implementing new program review models. Many of these initiatives have resulted in higher expense to the organization, primarily in the areas of instructional costs and services, and have contributed to the decline in new enrollment and resulting decline in revenue.

Restructuring and impairment charges

During the three and nine months ended September 30, 2015, we initiated various restructuring plans to better align our resources with our business strategy. The related restructuring charges are primarily comprised of i) charges related to the write off of certain fixed assets and assets abandoned, ii) student transfer agreement costs, iii) severance costs related to headcount reductions made in connection with restructuring plans and iv) estimated lease losses related to facilities vacated or consolidated under restructuring plans. These charges were recorded in the restructuring and impairment charges line item on our condensed consolidated statements of income for the three and nine months ended September 30, 2015.

On July 7, 2015, we committed to the implementation of a plan to close Ashford University's campus in Clinton, Iowa (the "Clinton Campus") following the 2015-2016 academic year, at the end of May 2016. The Ashford University Board of Trustees made the decision to close the Clinton Campus following an ongoing review of the University's strategic direction and as a result of the University's inability to meet campus enrollment requirements despite its best efforts to continue maintaining and operating the Clinton Campus. The closure of the Clinton Campus is intended to realign our operations to focus on our core mission of leveraging technology to create innovative solutions that advance learning. As this closure of the Clinton Campus does not meet the criteria for discontinued operations under ASC 360, Property, Plant and Equipment, the results of operations are reported within continuing operations for all periods presented. Primarily as a result of this planned campus closure, during the three and nine months ended September 30, 2015, we recognized asset impairment charges of \$37.3 million and \$38.6 million, respectively, relating to the write off of certain fixed assets.

With the planned closure of the Clinton Campus, ground-based students will be provided resources for future education based upon their agreement. We recorded restructuring charges relating to future cash expenditures for student transfer agreement costs of approximately \$4.3 million during each of the three and nine months ended September 30, 2015. This estimate is based upon several assumptions that are subject to change, including student decisions regarding transfer.

We also implemented various reductions in force during fiscal 2015 to help better align personnel resources with the decline in enrollment. During the three and nine months ended September 30, 2015, we recognized \$2.1 million and \$2.9 million, respectively, as restructuring charges relating to severance costs for wages and benefits resulting from the reduction in force. We estimate recording an additional \$2.5 million in future restructuring and asset impairment charges related to severance and retention charges for the closure of the Clinton Campus.

As part of the continued efforts to streamline operations, we vacated or consolidated properties in Denver and San Diego, and reassessed our obligations on non-cancelable leases. During the three and nine months ended September 30, 2015, we recorded \$1.2 million and \$13.5 million, respectively, as restructuring charges relating to lease exit and other costs.



#### Valuation allowance

Each reporting period, we estimate the likelihood that we will be able to recover our deferred tax assets, which represent timing differences in the recognition of certain tax deductions for accounting and tax purposes. The realization of deferred tax assets is dependent upon future taxable income. Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income given current business conditions affecting us, and the feasibility of ongoing tax planning strategies.

Through the end of the second quarter of 2015, we forecasted three years of cumulative income through 2015 and did not expect any significant changes in 2016 that would cause the three years of cumulative income to move to a loss. Based on the history of cumulative income and no significant changes in 2016, we believed that we would have sufficient taxable income in future years to realize its net deferred tax assets.

In the third quarter of 2015, there were several pieces of negative evidence that have contributed to our conclusion that a valuation allowance is appropriate against all deferred tax assets that rely upon future taxable income for their realization. This new negative evidence includes i) a third quarter significant pre-tax loss, ii) projections that show the company will be in a 3-year cumulative loss position by 2016, and iii) continued difficult business and regulatory environment for for-profit education institutions. After weighing all positive and negative evidence, we concluded that we will not rely upon future taxable income to support realizability of deferred tax assets and, therefore, have recorded a valuation allowance against the assets in the third quarter.

Our estimated annual effective income tax rate that was applied to normal, recurring operations for the nine months ended September 30, 2015 was (10.3)% and included \$21.2 million of valuation allowance recorded through the effective income tax rate. Our actual effective income tax rate was (83.8)% for the nine months ended September 30, 2015 and included \$24.9 million of valuation allowance recorded as a discrete item in the current quarter. In addition to the valuation allowance, our estimated annual effective income tax rate differed from our estimated annual effective income tax rate due to increases in reserves for unrecognized tax benefits and related accrued interest in the current year.

We intend to maintain a valuation allowance against our deferred tax assets until sufficient positive evidence exists to support its reversal.

#### Liquidity and capital resources and anticipated capital expenditures

We have financed our operating activities and capital expenditures during 2015 and 2014 primarily through cash on hand and cash provided by operating activities. At September 30, 2015, we had cash, cash equivalents, restricted cash and investments totaling \$360.5 million and no long-term debt. For the year ending December 31, 2015, we expect capital expenditures to be approximately \$5.0 million. Based on our current level of operations, we believe that our cash flows from operating activities and our existing cash and cash equivalents will provide adequate funds for ongoing operations, planned capital expenditures and working capital requirements for at least the next 12 months. However, there can be no assurance that changes will not occur that would consume our available capital resources before that time. Our capital requirements depend on numerous factors, including our ability to continue to generate revenue. There can be no assurance that additional funding, if necessary, will be available to us on favorable terms, if at all.

## Recent Regulatory Developments

### Negotiated Rulemaking and Other Executive Action

The U.S. Department of Education (the “Department”) held Program Integrity and Improvement negotiated rulemaking sessions in February through May 2014 that focused on topics including, but not limited to, cash management of Title IV program funds, state authorization for programs offering distance or correspondence education, credit and clock hour conversions, the retaking of coursework, and the definition of “adverse credit” for PLUS borrowers. No consensus resulted from the rulemaking sessions. As a result, the Department had discretion to propose Program Integrity regulations in these areas. In August 2014, the Department published a Notice of Proposed Rulemaking proposing new regulations regarding the federal Direct PLUS loan program. The final regulations, effective July 1, 2015, update the standards for determining if a potential parent or student borrower has an adverse credit history for purposes of eligibility for a PLUS loan. Specifically, the regulations revise the definition of “adverse credit history” and require that parents and students who have an adverse credit history, but who are approved for a PLUS loan on the basis of extenuating circumstances or who obtain an endorser for the PLUS loan, must receive loan counseling before receiving the loan.

Three negotiated rulemaking sessions between January and March of 2014 resulted in draft regulations to enact changes to the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the “Clery Act”) required by the enactment of the Violence Against Women Act (“VAWA”). The Department published final regulations in the Federal Register on October 20, 2014, effective July 1, 2015. Among other things, VAWA requires institutions to compile statistics for additional incidents to those currently required by the Clery Act and include certain policies, procedures and programs pertaining to these incidents in annual security reports.

On September 3, 2014, the Department published a notice in the Federal Register to announce its intention to establish a negotiated rulemaking committee to prepare proposed regulations for the William D. Ford “Federal Direct Loan Program” authorized by the Higher Education Act. Two public hearings were held in October and November 2014. On December 19, 2014, the Department published a notice to announce its intention to establish the committee to (i) prepare proposed regulations to establish a new Pay as You Earn repayment plan for those not covered by the existing Federal Direct Loan Program and (ii) establish procedures for Federal Family Education Loan Program (“FFEL Program”) loan holders to use to identify U.S. military service members who may be eligible for a lower interest rate on their FFEL Program loans. The committee met in February, March and April of 2015. On July 9, 2015, the Department published a Notice of Proposed Rulemaking proposing to amend the regulations governing the Federal Direct Loan Program to create a new income-contingent repayment plan in accordance with President Obama's initiative to allow more Federal Direct Loan Program borrowers to cap their loan payments at 10% of their monthly income.

On October 30, 2014, the Obama administration announced that the Department will lead an effort to formalize an interagency task force to conduct oversight of for-profit institutions of higher education, especially regarding alleged unfair, deceptive, and abusive policies and practices. The task force will include the Departments of Justice, Treasury and Veterans Affairs, as well as the Consumer Financial Protection Bureau, Federal Trade Commission, the Securities and Exchange Commission, and state Attorneys General. The stated purpose of the task force is to “coordinate...activities and promote information sharing to protect students from unfair, deceptive and abusive policies and practices.”

On March 24, 2015, the Department's Office of Inspector General (the “OIG”) issued a final audit report titled “Federal Student Aid's Oversight of Schools' Compliance with the Incentive Compensation Ban.” In its report, the OIG concluded that the Department's Office of Federal Student Aid (the “FSA”) failed to (i) revise its enforcement procedures and guidance after the Department eliminated the incentive compensation safe harbors in 2010, (ii) develop procedures and guidance on appropriate enforcement action and (iii) properly resolve incentive compensation ban findings. In response to the report, the OIG and the FSA agreed on corrective action that may increase scrutiny and enforcement action related to payment of incentive compensation.

On May 18, 2015, the Department published a Notice of Proposed Rulemaking to amend cash management regulations related to Title IV program funds. The proposed regulations address student access to Title IV program funds, financial account fees and the opening of financial accounts. The proposed regulations also clarify how the Department treats previously passed coursework for Title IV eligibility purposes, and streamline the requirements for

converting clock hours to credit hours.

On June 8, 2015, the Department held a press conference and released a document entitled “Fact Sheet: Protecting Students from Abusive Career Colleges” in which the Department announced processes that will be established to assist

students who may have been the victims of fraud in gaining relief under the “defense to repayment” provisions of the federal Direct Loan program regulations. Rarely used in the past, the defense to repayment provisions allow a student to assert as a defense against repayment of federal Direct Loans any commission of fraud or other violation of applicable state law by the school related to such loans or the educational services paid for. The processes outlined by the Department on June 8 include (i) extending debt relief eligibility to groups of students where possible, (ii) providing loan forbearance and pausing payments while claims are being resolved, (iii) appointing a Special Master dedicated to borrower defense issues for students who believe they have a defense to repayment, (iv) establishing a streamlined process and (v) building a better system for debt relief for the future. The Department noted that building a better system for debt relief would involve developing new regulations to clarify and streamline loan forgiveness under the defense to repayment provisions, while maintaining or enhancing current consumer protection standards and strengthening provisions that hold schools accountable for actions that result in loan discharges.

On August 20, 2015, the Department announced its intention to establish a negotiated rulemaking committee to prepare proposed regulations for the Federal Student Aid programs authorized under Title IV of the Higher Education Act of 1965, as amended (HEA). The committee will include representatives of organizations or groups with interests that are significantly affected by the subject matter of the proposed regulations. The Department also announced two public hearings at which interested parties may comment on the topics suggested by the Department and may suggest additional topics that should be considered for action by the negotiating committee. In addition, the Department announced that it will accept written comments on the topics suggested by the Department and suggestions for additional issues that should be considered for action by the negotiating committee. As part of this process, the Department intends to convene a committee to develop proposed regulations for determining which acts or omissions of an institution of higher education a borrower may assert as a defense to repayment of a loan made under the Federal Direct Loan Program (“borrower defenses”) and the consequences of such borrower defenses for borrowers, institutions, and the Secretary. Specifically, the Department intends to address: (1) the procedures to be used for a borrower to establish a defense to repayment; (2) the criteria that the Department will use to identify acts or omissions of an institution that constitute defenses to repayment of Federal Direct Loans to the Secretary; (3) the standards and procedures that the Department will use to determine the liability of the institution participating in the Federal Direct Loan Program for amounts based on borrower defenses; and (4) the effect of borrower defenses on institutional capability assessments.

#### Gainful Employment

On October 31, 2014, the Department published new Gainful Employment regulations impacting programs required to prepare graduates for gainful employment in a recognized occupation. Almost all academic programs offered by Title IV-participating private sector institutions of higher education must prepare students for gainful employment in a recognized occupation. The new Gainful Employment regulations became effective July 1, 2015, except for certain disclosure requirements that are expected to be effective in early 2017.

The new Gainful Employment regulations have a framework with three components:

**Certification:** Institutions must certify that each of their gainful employment programs meet state and federal licensure, certification and accreditation requirements.

**Accountability Measures:** To maintain Title IV eligibility, gainful employment programs will be required to meet minimum standards for the debt burden versus the earnings of their graduates.

**Pass:** Programs whose graduates have annual loan payments less than 8% of total earnings or less than 20% of discretionary earnings.

**Zone:** Programs whose graduates have annual loan payments between 8% and 12% of total earnings or between 20% and 30% of discretionary earnings.

**Fail:** Programs whose graduates have annual loan payments greater than 12% of total earnings and greater than 30% of discretionary earnings.

Programs that fail in two out of any three consecutive years or are in the Zone for four consecutive years will be disqualified from participation in the Title IV programs.

**Transparency:** Institutions will be required to make public disclosures regarding the performance and outcomes of their gainful employment programs. The disclosures will include information such as costs, earnings, debt and completion rates.



The accountability measures will typically weigh a calculated debt burden from graduates who completed their studies three and four years prior to the measuring academic year and earnings from the most recent calendar year prior to the conclusion of the measuring academic year. Thus for the 2014-2015 academic year, the cohort will include graduates from the 2010-2011 and 2011-2012 academic years and earnings for these graduates from calendar year 2014.

The regulations contemplate a transition period in the first several years to afford institutions the opportunity to make changes to their programs and retain Title IV eligibility. Because definitive information necessary to determine how our programs will fare under the accountability measures is not available at this time, we are unable to reliably predict the impact of the new Gainful Employment regulations. However, we are currently using available data to evaluate which programs are at risk of failing under the new requirements.

#### Cohort Default Rate

For each federal fiscal year, the Department calculates a rate of student defaults over a three-year measuring period for each educational institution, which is known as a “cohort default rate.” An institution may lose its eligibility to participate in the Direct Loan and Pell programs if, for each of the three most recent federal fiscal years, 30% or more of its students who became subject to a repayment obligation in that federal fiscal year defaulted on such obligation by the end of the following federal fiscal year.

The three-year cohort default rates for Ashford University for the 2012, 2011 and 2010 federal fiscal years, were 15.3%, 15.3% and 16.3%, respectively. The three-year cohort default rates for University of the Rockies for the 2012, 2011 and 2010 federal fiscal years, were 4.3%, 6.6% and 8.0%, respectively.

For a more detailed discussion of the regulatory environment and related risks, refer to Part I, Item 1, “Business” and Part I, Item 1A, “Risk Factors” of the Form 10-K.

#### Seasonality

Our operations are generally subject to seasonal trends. While we enroll students throughout the year, our fourth quarter revenue generally is lower than other quarters due to the holiday break in December. We generally experience a seasonal increase in new enrollments in August and September of each year when most other colleges and universities begin their fall semesters. As our growth rate declines, we expect seasonal fluctuations in results of operations to become more apparent as a result of changes in the level of student enrollment.

#### Critical Accounting Policies and Use of Estimates

The critical accounting policies and estimates used in the preparation of our consolidated financial statements are described in “Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Use of Estimates” included in Part II, Item 7 of the Form 10-K. There were no material changes to these critical accounting policies and estimates during the nine months ended September 30, 2015.

#### The Iran Threat Reduction and Syria Human Rights Act of 2012

During the nine months ended September 30, 2015, Santander Asset Management Investment Holdings Limited (“SAMIH”) engaged in certain activities that are subject to disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 and Section 13(r) of the Exchange Act. These activities are disclosed in Exhibit 99.1 to this quarterly report. Affiliates of Warburg Pincus, LLC (i) beneficially own more than 10% of our outstanding common stock and are members of our board of directors and (ii) beneficially own more than 10% of the equity interests of and have the right to designate members of the board of directors of SAMIH. We will be required to separately file with the SEC, concurrently with this quarterly report, a notice that such activities have been disclosed in this quarterly report, which notice must also contain the information required by Section 13(r) of the Exchange Act.



## Results of Operations

The following table sets forth our condensed consolidated statements of income data as a percentage of revenue for each of the periods indicated:

	Three Months Ended September 30,		September 30,		Nine Months Ended September 30,		September 30,		
	2015	2014	2015	2014	2015	2014	2015	2014	%
Revenue	100.0	%	100.0	%	100.0	%	100.0	%	
Costs and expenses:									
Instructional costs and services	49.2		49.0		50.1		48.8		
Admissions advisory and marketing	34.0		34.9		34.5		36.2		
General and administrative	9.5		9.6		10.0		9.9		
Restructuring and impairment charges	31.9		—		13.8		—		
Total costs and expenses	124.6		93.5		108.4		94.9		
Operating income (loss)	(24.6	)	6.5		(8.4	)	5.1		
Other income, net	0.3		0.7		0.3		0.4		
Income (loss) before income taxes	(24.3	)	7.2		(8.1	)	5.5		
Income tax expense	20.4		3.3		6.8		2.5		
Net income (loss)	(44.7	)%	3.9	%	(14.9	)%	3.0	%	

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

**Revenue.** Our revenue for the three months ended September 30, 2015 was \$140.8 million, representing a decrease of \$21.9 million, or 13.5%, as compared to revenue of \$162.7 million for the three months ended September 30, 2014.

The decrease between periods was primarily due to the 16.1% decrease in ending student enrollment at our academic institutions, from 59,552 students at September 30, 2014 to 49,982 students at September 30, 2015. The average weekly enrollment during the three months ended September 30, 2015 decreased to 49,835 students from 59,676 students during the three months ended September 30, 2014, or by 16.5%, which resulted in a decrease in tuition revenue of approximately \$21.6 million. The decrease in revenue between periods was also due to a \$1.0 million decrease in revenue generated from Constellation. The decrease in revenue was partially offset by a tuition increase of approximately 2.3%, effective April 1, 2015, which resulted in an increase in revenue of \$3.5 million.

**Instructional costs and services.** Our instructional costs and services for the three months ended September 30, 2015 were \$69.2 million, representing a decrease of \$10.5 million, or 13.2%, as compared to instructional costs and services of \$79.7 million for the three months ended September 30, 2014. Specific decreases between periods include direct compensation of \$3.9 million (in the areas of academic management, financial aid support and student services), facilities costs of \$3.0 million, information technology costs of \$1.5 million, instructor fees of \$0.9 million, and financial aid processing fees of \$0.4 million. Instructional costs and services increased as a percentage of revenue to 49.2% for the three months ended September 30, 2015, as compared to 49.0% for the three months ended September 30, 2014. The increase of 0.2% as a percentage of revenue included increases in corporate support services of 0.8% and bad debt expense of 0.7%, offset by a decrease of 1.4% in facilities. As a percentage of revenue, bad debt expense was 6.3% for the three months ended September 30, 2015, compared to 5.6% for three months ended September 30, 2014. We are focused on enhancing our processes and procedures around bad debt and our accounts receivable, including efficiencies in financial aid processing in order to reduce processing time, improved collection efforts on accounts receivable, and improved counseling to students about the financial aid process and related eligibility and amounts due from the student.

**Admissions advisory and marketing.** Our admissions advisory and marketing expenses for the three months ended September 30, 2015 were \$47.8 million, representing a decrease of \$9.0 million, or 15.8%, as compared to admissions advisory and marketing expenses of \$56.8 million for the three months ended September 30, 2014. Specific factors contributing to the overall decrease between periods were decreases in professional services relating to branding of \$4.7 million, selling compensation of \$1.9 million, advertising of \$1.5 million, and facilities costs of \$1.5 million. These decreases were partially offset by increases in support services of \$0.6 million. As a percentage of revenue, our admissions advisory and marketing



expenses decreased to 34.0% for the three months ended September 30, 2015 as compared to 34.9% for the three months ended September 30, 2014. The decrease of 0.9% as a percentage of revenue was primarily due to the decreases in professional services relating to branding of 2.8%, partially offset by increases in selling compensation of 1.1%, and direct advertising costs of 0.7%.

General and administrative. Our general and administrative expenses for the three months ended September 30, 2015 were \$13.3 million, as compared to general and administrative expenses of \$15.6 million for the three months ended September 30, 2014, representing a decrease of \$2.2 million, or 14.4%. The decrease between periods was primarily due to decreases in depreciation of \$1.1 million and administrative compensation of \$1.0 million. Our general and administrative expenses decreased as a percentage of revenue to 9.5% for the three months ended September 30, 2015, as compared to 9.6% for the three months ended September 30, 2014. The decrease of 0.1% as a percentage of revenue was primarily due to a decrease in support services of 0.9%, partially offset by an increase in professional services of 0.6%.

Restructuring and impairment charges. Our restructuring and impairment charges for the three months ended September 30, 2015 were \$44.9 million, and are comprised of \$37.3 million for campus asset write offs, \$4.3 million for student transfer agreement costs, \$1.2 million of lease exit costs for properties in Denver, and \$2.1 million relating to severance costs for wages and benefits resulting from a reduction in force to help better align personnel resources with the decline in enrollment. There were no such charges for the three months ended September 30, 2014.

Other income, net. Other income, net, was \$0.5 million for the three months ended September 30, 2015 and \$1.1 million for the three months ended September 30, 2014. The fluctuations in this account are primarily a result of changes in interest income due to the levels of average cash and cash equivalents and investment balances.

Income tax expense. We recognized income tax expense for the three months ended September 30, 2015 of \$28.7 million and for the three months September 30, 2014 of \$5.4 million at effective tax rates of (84.5)% and 46.1%, respectively. The increase in income tax expense is due primarily to the valuation allowance established against our deferred tax assets during the three months ended September 30, 2015.

Net income (loss). Net loss was \$62.7 million for the three months ended September 30, 2015 compared to net income of \$6.3 million for the three months ended September 30, 2014, a decrease of \$69.0 million as a result of the factors discussed above.

#### Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Revenue. Our revenue for the nine months ended September 30, 2015 was \$430.3 million, representing a decrease of \$61.1 million, or 12.4%, as compared to revenue of \$491.4 million for the nine months ended September 30, 2014. The decrease between periods was primarily due to the 16.1% decrease in ending student enrollment at our academic institutions, from 59,552 students at September 30, 2014 to 49,982 students at September 30, 2015. The average weekly enrollment during the nine months ended September 30, 2015 decreased to 53,030 from 62,211 during the nine months ended September 30, 2014, or by 14.8%, which resulted in a decrease in tuition revenue of approximately \$61.9 million. The decrease in revenue was partially offset by a tuition increase of approximately 2.3%, effective April 1, 2015, which resulted in an increase in revenue of \$8.9 million. In addition, technology fee revenue increased \$1.5 million for the nine months ended September 30, 2015.

Instructional costs and services. Our instructional costs and services for the nine months ended September 30, 2015 were \$215.7 million, representing a decrease of \$23.9 million, or 10.0%, as compared to instructional costs and services of \$239.6 million for the nine months ended September 30, 2014. Specific decreases between periods include direct compensation of \$11.5 million (in the areas of academic management, financial aid support and student services), facilities costs of \$5.9 million, instructor fees of \$3.4 million, information technology costs of \$2.3 million, license fees of \$1.0 million and support services of \$0.8 million, partially offset by an increase in bad debt of \$2.3 million. Instructional costs and services increased as a percentage of revenue to 50.1% for the nine months ended September 30, 2015, as compared to 48.8% for the nine months ended September 30, 2014. The increase of 1.3% as a percentage of revenue included increases in bad debt expense of 1.2% and corporate support services of 0.8%, partially offset by a decrease in facilities costs of 0.7%. As a percentage of revenue, bad debt expense was 5.6% for the nine months ended September 30, 2015, compared to 4.5% for nine months ended September 30, 2014. We are focused on enhancing our processes and procedures around bad debt and our accounts receivable, including improvements and efficiencies in financial aid processing in order to reduce the processing timeline, improved



collection efforts on accounts receivable, and improved counseling to students about the financial aid process and related eligibility and amounts due from the student.

**Admissions advisory and marketing.** Our admissions advisory and marketing expenses for the nine months ended September 30, 2015 were \$148.6 million, representing a decrease of \$29.5 million, or 16.5%, as compared to admissions advisory and marketing expenses of \$178.1 million for the nine months ended September 30, 2014. Specific factors contributing to the overall decrease between periods were decreases in professional services relating to branding of \$20.3 million, selling compensation of \$7.5 million and facilities costs of \$3.2 million, partially offset by increases in support services of \$1.1 million and advertising costs of \$0.5 million. As a percentage of revenue, our admissions advisory and marketing expenses decreased to 34.5% for the nine months ended September 30, 2015 as compared to 36.2% for the nine months ended September 30, 2014. The decrease of 1.7% as a percentage of revenue was primarily due to a decrease in professional services relating to branding of 4.1%, partially offset by increases in advertising costs of 1.6% and selling compensation of 0.6%.

**General and administrative.** Our general and administrative expenses for the nine months ended September 30, 2015 were \$42.9 million, representing a decrease of \$5.7 million, or 11.7%, as compared to general and administrative expenses of \$48.6 million for the nine months ended September 30, 2014. The decrease between periods was primarily due to a decrease in administrative compensation of \$3.8 million and depreciation of \$2.6 million, partially offset by an increase in professional fees of \$0.6 million. Our general and administrative expenses increased as a percentage of revenue to 10.0% for the nine months ended September 30, 2015, compared to 9.9% for the nine months ended September 30, 2014. The increase of 0.1% as a percentage of revenue included an increase in other administrative costs of 0.7% and professional services of 0.4%, offset by a decrease in support services costs of 0.7% and depreciation of 0.2%.

**Restructuring and impairment charges.** Our restructuring and impairment charges for the nine months ended September 30, 2015 were \$59.3 million, and are comprised of \$38.6 million for asset write offs, \$4.3 million for student transfer agreement costs, \$13.5 million of lease exit costs for properties in San Diego and Denver, and \$2.9 million relating to severance costs for wages and benefits resulting from a reduction in force to help better align personnel resources with the decline in enrollment. There were no such charges for the nine months ended September 30, 2014.

**Other income, net.** Other income, net, was \$1.5 million for the nine months ended September 30, 2015, as compared to \$2.2 million for the nine months ended September 30, 2014, representing a decrease of \$0.7 million. The decrease between periods was primarily due to decreased interest income on average cash balances.

**Income tax expense.** We recognized income tax expense for the nine months ended September 30, 2015 of \$29.1 million and for the nine months ended September 30, 2014 of \$12.4 million at effective tax rates of (83.8)% and 45.4%, respectively. The increase in income tax expense is due primarily to the valuation allowance established against our deferred tax assets during the nine months ended September 30, 2015.

**Net income (loss).** Net loss was \$63.8 million for the nine months ended September 30, 2015 compared to net income of \$14.9 million for the nine months ended September 30, 2014, a decrease of \$78.7 million as a result of the factors discussed above.

## Liquidity and Capital Resources

We financed our operating activities and capital expenditures during the nine months ended September 30, 2015 and 2014, either through cash provided by operating activities, or through cash on hand. Our cash and cash equivalents were \$242.7 million at September 30, 2015, and \$207.0 million at December 31, 2014. At September 30, 2015 and December 31, 2014, we had restricted cash of \$24.6 million and \$25.9 million, respectively. At September 30, 2015 and December 31, 2014, we had investments of \$93.3 million and \$123.6 million, respectively.

We manage our excess cash pursuant to the quantitative and qualitative operational guidelines of our cash investment policy. Our cash investment policy, which is managed by our chief financial officer, has the following primary objectives: preserving principal, meeting our liquidity needs, minimizing market and credit risk, and providing after-tax returns. Under the policy's guidelines, we invest our excess cash exclusively in high-quality, U.S. dollar-denominated financial instruments. For a discussion of the measures we use to mitigate the exposure of our cash investments to market risk, credit risk and interest rate risk, see Part I, Item 3, "Quantitative and Qualitative Disclosures About Market Risk."

There was a slight decrease in the fair value of our short- and long-term investments at September 30, 2015, as compared to December 31, 2014. We believe that any fluctuations we have recently experienced are temporary in nature and that while some of our securities are classified as available-for-sale, we have the ability and intent to hold them until maturity, if necessary, to recover their full value.

### Available borrowing facilities

We previously had a \$50 million revolving line of credit (the "Facility") pursuant to an Amended and Restated Revolving Credit Agreement (the "Revolving Credit Agreement") with the lenders signatory thereto and Comerica Bank ("Comerica"). The Facility had an original term of three years and expired on April 13, 2015. Up through the date of expiration of the Facility, we had no borrowings outstanding under the Facility.

Under the Revolving Credit Agreement and the documents executed in connection therewith (collectively, the "Facility Loan Documents"), the lenders also agreed to make loans to us and issue letters of credit on our behalf, subject to specific terms and conditions. We had previously used the availability under the Facility to issue letters of credit, but subsequent to the expiration of the Facility, we collateralized the letters of credit with cash in the aggregate amount of \$6.4 million, which is included as restricted cash as of September 30, 2015.

The Facility Loan Documents contained other customary affirmative, negative and financial maintenance covenants, representations and warranties, events of default, and remedies upon an event of default, including the acceleration of debt and the right to foreclose on the collateral securing the Facility. Up through the date of expiration of the Facility, we had no outstanding financial covenants in the Facility Loan Documents.

For more information about the Facility Loan Documents, see Note 8, "Credit Facilities" to our condensed consolidated financial statements included in Part I, Item 1 of this report.

### Title IV funding

Our institutions derive the substantial majority of their respective revenues from students who enroll and are eligible for various federal student financial assistance programs authorized under Title IV of the Higher Education Act. Our institutions are subject to significant regulatory scrutiny as a result of numerous standards that must be satisfied in order to participate in Title IV programs. If we were to become ineligible to receive Title IV funding, our liquidity would be significantly impacted. For more information regarding Title IV programs and the regulation thereof, see "Business—Regulation" included in Part I, Item 1 of the Form 10-K. The balance of revenues derived by our institutions is from government tuition assistance programs for military personnel, including veterans, payments made in cash by individuals, reimbursement from corporate affiliates, private loans and internal loan programs.

The timing of disbursements under Title IV programs is based on federal regulations and our ability to successfully and timely arrange financial aid for our institutions' students. Title IV funds are generally provided in multiple disbursements before we earn a significant portion of tuition and fees and incur related expenses over the period of instruction. Students must apply for new loans and grants each academic year. These factors, together with the timing at which our institutions' students begin their programs, affect our revenues and operating cash flow.



**Operating activities**

Net cash provided by operating activities was \$16.6 million for the nine months ended September 30, 2015, as compared to net cash provided by operating activities of \$24.6 million for the nine months ended September 30, 2014, an overall decrease in net cash provided by operating activities of \$7.9 million between periods. This decrease was primarily due to the higher net loss of \$78.7 million between periods. This decrease was offset by the increases in non-cash charges in the period for asset impairment of \$38.8 million, the write down of deferred income tax assets of \$23.0 million and the termination of leased space of \$13.5 million. Additional factors was the relative change in the deferred revenue and student deposits balances between periods of \$5.3 million, which resulted from a smaller decrease in these balances in the current period due to a smaller decline in student enrollment. We expect to generate cash from our operating activities for the foreseeable future.

**Investing activities**

Net cash provided by investing activities was \$19.5 million for the nine months ended September 30, 2015, as compared to net cash used in investing activities of \$50.5 million for the nine months ended September 30, 2014. During the nine months ended September 30, 2015, we had purchases of investments of \$20.2 million, but sales and maturities of \$50.2 million. This is compared to purchases of investments of \$87.9 million and sales and maturities of \$50.0 million in the same period in 2014. Capital expenditures for the nine months ended September 30, 2015 were \$2.3 million, compared to \$9.6 million for the nine months ended September 30, 2014. We expect our capital expenditures to be approximately \$5.0 million for the year ending December 31, 2015.

**Financing activities**

Net cash used in financing activities was \$0.5 million for the nine months ended September 30, 2015, as compared to net cash provided by financing activities of \$2.2 million for the nine months ended September 30, 2014. During each of the nine months ended September 30, 2015 and September 30, 2014, net cash provided by financing activities includes the cash provided by stock option exercises, including any related tax benefit of those stock option exercises. During each of the nine months ended September 30, 2015 and September 30, 2014, net cash used in financing activities includes tax withholdings related to the issuance of shares upon the vesting of restricted stock units. Based on our current level of operations, we believe that our future cash flows from operating activities and our existing cash and cash equivalents will provide adequate funds for ongoing operations, planned capital expenditures and working capital requirements for at least the next 12 months.

**Significant Cash and Contractual Obligations**

The following table sets forth, as of September 30, 2015, certain significant cash and contractual obligations that will affect our future liquidity:

	Payments Due by Period						
	Total	2015	2016	2017	2018	2019	Thereafter
	(In thousands)						
Operating lease obligations	\$149,601	\$8,813	\$36,019	\$35,914	\$31,285	\$20,876	\$16,694
Other contractual obligations	31,676	2,059	5,921	3,696	2,500	2,500	15,000
Uncertain tax positions	7,932	—	—	7,932	—	—	—
Total	\$189,209	\$10,872	\$41,940	\$47,542	\$33,785	\$23,376	\$31,694

**Off-Balance Sheet Arrangements**

As part of our normal business operations, we are required to provide surety bonds in certain states where we do business. In May 2009, we entered into a surety bond facility with an insurance company to provide such bonds when required. As of September 30, 2015, our total available surety bond facility was \$12.0 million and the surety had issued bonds totaling \$3.4 million on our behalf under such facility.



## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605, Revenue Recognition. This literature is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This standard can be adopted using one of two retrospective application methods. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date, which defer the effective date of ASU 2014-09 by one year, to fiscal years beginning after December 15, 2017. We continue to evaluate the impacts, if any, the adoption of ASU 2014-09 and ASU 2015-14 will have on our financial position or results of operations.

In January 2015, the FASB issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20). This update simplifies the income statement presentation requirements and eliminates from accounting principles generally accepted in the United States (“GAAP”) the concept of extraordinary items, and essentially deletes the requirements in Subtopic 225-20. However, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments may be applied prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We adopted ASU 2015-01 effective April 1, 2015, and such adoption does not have a material effect on our consolidated financial statements.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

### Market and Credit Risk

Pursuant to our cash investment policy, we attempt to mitigate the exposure of our cash and investments to market and credit risk by (i) diversifying concentration to ensure that we are not overly concentrated in a limited number of financial institutions, (ii) monitoring and managing the risks associated with the national banking and credit markets, (iii) investing in U.S. dollar-denominated assets and instruments only, (iv) diversifying account structures so that we maintain a decentralized account portfolio with numerous stable, highly-rated and liquid financial institutions and (v) ensuring that our investment procedures maintain a defined and specific scope such that we will not invest in higher-risk investment accounts, including financial swaps or derivative and corporate equities. Accordingly, pursuant to the guidelines established by our cash investment policy, we invest our excess cash exclusively in high-quality, U.S. dollar-denominated financial instruments.

Despite the investment risk mitigation strategies we employ, we may incur investment losses as a result of unusual and unpredictable market developments, and we may experience reduced investment earnings if the yields on investments that are deemed to be low risk remain low or decline further in this time of economic uncertainty.

Unusual and unpredictable market developments may also create liquidity challenges for certain of the assets in our investment portfolio.

We have no derivative financial instruments or derivative commodity instruments.

### Interest rate risk

To the extent we borrow funds, we would be subject to fluctuations in interest rates. As of September 30, 2015, we had no outstanding borrowings.

Our future investment income may fall short of expectations due to changes in interest rates. At September 30, 2015, a hypothetical 10% increase or decrease in interest rates would not have a material impact on our future earnings, fair value or cash flows related to interest earned on our cash, cash equivalents or investments.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act, that are designed to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of any possible controls and procedures.

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) and Rule 15d-15(b) of the Exchange Act.

Based on this evaluation, our chief executive officer and our chief financial officer concluded that, as of September 30, 2015, our disclosure controls and procedures were not effective at the reasonable assurance levels because of the material weakness in our internal control over financial reporting described below. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected and corrected on a timely basis. Notwithstanding the material weakness described below, based on the performance of additional procedures by management designed to ensure the reliability of our financial reporting, management has concluded that our condensed consolidated financial statements included in this report are fairly stated in all material respects in accordance with GAAP for interim financial information for each of the periods presented herein.

Material Weakness in Internal Control Over Financial Reporting

We disclosed in Part II, Item 9A, "Controls and Procedures" of the Form 10-K that there were matters that constituted a material weakness in our internal control over financial reporting, as we did not maintain effective controls over the selection and application of GAAP related to revenue recognition. Specifically, the members of our management team with the requisite level of accounting knowledge, experience and training commensurate with our financial reporting requirements did not analyze certain accounting issues at the level of detail required to ensure the proper application of GAAP in certain circumstances.

The control deficiencies that gave rise to the material weakness could result in a material misstatement of our annual or interim financial statements that would not be prevented or detected and corrected on a timely basis. Accordingly, our management has determined that these control deficiencies constituted a material weakness that continues to exist as of September 30, 2015.

Management's Remediation Efforts

We are committed to remediating the control deficiencies that gave rise to the material weakness by implementing changes to our internal control over financial reporting. Management is responsible for implementing changes and improvements in our internal control over financial reporting and for remediating the control deficiencies that gave rise to the material weakness.

Throughout 2014, and during the nine months ended September 30, 2015, we have implemented measures to remediate the underlying causes of the control deficiencies that gave rise to the material weakness. These measures include the hiring of new accounting personnel, as well as providing additional training for existing personnel. These measures also include the implementation of financial reporting risk assessments and review processes to ensure the related significant accounting policies are implemented and applied properly under GAAP on a consistent basis throughout the Company. We have also established enhanced procedures to ensure appropriate review of accounting policies by the members of our management team with the requisite level of accounting knowledge, experience and training.



We believe the above measures will help remediate the control deficiencies that gave rise to the material weakness. However, we have not completed all of the corrective processes and procedures and the related evaluation or remediation that we believe are necessary. As we continue to evaluate and work to remediate the material weakness, we may determine to implement additional measures to address the underlying control deficiencies.

#### Changes in Internal Control Over Financial Reporting

As discussed above, during the three months ended September 30, 2015, management continued to implement certain remediation measures to improve our internal control over financial reporting and to remediate the previously identified material weakness. However, there were no changes to our internal control over financial reporting during the three months ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

For information regarding our legal proceedings, refer to Note 14, “Commitments and Contingencies” to our condensed consolidated financial statements included in Part I, Item 1 of this report, which note is incorporated by reference into this Part II, Item 1.

### Item 1A. Risk Factors.

Investing in our common stock involves risk. Before making an investment in our common stock, you should carefully consider the risk factors set forth below, as well as the risk factors discussed in Part I, Item 1A, “Risk Factors” of the Form 10-K and Part II, Item 1A, “Risk Factors” in our subsequent quarterly reports on Form 10-Q filed with the SEC (the “Form 10-Qs”). The risks described below and in the Form 10-K and Form 10-Qs are those which we believe are the material risks we face, and such risks could materially adversely affect our business, prospects, financial condition, cash flows and results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may impact us. Except as set forth below and in the Form 10-Qs, there have been no material changes in our risk factors from those previously disclosed in the Form 10-K.

#### Risks Related to Material Weakness In Internal Control Over Financial Reporting

We have identified a material weakness in our internal control over financial reporting. If our remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to further restate our financial results, which could adversely affect our stock price and result in our inability to maintain compliance with applicable stock exchange listing requirements.

During 2014, we concluded that there was a material weakness in our internal control over financial reporting, as we did not maintain effective controls over the selection and application of GAAP related to revenue recognition. Specifically, the members of our management team with the requisite level of accounting knowledge, experience and training commensurate with our financial reporting requirements did not analyze certain accounting issues at the level of detail required to ensure the proper application of GAAP in certain circumstances. Management evaluated our disclosure controls and procedures and internal control over financial reporting as of December 31, 2014 and concluded each was ineffective as of December 31, 2014. The Form 10-K reflects management’s conclusion regarding the effectiveness of our disclosure controls and procedures and internal control over financial reporting. The material weakness has not yet been remediated as of September 30, 2015 and as a result, management has determined that our disclosure controls and procedures continue to be ineffective as of September 30, 2015.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected and corrected on a timely basis. See Part I, Item 4, “Controls and Procedures.” The existence of this issue could adversely affect us, our reputation and investors' perceptions of us.

We have begun to implement measures to remediate the underlying causes of the control deficiencies that gave rise to the material weakness. These measures include the hiring of new accounting personnel, as well as providing additional training for existing personnel. These measures also include implementation of financial reporting risk assessments and review processes to ensure the related significant accounting policies are implemented and applied properly under GAAP on a consistent basis throughout the Company. We have also established enhanced procedures to ensure appropriate review of accounting policies by the members of our management team with the requisite level of accounting knowledge, experience and training.

However, we have not completed all of the corrective processes and procedures and the related evaluation or remediation that we believe are necessary. As we continue to evaluate and work to remediate the material weakness, we may determine to implement additional measures to address the underlying control deficiencies. The actions we are taking to remediate the material weakness are subject to ongoing senior management review, as well as oversight by the audit committee of our board of directors.



If our remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to further restate our financial results, which could adversely affect our stock price and result in our ability to maintain compliance with applicable stock exchange listing requirements.

#### Risks Related to the Extensive Regulation of Our Business

The failure of our institutions to demonstrate compliance with state laws may result in liability to, or remedial action against, our institutions, including recoupment by the Department of discharged student loan funds under the “defense to repayment” provisions of the federal Direct Loan program regulations.

On June 8, 2015, the Department held a press conference and released a document entitled “Fact Sheet: Protecting Students from Abusive Career Colleges” in which the Department announced processes that will be established to assist students who may have been the victims of fraud in gaining relief under the “defense to repayment” provisions of the federal Direct Loan program regulations. Rarely used in the past, the defense to repayment provisions allow a student to assert as a defense against repayment of federal Direct Loans any commission of fraud or other violation of applicable state law by the school related to such loans or the educational services paid for. The processes outlined by the Department on June 8 include (i) extending debt relief eligibility to groups of students where possible, (ii) providing loan forbearance and pausing payments while claims are being resolved, (iii) appointing a Special Master dedicated to borrower defense issues for students who believe they have a defense to repayment, (iv) establishing a streamlined process and (v) building a better system for debt relief for the future. The Department noted that building a better system for debt relief would involve developing new regulations to clarify and streamline loan forgiveness under the defense to repayment provisions, while maintaining or enhancing current consumer protection standards and strengthening provisions that hold schools accountable for actions that result in loan discharges. As part of its efforts to hold schools accountable, the Department could seek recoupment of any discharged federal Direct Loan funds from the school. The Department stated that they will continue to take aggressive action to ensure defrauded borrowers get the debt relief they are entitled to, step up oversight and enforcement to identify schools that present the greatest risk to students and taxpayers, and hold schools accountable for their actions.

In addition to relief under the defense to repayment provisions, students may qualify for a closed school discharge pursuant to which they receive forgiveness of the federal Direct Loans, FFEL Program loans, or federal Perkins Loans they took out to attend a school if the school closes either while they are attending or within 120 days after they withdraw from the school.

The failure of our institutions to comply with state laws may result in liability to, or remedial action against, our institutions, including recoupment by the Department of discharged student loan funds under the defense to repayment provisions. The assertion of any claims by our institutions' students under the “defense to repayment” provisions and any resulting remedial action, or any recoupment by the Department of discharged student loan funds pursuant to either the defense to repayment provisions or a closed school discharge, could damage our reputation in the industry and have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

We face litigation and legal proceedings that could have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

We and our institutions are subject to lawsuits, investigations and claims covering a wide range of matters. We are the subject of complaints alleging violations of various laws, including but not limited to federal securities laws (including a securities class action), the federal False Claims Act and state employment laws, as well as investigations by state Attorneys General in California, Iowa, Massachusetts, New York and North Carolina, the Consumer Finance Protection Bureau and the SEC. Derivative shareholder complaints have also been asserted on our behalf against certain of our current and former officers and directors alleging breaches of fiduciary duties, waste of corporate assets and unjust enrichment. These and other legal proceedings could cause us to incur significant defense costs, are disruptive to our normal business operations, and could damage our reputation or adversely affect our stock price. An adverse outcome of any legal proceeding could result in monetary losses or restrictions on our business, which could have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.





Our institutions may be required to modify or eliminate certain programs if they do not lead to gainful employment in a recognized occupation, as determined by the Department.

In 2014, the Department published new Gainful Employment regulations impacting programs required to prepare graduates for gainful employment in a recognized occupation. Almost all academic programs offered by Title IV-participating private sector institutions of higher education must prepare students for gainful employment in a recognized occupation. The new Gainful Employment regulations, which became effective July 1, 2015, contain a three-part framework that requires (i) certification by an institution that its gainful employment programs meet certain requirements, (ii) minimum standards to be met regarding the debt burden versus earnings of the graduates of gainful employment programs and (iii) disclosures by an institution regarding the performance and outcomes of their gainful employment programs. Both Ashford University and University of the Rockies have been notified by the Department that the Department does not believe that our institutions fully responded to the disclosures required and that this is an indication of a serious lack of administrative capability, and that as a result the Department will not make any decisions regarding the addition of any new programs and locations until the reporting requirements are met. We are currently working with the Department to address their concerns with respect to the reporting of our institutions under the Gainful Employment regulations. The Department has informed us that failure to fully comply in all Gainful Employment data reporting requirements will result in the referral of the errant institution to the Department's Administrative Actions and Appeals Service Group for consideration of an administrative action against that institution. Administrative actions may include a fine, or the limitation, suspension, termination of institutional eligibility to participate in the Title IV, HEA programs, or revocation of AU's provisional program participation agreement.

Under the final Gainful Employment regulations, the continuing eligibility of certain of our educational programs for Title IV program funding is at risk due to a number of factors, some of which are beyond our control including, without limitation, changes in the actual or deemed income level of our graduates, changes in student borrowing levels, increases in interest rates, changes in the federal poverty income level relevant for calculating discretionary income, changes in the percentage of our former students who are current in repayment of their student loans, and other factors. Because definitive information necessary to determine how our programs will fare under the accountability measures is not available at this time, we are unable to reliably predict the impact of the new Gainful Employment regulations. However, we are currently using available data to evaluate which programs are at risk of failing under the new requirements. These factors, information and data could reduce our ability to confidently offer or continue certain types of programs for which there is a market demand, and our failure to comply with the requirements of the final Gainful Employment regulations could result in our institutions or certain of their programs being disqualified from participation in Title IV Programs, any of which could have a material adverse effect on enrollments and our business, financial condition, results of operations and cash flows.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit	Description
3.1	Fifth Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 filed on May 21, 2009).
3.2	Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 to the Company's Registration Statement on Form S-1 filed on March 20, 2009).
4.1	Specimen of Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 filed on March 30, 2009).
4.2	Second Amended and Restated Registration Rights Agreement (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-1 filed on September 4, 2009).
10.1	# Release of All Claims, by and between the Company and Daniel Devine, dated October 20, 2015.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Andrew S. Clark, President and Chief Executive Officer, and Russell Sakamoto, Chief Accounting Officer.
99.1	Disclosure required pursuant to Section 13(r) of the Securities Exchange Act of 1934, as amended.
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 5, 2015, formatted in Extensible Business Reporting Language ("XBRL"): (i) the Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014; (ii) the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014; (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) the Condensed Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2015; (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014; and (vi) the Notes to Condensed Consolidated Financial Statements.

#Indicates management contract or compensatory plan or arrangement.

SIGNATURES

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

BRIDGEPOINT EDUCATION, INC.

November 5, 2015

/s/ RUSSELL SAKAMOTO

Russell Sakamoto

Chief Accounting Officer

(Principal financial officer and duly authorized to  
sign on behalf of the registrant)