Bridgepoint Education Inc
Form 10-K
March 08, 2016

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

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

For the fiscal year ended December 31, 2015
or

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

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)
Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)	(Name of Each Exchange on Which Registered)
Common Stock $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
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 x No o
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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes x No o

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2015, the last business day of the registrant's second fiscal quarter, was approximately $162.4 million, based on the closing price of the registrant's common stock as reported on such date by the New York Stock Exchange. Shares of common stock held by officers, directors and holders of 5% or more of the outstanding common stock have been excluded from the calculation of this amount because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 2, 2016, the number of outstanding shares of the registrant's common stock, par value $0.01 per share, was 45,957,061, net of treasury shares.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for its 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein.

BRIDGEPOINT EDUCATION, INC.
FORM 10-K
INDEX

Special Note Regarding Forward-Looking Statements		3
PART I		5
Item 1.	Business	5
Item 1A.	Risk Factors	27
Item 1B.	Unresolved Staff Comments	49
Item 2.	Properties	49
Item 3.	Legal Proceedings	50
Item 4.	Not Applicable	50
PART II		51
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	51
Item 6.	Selected Consolidated Financial Data	53
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	54
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	68
Item 8.	Financial Statements and Supplementary Data	70
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	114
Item 9A.	Controls and Procedures	114
Item 9B.	Other Information	115
PART III		116
Item 10.	Directors, Executive Officers and Corporate Governance	116
Item 11.	Executive Compensation	116
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	116
Item 13.	Certain Relationships and Related Transactions, and Director Independence	116
Item 14.	Principal Accounting Fees and Services	116
PART IV		117
Item 15.	Exhibits, Financial Statement Schedules	117

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), 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. These forward-looking statements are contained principally in Item 1, “Business,” Item 1A, “Risk Factors” and Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” but appear throughout this Annual Report on Form 10-K. Such forward-looking statements may include, among others, statements regarding future events, the future financial and operating results of Bridgepoint Education, Inc. (the “Company,” “Bridgepoint,” “we,” “us” or “our”), 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 weaknesses in our internal control over financial reporting discussed in Item 9A, “Controls and Procedures”;
- Ashford University's ability to continue to operate an accredited institution subject to the requirements of the California Bureau for Private Postsecondary Education (“BPPE”);
- 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 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 timing and effect of 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 ex 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. Important factors that could cause actual performance or results to differ materially from our expectations include, but are not limited to:

- our inability to successfully remediate the control deficiencies that gave rise to the material weaknesses in our internal control over financial reporting as discussed in Item 9A, “Controls and Procedures”;
- the inability of Ashford University to comply with the additional reporting and disclosure obligations arising as a result of its operation as a BPPE-approved institution;

- the inability of Ashford University to adequately resolve the findings and recommendations of the final audit report of the U.S. Department of Education's Office of Inspector General (the "OIG");
- the imposition of fines or other corrective measures against our institutions;
- adverse regulatory changes affecting our industry;
- our failure to comply with the extensive and continually evolving regulatory framework applicable to our industry, including Title IV of the Higher Education Act and its implementing regulations, the Gainful Employment rules and regulations, state laws and regulatory requirements, and accrediting agency requirements;
- our inability to continue to develop awareness among, and to recruit and retain, students;
- competition in the postsecondary education market and its potential impact on our market share, recruiting costs and tuition rates;
- reputational and other risks related to potential compliance audits, regulatory actions, negative publicity or service disruptions;
- our inability to develop new programs or expand existing programs in a timely and cost-effective manner;
- economic or other developments potentially impacting demand in our institutions' core disciplines or the availability or cost of Title IV or other funding;
- the preceding and other factors discussed in Item 1A, “Risk Factors,” and in other reports we may file with the Securities and Exchange Commission (the "SEC") from time to time; and
- the factors set forth in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations.”

All forward-looking statements in this report are qualified in their entirety by the cautionary statements included in this report, and you should not place 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.

PART I

Item 1. Business.

BUSINESS

Overview

We are a provider of postsecondary education services. We believe that our academic institutions, Ashford University® and University of the Rockies℠, embody the contemporary college experience. Our institutions deliver programs primarily online. Our institutions had a total of 49,159 students enrolled as of December 31, 2015.

Our institutions' online delivery models, weekly start dates, commitment to affordability and transferability of credits make their programs highly accessible. Our institutions' online platform has been designed to deliver a quality educational experience while offering the flexibility and convenience that many students require, particularly working adults. Our institutions are committed to providing a high-quality educational experience to their students. Our institutions have a comprehensive curriculum development process and employ qualified faculty members with significant academic and practitioner credentials. Our institutions conduct ongoing faculty and student assessment processes and provide a broad array of student services.

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.

Ashford University. In March 2005, we acquired The Franciscan University of the Prairies, located in Iowa, and renamed it Ashford University. The mission of Ashford University is to provide accessible, affordable, innovative, high-quality learning opportunities and degree programs that meet the diverse needs of individuals pursuing integrity in their lives, professions and communities. We believe Ashford University is helping to define the modern college experience by providing the flexibility and effectiveness of online learning. The institution offers associate's, bachelor's and master's degree programs online, as well as bachelor's degree programs at its campus in Clinton, Iowa. Ashford University is comprised of four colleges: the Forbes™ School of Business, the College of Education, the College of Health, Human Services and Sciences, and the College of Liberal Arts.

In July 2015, the Ashford University Board of Trustees made the decision to close the Clinton Campus after the 2015-2016 academic year, following the implementation of a one-year teach-out plan. On December 22, 2015, the Company entered into a Purchase Agreement and Escrow Instructions with Clinton Catalyst, LLC (“Catalyst”) pursuant to which the Company agreed to sell the Clinton Campus to Catalyst for $1.6 million. Simultaneously with the closing of the sale on December 29, 2015, the Company entered into a Lease Agreement with Catalyst pursuant to which the Company is leasing the Clinton Campus from Catalyst through December 31, 2016 at $12,500 per month plus standard operating expenses.

Ashford University is accredited by WASC Senior College and University Commission (“WSCUC”). For additional information regarding accreditation, see “Regulation — Accreditation” below. Ashford University also maintains a website at www.ashford.edu, the contents of which are not incorporated by reference into, or in any way a part of, this report.

University of the Rockies. In September 2007, we acquired the Colorado School of Professional Psychology, located in Colorado, and renamed it University of the Rockies. The mission of University of the Rockies is to provide high-quality, accessible learning opportunities globally for diverse groups of individuals seeking preparation for life goals, professional practice, service and distinguished leadership. University of the Rockies is a graduate institution that offers master's and doctoral degree programs in the social and behavioral sciences. Classes at University of the Rockies are presented in a progressive online format, as well as at its campus in Denver, Colorado. The majority of students at University of the Rockies attend via the institution's accessible online platform, which is also available through our mobile applications.

University of the Rockies is accredited by the Higher Learning Commission (“HLC”). For additional information regarding accreditation, see “Regulation — Accreditation” below. University of the Rockies also maintains a website at www.rockies.edu, the contents of which are not incorporated by reference into, or in any way a part of, this report.

Innovation and new technologies. Central to our ideal of enabling learning anytime, anywhere is the commitment to provide learning platforms and resources that make accessible learning a reality. These innovations include Constellation, Waypoint Outcomes and our mobile application technology.

5

Constellation is an innovative suite of interactive educational materials that increases both the educational quality and affordability of education for online students at Ashford University. We developed Constellation to replace third-party textbooks with digital course materials, and in doing so, we were able to decrease the costs to the student and increase student accessibility and learning. Constellation materials are displayed in a proprietary, browser-based platform developed and owned by the Company. Constellation provides mobile access to students over the Internet as well as on a variety of devices, including web-enabled smartphones and tablet devices.

Waypoint Outcomes provides learning and assessment software to our institutions. The software combines classic rubric grading scales with easy, efficient technology to help educators teach writing, critical thinking and cognitive skills. Its sophisticated grading palette frees teachers to focus on meaningful, personalized feedback for students by automating repetitive tasks.

Ashford University also utilizes mobile application technology that empowers students and faculty to connect to their learning environment via their web-enabled smartphones and tablet devices. These innovations have garnered significant interest within the academic community and have led to invitations for our personnel to speak at various academic conferences.

Enrollment

The following table summarizes period-end enrollment at our institutions as of December 31, 2015, 2014 and 2013:

	December 31, 2015			December 31, 2014			December 31, 2013		
Doctoral	753	1.5	%	870	1.6	%	919	1.4	%
Master's	6,591	13.4	%	7,152	12.8	%	8,377	13.2	%
Bachelor's	39,480	80.4	%	44,730	80.1	%	49,634	78.0	%
Associate's	1,483	3.0	%	2,269	4.1	%	4,182	6.6	%
Other*	852	1.7	%	802	1.4	%	512	0.8	%
Total	49,159	100.0	%	55,823	100.0	%	63,624	100.0	%
Ashford University Online	47,463	96.5	%	53,501	95.9	%	60,910	95.6	%
Ashford University Campus	331	0.7	%	619	1.1	%	796	1.3	%
University of the Rockies Online	1,266	2.6	%	1,580	2.8	%	1,758	2.8	%
University of the Rockies Campus	99	0.2	%	123	0.2	%	160	0.3	%
Total	49,159	100.0	%	55,823	100.0	%	63,624	100.0	%

* Includes students who are taking one or more courses with our institutions, but have not declared that they are pursuing a specific degree.

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

As of December 31, 2015, 69% of our institutions' online students were female, 54% identified themselves as minorities and the average age of online students was 36. Our institutions have online students throughout the United States, as well as students from 37 different countries.

Graduation

As of December 31, 2015, more than 93,200 students have graduated from our combined institutions. Total credits required to obtain a degree are consistent for online and campus-based programs: an associate's degree requires a minimum of 64 credits; a bachelor's degree requires a minimum of 120 credits; a master's degree typically requires a minimum of 30 additional credits; and a doctoral degree at University of the Rockies requires a minimum of 62 additional credits.

Many students have previously completed some postsecondary education and have credits they would like to transfer to a new degree program. Because we believe students should receive credit for their prior work, our institutions have worked closely with their accrediting agencies to obtain the right to accept a high level of transfer credits.

Tuition and Fees

Our institutions generally structure the tuition and fees for programs to be below Title IV loan limits and average grant awards, affording students who do not otherwise have the financial means to pursue an education the ability to gain access to our institutions' programs. We recognize that private loans are increasingly difficult to obtain, which can prevent academically qualified students from pursuing an education at institutions with higher tuition and fees. We believe that helping to remove the financial burden of obtaining incremental private loans while pursuing a postsecondary education not only permits more students to access our institutions' programs, but also enables students to focus more on their coursework and on program completion while in school.

The price of our institutions' courses varies based upon the number of credits per course (with most courses representing three credits), the degree level of the program and the discipline. For the 2015-2016 academic year (which began on July 1, 2015), the price per credit is $430 for undergraduate online courses and ranges from $560 to $1,082 for graduate online courses. Based on these per credit prices, the prices for a three-credit course are $1,290 for undergraduate online courses and range from $1,680 to $3,246 for graduate online courses. We anticipate a tuition increase of approximately 3.0% for undergraduate online students at Ashford University for courses beginning on April 1, 2016.

Revenue realized from tuition is reduced by the amount of scholarships awarded to students. For the years ended December 31, 2015, 2014 and 2013, we recorded institutional scholarships of $102.2 million, $105.1 million and $113.5 million, respectively, to students of our institutions.

Student Financing

Students finance their education at our institutions through a combination of financing options as described below.

Title IV programs

If a student attends any institution certified as Title IV eligible by the U.S. Department of Education (the “Department”) and meets applicable student eligibility standards, that student may receive grants or loans to help fund their education under programs authorized by Title IV of the Higher Education Act (“Title IV”). An institution participating in federal student financial aid programs authorized by Title IV (“Title IV programs”) must ensure that all program funds are accounted for and disbursed properly. To continue receiving program funds, students must demonstrate satisfactory academic progress toward the completion of their program of study.

In the years ended December 31, 2015, 2014 and 2013, Ashford University derived 80.9%, 83.4% and 85.6% respectively, and University of the Rockies derived 86.6%, 88.3% and 87.6%, respectively, of their revenues (in each case calculated in accordance with applicable Department regulations) from Title IV program funds.

Federal Direct Loans. The federal Direct Loan Program consists of two types of loans: Stafford loans, which are either subsidized or unsubsidized, and PLUS loans, which are made available to graduate and professional students, as well as parents of dependent undergraduate students.

With a Direct Subsidized Loan, the federal government pays the interest on the loan while the student is in school and during grace periods and any approved periods of deferment, until the student's obligation to repay the loan begins. Direct Unsubsidized Loans are not based on financial need and are available to students who do not qualify for a Direct Subsidized Loan, or in some cases, in addition to a Direct Subsidized Loan. Loan funds are paid to our institutions, which in turn credit the student's account for tuition and fees and disburse any amounts in excess of tuition and fees to the student. The Budget Control Act of 2011 provides that for loan periods beginning on or after July 1, 2012, graduate and professional students are no longer eligible to receive Direct Subsidized Loans; however, graduate and professional students remain eligible for Direct Unsubsidized Loans. The Consolidated Appropriations Act of 2012 temporarily eliminated the interest subsidy provided on Direct Subsidized Loans during the six-month grace periods provided to students who are no longer enrolled on at least a half-time basis, effective for new Direct Subsidized Loans for which the first disbursement was made on or after July 1, 2012 and before July 1, 2014.

In July 2012, President Obama signed into law the Moving Ahead for Progress in the 21st Century Act (“MAP-21”), which provided a one-year extension of the 3.4% interest rate that applied to Direct Subsidized Loans made to undergraduate students for loans first disbursed on or after July 1, 2012 and before July 1, 2013. MAP-21 limits a first-time borrower’s eligibility for Direct Subsidized Loans on or after July 1, 2013 to a period not to exceed 150% of the length of the borrower’s program. MAP-21 also provides that a borrower who reaches the 150% limit on or after July 1, 2013 becomes ineligible for interest subsidy benefits on all Direct Subsidized Loans.

7

Under the Direct Stafford Loan Program, a dependent undergraduate student can borrow up to $5,500 for the first academic year, $6,500 for the second academic year and $7,500 for each of the third and fourth academic years. Students classified as independent, and dependent students whose parents have been denied a PLUS loan for undergraduate students, can obtain up to an additional $4,000 for each of the first and second academic years and an additional $5,000 for each of the third and fourth academic years. Students enrolled in graduate programs can borrow up to $20,500 per academic year.

In August 2013, President Obama signed into law the Bipartisan Student Loan Certainty Act of 2013, which amended the Direct Loan interest rate section of the Higher Education Act. Under the law, interest rates will be established each year for Direct Subsidized Loans, Direct Unsubsidized Loans, and PLUS loans for which the first disbursement is on or after July 1 of that year through the following June 30. The interest rate, once established, will be fixed and apply for the life of the loan. With respect to loans for which the first disbursement is on or after July 1, 2015 but before July 1, 2016, the interest rates are (i) 4.29% for Direct Subsidized Loans and Direct Unsubsidized Loans for undergraduate students, (ii) 5.84% for Direct Unsubsidized Loans for graduate/professional students and (iii) 6.84% for PLUS loans.

Pell Grant Program. Under the Pell Grant Program, the Department makes grants to undergraduate students who demonstrate financial need. Under the August 2008 reauthorization of the Higher Education Act, students were able to receive Pell Grant funds for attendance on a year-round basis, and could potentially receive more in a given year than the traditionally defined maximum annual amount. However, the U.S. Department of Defense and Full-Year Continuing Appropriations Act of 2011 permanently repealed the Pell Grant provision that provided an otherwise eligible student with more than one Pell Grant in an award year, effective with the 2011-2012 award year. Beginning with the 2012-2013 award year, a student's eligibility to receive a Pell Grant was reduced from 18 semesters (or its equivalent) to 12 semesters (or its equivalent). The funding for Labor, Health and Human Services, and Education appropriations is part of the Consolidated Appropriations Act, 2014, which was signed into law by President Obama in January 2014 and provided full funding for Pell Grant award year 2014-2015 of $5,730, subject to change annually. The funding amount for Pell Grant award year 2015-2016 increased to $5,775.

Non-Title IV funding sources

Other funding sources consist of payments made in cash by individuals, private loans, reimbursement from corporate affiliates, government tuition assistance programs for military personnel, including veterans, and internal loan programs. In the years ended December 31, 2015, 2014 and 2013, Ashford University derived 19.1%, 16.6% and 14.4%, respectively, and University of the Rockies derived 13.4%, 11.7% and 12.4%, respectively, of their respective revenues (in each case calculated in accordance with applicable Department regulations) from these other funding sources.

Financial aid processing

Our institutions have engaged Xerox Business Solutions (“XBS”) to provide call center and transactional processing services for the online financial aid student populations at our institutions, including services related to disbursement eligibility review and Title IV fund returns. We believe the engagement of XBS centralizes these processing services to improve student financing outcomes, and enhances efforts to comply with Title IV rules and regulations. If the engagement with XBS were terminated, we would need to handle these processing services using our own resources or engage another third-party vendor, if available.

Curricula and Scheduling

Our institutions are committed to providing their students with a rigorous and rewarding academic experience that gives them the knowledge and experience necessary to be contributors, educators and leaders in their chosen professions. Our institutions seek to maintain a high level of quality in curriculum, faculty and student support services, all of which contribute to the overall student experience. Curriculum is reviewed annually to ensure that content is refined and updated as necessary. Our institutions provide extensive student support services, including academic, administrative and technology support, to help maximize the success of their students. Additionally, our institutions monitor the success of their educational delivery processes through periodic faculty and student assessments. Our institutions believe their commitment to quality is evident in the satisfaction and demonstrated proficiency of their students, which is measured at the completion of every course.

As of December 31, 2015, our institutions offered approximately 1,850 courses, 80 degree programs and 150 specializations. Specialization areas are comprised of a select number of courses within an existing program that

supplement that program's required courses. Specialization areas focus on one area of study and may also be offered under the designation of concentration, endorsement or track. Programs and specialization areas are offered through Ashford University's four colleges, the Forbes School of Business, the College of Education, the College of Health, Human Services and Science, and the College of Liberal Arts, and through University of the Rockies' two schools, the School of Organizational Leadership and the School of Professional Psychology.

Our institutions' online courses are offered with weekly start dates throughout the year, except for two weeks total in late December and early January. Courses typically run five to six weeks and all courses are offered in an asynchronous format so students can complete their coursework as their schedule permits. Online students typically enroll in one course at a time. This focused approach to learning allows the student to engage fully in each course. Our institutions' campus-based courses are typically nine or 16 weeks in length and have one start per term, with two to five terms per year. Undergraduate campus-based students can enroll in up to six concurrent courses at a time and typically enroll in at least four courses in a given semester.

Doctoral students, both online and campus-based, are required to participate in periodic seminars located on campus and compose and defend a dissertation on an approved topic.

Program Development

Our institutions design their academic offerings to meet the needs of a broad cross-section of prospective students. In addition to adding programs in high-demand disciplines, our institutions intend to enhance their programs through the addition of more specializations in the future. Specializations are used to create an offering that is tailored to the specific objectives of a student population and, therefore, is more attractive to potential students interested in a particular program. The addition of specializations represents a cost-effective way to both expand our market and further enhance the differentiation of our institutions' programs in that market. Additionally, our institutions intend to expand their portfolio of master's and doctoral degree programs, consistent with our commitment to a quality academic offering, and to pursue increased graduate student enrollments because we believe graduate students represent an attractive segment of the market.

Our institutions seek to offer programs in disciplines in which there is strong demand for education and significant opportunity for employment. Our institutions' current program portfolio includes offerings at the associate's, bachelor's, master's and doctoral levels in the disciplines of business, education, psychology, social sciences and health sciences. Our institutions follow a defined process for identifying new degree program opportunities that incorporates student, faculty and market feedback, as well as macro trends in the relevant disciplines, in order to evaluate the expected level of demand for a new program prior to developing the content and marketing it to potential students.

Potential new programs and specializations are determined based on proposals submitted by faculty and staff and an assessment of overall market demand. Our institutions' faculty and academic leadership work in collaboration with our marketing team to research and select new programs that are expected to have strong demand and that can be developed at a reasonable cost. Programs are reviewed by the respective institution and must also receive approval through the normal governance process at the relevant institution.

Once a program is selected for development, one or more subject matter experts are assigned to work with curriculum development staff to define measurable program-level student learning objectives. Each course in a program is designed to include learning activities that address the program objectives, foster student engagement and assess learning outcomes. All courses undergo extensive internal and external third-party quality assurance reviews before they are offered to students. A new program is reviewed for approval through the appropriate governance processes. Following approval, an online program is conformed to the standards of our online learning management system and our marketing department creates a marketing plan for the program. In most cases, the time frame to identify, develop and internally approve a new program is approximately six months, not including the external regulatory approvals required before a program can be offered to students.

Assessment

Each of our institutions have developed and implemented a comprehensive assessment plan focused on student learning and effective instruction. The plans stipulate assessment of learning outcomes at the course, program and institutional levels. Learning outcomes are unique to each institution and demonstrate the skills that graduates should be able to demonstrate upon completion of their respective programs. With the assistance of our dedicated assessment team, our institutions' faculty routinely evaluates and revises courses and learning resources based upon outcomes and institutional research data. Using direct and indirect measurements, student performance is assessed on an ongoing basis to ensure student success.

We utilize Waypoint Outcomes, our proprietary assessment platform, which is an innovative, web-based assessment system of interactive rubrics, to gather data from specific learning activities. Data results from Waypoint Outcomes

are shared with the student and are also accessible by the faculty and program administrators.

In addition to course and program assessments, faculty instructional performance is continuously assessed by the institutional deans and instructional specialists and by results of student surveys at the completion of each course. The results of

all of our assessment practices are reviewed by an assessment team, including faculty, and based on their conclusions, recommendations may be made to add to or modify our institutions' programs.

Branding and Marketing

We have invested significant resources in developing processes and implementing technologies that allow us to effectively identify, recruit and retain qualified students. We develop and participate in various marketing activities to generate leads for prospective students and to build the Bridgepoint Education, Ashford University and University of the Rockies brands.

For our institutions' online student population, we align ourselves with working adults, many of whom have already completed some postsecondary courses and are seeking an accessible, affordable education from a quality institution. The admissions policies that require the minimum age of 22 for online students at Ashford University are focused on attracting more mature students with a greater commitment to completing their degrees.

Our branding campaign utilizes digital channels to communicate the Ashford University message. Additionally, leads are generated from online sources, with the main source of leads being third-party online lead aggregators. We also purchase keywords from search providers to generate online leads directly, rather than acquiring them through aggregators. Additionally, we have a team internally who focuses on generating online leads through search engine optimization techniques.

Recruiting and Admissions

Our institutions employ a team structure in their recruiting operations. Each team consists of admissions counselors, financial services advisors and academic advisors. The teams provide a single point of contact and facilitate all aspects of enrollment and integration of a prospective student into a program of study. The team structure promotes internal accountability among employees involved in identifying, recruiting, enrolling and retaining new students.

All leads are managed through our proprietary customer relations management (“CRM”) system, which directs a lead for a prospective student to a recruiting team and assigns an admissions counselor within that team to serve as the primary liaison for that prospective student. Once contact with a prospective student is established, admissions counselors, along with the academic and financial services advisors, begin an assessment process to determine if our institutions' program offerings match the student's needs and objectives. Additionally, admissions counselors communicate other criteria, including expected duration and cost of the programs, to prospective students. Through our proprietary systems, admissions counselors are able to generate a comparison of tuition levels across our competitors in order to help prospective students make more informed decisions.

Each admissions counselor goes through a comprehensive training program that addresses our institutions' academic offerings, financial aid options and the regulatory environment in which we operate, including the restrictions that regulations impose on the admissions process. We place significant emphasis on regulatory requirements and demand an environment of strict compliance.

Military and corporate channel relationships are developed and managed by channel development teams. Our military development specialists and corporate liaisons work with representatives in these organizations to demonstrate the quality, impact and value that our institutions' programs can provide to individuals in the organizations, as well as to the organizations themselves. We believe our institutions' educational offerings are attractive to potential students in these markets. Military students may frequently change locations or seek to complete a program intermittently over the course of several years. As of December 31, 2015, approximately 28.0% of our institutions' students were affiliated with the military, as either service members or veterans or their spouses. In the corporate channel, we believe employers value our institutions' affordability, which allows employer tuition reimbursements to be used more efficiently.

The admissions process is designed to offer access to prospective students who seek the benefits of a postsecondary education. Ashford University undergraduate students may qualify in various ways, including by having a high school diploma or a General Educational Development (GED) equivalent. Graduate level students at Ashford University and University of the Rockies are required to have an undergraduate degree from an accredited college and may be required to have a minimum grade point average or meet other criteria to qualify for admission to certain programs.

Retention

Once a student enrolls in an online program, the institution provides consistent, ongoing support to assist the student in acclimating to the online environment and to address challenges that arise in order to increase the likelihood that the

student will persist through graduation.

Providing a superior learning experience to every student is a key component in retaining students at our institutions. We feel that our team-based approach to recruitment and the robust student services we provide enhance retention because of each student's interaction with their team and the accountability inherent in the team structure. We also incorporate a systematic approach to contacting students at key milestones during their experience at our institutions, providing encouragement and highlighting their progress. There are frequent personal interactions between academic advisors and students, which we view as a key component to our retention strategy. Additionally, we employ a retention committee that monitors performance metrics and other key data to analyze student retention rates, as well as the causes and potential risks for student drops. Also, our dispute resolution department serves as a neutral third party for students to raise any concerns or complaints. Such concerns and complaints are then elevated to the appropriate department so we may proactively address those issues.

Ashford University has various initiatives focused on academic quality and student success that we believe help students succeed in their programs, help retain higher quality students and ultimately increase student retention. In the area of academic quality, Ashford University increased the size of its student support team, increased the number of full-time faculty and implemented a smaller class size initiative. In the area of student success, Ashford University has expanded its orientation program, broadened its refund policy, redefined the minimum age for all students, and made the decision to eliminate certain associate programs.

Ashford University has a free two-week orientation course that is mandatory for all incoming students who have not earned any previous college credits. The orientation is designed to provide students with a complete overview of the online classroom experience, prepare them for success in their courses, and help them self-evaluate their readiness to succeed in an online college setting. The experience provides a realistic, up-front overview of expectations so that students are aware of what is expected of them as they prepare for their studies. Students also gain an understanding of how to access and navigate within the online classroom so they can feel confident when they move to their first course in their respective programs. For students taking the orientation course, successful completion of all orientation activities is a requirement before they can enroll in their first class.

Ashford University also offers the “Ashford Promise,” which allows a student to experience the first three weeks of his or her first class before incurring any financial obligation. At any time during these first three weeks, students who do not demonstrate satisfactory academic progress, or those who simply opt out, will not be admitted as students. These individuals will not be responsible for any tuition or fees, and therefore will not incur any debt. We believe the Ashford Promise initiative helps increase student retention while reducing the financial risk to the student.

Technology

We have created a scalable technology system that we believe is secure, reliable and redundant, and permits our institutions' courses and support services to be offered online.

Online course delivery and management

We use the eCollege online learning platform provided by Pearson eCollege (“eCollege”), a third-party software and services provider, as our online platform. The platform provides an online learning management system and provides for the storage, management and delivery of course content. The platform includes collaborative spaces for student communication and participation with other students and faculty, grade and attendance management for faculty, and assessment capabilities to assist us in maintaining quality. eCollege hosts the software for us in its data center to allow us to efficiently scale the applications to meet the needs of our institutions' student populations. Access to our systems is provided through student portals, an extension of our institutions' respective websites. These portals are dynamic destinations for students to securely access personal information and services and also serve as vehicles for student communications, activities and student support services.

Internal administration

Ashford University utilizes a CRM application from Campus Management Corp. for lead management, workflow, analytics, reporting and a complete view of our students. This tool enables Ashford University to view the entire student history from the lead to graduation, individually or in cohorts, and to respond appropriately. University of the Rockies utilizes an internally developed proprietary CRM system for lead management, document management, workflow, analytics and reporting. Both institutions utilize online application portals to accept, integrate and process student applications.

Both institutions utilize CampusVue, a student information system provided by Campus Management Corp., to manage student data (including grades, attendance, status and financial aid) and to generate periodic management reports. This system interfaces with our online learning management system provided by eCollege.

Constellation

Constellation is our proprietary learning platform that takes the best features of traditional textbooks and combines them with the best features of the Internet to create a premium student experience. Constellation gives students access to their digital course materials across platforms without sacrificing time-tested studying tools like highlighting and note taking. Constellation includes customized content geared to our institutions' courses and students, combined with a robust set of features that make course materials engaging and accessible to students of various learning styles and abilities. Constellation is cloud-based and is compatible across operating systems, browsers and mobile technologies. We have developed Constellation-enabled courses primarily in core classes to attempt to reach as many students as possible. We plan to continually expand the features of Constellation in future releases.

The editorial team for Constellation consists of editors with extensive experience at leading textbook publishing firms. Highly qualified subject matter experts are recruited to author content that addresses course and institutional outcomes. Constellation digital texts are organized around our institutions' accelerated courses. As of December 31, 2015, we had more than 188 Constellation titles available.

Mobile application technology

Each of our institutions offers mobile applications compatible with most web-enabled smartphones and tablet devices in order to increase the accessibility of the student learning experience. The applications enable students to use their mobile device to contact support staff, complete discussion posts and review important information regarding their academic status. We have received positive feedback from students indicating that these mobile applications further their learning experience, and we have incorporated feedback received into the periodic updates to these mobile applications.

Employees

As of December 31, 2015, our institutions had approximately 190 full-time faculty members and approximately 3,810 adjunct faculty members. Adjunct faculty members are part-time employees engaged on a course-by-course basis and are compensated based upon a fixed amount per course, which varies among faculty members based on each individual's experience and background. In addition to teaching assignments, adjunct faculty members may also be asked to serve on student committees, such as comprehensive examination and dissertation committees, or assist with course development.

As of December 31, 2015, the Company also employed almost 2,960 combined non-faculty staff in the areas of university services, academic advising and academic support, enrollment services, university administration, financial aid, information technology, human resources, corporate accounting, finance and other administrative functions. None of our employees is a party to any collective bargaining or similar agreement with us.

Competition

The postsecondary education market is highly fragmented and competitive, with no private or public institution representing a significant market share. Our institutions compete primarily with public and private degree-granting regionally accredited colleges and universities. Many colleges and universities enroll working adults, in addition to traditional 18 to 24 year-old students. In addition, many of those colleges and universities offer a variety of distance education and online initiatives.

We believe that competitive factors in the postsecondary education market include the reputation of the college or university among students and employers, the number of qualified and experienced faculty, the program costs, the relevant and accredited program offerings, the regulatory approvals, the convenient, flexible and dependable access to programs and classes, the relative marketing and selling effectiveness, the time necessary to earn a degree, and the level of student support services.

We do expect to encounter increased competition as a result of new entrants to the online education market, including traditional colleges and universities that had not previously offered online education programs.

Intellectual Property

We rely on a combination of copyrights, trademarks, service marks, patents, trade secrets, domain names and agreements with employees and third parties to protect our intellectual property rights. We have trademark and service mark registrations and pending applications for additional registrations in the United States and select foreign jurisdictions. We also own the domain name rights for our institutions, as well as other words and phrases important to our business. In addition, we have applied for domestic and international patents for certain technology developed by us. We also have registered copyrights for exemplary business course materials. In many instances, our institutions' course content is produced by faculty and other content experts under work-for-hire agreements pursuant to which we own the course content in return for a fixed development fee. In certain limited cases, course content is licensed from third parties on a royalty fee basis.

Environmental Matters

We believe our facilities are in material compliance with federal, state and local laws and regulations that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment. Compliance with these laws and regulations has not had, and is not expected to have, a material effect on our capital expenditures, results of operations or competitive position.

Financial Information about Segments and Geographic Areas

We operate our business in one reportable segment, and we have no foreign operations or assets located outside of the United States. For information about our revenues from external customers, measures of profits and losses and total assets, see our annual consolidated financial statements included elsewhere in this report.

Additional Information

We were incorporated in Delaware in May 1999 under the name TeleUniversity, Inc. and we changed our name to Bridgepoint Education, Inc. in February 2004. Our website is located at www.bridgepointeducation.com. We make available free of charge on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form

8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The website for the SEC is located at www.sec.gov. The reference to our website is intended to be an inactive textual reference and the contents of our website are not incorporated by reference into, or in any way a part of, this report.

REGULATION

Ashford University and University of the Rockies are accredited institutions of higher education that are subject to extensive regulation by a variety of agencies. These agencies include WSCUC, the agency that accredits Ashford University, and HLC, the agency that accredits University of the Rockies. Accrediting agencies provide an independent assessment of educational quality. Our institutions are also subject to regulation by educational licensing authorities in states where our institutions are physically located or conduct certain operations. We are also subject to regulation by the Department due to our participation in Title IV programs. To participate in Title IV programs, a school must maintain authorization by the state education agency or agencies where it is physically located, be accredited by an accrediting agency recognized by the Department and be certified by the Department as an eligible institution. Institutions that participate in Title IV programs are subject to an extensive set of laws and regulations. The laws, regulations and standards of WSCUC, HLC, the Department and state agencies affect the vast majority of our institutions' operations.

Accreditation

Prior to being institutionally accredited by WSCUC in December 2013, Ashford University was accredited by HLC. University of the Rockies has been institutionally accredited since 2003 by HLC. WSCUC and HLC are two of six regional accrediting agencies that accredit colleges and universities in the United States. Most traditional, public and private non-profit, degree-granting colleges and universities are accredited by one of these six agencies.

Accreditation by WSCUC and HLC is recognized by the Department and by prospective students as a reliable indicator of educational quality. Accreditation is a private, non-governmental process for evaluating the quality of an educational institution and its programs and an institution's effectiveness in carrying out its mission in areas including integrity, student performance, curriculum, educational effectiveness, faculty, physical resources, administrative capability and resources, financial stability and governance. To be recognized by the Department, an accrediting agency, among other things, must adopt specific standards to be maintained by educational institutions, conduct peer-review evaluations of institutions' compliance with those standards, monitor compliance through periodic institutional reporting and the periodic renewal process and publicly designate those institutions that meet the agency's criteria. An accredited institution is subject to periodic review by its accrediting agency to determine whether it continues to meet the performance, integrity, quality and other standards required for accreditation. An institution that is determined not to meet the standards of accreditation may have its accreditation revoked or not renewed.

Accreditation is important to our institutions as it establishes comprehensive criteria designed to promote educational quality and effectiveness. Accreditation also represents a public acknowledgment by a recognized independent agency of the quality and effectiveness of our institutions and their programs. It also facilitates the transferability of educational credits when students transfer to or apply for graduate school at other regionally accredited colleges and universities. The Department relies on accreditation as an indicator of educational quality and effectiveness in determining an institution's eligibility to participate in Title IV programs, as do certain corporate and government sponsors in connection with tuition reimbursement and other student aid programs.

We believe that regional accreditation is viewed favorably by certain students when choosing a school, by other schools when evaluating transfer and graduate school applications, and by certain employers when evaluating the credentials of candidates for employment.

In addition, by approving our institutions' offerings of approved campus-based programs through online delivery modalities and by approving increased transfer credit allowance and prior learning assessments, accreditation supports our mission of serving students by providing innovative online programs and allowing student accessibility through increased transfer of credit for prior traditional and non-traditional education.

Evaluations and renewals of accreditation

In 2003, University of the Rockies was granted its initial accreditation from HLC for a period of five years. Its accreditation was then renewed by HLC in 2008 for a period of seven years. In September and October of 2014, HLC conducted a previously scheduled comprehensive evaluation visit at University of the Rockies in order for the University to seek reaffirmation of its accreditation by HLC. On February 3, 2015, University of the Rockies received a letter from HLC stating that the Institutional Actions Council of HLC continued the accreditation of the university, with the next Reaffirmation of Accreditation in 2024-25.

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. As part of a continuing WSCUC 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.

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 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

Three negotiated rulemaking sessions held 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, which became effective on 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.

The Department held Program Integrity and Improvement negotiated rulemaking sessions between February and May of 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 became effective on July 1, 2015 and 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.

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 Your 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, and on October 30, 2015, the regulations were amended 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. Changes were also made to the FFEL Program and Federal Direct Loan Program regulations to streamline and enhance existing processes and provide additional support to struggling borrowers. The amended regulations also expand the circumstances in which an institution may challenge or appeal a draft or final cohort default rate based on the institution's participation rate index.

On October 30, 2014, the Obama administration announced that the Department would 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 has been formed and includes 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."

On March 24, 2015, 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 Department held two public hearings in September 2015 at which interested parties commented on the topics suggested by the Department and suggested additional topics that should be considered for action by the negotiating committee. The Department also accepted written comments and suggestions. 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, and the consequences of the assertion of such borrower defenses for borrowers, institutions and the Department. Specifically, the Department intends to address (i) the procedures to be used for a borrower to establish a defense to repayment, (ii) the criteria the Department will use to identify acts or omissions of an institution that constitute defenses to repayment, (iii) the standards and procedures the Department will use to determine the liability of the institution for amounts based on borrower defenses and (iv) the effect of borrower defenses on institutional capability assessments. The committee met in January and February of 2016, and is scheduled to meet again in March 2016.

Authorization by U.S. Congress of Title IV Programs

The U.S. Congress must periodically reauthorize the Higher Education Act and annually determine the funding level for each Title IV program through the budget and appropriations process. In 2008, the Higher Education Act was reauthorized through September 2014, and the House Education and the Workforce Committee is currently working to reauthorize the Higher Education Act. The Higher Education Act's programs will continue year-to-year without explicit reauthorization as long as the U.S. Congress appropriates funds for the programs. The U.S. Congress may

propose and pass revisions to the Higher Education Act between reauthorizations by using other legislative vehicles such as budget bills and appropriations bills, which could impact funding for student financial aid programs.

There has been increased focus by some in the U.S. Congress on the role that for-profit educational institutions play in higher education. In particular, the Health, Education, Labor and Pensions Committee of the U.S. Senate ("HELP Committee") held a series of hearings regarding the for-profit education sector and Title IV programs, including a March 2011 hearing specifically entitled "Bridgepoint Education, Inc.: A Case Study in For-Profit Education and Oversight." The hearings of the HELP Committee, and those of other Congressional committees, have focused on various aspects of the for-profit education

sector including student debt, recruitment practices, educational quality, student outcomes, the effectiveness of accrediting bodies, and the amount of Title IV funding received by the for-profit education sector. In connection with these hearings, members of Congress have requested a broad range of detailed information from various for-profit institutions, including Ashford University and University of the Rockies. On July 29, 2012, the majority staff of the HELP Committee issued a report entitled “For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success,” which contains the majority staff's findings from the committee's two-year investigation of the for-profit education sector. The report is critical of the sector generally and of us and our institutions specifically, expressing concerns surrounding the amount of Title IV and other federal funds received, the amount of money spent on marketing and recruiting, student retention and default rates, staffing levels, learning outcomes and accreditation, among other items.

Certain members of Congress have proposed legislation that could have an adverse impact on our institutions. Even if this proposed legislation does not pass during the session in which it is introduced, it may be reintroduced or similar legislation may be proposed, or it may serve as a basis of discussion during the reauthorization of the Higher Education Act.

Department Regulation of Title IV Programs

To be eligible to participate in Title IV programs, an institution must comply with the Higher Education Act and the regulations thereunder that are administered by the Department. Among other things, the law and regulations require that an institution (i) be licensed or authorized to offer its educational programs by the states in which it is physically located, (ii) maintain institutional accreditation by an accrediting agency recognized for such purposes by the Department and (iii) be certified to participate in Title IV programs by the Department. Our institutions' participation in Title IV programs subjects them to extensive oversight and review pursuant to regulations promulgated by the Department. Those regulations are subject to revision and amendment from time to time by the Department. The Department's interpretation of its regulations likewise is subject to change. As a result, it is difficult to predict how Title IV program requirements will be applied in all circumstances.

An institution must periodically seek recertification from the Department to continue to participate in Title IV programs and may, in certain circumstances, be subject to review by the Department prior to seeking recertification. The current certification for University of the Rockies is scheduled to expire on June 30, 2016. Ashford University is provisionally certified until September 30, 2016. The Department typically places an institution on provisional certification following a change in ownership resulting in a change of control, and may provisionally certify an institution for other reasons including, but not limited to, failure to comply with certain standards of administrative capability or financial responsibility. During the time when an institution is provisionally certified, it may be subject to adverse action with fewer due process rights than those afforded to other institutions, and it must apply for and receive approval from the Department for any substantial change including but not limited to the establishment of an additional location, an increase in the level of academic offerings, or the addition of certain programs.

The 90/10 rule

Under the Higher Education Act, a for-profit institution loses its eligibility to participate in Title IV programs if the institution derives more than 90% of its revenues (calculated in accordance with applicable Department regulations) from Title IV program funds for two consecutive fiscal years. This rule is commonly referred to as the “90/10 rule.” Any institution that violates the 90/10 rule for two consecutive fiscal years becomes ineligible to participate in Title IV programs for at least two fiscal years. In addition, an institution whose rate exceeds 90% for any single year will be placed on provisional certification and may be subject to other enforcement measures. In the years ended December 31, 2015, 2014 and 2013, Ashford University derived 80.9%, 83.4% and 85.6%, respectively, and University of the Rockies derived 86.6%, 88.3% and 87.6%, respectively, of their respective revenues (calculated in accordance with applicable Department regulations) from Title IV program funds.

Revenue derived from government tuition assistance for military personnel, including veterans, is not considered federal student aid for purposes of the 90/10 calculation, and accordingly helps our institutions satisfy the 90/10 rule. As of December 31, 2015, approximately 28.0% of our institutions' students were affiliated with the military, some of whom are eligible to receive government tuition assistance that may be used to pursue postsecondary degrees.

Incentive compensation

The Higher Education Act prohibits an institution from providing any commission, bonus or other incentive payments based directly or indirectly on success in securing enrollments or financial aid to any persons or entities engaged in student recruiting or admissions activities or making decisions about the award of student financial assistance. Under prior Department regulations, there were 12 “safe harbor” provisions. The Department eliminated all 12 safe harbors, effective July 1, 2011, taking the position that any commission, bonus or other incentive payment based in any part, directly or indirectly, on securing enrollments or awarding financial aid is inconsistent with the incentive payment prohibition in the Higher Education Act. The Department issued a Dear Colleague Letter dated March 17, 2011 that attempted to clarify and provide interpretive guidance

regarding certain aspects of the regulations, but there remains uncertainty as to what constitutes prohibited incentive compensation.

Qui tam complaints against us and our institutions were unsealed in December 2012 and January 2013. These complaints allege, among other things, that our institutions violated the Federal False Claims Act by falsely certifying to the Department that Ashford University and University of the Rockies, in the case of the qui tam unsealed in December 2012, and Ashford University, in the case of the qui tam unsealed in January 2013, were in compliance with the prior regulations regarding the payment of incentive compensation to enrollment personnel in connection with the institutions' participation in student financial aid programs. The U.S. Department of Justice declined to intervene in the qui tam complaints. The qui tam complaint unsealed in December 2012 was voluntarily dismissed in June 2013, following the U.S. Department of Justice's stipulation to the dismissal. In August 2015, our motion to dismiss the qui tam complaint unsealed in January 2013 was granted, and the case is currently under appeal with the United States Court of Appeals for the Ninth Circuit. During the pendency of the appeal, the parties agreed to settle the case for an immaterial amount and are in the process of finalizing a settlement agreement. For more information regarding claims and lawsuits, see Note 21, “Commitments and Contingencies” to our annual consolidated financial statements included elsewhere in this report.

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 federal 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.

The draft three-year cohort default rates for the 2013 federal fiscal year for Ashford University and the University of the Rockies are 14.7% and 3.9%, respectively.

Substantial misrepresentation

The Higher Education Act prohibits an institution participating in Title IV programs from engaging in substantial misrepresentation of the nature of its educational programs, financial charges or graduate employability. Under the Department's rules, a “misrepresentation” is any false, erroneous or misleading statement an institution, one of its representatives, or any ineligible institution, organization, or person with whom the institution has an agreement to provide educational programs, or marketing, advertising, recruiting, or admissions services makes directly to a student or prospective student or any member of the public, or to an accrediting agency, to a state agency or the Department. The Department's rules define a “substantial misrepresentation” as any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment. Considering the broad definition of “substantial misrepresentation,” it is possible that, despite our training efforts and compliance programs, our institutions' employees or service providers may make statements that could be construed as substantial misrepresentations. For-profit educational institutions are also subject to the general deceptive practices jurisdiction of the Federal Trade Commission (the “FTC”) and the Consumer Financial Protection Bureau (the “CFPB”). The FTC and CFPB are intensifying their regulatory scrutiny of our industry and related vendors, sometimes in coordination with the Department of Education and state Attorneys General.

On August 10, 2015, we received from 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. We, together with Ashford University, expect to provide documents, testimony and other information to the CFPB, and cannot predict the eventual scope, duration or outcome of the investigation at this time.

On December 10, 2015, Ashford University received a request for information from the Multi-Regional and Foreign School Participation Division of the FSA for (i) advertising and marketing materials provided to prospective students regarding the transferability of certain credit, (ii) documents produced in response to the CFPB's August 10, 2015 Civil Investigative Demand 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, (iii) certain documents produced in response to subpoenas and interrogatories issued by the California Attorney General and (iv) records created between 2009 and 2012 related to the disbursement of certain Title IV funds. The FSA is investigating representations made by Ashford University to potential and enrolled students, and has asked

us and Ashford University to assist in its assessment of Ashford University's compliance with the prohibition on substantial misrepresentations. We, together with Ashford University, intend to provide the FSA with our full cooperation with a view toward demonstrating the compliant nature of our practices.

If the Department determines that one of our institutions has engaged in substantial misrepresentation, the Department may (i) attempt to revoke the institution's program participation agreement if the institution is provisionally certified, (ii) impose limitations on the institution's participation in Title IV programs if the institution is provisionally certified, (iii) deny applications from the institution for approval of new programs or locations or other matters or (iv) initiate proceedings to fine the institution or limit, suspend or terminate its eligibility to participate in Title IV programs. Because Ashford University is provisionally certified, it could be subject to the actions set forth in clauses (i) and (ii) above in addition to any other actions taken by the Department if it were determined that Ashford University has engaged in substantial misrepresentation.

Return of Title IV funds for students who withdraw

If a student who has received Title IV funds withdraws, the institution must determine the amount of Title IV program funds the student has earned pursuant to applicable regulations. If the student withdraws during the first 60% of any payment period (which, for our undergraduate online students, is typically a 20-week term consisting of four five-week courses and, for our campus-based students, is a 16-week semester), the amount of Title IV funds that the student has earned is equal to a pro rata portion of the funds the student received or for which the student would otherwise be eligible for the payment period. If the student withdraws after the 60% threshold, then the student is deemed to have earned 100% of the Title IV funds received. If the student has not earned all of the Title IV funds disbursed, the institution must return the unearned funds to the appropriate lender or the Department in a timely manner, which is generally no later than 45 days after the date the institution determined that the student withdrew. If an institution's annual financial aid compliance audit in either of its two most recently completed fiscal years determines that 5% or more of such returns were not timely made, the institution may be required to submit a letter of credit in favor of the Department equal to 25% of the Title IV funds that the institution should have returned for withdrawn students in its most recently completed fiscal year. For the year ended December 31, 2015, our institutions did not exceed the 5% threshold for late refunds sampled.

Ashford University's administration of Title IV program funds during the period from July 1, 2006 through June 30, 2007, including the return of unearned Title IV funds during the period, is the subject of a compliance audit previously conducted by the OIG. For information regarding the OIG's audit findings, see “Regulation — Department Regulation of Title IV Programs — Compliance reviews, audits and reports” below. In addition, the Multi-Regional and Foreign School Participation Division of the FSA has requested from us and Ashford University records created between 2009 and 2012 related to the disbursement of certain Title IV funds. For additional information regarding the request for information, see “Regulation — Department Regulation of Title IV Programs — Substantial misrepresentation” above.

State authorization

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. An institution is considered to be legally authorized by a state if, among other things, it meets one of the following sets of requirements:

- the state establishes the institution by name as an educational institution through a charter, statute, constitutional provision or other action issued by an appropriate state agency or state entity and is authorized to operate educational programs beyond secondary education, including programs leading to a degree or certificate; the institution complies with any applicable state approval or licensure requirements, except that the state may exempt the institution from any state approval or licensure requirement based on the institution's accreditation by one or more accrediting agencies recognized by the Department or based upon the institution being in operation for at least 20 years; and the state has a process to review and appropriately act on complaints concerning the institution including the enforcement of state laws;
- the institution is established by the state on the basis of an authorization to conduct business in the state or to operate as a nonprofit charitable organization; the institution, by name, is approved or licensed by the state to offer programs beyond secondary education, including programs leading to a degree or certificate; and the institution is not exempt from the state's approval or licensure requirements based on accreditation, years in operation, or other comparable exemption; and the state has a process to review and appropriately act on complaints concerning the institution

including the enforcement of state laws; or

- the institution is exempt from state authorization as a religious institution under the state constitution or by state law, and the state has a process to review and appropriately act on complaints concerning the institution and to enforce applicable state laws.

The Department has stated that it will not publish a list of states that meet, or fail to meet, the above requirements, and it is unclear how the Department will interpret these requirements in each state.

The regulations also provide that if an institution is offering postsecondary education through distance or correspondence education to students in a state in which it is not physically located or in which it is otherwise subject to state jurisdiction as determined by the state, the institution must meet any state requirements for it to be legally offering postsecondary distance or correspondence education to students in that state. Additionally, upon request by the Department, an institution must be able to document that it has the applicable state approval. Although our institutions have a process for evaluating the compliance of their online educational programs with state requirements regarding distance and correspondence learning, and have experienced no significant restrictions on their educational activities to date as a result of such requirements, state regulatory requirements for online education vary among the states, are not well developed in many states, are imprecise or unclear in some states and are subject to change. For more information, see “Regulation — State Education Licensure and Regulation” below. Moreover, it is also unclear whether and to what extent state agencies may augment or change their regulations in this area as a result of new Department regulations and increased scrutiny. Any failure to comply with state requirements, or any new or modified regulations, could result in our inability to enroll students or receive Title IV funds for students in those states and could result in restrictions on growth and enrollments.

On June 5, 2012, the United States Court of Appeals for the District of Columbia Circuit vacated the new state authorization regulation with respect to distance and correspondence education. The Court affirmed a 2011 order of a Federal District Court in the District of Columbia vacating the regulation requiring an institution to meet state requirements in a state in which it has distance education students, but in which it is not physically located or otherwise subject to state jurisdiction. The Department subsequently issued a Dear Colleague Letter acknowledging the Court's decision and stating that the Department would not enforce the requirements of the regulation and commenting that institutions continue to be responsible for complying with all state laws as they relate to distance education.

Ashford University has a campus that is physically located in Iowa. During the time period in which Ashford University was accredited by the Higher Learning Commission, the Iowa College Student Aid Commission (“ICSAC”) advised Ashford University that the institution was exempt from a requirement to register with the State of Iowa to offer postsecondary degree programs in Iowa by virtue of its accreditation by HLC. In anticipation of its transition to WSCUC accreditation, Ashford University applied for registration with ICSAC. In November 2011, ICSAC determined Ashford University met all requirements to offer postsecondary education in Iowa and approved the institution's registration in Iowa for a four-year period ending November 2015. Ashford University has submitted a renewal application with ICSAC and is authorized to continue operating in Iowa pending ICSAC's review of the renewal application. However, in light of the findings and recommendations contained in the final audit report of the OIG, discussed below under “Regulation — Department Regulation of Title IV Programs — Compliance reviews, audits and reports,” ICSAC stated that it would immediately reconsider the institution's registration for possible revocation if the Department ruled to limit, suspend or terminate the institution's participation in Title IV programs.

University of the Rockies is located in the State of Colorado and has Full Authorization by the Colorado Commission on Higher Education. Such authorization may be lost or withdrawn if University of the Rockies fails to comply with requirements under Colorado statutes and rules for continued authorization.

Gainful employment

On October 31, 2014, the Department published 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 Gainful Employment regulations became effective July 1, 2015, with certain disclosure requirements that are expected to be effective in early 2017.

The 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 Gainful Employment regulations. However, we are currently using available data to evaluate which programs are at risk of failing under the requirements.

Financial responsibility

The Higher Education Act and Department regulations establish standards of financial responsibility which an institution must satisfy to participate in Title IV programs. The Department evaluates compliance with these standards annually upon receipt of an institution's annual audited financial statements and also when an institution applies to the Department to reestablish its eligibility to participate in Title IV programs following a change in ownership. One financial responsibility standard is based on the institution's composite score, which is derived from a formula established by the Department. The composite score is a number between negative 1.0 and positive 3.0. It must be at least 1.5 for the institution to be deemed financially responsible without the need for further Department financial oversight. In addition to having an acceptable composite score, an institution must, among other things, meet all of its financial obligations (including required refunds to students and any Title IV liabilities and debts), be current in its debt payments and not receive an adverse, qualified or disclaimed opinion by its accountants in its audited financial statements.

For the prior fiscal year ended December 31, 2014, the composite score calculated was 2.7, satisfying the composite score requirement of the Department's financial responsibility test, which institutions must satisfy in order to participate in Title IV programs. We expect the consolidated composite score to be 1.8 for the year ended December 31, 2015. However, the consolidated calculation is subject to determination by the Department once it receives and reviews our audited financial statements for the year ended December 31, 2015.

Administrative capability

The Department specifies extensive criteria by which an institution must establish that it has the requisite administrative capability to participate in Title IV programs. To meet the administrative capability standards, an institution must, among other things, (i) comply with all applicable Title IV program requirements, (ii) have an adequate number of qualified personnel to administer Title IV programs, (iii) have acceptable standards for measuring the satisfactory academic progress of its students, (iv) have procedures in place for awarding, disbursing and safeguarding Title IV funds and for maintaining required records, (v) administer Title IV programs with adequate checks and balances in its system of internal control over financial reporting, (vi) not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension, (vii) provide financial aid counseling to its students, (viii) refer to the OIG any credible information indicating that any student, parent, employee, third-party servicer or other agent of the institution has engaged in any fraud or other illegal conduct involving Title IV programs, (ix) timely submit all required reports and financial statements and (x) not otherwise appear to lack administrative capability.

Ashford University and University of the Rockies were notified by the Department that it did not believe the institutions fully responded to the disclosures of data required by the Gainful Employment regulations, that this was

an indication of a serious lack of administrative capability, and that as a result the Department would not make any decisions regarding the addition of any new programs or additional locations until the reporting requirements were met. The Department informed us

that failure to fully comply in all Gainful Employment data reporting requirements could 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, including a fine, the limitation, suspension or termination of institutional eligibility to participate in Title IV programs, or revocation of the institution's program participation agreement (if provisional). We worked with the Department to address their concerns with respect to the reporting of our institutions under the Gainful Employment regulations. The Department has since approved two new programs for Ashford University, and we do not anticipate any actions against our institutions related to this notification.

Potential effect of noncompliance with Title IV regulations

The Department can impose sanctions for violating the statutory and regulatory requirements of Title IV programs, including:

- transferring an institution from the advance method or the heightened cash monitoring level one method of Title IV payment, each of which permit the institution to receive Title IV funds before or concurrently with disbursing them to students, to the heightened cash monitoring level two method of payment or to the reimbursement method of payment, each of which delay an institution's receipt of Title IV funds until student eligibility has been verified by the Department;
- imposing a monetary liability against an institution in an amount equal to any funds determined to have been improperly disbursed or not to have been properly returned upon student withdrawal;
- requiring an institution to post a letter of credit in favor of the Department as a condition for continued Title IV eligibility;
- initiating proceedings to impose a fine or to limit, suspend or terminate an institution's participation in Title IV programs;
- referring a matter for possible civil or criminal investigation;
- failing to grant an institution's application for renewal of its certification, or revocation of an institution's provisional certification, to participate in Title IV programs, or imposing conditions on its participation in Title IV programs; or
- taking emergency action to suspend an institution's participation in Title IV programs without prior notice or a prior opportunity for a hearing.

If sanctions were imposed resulting in a substantial curtailment or termination of our institutions' participation in Title IV programs, enrollments and our revenues, financial condition, cash flows and results of operations would be materially and adversely affected. If our institutions lost their eligibility to participate in Title IV programs, or if the amount of available Title IV program funds were reduced, we would seek to arrange or provide alternative sources of financial aid for students. There is no assurance that any private organizations would be willing to provide financial assistance to our institutions' students. Additionally, the interest rate and other terms of such financial aid would likely not be as favorable as those for Title IV program funds, and we might be required to guarantee all or part of such alternative assistance or might incur other additional costs in connection with securing such alternative assistance. It is unlikely that we would be able to arrange alternative funding to replace all the Title IV funding our institutions' students receive.

Compliance reviews, audits and reports

Our institutions are subject to reviews in connection with periodic renewals of certification to participate in Title IV programs, as well as announced and unannounced compliance reviews and audits by various external agencies, including the Department and the OIG. State licensing agencies, the U.S. Department of Veterans Affairs and accrediting bodies may also conduct audits and reviews of a similar fashion. In addition, as part of the Department's ongoing monitoring of institutions' administration of Title IV programs, the Higher Education Act requires institutions to submit to the Department an annual Title IV compliance audit conducted by an independent certified public accounting firm. In addition, to enable the Department to make a determination of an institution's financial responsibility, each institution must annually submit audited financial statements prepared in accordance with GAAP and Department regulations.

The OIG is responsible for, among other things, promoting the effectiveness and integrity of the Department's programs and operations. With respect to educational institutions that participate in Title IV programs, the OIG conducts its work primarily through an audit services division and an investigations division. The audit services division typically conducts general audits of institutions to assess their administration of federal funds in accordance

with applicable rules and regulations. The investigation services division typically conducts focused investigations of particular allegations of fraud, abuse or other wrongdoing against institutions by third parties, such as a lawsuit filed under seal pursuant to the federal False Claims Act.

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 (award year 2006-2007), which are summarized as follows:

- Finding 1 - The university designed a compensation plan for enrollment advisors that provided incentive payments based on success in securing enrollments and did not establish that its plan and practices qualified for the regulatory safe harbors.
- Finding 2 - The university did not always perform return of Title IV aid calculations properly, resulting in the improper retention of a total of $29,036 of Title IV program funds for 38 students in the OIG's sample sets of 85 students.
- Finding 3 - The university did not in all instances return Title IV program funds timely for Title IV students who withdrew or went on a leave of absence from school.
- Finding 4 - The form formerly used by the university to obtain authorizations to retain student credit balances did not comply with applicable regulations.
- Finding 5 -The university did not in all instances disburse Title IV program funds in accordance with applicable regulations or university policy because they were made prior to the students being eligible to receive them.
- Finding 6 - The university did not in all instances maintain documentation to support online students' leaves of absence due to the lack of support for the start dates for 19 leaves of absence.

Each finding was accompanied by one or more recommendations to the FSA, as summarized below:

- For Finding 1, the OIG recommended that the FSA require the university to provide records of all salary adjustments made to enrollment advisors during award year 2006-2007 and any documentation, not disclosed to the OIG, that demonstrates that any specific adjustments made during that period qualified for the regulatory safe harbors.
- For Findings 2 and 5, the OIG recommended that the FSA require the university (i) to remit to the Department and appropriate lenders certain amounts identified by the OIG ($29,036 for Finding 2) and (ii) undertake a file review for award year 2006-2007 to identify the amount of Title IV funds that were improperly retained or disbursed and to remit such amounts to the Department or appropriate lenders.
- For Finding 4, the OIG recommended that the FSA require the university to cease drawing, disbursing and holding credit balances of Title IV program funds for which there are no currently assessed institutional charges.
- For Findings 2, 3, 5 and 6, the OIG recommended that the FSA require the university to develop and implement certain remedial policies and procedures.
- For Findings 2, 3 and 5 generally, and for Finding 1 in the event the university cannot establish that its salary adjustments for enrollment advisors qualified for the safe harbor, the OIG recommended that the FSA consider whether to take appropriate action under Subpart G of 34 C.F.R. Part 668. Under Subpart G, the FSA may seek to impose a fine against the university or to limit, suspend or terminate the university's participation in Title IV programs.

The findings and recommendations of the final audit report represent the opinions of the OIG, and the issuance of final audit determinations and corrective action to be taken, if any, will be made by the FSA.

Ashford University expects that the FSA will consider the findings and recommendations in the final audit report and engage in a dialog with the university prior to determining what, if any, action to take and issuing a Final Audit Determination Letter concluding the audit. The OIG requested that Ashford University provide a response to the FSA regarding the final audit report, and the university responded in a timely manner.

In June 2011, in connection with Findings 2 and 3, the FSA requested that Ashford University conduct a file review of the return to Title IV calculations for all Title IV recipients who withdrew from distance education programs during award year 2006-2007. The institution cooperated with the request and supplied the information within the time frame required.

23

If the FSA were to determine to assess a monetary liability or commence an action under Subpart G or other procedures, 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. Although we believe Ashford University operates in substantial compliance with Department regulations that are applicable to the areas under review, we cannot predict the ultimate findings, potential liabilities or remedial actions, if any, that the FSA may include in the Final Audit Determination Letter, or the result of any administrative proceedings, including Subpart G or other proceedings, that may arise out of the Final Audit Determination Letter.

The Department periodically reviews institutions participating in Title IV programs for compliance with applicable laws and regulations. On July 25, 2012, the Department notified University of the Rockies that it had scheduled an on-site program review, which took place August 20, 2012 through August 24, 2012. In June 2013, University of the Rockies was provided with the Department’s program review report and subsequently filed a timely response to such initial report. Following consideration of the university's response, the Department issued a Final Program Review Determination letter, dated July 22, 2015, which states that University of the Rockies' responses have resolved all findings and the university may consider the program review closed.

On July 31, 2014, the Department notified Ashford University that it intended to conduct a program review of Ashford University’s administration of Title IV programs in which the university participates. The review commenced on August 25, 2014. In November 2014, Ashford University was provided with the Department's program review report and has responded to such initial report. Following consideration of the university's response, the Department will issue a Final Program Review Determination letter. If the Final Program Review Determination letter were to include findings of non-compliance, Ashford University could be required, subject to administrative review procedures, to pay a fine or return Title IV funds previously received, or could be subjected to other administrative sanctions.

Adding teaching locations and implementing new educational programs

The requirements and standards of accrediting agencies, state education agencies and the Department limit our institutions' ability in certain instances to establish additional teaching locations or implement new educational programs. WSCUC, HLC and state education agencies that may authorize or accredit our institutions or their programs generally require institutions to notify them in advance of adding certain new locations or implementing certain new programs, and upon notification may undertake a review of the quality of the facility or the program and the financial, academic and other qualifications of the institution. If an institution participating in Title IV programs plans to add a new location or educational program, the institution must apply under certain circumstances to the Department to have the additional location or educational program designated as within the scope of the institution's Title IV eligibility.

As previously discussed, Ashford University is provisionally certified for Title IV eligibility until September 30, 2016. During the time when an institution is provisionally certified, it must apply for and receive approval from the Department for any substantial change, including but not limited to the establishment of an additional location, an increase in the level of academic offerings, or the addition of certain programs.

Change in ownership resulting in a change of control

The Department and most state and accrediting agencies require institutions of higher education to report or obtain approval of certain changes of control and changes in other aspects of institutional organization or operations. Transactions or events that constitute a change of control may include significant acquisitions or dispositions of an institution's common stock and significant changes in the composition of an institution's governing board. The types of thresholds for such reporting and approval vary among the states and among accrediting agencies. The Department regulations provide that a change of control occurs for a publicly traded corporation if either (i) a person acquires such ownership and control of the corporation so that the corporation is required to file a Current Report on Form 8-K with the SEC disclosing a change of control or (ii) the corporation's largest stockholder who owns at least 25% of the total outstanding voting stock of the corporation, ceases to own at least 25% of such stock or ceases to be the largest stockholder owning at least 25% of the total stock. A significant purchase or disposition of our voting stock, including a disposition of voting stock by Warburg Pincus, could be determined by the Department to be a change of control under this standard. In such event, the regulatory procedures applicable to a change in ownership and control would have to be followed in connection with the transaction. Similarly if such a disposition were deemed a change of

control by the applicable accreditor or state educational licensing agency, any required regulatory notifications and approvals would have to be made or obtained.

Privacy of student records

The Family Educational Rights and Privacy Act of 1974 ("FERPA") and the Department's FERPA regulations require educational institutions to protect the privacy of students' educational records by limiting an institution's disclosure of a

student's personally identifiable information without the student's prior written consent. FERPA also requires institutions to allow students to review and request changes to their educational records maintained by the institution, to notify students at least annually of this inspection right and to maintain records in each student's file listing requests for access to and disclosures of personally identifiable information and the interest of such party in that information. If an institution fails to comply with FERPA, the Department may require corrective actions by the institution or may terminate an institution's receipt of further federal funds. In addition, educational institutions are obligated to safeguard student information pursuant to the Gramm-Leach-Bliley Act ("GLBA"), a federal law designed to protect consumers' personal financial information held by financial institutions and other entities that provide financial services to consumers. The applicable GLBA regulations require an institution to, among other things, develop and maintain a comprehensive, written information security program designed to protect against the unauthorized disclosure of personally identifiable financial information of students, parents or other individuals with whom such institution has a customer relationship. If an institution fails to comply with the applicable GLBA requirements, it may be required to take corrective actions, be subject to monitoring and oversight by the FTC, and be subject to fines or penalties imposed by the FTC.

State Education Licensure and Regulation

California, Iowa and Colorado

Ashford University has designated its San Diego, California facilities as its main campus for Title IV purposes. The university submitted an Application for Approval to Operate an Accredited Institution to BPPE on September 10, 2013. For additional information, see “Regulation — Licensure by California BPPE” above.

Ashford University also has a campus located in Iowa. Ashford University is registered as a postsecondary school in the state of Iowa by ICSAC. To maintain its Iowa registration, the university must comply with applicable requirements under Iowa statutes and rules. In July 2015, the Ashford University Board of Trustees made the decision to close the Clinton Campus after the 2015-2016 academic year, following the implementation of a one-year teach-out plan. On December 22, 2015, we entered into a Purchase Agreement and Escrow Instructions with Catalyst pursuant to which we agreed to sell the Clinton Campus to Catalyst. Simultaneously with the closing of the sale on December 29, 2015, we entered into a Lease Agreement with Catalyst pursuant to which we are leasing the Clinton Campus from Catalyst through December 31, 2016.

University of the Rockies' campus is located in Colorado. The university is authorized to operate by the Colorado Commission on Higher Education. To maintain its Colorado authorization, the university must comply with applicable requirements under Colorado statutes and rules.

The Higher Education Act requires Ashford University and University of Rockies to be legally authorized in the states in which they are physically located in order to participate in Title IV programs. Department regulations impose Title IV program requirements for an institution to be considered legally authorized by a state. Our failure to hold required authorizations in California, Iowa, or Colorado could cause Ashford University or University of the Rockies, as applicable, to lose their authorization to deliver educational programs and to grant degrees and other credentials and lose their eligibility to participate in Title IV programs. For additional information, see “Regulation — Department Regulation of Title IV Programs — State authorization” above.

Additional state regulation

Most state education agencies impose regulatory requirements on educational institutions operating within their boundaries. Some states have sought to assert jurisdiction over out-of-state educational institutions offering online programs that have no physical location or other presence in the state but that have some activity in the state, such as enrolling or offering educational services to students who reside in the state, employing faculty who reside in the state or advertising to or recruiting prospective students in the state. In addition to California, Iowa and Colorado, we have determined that our activities in certain states constitute a presence requiring licensure or authorization under the requirements of the state education agency in those states, and in other states we have obtained state education agency approvals as we have determined necessary in connection with our marketing and recruiting activities. We review state licensure requirements when appropriate to determine whether our activities in those states constitute a presence or otherwise require licensure or authorization. Because we enroll students throughout the United States, we may have to seek licensure or authorization in additional states in the future.

State regulatory requirements for online education vary among the states, are not well developed in many states, are imprecise or unclear in some states and are subject to change. Consequently, a state education agency could disagree with our conclusion that we are not required to obtain a license or authorization in the state and could restrict one or more of our business activities in the state, including the ability to recruit or enroll students in that state or to continue providing services or advertising in that state. If we fail to comply with state licensing or authorization requirements for any state, we may be subject to the loss of state licensure or authorization by that state, or be subject to other sanctions, including restrictions on our

activities in that state, fines and penalties. The loss of any required license or authorization in states other than California, Iowa and Colorado could prohibit us from recruiting prospective students or from offering services to current students in those states.

Effective July 1, 2011, the Department regulations imposed new Title IV state authorization requirements for institutions that offer postsecondary education through distance education to students in states in which it is not physically located or in which it is otherwise subject to state jurisdiction as determined by the state. The regulations have been the subject of a federal court challenge and a subsequent announcement by the Department regarding their enforcement. For additional information, see “Regulation — Department Regulation of Title IV Programs — State authorization” above.

The Iran Threat Reduction and Syria Human Rights Act of 2012

During 2015, Santander Asset Management Investment Holdings Limited (“SAMIH”) and Endurance International Group Holdings, Inc. (“Endurance”) 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 annual 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 each of SAMIH and Endurance. We will be required to separately file with the SEC, concurrently with this annual report, a notice that such activities have been disclosed in this annual report, which notice must also contain the information required by Section 13(r) of the Exchange Act.

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 other information contained in this Annual Report on Form 10-K, including our annual consolidated financial statements and the information set forth in Item 1, “Business” and Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations.” The risks described below are those which we believe are the material risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may impact our business operations. Any of the risks described below could materially adversely affect our business, prospects, financial condition, cash flows and results of operations. In these circumstances, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Related to Material Weaknesses In Internal Control Over Financial Reporting

We have identified material weaknesses in our internal control over financial reporting. If our remedial measures are insufficient to address these material weaknesses, 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.

We concluded that there were material weaknesses in our internal control over financial reporting as of December 31, 2015, as we did not maintain effective controls over the accounting for revenue recognition. Specifically, we did not maintain effective controls surrounding the selection and application of accounting principles generally accepted in the United States (“GAAP”) related to revenue recognition. We also did not maintain effective controls to assess the reliability of system generated data used in the operation of certain revenue recognition controls. These control deficiencies did not result in a material misstatement of our consolidated financial statements for the year ended December 31, 2015 or any of the quarters in fiscal year 2015. However, these control deficiencies could result in misstatements of revenue, bad debt expense, accounts receivable, deferred revenue and the related financial disclosures that would result in a material misstatement of our consolidated financial statements that would not be prevented or detected and corrected on a timely basis. Accordingly, our management has determined that these control deficiencies constitute material weaknesses.

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. Management evaluated our disclosure controls and procedures and internal control over financial reporting as of December 31, 2015 and concluded that each was ineffective as of December 31, 2015. This Annual Report on Form 10-K reflects management's conclusion regarding the effectiveness of our disclosure controls and procedures and internal control over financial reporting as of December 31, 2015. See Item 9A, “Controls and Procedures.” The existence of this issue could adversely affect us, our reputation and investors' perception of us.

We plan to implement measures to remediate the underlying causes of the control deficiencies that gave rise to the material weaknesses. 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 through the Company. We plan to perform a review of all key reports utilized in the revenue and receivable cycle to ensure appropriate controls are in place over the completeness and accuracy of the underlying data used in these key reports. 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 weaknesses, we may determine to implement additional measures to address the underlying control deficiencies. The actions we are taking to remediate the material weaknesses 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 weaknesses, 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.

Risks Related to the Extensive Regulation of Our Business

If our institutions fail to comply with applicable regulatory requirements, they could face monetary liabilities or penalties, operational restrictions, or loss of access to Title IV programs from which we derive most of our revenue.

In the years ended December 31, 2015, 2014 and 2013, Ashford University derived 80.9%, 83.4% and 85.6%, respectively, and University of the Rockies derived 86.6%, 88.3% and 87.6%, respectively, of their revenues (in each case calculated in accordance with applicable regulations of the Department) from Title IV programs. If our institutions were to lose eligibility to participate in Title IV programs or were to have such participation substantially curtailed, enrollments and our revenues, financial condition, cash flows and results of operations would be materially and adversely affected.

To participate in Title IV programs, an institution must be (i) legally authorized to operate in the state in which it is physically located, (ii) accredited by an accrediting agency recognized by the Department as a reliable indicator of educational quality and (iii) certified as an eligible institution by the Department. As a result, we are subject to extensive regulation by state education agencies, our institutions' accrediting agencies and the Department. These regulatory requirements cover many aspects of our operations. They also restrict our ability to acquire or open new schools, add new or expand existing educational programs, change our corporate structure or ownership, and make other substantive changes. If one of our institutions fails to comply with these regulatory requirements, the Department could impose sanctions on that institution, depending on the nature of the noncompliance. For additional information, see “Regulation — Department Regulation of Title IV Programs — Potential effect of noncompliance with Title IV regulations” in Item 1, "Business."

Given that state education agencies, the Department and our institutions' accrediting agencies, WSCUC and HLC, periodically revise their requirements and modify their interpretations of existing requirements, we cannot reliably predict how these regulatory requirements will be applied or whether we will be able to comply with all of the requirements.

The Department's Office of Inspector General conducted a compliance audit of Ashford University and issued a final audit report that contains findings of noncompliance and recommendations for certain administrative remedies.

On January 21, 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 for the 2006-2007 award year and related recommendations to the FSA. For additional information regarding the OIG's final audit report and the findings and recommendations contained therein, see “Regulation — Department Regulation of Title IV Programs — Compliance reviews, audits and reports” in Item 1, "Business." If the FSA were to determine to assess a monetary liability or commence an action to limit, suspend or terminate the university's participation in Title IV programs, Ashford University would have an opportunity to contest the assessment or proposed action through a series of administrative proceedings, with the right to seek review of any final administrative action in the federal courts. Although we believe Ashford University operates in substantial compliance with Department regulations that are applicable to the areas under review, we cannot predict the ultimate extent of the potential liability or remedial actions, if any, that might result from the OIG recommendations in the final audit report. Such findings and the related potential liability or remedial action could have a material adverse effect on our reputation in the industry, our ability to recruit students and our business, financial condition, cash flows and results of operations.

Our institutions' failure to maintain accreditation would denigrate the value of our institutions’ educational programs and result in a loss of eligibility to participate in Title IV programs.

An institution must be accredited by an accrediting agency recognized by the Department to participate in Title IV programs. Ashford University is accredited by WSCUC and University of the Rockies is accredited by HLC. Each of WSCUC and HLC is recognized by the Department as a reliable authority regarding the quality of education and training provided by the institutions it accredits. To remain accredited, our institutions must continuously meet accreditation standards relating to, among other things, performance, governance, institutional integrity, educational

quality, faculty, administrative capability, resources and financial stability. If either of our institutions fails to satisfy any of the standards of its accrediting agency, it could lose its accreditation.

In February 2015, University of the Rockies received a letter from HLC stating that the Institutional Actions Council of HLC continued the accreditation of the university, with the next Reaffirmation of Accreditation in 2024-2025.

As part of a continuing monitoring process relating to WSCUC's grant of initial accreditation, 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.

Loss of accreditation by either of our institutions would denigrate the value of its educational programs and would result in its loss of eligibility to participate in Title IV programs, which would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

In connection with its transition to WSCUC accreditation, Ashford University received approval from the BPPE to operate in California. As a result, the university will be subject to a greater reporting burden and could be subjected to increased regulatory or political scrutiny.

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 1, 2011, the Department established new requirements to determine if an institution is considered to be legally authorized by a state. For additional information, see “Regulation — Department Regulation of Title IV Programs — State authorization” in Item 1, "Business." 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 BPPE on September 10, 2013.

In April 2014, Ashford University’s application was granted and the university was approved by BPPE to operate in California until July 15, 2018. As a result, the 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. Compliance with the additional reporting and disclosure obligations arising under these laws and regulations could result in material additional costs and increased regulatory or political scrutiny of the university.

As a result of changes that have been made, or that may be required by the accreditors of our institutions, to our operational relationships with our institutions and to their operations and business models, our historical financial and business results may not necessarily be representative of future results.

In connection with the transition of Ashford University to WSCUC accreditation and our efforts to structure our operations to meet evolving regulatory expectations, our institutions have made operational changes and launched various new business initiatives, and additional changes may be required. These changes and initiatives included hiring new leadership, implementing smaller class sizes, requiring minimum age-levels for students, implementing the Ashford Promise (an initiative that allows students a full refund for all tuition and fees through the third week of a student's first class), hiring additional full-time faculty and implementing new program review models. Many of these changes and initiatives result in higher expense to the organization, primarily in the areas of instructional costs and services. In addition, we have made changes in our organizational structure and operational relationships with our academic institutions to ensure their academic independence and satisfaction of accreditation-related requirements. Some of these changes and initiatives have contributed to declines in new student enrollments. Accordingly, our historical results and trends, including enrollments, admissions advisory and marketing expenses, and instructional costs and services, may not be indicative of our future results, and there can be no assurance that changes to our operational relationship with our institutions or other changes we have made, or may make in the future, will not have an adverse impact on regulatory compliance, satisfaction of accreditation-related standards, or our financial condition, cash flows and results of operations.

The Department is conducting a program review of Ashford University, which may result in the repayment of Title IV funds and may lead to fines, penalties, or other sanctions, and damage to the institution’s reputation in the industry. The Department periodically reviews institutions participating in Title IV programs for compliance with applicable laws and regulations. On July 31, 2014, the Department notified Ashford University that it intended to conduct a program review of Ashford University’s administration of Title IV programs in which the university participates. The review commenced on August 25, 2014, and covers federal financial aid years 2012-2013 and 2013-2014, as well as compliance with the Clery Act, the Drug-Free Schools and Communities Act and related regulations. The review may be expanded if deemed appropriate by the Department. Ashford University was provided with the Department's program review report and has responded to such

initial report. Following consideration of the university's response, the Department will issue a Final Program Review Determination letter. If the Final Program Review Determination letter were to include significant findings of non-compliance, Ashford University could be required, subject to administrative review procedures, to pay a fine or return Title IV funds previously received, or could be subjected to other administrative sanctions. While we cannot currently predict the final outcome of the Department reviews, any such adverse finding in the Final Program Review Determination letter could damage the institution’s reputation in the industry and negatively impact enrollments and our revenues, financial condition, cash flows and results of operations.

Additional regulations or regulatory scrutiny resulting from action by the Department or other executive action could result in increased compliance costs, fines, sanctions or lawsuits, which could have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Three negotiated rulemaking sessions held between January and March of 2014 resulted in draft regulations to enact changes to the Clery Act required by the enactment of the VAWA. The Department published final regulations in the Federal Register on October 20, 2014, which became effective on 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.

The Department held Program Integrity and Improvement negotiated rulemaking sessions between February and May of 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 became effective on July 1, 2015 and 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.

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 Your Earn repayment plan for those not covered by the existing Federal Direct Loan Program and (ii) establish procedures for 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, and on October 30, 2015, the regulations were amended 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. Changes were also made to the FFEL Program and Federal Direct Loan Program regulations to streamline and enhance existing processes and provide additional support to struggling borrowers. The amended regulations also expand the circumstances in which an institution may challenge or appeal a draft or final cohort default rate based on the institution's participation rate index.

On October 30, 2014, the Obama administration announced that the Department would 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 has been formed and includes 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.”

On March 24, 2015, 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 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 Department held two public hearings in September 2015 at which interested parties commented on the topics suggested by the Department and suggested additional topics that should be considered for action by the negotiating committee. The Department also accepted written comments and suggestions. 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, and the consequences of the assertion of such borrower defenses for borrowers, institutions and the Department. Specifically, the Department intends to address (i) the procedures to be used for a borrower to establish a defense to repayment, (ii) the criteria the Department will use to identify acts or omissions of an institution that constitute defenses to repayment, (iii) the standards and procedures the Department will use to determine the liability of the institution for amounts based on borrower defenses and (iv) the effect of borrower defenses on institutional capability assessments. The committee met in January and February of 2016, and is scheduled to meet again in March 2016.

We cannot predict the scope and content of the regulations that may emerge from these or other rulemaking activities that the Department initiates or the consequences of increased executive regulatory scrutiny. The Company’s compliance with these regulations or any additional regulations, or with modifications to existing regulations, could result in direct and indirect costs related to compliance, increased scrutiny, fines, liabilities, sanctions or lawsuits, which could have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Any action by the U.S. Congress to revise the laws governing Title IV programs or to reduce funding for these programs could negatively impact our business.

The U.S. Congress must periodically reauthorize the Higher Education Act and annually determine the funding level for each Title IV program through the budget and appropriations process. In 2008, the Higher Education Act was reauthorized through September 2014, and the House Education and the Workforce Committee is currently working to reauthorize the Higher Education Act. The Higher Education Act's programs will continue year-to-year without explicit reauthorization as long as the U.S. Congress appropriates funds for the programs. The U.S. Congress may propose and pass revisions to the Higher Education Act between reauthorizations by using other legislative vehicles such as budget bills and appropriations bills, which could impact funding for student financial aid programs.

There has been increased focus by some in the U.S. Congress on the role that for-profit educational institutions play in higher education. In particular, the HELP Committee held a series of hearings regarding the for-profit education sector and Title IV programs, including a March 2011 hearing specifically entitled “Bridgepoint Education, Inc.: A Case Study in For-Profit Education and Oversight.” The hearings of the HELP Committee, and those of other Congressional

committees, have focused on various aspects of the for-profit education sector including student debt, recruitment practices, educational quality, student outcomes, the effectiveness of accrediting bodies, and the amount of Title IV funding received by the for-profit education sector. In connection with these hearings, members of Congress have requested a broad range of detailed information from various for-profit institutions, including Ashford University and University of the Rockies. On July 29, 2012, the majority staff of the HELP Committee issued a report entitled “For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success,” which contains the majority staff's findings from the committee's two-year investigation of the for-profit education sector. The report is critical of the sector generally and of us and our institutions specifically, expressing

concerns surrounding the amount of Title IV and other federal funds received, the amount of money spent on marketing and recruiting, student retention and default rates, staffing levels, learning outcomes and accreditation, among other items.

Certain members of Congress have proposed legislation that could have an adverse impact on our institutions. Even if this proposed legislation does not pass during the session in which it is introduced, it may be reintroduced or similar legislation may be proposed, or it may serve as a basis of discussion during the reauthorization of the Higher Education Act.

We cannot predict what legislation, if any, will arise out of the reauthorization of the Higher Education Act, the HELP Committee hearings or other Congressional deliberations, or what impact any such legislation might have on the for-profit education sector and our business in particular. However, any action by the U.S. Congress that significantly reduces Title IV program funding or the eligibility of our institutions or students to participate in Title IV programs, or that requires us to modify our practices in ways that could increase our administrative costs and reduce our profit margin, would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

If WSCUC or HLC loses recognition by the Department, our institutions could lose their ability to participate in Title IV programs.

In order to participate in Title IV programs, an institution must be accredited by an accrediting body recognized by the Department. Both WSCUC and HLC are recognized by the Department. If the Department ceased to recognize WSCUC or HLC for any reason, Ashford University or University of the Rockies, as applicable, would not be eligible to participate in Title IV programs unless the Department continued to certify the eligibility of the institutions to participate in Title IV programs. The Department may continue to certify an institution for a period of no longer than 18 months after the date on which recognition of the accrediting body ceased. The ineligibility of our institutions to participate in Title IV programs would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Our institutions could lose eligibility to participate in Title IV programs or face other sanctions if they derive more than 90% of their respective revenues from these programs.

Under the Higher Education Act, a proprietary institution loses eligibility to participate in Title IV programs if the institution derives more than 90% of its revenues (calculated in accordance with applicable Department regulations) from Title IV program funds for two consecutive fiscal years. This rule is commonly referred to as the “90/10 rule.” Any institution that violates the 90/10 rule for two consecutive fiscal years becomes ineligible to participate in Title IV programs for at least two fiscal years. In addition, an institution whose rate exceeds 90% for any single year will be placed on provisional certification and may be subject to other enforcement measures. In the years ended December 31, 2015, 2014 and 2013, Ashford University derived 80.9%, 83.4% and 85.6%, respectively, and University of the Rockies derived 86.6%, 88.3% and 87.6%, respectively, of their respective revenues (calculated in accordance with applicable Department regulations) from Title IV program funds. Both Ashford University and University of the Rockies continue to monitor these calculations.

Revenue derived from government tuition assistance for military personnel, including veterans, is not considered federal student aid for purposes of the 90/10 calculation, and accordingly helps our institutions satisfy the 90/10 rule. As of December 31, 2015, approximately 28.0% of our institutions' students were affiliated with the military, some of whom are eligible to receive government tuition assistance that may be used to pursue postsecondary degrees. If there were a reduction in funding of government tuition assistance for military personnel, including veterans, or if our revenue derived from such funding were otherwise to decrease, it could be significantly more difficult for our institutions to satisfy the 90/10 rule. In addition, recent changes in federal law that increased Title IV grant and loan limits, and any such additional increases in the future, may result in an increase in the revenues we receive from Title IV programs and make it more difficult for our institutions to satisfy the 90/10 rule. Failure to satisfy the 90/10 rule could result in our institutions losing eligibility to participate in Title IV programs, which would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

The U.S. Congress could propose and adopt legislation that amends the 90/10 rule in ways that make it more difficult for our institutions to satisfy the 90/10 rule. For example, in late 2011, the Ensuring Quality Education for Veterans Act was introduced, which proposed to treat government tuition assistance for military personnel, including veterans,

as federal student aid for purposes of calculations under the 90/10 rule. Similarly, in January 2012, Senator Richard Durbin introduced the Protecting Our Students and Taxpayers Act, which proposed to have a proprietary institution lose eligibility to participate in Title IV programs if the institution derives more than 85% its revenues (calculated in accordance with applicable Department regulations) from federal funds (including Title IV programs, government tuition assistance for military personnel, including veterans, and other sources of federal funds) for one fiscal year. The bill would also make it harder for institutions to use institutional loans (i.e., loans the institutions make to students) to help satisfy the 90/10 rule. On November 6, 2013, Senators Richard Durbin and Tom Harkin re-introduced the Protecting Students and Taxpayers Act of 2013, which proposed to have a for-profit institution lose eligibility to participate in Title IV funds if the institution derives more than 85% of its revenues from

federal funds, including Title IV programs, revenue from the GI Bill and Department of Defense Tuition Assistance funds. If one or more of these or similar bills were to be enacted and signed into law, it could be significantly more difficult for our institutions to satisfy the 90/10 rule (or, potentially, the new 85/15 rule) and they could lose eligibility to participate in Title IV programs, which would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Our institutions could lose eligibility to participate in Title IV programs or face other sanctions if they pay incentive compensation to persons or entities involved in certain recruiting, admissions or financial aid awarding activities.

The Higher Education Act prohibits an institution from making any commission, bonus or other incentive payment based directly or indirectly on securing enrollments or financial aid to any persons or entities involved in student recruiting or admissions activities, or in making decisions about the award of student financial assistance. For additional information, see “Regulation — Department Regulation of Title IV Programs — Incentive compensation” in Item 1, "Business." The criteria for compliance with the Department's rules prohibiting incentive compensation are not clear in all circumstances, and the Department will not review or approve compensation plans prior to their implementation.

In Finding 1 of the OIG's final audit report related to its compliance audit of Ashford University, the OIG asserted that Ashford University, during the 2006-2007 award year, designed a compensation plan for admissions counselors that provided incentive payments based on success in securing enrollments and did not establish that its plan and practices qualified for certain regulatory safe harbors. To the extent Ashford University cannot establish that its salary adjustments for admissions counselors in the 2006-2007 award year qualified for the regulatory safe harbors, the OIG recommended that the FSA take appropriate action to impose a fine on the university or to limit, suspend or terminate the institution's eligibility for Title IV programs. For additional information regarding the OIG's final audit report, see “Regulation — Department Regulation of Title IV Programs — Compliance reviews, audits and reports” in Item 1, "Business."

On October 10, 2012, we received a letter from the Justice Department informing us that the Justice Department was investigating the compensation of our admissions personnel. In January 2013, we were notified that the Justice Department had declined to intervene in a qui tam complaint unsealed on January 2, 2013. The qui tam complaint alleges, among other things, that Ashford University violated the federal False Claims Act by falsely certifying to the Department that the university was in compliance with various regulations regarding the payment of incentive compensation to enrollment personnel in connection with the institution's participation in student financial aid programs. In March 2015, we filed a motion to dismiss the case, which was granted without leave to amend on August 17, 2015. The case is currently under appeal with the United States Court of Appeals for the Ninth Circuit. During the pendency of the appeal, the parties agreed to settle the case for an immaterial amount and are in the process of finalizing a settlement agreement.

If it were determined that one of our institutions violated the incentive compensation rule, it could be subject to monetary liabilities or to administrative action to impose a fine or to limit, suspend or terminate its eligibility to participate in Title IV programs, which could have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Changes in compensation practices for admissions counselors and other covered employees may negatively impact our business and growth prospects.

Effective July 1, 2011, the Department eliminated 12 safe harbors describing compensation arrangements that did not violate the incentive compensation rule, including the payment and adjustment of salaries and bonuses under certain conditions. For additional information regarding the elimination of the safe harbors, see “Regulation — Department Regulation of Title IV Programs — Incentive compensation” in Item 1, "Business." Our institutions modified some of their compensation practices as a result of the elimination of the safe harbors. These changes have affected, and may continue to affect, the ability of our institutions to compensate admissions counselors and other covered employees in a manner that appropriately reflects their relative merit, which in turn (i) has reduced, and may continue to reduce, employee effectiveness and our ability to attract and retain staff with the desired talent and motivation to succeed and (ii) has impaired, and may continue to impair, our ability to sustain and grow our business, either of which could have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Our institutions may lose eligibility to participate in Title IV programs if too many students default on their loans.

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 federal 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. Loss of eligibility to participate in Title IV programs would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Our institutions may lose eligibility to participate in Title IV programs or face other sanctions if the Department or other federal agencies determine they have misrepresented the nature of educational programs, financial charges or graduate employability.

The Higher Education Act prohibits an institution participating in Title IV programs from engaging in substantial misrepresentation of the nature of its educational programs, financial charges or graduate employability. Under the Department's rules, a “misrepresentation” is any false, erroneous or misleading statement an institution, one of its representatives, or any ineligible institution, organization, or person with whom the institution has an agreement to provide educational programs, or marketing, advertising, recruiting, or admissions services makes directly to a student or prospective student or any member of the public, or to an accrediting agency, a state agency or the Department. The Department's rules define a “substantial misrepresentation” as any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment. Considering the broad definition of “substantial misrepresentation,” it is possible that, despite our training efforts and compliance programs, our institutions' employees or service providers may make statements that could be construed as substantial misrepresentations. For-profit educational institutions are also subject to the general deceptive practices jurisdiction of the FTC and the CFPB. The FTC and the CFPB are intensifying their regulatory scrutiny of our industry and related vendors, sometimes in coordination with the Department and state Attorneys General.

On August 10, 2015, we received from 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. We, together with Ashford University, expect to provide documents, testimony and other information to the CFPB, and cannot predict the eventual scope, duration or outcome of the investigation at this time.

On December 10, 2015, Ashford University received a request for information from the Multi-Regional and Foreign School Participation Division of the FSA for (i) advertising and marketing materials provided to prospective students regarding the transferability of certain credit, (ii) documents produced in response to the CFPB's August 10, 2015 Civil Investigative Demand 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, (iii) certain documents produced in response to subpoenas and interrogatories issued by the California Attorney General and (iv) records created between 2009 and 2012 related to the disbursement of certain Title IV funds. The FSA is investigating representations made by Ashford University to potential and enrolled students, and has asked us and Ashford University to assist in its assessment of Ashford University's compliance with the prohibition on substantial misrepresentations. We, together with Ashford University, intent to provide the FSA with our full cooperation with a view toward demonstrating the compliant nature of our practices.

If the Department determines that one of our institutions has engaged in substantial misrepresentation, the Department may (i) attempt to revoke the institution's program participation agreement if the institution is provisionally certified, (ii) impose limitations on the institution's participation in Title IV programs if the institution is provisionally certified, (iii) deny applications from the institution for approval of new programs or locations or other matters or (iv) initiate proceedings to fine the institution or limit, suspend or terminate its eligibility to participate in Title IV programs. Because Ashford University is provisionally certified, it could be subject to the actions set forth in clauses (i) and (ii) above in addition to any other actions taken by the Department if it were determined that Ashford University has engaged in substantial misrepresentation. The imposition of these sanctions, including the loss of eligibility to participate in Title IV programs, would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Our institutions may lose eligibility to participate in Title IV programs or face other sanctions if they fail to correctly calculate and timely return Title IV program funds for students who withdraw before completing their educational program.

An institution participating in Title IV programs must correctly calculate the amount of unearned Title IV program funds that have been disbursed to students who withdraw from their educational programs before completion and must return those unearned funds in a timely manner, generally within 45 days of the date the school determines that the student has withdrawn. For additional information, see “Regulation — Department Regulation of Title IV Programs — Return of Title IV funds for students who withdraw” in Item 1, "Business." Failure to make timely returns of Title IV program funds for 5% or more of students sampled in the institution's annual compliance audit in either of its two most recently completed fiscal years can result

in an institution having to post a letter of credit in an amount equal to 25% of its prior year returns of Title IV program funds. If unearned funds are not properly calculated and returned in a timely manner, an institution is also subject to monetary liabilities or an action to impose a fine or to limit, suspend or terminate its participation in Title IV programs.

In Finding 3 of the OIG's final audit report pertaining to its compliance audit of Ashford University, the OIG asserted that Ashford University, during the 2006-2007 award year, did not in all instances timely return Title IV funds for students who withdrew or went on a leave of absence from school. Accordingly, the OIG recommended that the FSA (i) require Ashford University to develop and implement certain remedial policies and procedures and (ii) take appropriate action to impose a fine on the university or to limit, suspend or terminate the institution's eligibility for Title IV programs, which could have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations. For additional information about the OIG's final audit report, see “Regulation — Department Regulation of Title IV Programs —Compliance reviews, audits and reports” in Item 1, "Business." In addition, the Multi-Regional and Foreign School Participation Division of the FSA has requested from us and Ashford University records created between 2009 and 2012 related to the disbursement of certain Title IV funds. For additional information regarding the request for information, see “Regulation — Department Regulation of Title IV Programs — Substantial misrepresentation” in Item 1, "Business."

Our institutions may lose eligibility to participate in Title IV programs or face other sanctions if they are not legally authorized to operate in the states in which they are physically located.

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. For additional information, see “Regulation — State authorization” in Item 1, "Business." Although our institutions have a process for evaluating the compliance of their online educational programs with state requirements regarding distance and correspondence learning, and have experienced no material restrictions on their educational activities to date as a result of these requirements, state regulatory requirements for online education vary among the states, are not well developed in many states, are imprecise or unclear in some states and are subject to change. For additional information, see “Regulation — State Education Licensure and Regulation” in Item 1, "Business." Moreover, it is also unclear whether and to what extent state agencies may augment or change their regulations in this area as a result of new Department regulations and increased scrutiny. Any failure to comply with state requirements, or any new or modified regulations, could result in our inability to enroll students or receive Title IV funds for students in those states and could result in restrictions on growth and enrollments.

Ashford University has a campus that is physically located in Iowa. During the time period in which Ashford University was accredited by HLC, ICSAC advised Ashford University that the institution was exempt from a requirement to register with the State of Iowa to offer postsecondary degree programs in Iowa by virtue of its accreditation by HLC. In anticipation of its transition to WSCUC accreditation, Ashford University applied for registration with ICSAC. In November 2011, ICSAC determined Ashford University met all requirements to offer postsecondary education in Iowa and approved the institution's registration in Iowa for a four-year period ending November 2015. Ashford University has submitted a renewal application with ICSAC and is authorized to continue operating in Iowa pending ICSAC's review of the renewal application. However, in light of the findings and recommendations contained in the final audit report of the OIG, ICSAC stated that it would immediately reconsider the institution's registration for possible revocation if the Department ruled to limit, suspend or terminate the institution's participation in Title IV programs. For additional information about the OIG's final audit report, see “Regulation — Department Regulation of Title IV Programs — Compliance reviews, audits and reports” in Item 1, "Business."

University of the Rockies is located in Colorado and has Full Authorization by the Colorado Commission on Higher Education. Such authorization may be lost or withdrawn if University of the Rockies fails to comply with requirements under Colorado statutes and rules for continued authorization. Any loss of authorization to operate by our institutions and the resulting imposition of sanctions, including loss of eligibility to participate in Title IV programs, 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, or certain programs may lose Title IV eligibility, if they do not lead to gainful employment in a recognized occupation, as determined by the Department. In 2014, the Department published 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 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. 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. For

additional information about the Gainful Employment regulations, see “Regulation — Department Regulation of Title IV Programs — Gainful employment” in Item 1, “Business.”

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, and changes in the percentage of our former students who are current in repayment of their student loans. The factors noted above could reduce our ability to confidently offer or continue certain types of programs for which there is a market demand. 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 Gainful Employment regulations on our enrollments and revenue. However, we are currently using available data to evaluate which programs are at risk of being impacted by the regulations.

Based on our evaluations using currently available data, we believe that certain of our programs may be impacted by the Gainful Employment regulations. Management is considering whether certain programs will be able to avoid falling into the Fail or Zone categories through adjustments to program price or the duration of programs, if appropriate and consistent with programmatic standards and as permitted by applicable regulations. There can be no assurance that these adjustments will result in compliance with the Gainful Employment regulations. For programs where such adjustments are not feasible or do not result in compliance with the Gainful Employment regulations, we may discontinue such programs. The adjustment or discontinuation of any of our programs, or the loss of Title IV eligibility for certain of our programs if not adjusted or discontinued, could have a material adverse effect on enrollments and our business, financial condition, results of operations and cash flows.

The Gainful Employment regulations also provide that if a program fails to satisfy at least one of the two tests set forth in the regulations relating to minimum student debt service-to-earnings ratios, the institution will be required to provide a warning notice to prospective and enrolled students advising them that the program may lose Title IV eligibility based on final student debt service-to-earnings ratios for the next award year. If we are required to provide a warning notice with respect to any of our programs, it could have a material adverse effect on enrollment in those programs even before any determination has been made regarding eligibility of the program to participate in Title IV programs, which could adversely affect our business, financial condition, results of operations and cash flows.

Ashford University and University of the Rockies were notified by the Department that it did not believe the institutions fully responded to the disclosures of data required by the Gainful Employment regulations, that this was an indication of a serious lack of administrative capability, and that as a result the Department would not make any decisions regarding the addition of any new programs or additional locations until the reporting requirements were met. The Department informed us that failure to fully comply in all Gainful Employment data reporting requirements could 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, including a fine, the limitation, suspension or termination of institutional eligibility to participate in Title IV programs, or revocation of the institution's program participation agreement (if provisional). We worked with the Department to address their concerns with respect to the reporting of our institutions under the Gainful Employment regulations. The Department has since approved two new programs for Ashford University, and we do not anticipate any actions against our institutions related to this notification.

The failure of our institutions to demonstrate financial responsibility may result in a loss of eligibility to participate in Title IV programs or require the posting of a letter of credit in order to maintain eligibility to participate in Title IV programs.

To participate in Title IV programs, an eligible institution must, among other things, satisfy specific measures of financial responsibility prescribed by the Department or post a letter of credit in favor of the Department and possibly accept other conditions to the institution's participation in Title IV programs. For additional information regarding the Department's financial responsibility requirements, see “Regulation — Department Regulation of Title IV Programs — Financial responsibility” in Item 1, "Business." If our institutions are found not to have satisfied the Department's financial responsibility requirements, they could be limited in their access to, or lose, Title IV program funding, which would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of

operations.

The failure of our institutions to demonstrate administrative capability may result in a loss of eligibility to participate in Title IV programs.

Department regulations specify extensive criteria by which an institution must establish that it has the requisite administrative capability to participate in Title IV programs. For additional information regarding the Department's administrative capability standards, see “Regulation — Department Regulation of Title IV Programs — Administrative capability” in Item 1, "Business." If we are found not to have satisfied the Department's administrative capability requirements,

we could be limited in our access to, or lose, Title IV program funding, which would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Ashford University and University of the Rockies were notified by the Department that it did not believe the institutions fully responded to the disclosures of data required by the Gainful Employment regulations, that this was an indication of a serious lack of administrative capability, and that as a result the Department would not make any decisions regarding the addition of any new programs or additional locations until the reporting requirements were met. The Department informed us that failure to fully comply in all Gainful Employment data reporting requirements could 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, including a fine, the limitation, suspension or termination of institutional eligibility to participate in Title IV programs, or revocation of the institution's program participation agreement (if provisional). We worked with the Department to address their concerns with respect to the reporting of our institutions under the Gainful Employment regulations. The Department has since approved two new programs for Ashford University, and we do not anticipate any actions against our institutions related to this notification.

Our institutions must periodically seek recertification to participate in Title IV programs and may, in certain circumstances, be subject to review by the Department prior to seeking recertification.

An institution must periodically seek recertification from the Department to continue to participate in Title IV programs and may, in certain circumstances, be subject to review by the Department prior to seeking recertification. The current certification for University of the Rockies is scheduled to expire on June 30, 2016. Ashford University is provisionally certified until September 30, 2016. The Department typically places an institution on provisional certification following a change in ownership resulting in a change of control, and may provisionally certify an institution for other reasons including, but not limited to, failure to comply with certain standards of administrative capability or financial responsibility. During the time when an institution is provisionally certified, it may be subject to adverse action with fewer due process rights than those afforded to other institutions, and it must apply for and receive approval from the Department for any substantial change including, but not limited to, the establishment of an additional location, an increase in the level of academic offerings, or the addition of certain programs. The FSA is investigating representations made by Ashford University to potential and enrolled students, and has asked us and Ashford University to assist in its assessment of Ashford University's compliance with the prohibition on substantial misrepresentations. Because Ashford University is provisionally certified, one of the actions the Department may take if it determines Ashford University has engaged in substantial misrepresentation is to attempt to revoke Ashford University's program participation agreement.

The Department may also review our institutions' continued certification to participate in Title IV programs if we undergo a change of control. In addition, the Department may take emergency action to suspend an institution's certification without advance notice if it determines the institution is violating Title IV requirements and that immediate action is necessary to prevent misuse of Title IV funds. If the Department revokes, or does not renew, our institutions' certifications to participate in Title IV programs, our institutions' students would no longer be able to receive Title IV funds, which would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Governmental proceedings or other claims and lawsuits asserting regulatory noncompliance could result in monetary liabilities or penalties, injunctions or loss of Title IV programs for students at our institutions.

Because we operate in a highly regulated industry, we and our institutions are subject to compliance reviews, claims of noncompliance and lawsuits by government agencies, regulatory agencies and third parties, including claims brought by third parties on behalf of the federal government under the federal False Claims Act. If the results of these reviews or proceedings are unfavorable to us or if we are unable to defend successfully against such lawsuits or claims, we may be required to pay money damages or be subject to fines, limitations, loss of Title IV funding, injunctions or other penalties, which could have a material adverse effect on our business, financial condition, cash flows and results of operations. Even if we adequately address issues raised by an agency review or successfully defend a lawsuit or claim, we may have to divert significant financial and management resources from our ongoing business operations to address issues raised by those reviews or to defend against those lawsuits or claims. Claims and lawsuits brought against us may damage our reputation or adversely affect our stock price, even if such claims and

lawsuits are eventually determined to be without merit.

For additional information regarding the incentive compensation rule, see “Regulation — Department Regulation of Title IV Programs — Incentive compensation” in Item 1, "Business." For more information regarding claims and lawsuits, see Note 21, “Commitments and Contingencies” to our annual consolidated financial statements included elsewhere in this report.

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 form 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.

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 Department held two public hearings in September 2015 at which interested parties commented on the topics suggested by the Department and suggested additional topics that should be considered for action by the negotiating committee. The Department also accepted written comments and suggestions. 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, and the consequences of the assertion of such borrower defenses for borrowers, institutions and the Department. Specifically, the Department intends to address (i) the procedures to be used for a borrower to establish a defense to repayment, (ii) the criteria the Department will use to identify acts or omissions of an institution that constitute defenses to repayment, (iii) the standards and procedures the Department will use to determine the liability of the institution for amounts based on borrower defenses and (iv) the effect of borrower defenses on institutional capability assessments. The committee met in January and February of 2016, and is scheduled to meet again in March 2016.

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.

If we fail to maintain adequate systems and processes to detect and prevent fraudulent activity in student enrollment and financial aid, our business could be adversely impacted.

We are susceptible to an increased risk of fraudulent activity by outside parties with respect to student enrollment and student financial aid programs. Our systems and processes may not always be adequate in the face of increasingly sophisticated and ever-changing fraud schemes. The potential for outside parties to perpetrate fraud in connection with the award and disbursement of Title IV program funds, including as a result of identity theft, may be heightened because we are an online education provider. We must maintain systems and processes to successfully identify and prevent fraudulent applications for enrollment and financial aid.

The Department's regulations require institutions that participate in Title IV programs to refer to the OIG credible information indicating that any applicant, employee, third-party servicer or agent of the institution that acts in a capacity that involves administration of the Title IV programs has been engaged in any fraud or other illegal conduct involving Title IV programs. If the systems and processes that we have established to detect and prevent fraud are inadequate, the Department may find that we do not satisfy its “administrative capability” requirements. This could result in limits on or loss of our institutions' eligibility to participate in Title IV programs, which would adversely affect enrollments and our revenues, financial condition, cash flows and results of operations. In addition, our institutions' ability to participate in Title IV programs is conditioned on their maintaining accreditation by an accrediting agency that is recognized by the Secretary of Education. Any

significant failure to adequately detect fraudulent activity related to student enrollment and financial aid could cause our institutions to fail to meet their accrediting agencies' standards. Furthermore, under the Higher Education Act, accrediting agencies that evaluate institutions that offer distance learning programs, as our institutions do, must require such institutions to have processes through which the institution establishes that a student who registers for a distance education program is the same student who participates in and receives credit for the program. Failure to meet applicable accrediting agencies' standards could result in the loss of accreditation at the discretion of such accrediting agencies, which could result in a loss of our institutions' eligibility to participate in Title IV programs and adversely affect enrollments and our revenues, financial condition, cash flows and results of operations.

Our institutions cannot offer new programs, expand their physical operations into certain states or acquire additional schools if such actions are not approved in a timely fashion by the applicable regulatory agencies, and Title IV funds disbursed to students enrolled in any such programs, states or acquired schools may have to be repaid if prior approval is not obtained.

Our operating plans may include the offering of new educational programs by our institutions, some of which may require regulatory approval. In addition, we or our institutions may increase physical operations in additional states or seek to acquire additional schools. Because Ashford University is provisionally certified, it must apply for and receive approval from the Department for any substantial change, including but not limited to the establishment of an additional location, an increase in the level of academic offerings or the addition of certain programs. If we or our institutions are unable to obtain the necessary approvals for such new programs, operations or acquisitions or, in the case of Ashford University, a substantial change, from the Department, WSCUC, HLC or any applicable state education agency or other accrediting agency, or if we or our institutions are unable to obtain such approvals in a timely manner, the ability to consummate such actions and provide Title IV funds to any affected students would be impaired, which could have a material adverse effect on our business. If we or our institutions were to determine erroneously that any such action did not require approval or that all required approvals have been obtained, our institutions could be liable for repayment of the Title IV program funds provided to students in the affected program or at the affected location.

If regulators do not approve, or if they delay their approval of, transactions involving a change of control of our company, our ability to participate in Title IV programs may be impaired.

If we or either of our institutions undergoes a change of control under the standards of applicable state education agencies, WSCUC, HLC or the Department, we must seek the approval of each such regulatory agency. For additional information, see “Regulation — Department Regulation of Title IV Programs — Change in ownership resulting in a change of control” in Item 1, "Business." A failure by us or one of our institutions to reestablish its state authorization, accreditation or Department certification, as applicable, following a change of control could result in a suspension or loss of operating authority or the ability to participate in Title IV programs, which would have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

Our failure to comply with regulations of various states could preclude us from recruiting or enrolling students in those states or result in such students being ineligible for Title IV financial aid.

Various states impose regulatory requirements on educational institutions operating within their boundaries. Several states have sought to assert jurisdiction over online educational institutions that have no physical location or other presence in the state but that offer educational services to students who reside in the state or that advertise to or recruit prospective students in the state. State regulatory requirements for online education are inconsistent between states and are not well developed in many jurisdictions. As such, these requirements are subject to change and in some instances are unclear or are left to the discretion of state employees or agents. Our changing business and the constantly changing regulatory environment require us to regularly evaluate our state regulatory compliance activities. For additional information, see “Regulation — Department Regulation of Title IV Programs — State Education Licensure and Regulation” in Item 1, "Business." If a state finds we are not in compliance and seeks to restrict one or more of our business activities within that state, we may have to cease recruiting or enrolling students in that state or we may be unable to provide Title IV funds to students in those states, which could have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.

39

Our regulatory environment and our reputation may be negatively influenced by the actions of other postsecondary institutions.

In recent years, Congressional, federal, state and accrediting agency investigations and civil litigation have been commenced against several postsecondary educational institutions. These investigations and lawsuits have alleged, among other things, deceptive trade practices and noncompliance with Department regulations. These allegations have attracted adverse media coverage and have been the subject of federal and state legislative hearings. Although the media, regulatory and legislative focus has been primarily on the allegations made against these specific companies, broader allegations against the overall postsecondary sector may negatively impact public perceptions of postsecondary educational institutions, including Ashford University and University of the Rockies. Such allegations could result in increased scrutiny and regulation of all postsecondary institutions, including ours, by the Department, Congress, accrediting bodies, state legislatures or other governmental authorities.

Risks Related to Our Business

Our financial performance depends on our ability to continue to develop awareness among, and to recruit and retain, students; adverse publicity may negatively impact demand for our institutions' programs.

Building awareness among potential students of Ashford University and University of the Rockies and the programs they offer is critical to their ability to attract prospective students. It is also critical to our success that these prospective students are converted to enrolled students in a cost-effective manner and that these enrolled students remain active in our institutions' programs. Some of the factors that could prevent the successful recruiting and retention of students in our institutions' programs include:

- the emergence of more and better competitors;
- factors related to our marketing efforts, including the costs of online advertising and broad-based branding campaigns;
- performance problems with our online systems;
- our institutions' failure to maintain accreditation, state licensure and eligibility for Title IV programs;
- student dissatisfaction with our institutions' services and programs;
- a decrease in the perceived or actual economic benefits that students derive from our institutions' programs or programs provided by private sector postsecondary education companies generally;
- adverse publicity regarding us, or online or private sector postsecondary education generally;
- price reductions by competitors that we are unwilling or unable to match; and
- a decline in the acceptance of online education or education provided by private sector postsecondary education companies.

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 CFPB 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.

For additional information regarding current material legal proceedings involving us and our institutions, including investigations by state Attorneys General in California, Iowa, Massachusetts, New York and North Carolina, the CFPB and the SEC, see Note 21, “Commitments and Contingencies” to our annual consolidated financial statements included elsewhere in this report.

Our bad debt expense as a percentage of revenues is high relative to our competitors. If we are unable to remedy the underlying causes, our bad debt expense could increase, which could have a material adverse effect on our financial condition, cash flows and results of operations.

Our bad debt expense is high relative to our competitors and has increased from 4.4% of revenues for the year ended December 31, 2014 to 5.3% for the year ended December 31, 2015. We believe our bad debt expense is primarily driven by operational policies, timing of financial aid processing and collection management. If we are unable to make appropriate changes, or if our changes are not as effective as anticipated, our bad debt expense could increase, which could have a material adverse effect on our financial condition, cash flows and results of operations.

Future growth may place a strain on our resources.

We experienced significant growth from the time of our initial public offering up through 2012, which increased demands on our management information and reporting systems, data analytics, and financial management controls. Such historical growth, as well as any further growth that we may experience, may place a significant strain on our resources. If we are unable to maintain appropriate internal controls, we may experience operating inefficiencies that could increase our costs. Additionally, if we and our institutions fail to hire and retain appropriate levels of personnel in critical areas, we could experience increased student complaints, delays in completing critical business projects, system down-time for both internal and student-facing applications, and potential regulatory noncompliance, any of which could materially and adversely affect our business and prospects.

A failure of our information systems to properly store, process and report relevant data may reduce our management's effectiveness, interfere with our regulatory compliance and increase our operating expenses.

We are heavily dependent on the integrity of our data management systems. If these systems do not effectively collect, store, process and report relevant data for the operation of our business, whether due to equipment malfunction or constraints, software deficiencies or human error, our ability to effectively plan, forecast and execute our business plan and comply with applicable laws and regulations will be impaired. Any such impairment could materially and adversely affect our business, financial condition, cash flows and results of operations.

Our institutions rely on a third-party vendor for financial aid processing services, but remain responsible for any errors, delays or instances of regulatory noncompliance that may be made by the vendor. If this third-party vendor ceases to provide these services for any reason, our institutions may have difficulty performing these services internally or transitioning to another vendor.

Our institutions have engaged XBS to provide call center and transactional processing services for their online financial aid student populations, including services related to disbursement eligibility review and Title IV fund returns. Although our institutions monitor the work done by XBS for quality assurance and compliance with Department regulations, errors, delays or instances of regulatory compliance may still occur. Our institutions are ultimately responsible for any such errors, delays or instances of regulatory noncompliance that may be made by XBS, some of which could potentially affect the eligibility of our institutions to participate in Title IV programs. Additionally, if XBS ceases to operate or is unwilling or unable to work with our institutions, or if the engagement with XBS is otherwise terminated, our institutions would be required to either handle financial aid processing services using their own resources or engage another third-party vendor, which transition could be economically disadvantageous, present a distraction to management and applicable business units, and increase the risk of errors and regulatory noncompliance during the transition period, any of which could negatively impact our business.

Our institutions rely on a third-party vendor to provide the online learning platform for students and related support and hosting.

We have a license agreement with eCollege pursuant to which we agreed to license from eCollege an online learning platform for students at our institutions. The eCollege platform is an online learning management system that provides for the storage, management and delivery of course content. This platform also includes collaborative spaces for student communication and participation with other students and faculty as well as grade and attendance management for faculty and assessment capabilities to assist us in maintaining quality. Our institutions rely on eCollege for administrative support and hosting of the applicable systems. If eCollege ceases to operate or is unwilling or unable to work with our institutions, or if the license agreement with eCollege and related agreements are otherwise terminated, the online learning platform for students at our institutions and related administrative support and hosting could be interrupted or become unavailable, which could have a material adverse effect on our business.

41

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

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

Our computer networks and the networks of certain of our vendors that hold and manage confidential information on our behalf may be vulnerable to unauthorized access, employee theft or misuse, computer hackers, computer viruses and other security threats. Confidential information may also inadvertently become available to third parties when we integrate systems or migrate data to our servers following an acquisition of a school or in connection with periodic hardware or software upgrades. Due to the sensitive nature of the personal information stored on our servers, our networks may be targeted by hackers seeking to access this data. A user who circumvents security measures could misappropriate sensitive information or cause interruptions or malfunctions in our operations. Although we use security and business controls to limit access to and use of personal information, a third party may be able to circumvent those security and business controls, which could result in a breach of student or employee privacy. In addition, errors in the storage, use or transmission of personal information could result in a breach of privacy for current or prospective students or employees.

Possession and use of personal information in our operations also subjects us to legislative and regulatory burdens that could require notification of data breaches and could restrict our use of personal information, and a violation of any laws or regulations relating to the collection or use of personal information could result in the imposition of fines against us or lawsuits brought against us. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches. A major breach, theft or loss of personal information held by us or our vendors regarding our institutions' students and their families or our employees, or a violation of laws or regulations relating to the same, could have a material adverse effect on our reputation, result in lawsuits and result in further regulation and oversight by federal and state authorities and increased costs of compliance.

System disruptions and vulnerability from security risks to our technology infrastructure could damage the reputation of our institutions and negatively impact our business.

The performance and reliability of our technology infrastructure (including the software and related hosting and maintenance services for our online learning platform, student information system, and lead management system) is critical to our reputation and our ability to attract and retain students. Any system error or failure, or a sudden and significant increase in bandwidth usage, could result in the unavailability of systems to us or our institutions' students and negatively impact our business and reputation. Our computer networks may also be vulnerable to unauthorized access, computer hackers, computer viruses, denial of service attacks and other security problems. Although we continually monitor the security of our technology infrastructure and take proactive measures to prevent potential threats, these efforts may not protect our computer networks against all threats of security breaches, which could damage the reputation of our institutions and negatively impact our business and prospects.

Our expenses may cause us to incur additional operating losses if we do not realize our expected revenues.

Our spending is based, in significant part, on our estimates of future revenue and is largely fixed in the short term. As a result, we may be unable to adjust our spending in a timely manner if our revenue falls short of our expectations. Accordingly, any significant shortfall in revenues in relation to our expectations would have an immediate and material adverse effect on our profitability. In addition, we anticipate increasing operating expenses to expand program offerings and marketing initiatives. Any such increase could cause material losses to the extent we do not generate additional revenues sufficient to cover those expenses.

Strong competition in the postsecondary education market, especially in the online education market, could decrease our market share, increase our cost of recruiting students and put downward pressure on our tuition rates.

Postsecondary education is highly competitive. We compete with traditional public and private two- and four-year colleges as well as with other postsecondary schools. Traditional colleges and universities may offer programs similar

to those offered by our institutions at lower tuition levels as a result of government subsidies, government and foundation grants, tax-deductible contributions and other financial sources not available to for-profit postsecondary institutions. In addition, our institutions face continued scrutiny from their accreditors, and some of our competitors, including traditional colleges and universities, have substantially greater brand recognition and financial and other resources than we have, which may enable

them to compete more effectively for potential students. We also expect to face increased competition as a result of new entrants to the online education market, including traditional colleges and universities that had not previously offered online education programs.

We may not be able to compete successfully against current or future competitors and may face competitive pressures that could adversely affect our business. We may be required to reduce our tuition or increase marketing spending in order to attract or retain students or to pursue new market opportunities. We may also face increased competition in maintaining and developing new marketing relationships with corporations, particularly as corporations become more selective as to which online universities they will encourage or offer scholarships to their employees to attend and from which online universities they will hire prospective employees.

We may not be able to retain our key personnel or hire and retain the personnel we need to sustain and grow our business.

Our success depends largely on the skills, efforts and motivations of our executive officers, who generally have significant experience with our company and within the education industry. Due to the nature of our business, we face significant competition in attracting and retaining personnel who possess the skill sets we seek. In addition, key personnel may leave us and may subsequently compete against us. We do not carry life insurance on our key personnel for our benefit. The loss of the services of any of our key personnel or our failure to attract and retain other qualified and experienced personnel on acceptable terms could impair our ability to sustain and grow our business. In addition, because we operate in a highly competitive industry, our hiring of qualified executives or other personnel may cause us or such persons to be subject to lawsuits alleging misappropriation of trade secrets, improper solicitation of employees or other claims.

If we are unable to hire new employees or to continue to develop existing employees responsible for student recruitment, the effectiveness of our student admissions efforts would be adversely affected.

We intend to (i) hire, develop and train additional employees responsible for student admissions and (ii) retain and continue to develop and train our current student admissions personnel. Our ability to develop and maintain a strong student admissions function may be affected by a number of factors, including our ability to integrate and motivate our admissions counselors, our ability to effectively train our admissions counselors, the length of time it takes those new counselors to become productive, regulatory restrictions on the method of compensating admissions counselors and the competition involved in hiring and retaining them.

Enrollment and revenues could decrease if government tuition assistance offered to military personnel is suspended, or if such assistance is reduced or eliminated, if scholarships which we offer to military personnel are reduced or eliminated, or if our relationships with military bases deteriorate.

As of December 31, 2015, approximately 28.0% of our institutions' students were affiliated with the military, some of whom are eligible to receive tuition assistance from the government that they may use to pursue postsecondary degrees. From October 1, 2013 until October 16, 2013, the U.S. federal government entered into shutdown resulting in the suspension of military tuition assistance. In response, Ashford University implemented a Military Tuition Assistance Grant that covered the equivalent of tuition assistance payments for impacted students starting courses during that period. Although governmental tuition assistance programs were resumed following the shutdown, if such programs are again suspended or otherwise reduced or eliminated, enrollment by military personnel, including veterans, may suffer, which could have a material adverse effect on our revenues, financial condition, cash flows and results of operations. Additionally, if in response to future reductions or suspensions in military tuition assistance, we determine to reinstitute our Military Tuition Assistance Grant or a similar program, our per student revenue from military affiliated personnel would decline.

We also maintain relationships with military bases and provide scholarships to students who are affiliated with the military. If our relationship with any military base deteriorates or we reduce or eliminate these scholarships, enrollment by military personnel, including veterans, may suffer, which could have a material adverse effect on our revenues, financial condition, cash flows and results of operations. However, if we increase our scholarships to students who are affiliated with the military, our per student revenue from military affiliated personnel will decline.

A decline in the overall growth of enrollment in postsecondary institutions, or in the number of students seeking degrees online or in our core disciplines, could cause us to experience a further decline in enrollment at our institutions.

We have experienced overall growth in institutional enrollments and revenues since we acquired Ashford University in 2005. However, enrollment at our institutions declined to 49,159 at December 31, 2015 as compared to 55,823 at December 31, 2014. Additionally, our revenues have declined in recent periods and may continue to decline in the future. In order to return to growth in our revenues and increase enrollment at our institutions, our institutions will need to attract and retain a larger percentage of students in existing markets and expand their markets by creating new academic programs. In addition, if job

growth in the fields related to our institutions' core disciplines is weaker than expected, fewer students may seek the types of degrees that our institutions offer.

Our success depends in part on our institutions' ability to update and expand the content of existing programs and to develop new programs and specializations on a timely basis and in a cost-effective manner.

The updates and expansions of existing programs and the development of new programs and specializations may not be accepted by existing or prospective students or prospective employers of our institutions' graduates. If we do not adequately respond to changes in market requirements by updating and expanding our existing programs or developing new programs, our business will be adversely affected. Even if our institutions are able to develop acceptable new programs, they may not be able to introduce these new programs as quickly as students require or as quickly as our competitors introduce competing programs. To offer a new academic program, our institutions may be required to obtain appropriate federal, state and accrediting agency approvals, which may be conditioned or delayed in a manner that could significantly affect our operations. In addition, to be eligible for federal student financial aid programs, a new academic program may need to be approved by the Department.

Establishing new academic programs or modifying existing programs requires investments in management and capital expenditures, additional marketing expenses and reallocation of other resources. We and our institutions may have limited experience with programs in new disciplines and may need to modify existing systems and strategies or enter into arrangements with other educational institutions to provide new programs effectively and profitably. If our institutions are unable to increase enrollment in new programs, offer new programs in a cost-effective manner or otherwise manage effectively the operations of newly established academic programs, our revenues, financial condition, cash flows and results of operations could be adversely affected.

Our failure to keep pace with changing market needs could harm our institutions' ability to attract students.

Our success depends to a large extent on the willingness of employers to hire, promote or increase the pay of our institutions' graduates. Increasingly, employers demand that their new employees possess appropriate technical and analytical skills and also appropriate interpersonal skills, such as communication and teamwork. These skills can evolve rapidly in a changing economic and technological environment. Accordingly, it is important that our institutions' educational programs continually evolve in response to those economic and technological changes.

The expansion of existing academic programs and the development of new programs may not be accepted by current or prospective students or by prospective employers of our institutions' graduates. Even if our institutions develop acceptable new programs, they may not be able to begin offering those new programs in a timely fashion or as quickly as our competitors offer similar programs. If we are unable to adequately respond to changes in market requirements due to regulatory or financial constraints, unusually rapid technological changes or other factors, the rates at which our institutions' graduates obtain jobs in their fields of study could suffer, our ability to attract and retain students could be impaired and our business could be adversely affected.

We may be unable to sufficiently protect our proprietary rights and we may encounter disputes from time to time relating to our use of the intellectual property of third parties.

We rely on a combination of copyrights, trademarks, service marks, patents, trade secrets, domain names and agreements with employees and third parties to protect our proprietary rights. We have trademark and service mark registrations and pending applications for additional registrations in the United States and select foreign jurisdictions. We also own the domain name rights for our institutions, as well as other words and phrases important to our business. In addition, we have applied for domestic and international patents for certain technology developed by us. We also have registered copyrights for exemplary business course materials. Nonetheless, as new challenges arise in protecting these proprietary rights online, we cannot assure you that these measures will be adequate to protect our proprietary rights, that we have secured, or will be able to secure, appropriate protections for all of our proprietary rights in the United States or select foreign jurisdictions, or that third parties will not infringe upon or violate our proprietary rights. Despite our efforts to protect these rights, unauthorized third parties may attempt to duplicate or copy the proprietary aspects of our technology, curricula and online resource material, among others. Our management's attention may be diverted by these attempts, and we may need to expend funds in litigation to protect our proprietary rights against any infringement or violation.

We may also encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in these disputes. In certain instances, we may not have obtained sufficient rights to the content of

a course. Third parties may raise claims against us alleging an infringement or violation of their intellectual property. Some third-party intellectual property rights may be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid all alleged violations of such intellectual property rights. Any such intellectual property claim could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether

such claim has merit. Our insurance may not cover potential claims of this type adequately or at all, and we may be required to pay monetary damages, which may be significant, or our institutions may be required to alter the content of their classes to be non-infringing.

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

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

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

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

We may require additional financing in the future and if such financing is not available on terms acceptable to us, it could adversely affect our ability to grow.

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

A protracted economic slowdown and rising unemployment could lead to lower enrollment and impact our students' ability to repay their loans.

We believe that many students pursue postsecondary education to be more competitive in the job market. However, a protracted economic slowdown could increase unemployment and diminish job prospects generally. Diminished job prospects and heightened financial worries could affect the willingness of students to incur loans to pay for postsecondary education and to pursue postsecondary education in general. As a result, enrollments could suffer.

In addition, many of our institutions' students borrow Title IV loans to pay for tuition, fees and other expenses. A protracted economic slowdown could negatively impact their ability to repay those loans which would negatively impact our institutions' cohort default rates. Our institutions' students also are frequently able to borrow Title IV loans in excess of their tuition. The excess is received by such students as a stipend. However, if a student withdraws, we must return any unearned Title IV funds, including stipends. A protracted economic slowdown could negatively impact such students' ability to repay those stipends. As a result, the amount of Title IV funds we would have to return without reimbursement from students could increase, and our results of operations could suffer.

If we fail to effectively identify, pursue and consummate acquisitions, either in the U.S. or outside of the U.S., our ability to grow could be impacted and our profitability may be adversely affected.

Acquisitions are one component of our overall long-term growth strategy. From time to time, we engage in evaluations of, and discussions with, possible domestic and international acquisition candidates. We may not be able to identify suitable acquisition opportunities, complete acquisitions on favorable terms, or successfully integrate or profitably operate acquired institutions or businesses. There may be particular difficulties and complexities (regulatory or otherwise) associated with our expansion into international markets, and our strategies may not succeed beyond our

current markets. If we are unable to effectively address these challenges, our ability to execute this component of our long-term strategy will be impaired, which could have an adverse effect on our ability to grow and our profitability.

The acquisition, integration and growth of acquired businesses may present challenges that could harm our business.
The successful integration and profitable operation of an acquired institution or business, including the realization of anticipated cost savings and additional revenue opportunities, can present challenges, and the failure to overcome these challenges can have an adverse effect on our business, financial condition, cash flows and results of operations. Some of these challenges include:

- the inability to maintain uniform standards, controls, policies and procedures;
- distraction of management's attention from normal business operations during the integration process;
- the inability to attract and/or retain key management personnel to operate the acquired entity;
- the inability to obtain, or delay in obtaining, regulatory or other approvals necessary to operate the business;
- the inability to correctly estimate the size of a target market or accurately assess market dynamics;
- expenses associated with the integration efforts; and
- unidentified issues not discovered in the due diligence process, including legal contingencies.

An acquisition related to an institution or other educational business often requires one or multiple regulatory approvals. If we are unable to obtain such approvals, or we obtain them on unfavorable terms, our ability to consummate a transaction may be impaired or we may be unable to operate the acquired entity in a manner that is favorable to us. If we fail to properly evaluate an acquisition, we may be required to incur costs in excess of what we anticipated, and we may not achieve the anticipated benefits of such acquisition.
We may finance a future acquisition with existing funds or funds raised through debt or equity financing. If we use existing funds, we will lower the amount of funds we currently have. If we arrange for alternative financing, we may not be able to obtain such financing on favorable terms. In addition, equity financing could dilute the holdings of our stockholders, which may affect our stock price.
An increase in interest rates could adversely affect our institutions' ability to attract and retain students.
Interest rates have reached relatively low levels in recent years, creating a favorable borrowing environment for students. However, if Congress increases interest rates on Title IV loans, or if private loan interest rates rise, our institutions' students would have to pay higher interest rates on their loans. Any future increase in interest rates will result in a corresponding increase in educational costs to existing and prospective students. Higher interest rates could also contribute to higher default rates with respect to students' repayment of their education loans. Higher default rates may in turn adversely impact our institutions' eligibility to participate in some or all Title IV programs, which could have a material adverse effect on enrollments and our revenues, financial condition, cash flows and results of operations.
We face risk in connection with institutional loan programs implemented at our institutions. If students participating in such programs fail to timely repay their loans, our business will be negatively impacted.
Both Ashford University and University of the Rockies have institutional loan programs for their online student population. Under these programs, our institutions loan money directly to eligible and qualifying students. If students participating in these programs fail to repay their loans on a timely basis, or at all, it would have a negative impact on our financial condition, cash flows and results of operations.
We may not earn enough revenue from Constellation and our other technologies to offset the costs of innovating, developing, deploying and marketing these technologies.
In recent periods, we have devoted increasing amounts of resources to innovating, developing, deploying and marketing new technologies such as Constellation and the mobile application technology for our institutions. If we are unable to earn revenue sufficient to offset the costs of innovating, developing, deploying and marketing such technologies, our financial condition, cash flows and results of operations could be negatively impacted.
Our failure to comply with environmental laws and regulations governing our activities could result in financial penalties and other costs.
We use hazardous materials at our ground campuses and generate small quantities of waste, such as used oil, antifreeze, paint, car batteries and laboratory materials. Additionally, we have identified minor environmental issues at the property near

the Clinton Campus. We are subject to a variety of environmental laws and regulations governing, among other things, the use, storage and disposal of solid and hazardous substances and waste, and the clean-up of contamination at our facilities or off-site locations to which we send or have sent waste for disposal. If we do not maintain compliance with any of these environmental laws and regulations, or we are responsible for a spill or release of hazardous materials, we could incur significant costs for clean-up, damages and fines or penalties.

Our corporate headquarters are located in a high brush fire danger area and near major earthquake fault lines.

Our corporate headquarters are located in San Diego, California in a high brush fire danger area and near major earthquake fault lines. We could be materially and adversely affected in the event of a brush fire or major earthquake, either of which could significantly disrupt our business.

We have a limited operating history. Accordingly, our historical and recent financial and business results may not necessarily be representative of future results.

We have a limited operating history on which you can evaluate our business strategy, our financial results and trends in our business. As a result, our historical results and trends, including bad debt expense and our institutions' enrollments and cohort default rates, may not be indicative of future results.

Risk Related to Our Common Stock

The price of our common stock has fluctuated significantly in the past and may continue to do so in the future. As a result, you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price of our common stock has fluctuated significantly in the past, and may continue to fluctuate significantly for a variety of different reasons, including, without limitation:

- a failure to remediate the control deficiencies that constitute the material weaknesses in our internal controls discussed in Item 9A, “Controls and Procedures”;
- developments regarding the accreditation or state licensing of our academic institutions, particularly Ashford University;
- our quarterly or annual earnings or those of other companies in our industry;
- public reaction to our press releases, corporate communications and SEC filings;
- changes in earnings estimates or recommendations by research analysts who track our common stock or the stocks of other companies in our industry;
- seasonal variations in our student enrollment;
- new laws or regulations or new interpretations of laws or regulations applicable to our industry or business;
- negative publicity, including government hearings and other public lawmaker or regulator criticism, regarding our industry or business;
- changes in enrollment;
- changes in accounting standards, policies, guidance, interpretations or principles;
- litigation involving our company or investigations or audits by regulators into the operations of our company or our competitors;
- sales of common stock by our directors, executive officers and significant stockholders; and
- changes in general conditions in the United States and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events.

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

Sales of outstanding shares of our common stock into the market in the future could cause the market price of our stock to drop significantly, even if our business is doing well.

If our stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline. At December 31, 2015, 45.8 million shares of our common stock were outstanding.

In addition, as of December 31, 2015, there were 4.7 million shares of our common stock underlying outstanding stock options and 2.8 million shares of our common stock underlying outstanding stock awards, including restricted stock units and performance stock units. All shares subject to outstanding stock options are eligible for sale in the public market to the extent permitted by the provisions of the applicable stock option agreement and Rule 144 under the Securities Act. If these additional shares of common stock are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline. Under Rule 144, shares held by non-affiliates for more than six months may generally be sold without restriction, other than a current public information requirement, and may be sold freely without any restrictions after one year. Shares held by affiliates may also be sold under Rule 144 after one year, subject to applicable restrictions, including volume and manner of sale limitations.

If securities or industry analysts change their recommendations regarding our common stock adversely or cease to cover our company, or if our operating results do not meet their expectations, our stock price could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business or industry. If one or more of these analysts ceases coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover our company downgrades our common stock, whether as a result of any material weaknesses in our internal controls or other factors, or if our operating results do not meet their expectations, our stock price could decline.

Our principal stockholder has significant influence over matters requiring stockholder approval and access to our management.

As of December 31, 2015, Warburg Pincus beneficially owned 60.4% of our outstanding common stock. Accordingly, Warburg Pincus may exercise significant influence over the election of our directors, amendments to our certificate of incorporation and bylaws and other actions requiring the vote or consent of our stockholders, including mergers, going private transactions and other extraordinary transactions. The ownership position of Warburg Pincus may have the effect of delaying, deterring or preventing a change of control or a change in the composition of our board of directors.

In February 2009, we entered into a nominating agreement with Warburg Pincus. Under the nominating agreement, as long as Warburg Pincus beneficially owns at least 15% of the outstanding shares of our common stock, we will, subject to our fiduciary obligations, nominate and recommend to our stockholders that two individuals designated by Warburg Pincus be elected to our board of directors. Additionally, if Warburg Pincus beneficially owns less than 15% but more than 5% of the outstanding shares of our common stock, we will, subject to our fiduciary obligations, nominate and recommend to our stockholders that one individual designated by Warburg Pincus be elected to our board of directors. Two directors affiliated with Warburg Pincus, Patrick T. Hackett and Adarsh Sarma, currently serve on our board of directors.

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

We do not expect to pay dividends on shares of our common stock in the foreseeable future and we intend to use our cash position to grow our business. Consequently, your only opportunity to achieve a positive return on your investment in our common stock will be if the market price of our common stock appreciates.

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

Subject to the rules of the New York Stock Exchange (the “NYSE”), our board of directors has the authority, without any action or vote of our stockholders, to issue all or any part of our authorized but unissued shares of capital stock. At December 31, 2015, there were 300.0 million shares of common stock authorized for issuance under our certificate of incorporation, 45.8 million shares of which were outstanding. At December 31, 2015, there were 20.0 million shares of preferred stock authorized for issuance under our certificate of incorporation, no shares of which were outstanding. Issuances of common stock or voting preferred stock would reduce your influence over matters on which

our stockholders vote and, in the

case of issuances of preferred stock, would likely result in your rights as a stockholder being subject to the prior rights of holders of that preferred stock.

Provisions in our certificate of incorporation and bylaws and Delaware law may discourage, delay or prevent a change of control of our company or changes in our management and, therefore, may depress the trading price of our stock.

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our stock by acting to discourage, delay or prevent a change of control of our company or changes in our board of directors that the stockholders of our company may deem advantageous. These provisions:

- authorize the issuance of "blank check" preferred stock by our board of directors to increase the number of outstanding shares to discourage a takeover attempt;
- provide for a classified board of directors (three classes);
- provide that stockholders may only remove directors for cause;
- provide that any vacancy on our board of directors, including a vacancy resulting from an increase in the size of the board, may only be filled by the affirmative vote of a majority of our directors then in office, even if less than a quorum;
- provide that a special meeting of stockholders may only be called by our board of directors or by our chief executive officer;
- provide that action by written consent of the stockholders may be taken only if the board of directors first approves such action, except that if Warburg Pincus holds at least 50% of our outstanding capital stock on a fully diluted basis, whenever the vote of stockholders is required at a meeting for any corporate action, the meeting and vote of stockholders may be dispensed with, and the action may be taken without such meeting and vote, if a written consent is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at the meeting of stockholders; provided that, notwithstanding the foregoing, we will hold an annual meeting of stockholders in accordance with NYSE rules for so long as our shares are listed on the NYSE, and as otherwise required by the bylaws;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

In July 2015, the Ashford University Board of Trustees made the decision to close the Clinton Campus after the 2015-2016 academic year, following the implementation of a one-year teach-out plan. On December 22, 2015, we entered into a Purchase Agreement and Escrow Instructions with Catalyst pursuant to which we agreed to sell the Clinton Campus to Catalyst for $1.6 million. Simultaneously with the closing of the sale on December 29, 2015, we entered into a Lease Agreement with Catalyst pursuant to which we are leasing the Clinton Campus from Catalyst through December 31, 2016 at $12,500 per month plus standard operating expenses.

As of December 31, 2015, and subsequent to the transaction above, we do not own any property, but rather lease all of our facilities. Below is a table summarizing our leased properties.

Number of Buildings	Location	Total Square Footage	Lease Expiration	Primary Use
5	San Diego, CA	625,000	2017-2020	Enrollment services, student support services and corporate functions
2	Denver, CO	193,000	2021-2023	Enrollment services, student support services and corporate functions
12	Clinton, IA	455,000	2016	Campus operations, enrollment services and student support services

1	Washington, D.C.	2,000	2016	Corporate functions

49

We lease property in California, Colorado, Iowa and Washington D.C. for campus operations, corporate functions, enrollment services and student support services. The leased property in Clinton, Iowa is used for campus operations and includes various academic, athletic, administrative, housing and student services buildings.

Our facilities are utilized consistent with management's expectations and we believe such facilities are suitable and adequate for current requirements, and that additional space can be obtained on commercially reasonable terms to meet future requirements.

Item 3. Legal Proceedings.

For information regarding legal proceedings, see Note 21, “Commitments and Contingencies” to our annual consolidated financial statements included elsewhere in this report, the text of which is incorporated by reference into this Item 3.

Item 4. Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is listed on the New York Stock Exchange (the "NYSE") under the symbol "BPI." The following table sets forth, for each full quarterly period in 2015 and 2014, the high and low sales prices per share of our common stock as reported on the NYSE.

	High	Low
2015		
First Quarter	$11.45	$8.96
Second Quarter	$10.38	$8.20
Third Quarter	$9.81	$7.40
Fourth Quarter	$8.95	$7.15
2014		
First Quarter	$20.15	$14.12
Second Quarter	$16.25	$12.63
Third Quarter	$14.00	$11.06
Fourth Quarter	$12.79	$10.55

Holders of Record

As of March 2, 2016, there were 22 holders of record of our common stock. This figure does not include an indeterminate number of beneficial owners of our common stock whose shares are held of record by banks, brokers and other financial institutions.

Dividends

We have not paid any cash dividends on our common stock to date and do not anticipate paying cash dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, operating results and capital requirements, any contractual restrictions related to our ability to pay dividends and such other factors as our board of directors may deem appropriate.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by Item 201(d) of Regulation S-K is incorporated by reference to our definitive proxy statement to be filed with the SEC in connection with our 2016 Annual Meeting of Stockholders or an amendment to this Annual Report on Form 10-K to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We repurchased no shares of our common stock in the fourth quarter of 2015. For information regarding our recent stock repurchase programs authorized by our board of directors, see Note 17, "Stock Repurchase Programs" to our annual consolidated financial statements included elsewhere in this report.

Performance Graph

The following information shall not be deemed to be “filed” with the SEC, nor shall such information be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into such a filing.

The following graph compares the cumulative total return on our common stock over the period from December 31, 2010 through December 31, 2015 to the cumulative total return over the same period of the Russell 3000 Index and a customized peer group of four postsecondary education companies that includes American Public Education, Inc., Capella Education Company, Grand Canyon Education, Inc. and Strayer Education, Inc. The graph assumes an investment of $100 was made in each of our common stock, the index, and the peer group on December 31, 2010, and assumes reinvestment of all dividends. The stock price performance on the graph is not necessarily indicative of future stock price performance.

Item 6. Selected Consolidated Financial Data.

The following selected consolidated financial and other data should be read in conjunction with Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” and our audited consolidated financial statements included elsewhere in this report. The consolidated statement of income data, consolidated balance sheet data, and consolidated other data set forth below as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011 have been derived from our consolidated financial statements. Historical results are not necessarily indicative of the results to be expected for future periods. The risk factors set forth in Item 1A, “Risk Factors” also discuss material uncertainties that could cause the data reflected below not to be indicative of our future financial condition or results of operations. We declared no cash dividends during the periods presented.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Consolidated Statement of Income Data:	(In thousands, except per share data)				
Revenue	$561,729	$638,705	$751,449	$943,405	$915,247
Operating income (loss)	(42,295)	14,311	68,463	191,627	270,953
Net income (loss)	(70,454)	9,688	45,883	121,146	171,078
Earnings (loss) per common share:					
Basic	$(1.54)	$0.21	$0.85	$2.29	$3.27
Diluted	(1.54)	0.21	0.83	2.17	2.99

	As of December 31,				
	2015	2014	2013	2012	2011
Consolidated Balance Sheet Data:	(In thousands)				
Cash, cash equivalents, restricted cash and investments	$373,987	$356,545	$356,435	$514,671	$407,232
Total assets	506,766	558,095	570,012	742,413	607,537
Total indebtedness (including short-term indebtedness)	—	—	—	—	—
Total stockholders' equity	303,650	365,881	344,538	483,196	347,549

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Consolidated Other Data:	(In thousands, except enrollment data)				
Cash flows provided by (used in):					
Operating activities	$26,715	$25,219	$85,586	$149,905	$215,954
Investing activities	44,622	(33,026)	115,196	(23,009)	(208,048)
Financing activities	3,805	2,284	(197,227)	1,868	(67,357)
Period-end enrollment (1):					
Online	48,729	55,081	62,668	80,791	85,527
Campus-based	430	742	956	1,019	1,115
Total	49,159	55,823	63,624	81,810	86,642

(1) We define period-end enrollment as the number of active students on the last day of the financial reporting period. 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 notice of withdrawal.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our annual consolidated financial statements and related notes thereto included in Item 8 of this report. In addition to historical information, this discussion includes forward-looking information that involves risks and assumptions which could cause actual results to differ materially from management's expectations. See Part I, Item 1A, “Risk Factors” and “Special Note Regarding Forward-Looking Statements” at the beginning of this report.

Overview

We are a provider of postsecondary education services. Our academic institutions, Ashford University and University of the Rockies, 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 December 31, 2015, our institutions offered approximately 1,850 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. For additional information regarding our business, see Item 1, “Business — Overview.”

Key operating data

In evaluating our operating performance, our management focuses in large part on our revenue and operating income and period-end enrollment at our academic institutions, both online and campus-based. The following table, which should be read in conjunction with our annual consolidated financial statements included elsewhere in this report, presents our key operating data for the years ended December 31, 2015, 2014 and 2013 (in thousands, except for enrollment data):

	Year Ended December 31,		
	2015	2014	2013
Consolidated Statement of Income Data:			
Revenue	$561,729	$638,705	$751,449
Operating income (loss)	(42,295)	14,311	68,463
Consolidated Other Data:			
Period-end enrollment (unaudited)(1)			
Online	48,729	55,081	62,668
Campus-based	430	742	956
Total	49,159	55,823	63,624

(1) We define period-end enrollment as the number of active students on the last day of the financial reporting period. 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 notice of withdrawal.

Key enrollment trends

Enrollment at our combined academic institutions decreased to 49,159 at December 31, 2015 as compared to 55,823 at December 31, 2014, representing a decrease of 11.9%. In recent years, we have experienced a general decline in 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.

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 (“WSCUC”). 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

54

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 the resulting decline in revenue.

Restructuring and impairment charges

During the three year period ended December 31, 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, (iv) estimated lease losses related to facilities vacated or consolidated under restructuring plans, and (v) the impairment of capitalized software costs. These charges were recorded in the restructuring and impairment charges line item on our consolidated statements of income. For additional information, see Note 3, “Restructuring and Impairment Charges” to our annual consolidated financial statements included elsewhere in this report.

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. On December 22, 2015, we entered into a Purchase Agreement and Escrow Instructions with Catalyst pursuant to which we agreed to sell the Clinton Campus to Catalyst for $1.6 million. Simultaneously with the closing of the sale on December 29, 2015, we entered into a Lease Agreement with Catalyst pursuant to which we are leasing the Clinton Campus from Catalyst through December 31, 2016.

Primarily as a result of the planned closure of the Clinton Campus, during the year ended December 31, 2015, we recognized asset impairment charges of $43.3 million relating to the write-off of certain fixed assets. During the years ended December 31, 2014 and 2013, we recognized asset impairment charges of $4.6 million and $0.7 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 opportunities to complete their degrees based upon their respective student transfer agreements. We recorded restructuring charges relating to future cash expenditures for student transfer agreement costs of approximately $3.3 million during the year ended December 31, 2015. This estimate is based upon several assumptions that are subject to change, including student decisions regarding transfer. There was no such charge prior to the year ended December 31, 2015.

In recent years, we have implemented reductions in force to help better align personnel resources with the decline in enrollment. During the year ended December 31, 2015, we recognized $4.7 million as restructuring charges relating to severance costs for wages and benefits resulting from reductions in force. We anticipate that these costs will be paid out by the end of the first quarter of 2016 from existing cash on hand. During the years ended December 31, 2014 and 2013, we recognized $3.6 million and $5.9 million, respectively, as restructuring charges relating to severance costs for wages and benefits resulting from reductions in force.

During the fourth quarter of 2014, we terminated a software development program for internal operations due to a change in our operating plan. As a result, we recorded an asset impairment charge of $2.2 million for previously capitalized software costs.

As part of our continued efforts to streamline operations, we vacated or consolidated properties in Denver and San Diego, and reassessed our obligations on non-cancelable leases. The fair value estimate of these non-cancelable leases is based on the contractual lease costs over the remaining term, partially offset by estimated future sublease rental income. The estimated rental income considers subleases we have executed or expect to execute, current commercial real estate market data and conditions, comparable transaction data and qualitative factors specific to the related facilities. For the year ended December 31, 2015, we recorded $17.0 million for lease exit costs, which primarily related to properties in Denver and San Diego. For the years ended December 31, 2014 and 2013, we recorded $6.5 million and $0.3 million, respectively, for lease exit costs primarily relating to properties in Denver and San Diego.

55

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.

In the third quarter of 2015, there were several pieces of negative evidence that 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 negative evidence included (i) a significant third quarter pre-tax loss, (ii) projections that showed we would be in a three-year cumulative loss position by 2016 and (iii) the continued difficult business and regulatory environment surrounding for-profit education institutions. After weighing all positive and negative evidence, we concluded that we could not rely upon future taxable income to support realizability of deferred tax assets and, therefore, we recorded a valuation allowance against the deferred tax assets that rely on future taxable income in the third quarter of 2015. As of December 31, 2015, we recorded a valuation allowance of $42.4 million against the deferred tax assets. 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 December 31, 2015, we had cash, cash equivalents, restricted cash and investments totaling $374.0 million and no long-term debt. For the year ending December 31, 2016, 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, changes could 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.

Key Financial Metrics

Revenue

Revenue consists principally of tuition, technology fees and other miscellaneous fees and is shown net of scholarships and refunds. Factors affecting our revenue include (i) the number of students who enroll and remain enrolled in our courses, (ii) our degree and program mix, (iii) changes in our tuition rates and (iv) the amount of scholarships we offer.

Enrollments

Enrollments are a function of the number of continuing students at the beginning of each period and new enrollments during the period, offset by students who either graduated or withdrew during the period. Our online courses are typically five or six weeks in length and have weekly start dates throughout the year, with the exception of a two-week break during the holiday period in late December and early January. Our campus-based courses are typically nine or 16 weeks in length and have one start date per term, with two to five terms per year.

Costs and expenses

The following is a description of the costs included in each of our current expense categories:

Instructional costs and services. Instructional costs and services consist primarily of costs related to the administration and delivery of our institutions' educational programs. This expense category includes compensation for campus-based faculty and administrative personnel, costs associated with online faculty, curriculum and new program development costs, financial aid processing costs, technology license costs, bad debt expense and costs associated with other support groups that provide services directly to the students. Instructional costs and services also include an allocation of information technology, facility, depreciation and amortization costs.

Admissions advisory and marketing. Admissions advisory and marketing costs include compensation of personnel engaged in marketing and recruitment, as well as costs associated with purchasing leads and producing marketing materials. Our admissions advisory and marketing expenses are generally affected by the cost of advertising media

and leads, the efficiency of our marketing and recruiting efforts, salaries and benefits for our enrollment personnel, and expenditures on

advertising initiatives for new and existing academic programs. Advertising costs, consisting primarily of marketing leads, are expensed as incurred or the first time the advertising takes place, depending on the type of advertising activity. Admissions advisory and marketing costs also include an allocation of information technology, facility, depreciation and amortization costs.

General and administrative. General and administrative expenses include compensation of employees engaged in corporate management, finance, human resources, compliance and other corporate functions. General and administrative expenses also include professional services fees, travel and entertainment expenses, and an allocation of information technology, facility, depreciation and amortization costs.

Restructuring and impairment charges. Restructuring and impairment 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, (iv) estimated lease losses related to facilities vacated or consolidated under restructuring plans and (v) the impairment of capitalized software costs. For additional information, see Note 3, “Restructuring and Impairment Charges” to our annual consolidated financial statements included elsewhere in this report.

Factors Affecting Comparability

We believe the following factors have had, or can be expected to have, a significant effect on the comparability of recent or future results of operations:

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

Critical accounting policies are those policies that, in management's view, are most important in the portrayal of our financial condition and results of operations. The footnotes to our annual consolidated financial statements included elsewhere in this report also include disclosure of significant accounting policies. The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on the results that we report in our financial statements. These critical accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain.

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

Revenue recognition

We recognize revenue when persuasive evidence of an arrangement exists, services have been rendered or delivery has occurred, our fees or price is fixed or determinable, and collectibility is reasonably assured. The majority of our revenue comes from tuition revenue and is shown net of scholarships and refunds. Tuition revenue is recognized on a straight-line basis over the applicable period of instruction, with the exception of an online student's first course per degree level at Ashford University. An online student's first course per degree level at Ashford University falls under a three-week conditional admission period, also known as the Ashford Promise, in which the revenue is deferred until the student matriculates into the course.

Our institutions' online students generally enroll in a program that encompasses a series of five to six-week courses that are taken consecutively over the length of the program. With the exception of those students under conditional admission, online students are billed on a payment period basis on the first day of a class. Our institutions' traditional

campus-based students enroll in a program that encompasses a series of nine-week or 16-week courses. These students are billed at the beginning of each term. We assess collectibility at the start of a student's payment period for the courses in that payment period (generally five courses for undergraduates and four courses for graduates).

In certain cases, our institutions' provide scholarships to students for various programs. Scholarships issued by our universities are recorded in association with the related specific course, term or payment period. Scholarships are generally deferred and recognized against revenue over the course term. Incentive-based scholarships, such as the Leadership Development Grant ("LDG") and Alumni Scholarship are recognized against revenue over the period of benefit to the student.

Deferred revenue and student deposits represents unearned tuition and fees as well as student payments in excess of charges. We record an account receivable and corresponding deferred revenue for the amount of tuition and fees for enrolled courses when a student is billed for a payment period. Payments received either directly from the student or from the student's source of funding that exceed amounts billed are recorded as student deposits. At the end of each accounting period, the deferred revenue and student deposits and related account receivable balances are reduced to present amounts attributable to the current course.

If a student withdraws from a program prior to certain dates, the student is entitled to a refund of a portion of tuition, depending on the date the student last attended a class. Students under conditional admission are not obligated for payment until after their conditional admission period has lapsed, so there is no related refund. For all subsequent courses, (i) if an online student drops a class and the student's last date of attendance was in the first week of class, the student receives a full refund of the tuition for that class, (ii) if an online student drops a class and the last date of attendance was in the second week of the class, the student receives a refund of 50% of the tuition for that class and (iii) if an online student drops a class and the student's last date of attendance was after the second week of the class, the student is not entitled to a refund. We monitor student attendance in online courses through activity in the online program associated with that course. After two weeks have passed without attendance in a class by the student, the student is presumed to have dropped the course as of the last date of attendance, and the student's tuition is automatically refunded to the extent the student is entitled to a refund based on the refund policy above, subject to certain state requirements that require a pro rata refund. We estimate expected refunds based on historical refund rates and record a provision to reduce revenue for the amount that is expected to be refunded. Refunds issued by us for services that have been provided in a prior period have not historically been material. Future changes in the rate of student withdrawals may result in a change to expected refunds and would be accounted for prospectively as a change in estimate. We reassess collectibility throughout the period revenue is recognized by our institutions, on a student-by-student basis. We reassess collectibility based upon new information and changes in facts and circumstances relevant to a student's ability to pay. For example, we reassess collectibility when a student drops from the institution (i.e., is no longer enrolled) and when a student attends a course that was not included in the initial assessment of collectibility at the start of a student's payment period.

Ashford University records revenue from technology fees on a per course charge basis. The per course technology fee revenue for Ashford University is recognized on a straight-line basis over the applicable period of instruction.

University of the Rockies records revenue from technology fees as one-time start up fees charged to each new online student (other than military, scholarship students or certain corporate reimbursement students), and then recognizes that revenue ratably over the average expected enrollment of a student. The average expected enrollment of the student was estimated each quarter based upon historical duration of attendance and qualitative factors as deemed necessary.

Allowance for doubtful accounts

Accounts receivable consists of student accounts receivable, which represent amounts due for tuition, course digital materials, technology fees and other fees from currently enrolled and former students. Students generally fund their education through grants and/or loans under various Title IV programs, tuition assistance from military and corporate employers or personal funds. Payments are due on the respective course start date and are considered past due dependent upon the student's payment terms. In general, an account is considered delinquent 120 days subsequent to the course start date.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. For accounts receivable, an allowance for doubtful accounts is estimated by management and is principally based on historical collection experience as well as (i) an assessment of individual accounts receivable over a specific aging and amount, (ii) consideration of the nature of the receivable accounts and (iii) potential changes in the business or economic environment. The provision for bad debt is recorded within instructional costs and services in the consolidated

statements of income. We charge off uncollectable accounts receivable when the student account is deemed uncollectable by internal collection efforts or by a third-party collection agency.

Loan loss reserves

Student loans receivable consist of loans to qualified students and have a repayment period of 10 years from the date of graduation or withdrawal from our institutions. The interest rate charged on student loans is a fixed rate of either 4.5% or 0.0% depending upon the repayment plan selected. If the student selects the rate of 0.0%, the student must pay $50 per month on the loan while enrolled in school and during the six months of grace period (after graduation or withdrawal) before the repayment

period begins. On the 0.0% student loans, we impute interest using the rate that would be used in a market transaction with similar terms. Interest income on student loans is recognized using the effective interest method and is recorded within other income in the consolidated statements of income.

Student loans receivable are stated at the amount management expects to collect from outstanding balances. For tuition related student loan receivables, we estimate an allowance for doubtful accounts, similar to that of accounts receivable, based on (i) an assessment of individual loans receivable over a specific aging and amount, (ii) consideration of the nature of the receivable accounts, (iii) potential changes in the business or economic environment and (iv) related FICO scores and other industry metrics. The related provision for bad debts is recorded within instructional costs and services in the consolidated statements of income.

For non-tuition related student loans, we utilize an impairment methodology. Under this methodology, management determines whether a loan would be impaired if we will be unable to collect all amounts due in accordance with the contractual terms of the individual loan agreement. This assessment is based on an analysis of several factors, including aging history and delinquency trending, the risk characteristics and loan performance of the specific loans, and current economic conditions and industry trends. Credit quality is assessed at the outset of a loan, based upon the applicant's FICO score during the loan application process. We consider loans to be impaired when they reach a delinquency status that requires specialized collection efforts. We define delinquency for loans as those students whose last activity is more than 120 days old. We record a loss reserve for the full book value of the impaired loans. The loan loss reserve is maintained at a level deemed adequate by management based on a periodic analysis of the individual loans and is recorded within instructional costs and services in the consolidated statements of income.

Impairments of intangible assets

We test indefinite-lived intangible assets for impairment annually in the fourth quarter of each fiscal year, or more frequently if events and circumstances warrant. To evaluate the impairment of the indefinite-lived intangible assets, we assessed the fair value of the assets to determine whether they were in excess of the carrying values. Determining the fair value of indefinite-lived intangible assets is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions are inherently uncertain, and can include such items as growth rates used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and a determination of appropriate market comparables. Our assessment of indefinite-lived intangible assets during the fourth quarter of fiscal 2015 did not result in any impairment. There have been no impairment losses for indefinite-lived intangibles recognized by us for any periods presented.

We also have definite-lived intangible assets, which primarily consist of purchased intangibles and capitalized curriculum development costs. The definite-lived intangible assets are recognized at cost less accumulated amortization. Amortization is computed using the straight-line method based on estimated useful lives of the related assets unless there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We estimate that the useful life of the capitalized curriculum development costs is three years and the useful life of the purchased intangibles is the life of the related contract.

Impairments of long-lived assets

We assess potential impairment to our long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors we consider important which could cause us to assess potential impairment include significant changes in the manner of our use of the acquired assets or the strategy for our overall business and significant negative industry or economic trends. An impairment loss is recorded when the carrying amount of the long-lived asset is not recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value and is recorded as a reduction in the carrying value of the related asset and an expense to operating results.

We use various assumptions in determining undiscounted cash flows expected to result from the use and eventual disposition of an asset, which could include assumptions regarding revenue growth rates, operating costs, certain capital additions, assumed discount rates, disposition or terminal value and other economic factors. These variables require management to make judgments and include inherent uncertainties such as continuing acceptance of our institutions' education offerings by prospective students, our ability to manage operating costs and the impact of

changes in the economy on our business. Variations in the assumptions used could lead to a different conclusion regarding the realizability of an asset and, thus, could have a significant effect on our conclusions regarding whether an asset is impaired and the amount of impairment loss recorded in the consolidated financial statements.

Income taxes

We utilize the liability method of accounting for income taxes. Significant judgments are required in determining the consolidated provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax settlement is uncertain. As a result, we recognize tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite our belief that our tax return positions are supportable, we believe that it is more-likely-than-not that those positions may not be fully sustained upon review by tax authorities. We believe that our accruals for tax liabilities are adequate for all open audit years based on our assessment of many factors, including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters differs from our expectations, such differences will impact income tax expense in the period in which such determination is made.

We evaluate and account for uncertain tax positions using a two-step approach. Recognition (step one) occurs when we conclude that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Derecognition of a tax position that was previously recognized would occur when we subsequently determine that a tax position no longer meets the more-likely-than-not threshold of being sustained.

We are required to file income tax returns in the United States and in various state income tax jurisdictions. The preparation of these income tax returns requires us to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by us. The income tax returns, however, are subject to audits by the various federal and state taxing authorities. As part of these reviews, the taxing authorities may disagree with our tax positions. The ultimate resolution of these tax positions is often uncertain until the audit is complete and any disagreements are resolved. We therefore record an amount for our estimate of the additional tax liability, including interest and penalties, for any uncertain tax positions taken or expected to be taken in an income tax return. We review and update the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, and upon completion of tax audits and expiration of statutes of limitations. We record interest and penalties related to income tax matters in income tax expense.

In addition to estimates inherent in the recognition of current taxes payable, we estimate the likelihood that we will be able to recover our deferred tax assets each reporting period. Realization of our deferred tax assets is dependent upon future taxable income. To the extent we believe it is more-likely-than-not that some portion or all of our net deferred tax assets will not be realized, we establish a valuation allowance recorded against deferred tax assets. 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 and the feasibility of ongoing tax planning strategies. We recognize windfall tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. A windfall tax benefit occurs when the actual tax benefit realized by us upon an employee's disposition of a share-based award exceeds the deferred tax asset, if any, associated with the award that we had recorded. When assessing whether a tax benefit relating to share-based compensation has been realized, we follow the tax law ordering method, under which current year share-based compensation deductions are assumed to be utilized before net operating loss carryforwards and other tax attributes.

Stock-based compensation

We grant options to purchase our common stock, restricted stock units (“RSUs”) and performance stock units (“PSUs”) to eligible persons under our 2009 Stock Incentive Plan. The benefits provided under these plans are share-based payments and are recorded in our consolidated statement of income based upon their fair values.

Stock-based compensation cost is measured using the grant date fair value of the award and is expensed over the vesting period. The fair value of RSUs is the stock price on the date of grant multiplied by the number of units awarded. The fair value of PSUs is estimated based on our stock price as of the date of grant using a Monte Carlo simulation model. We estimate the fair value of stock options on the grant date using the Black-Scholes option pricing model. Determining the fair value of stock options and PSUs at the grant date under these models requires judgment, including estimating our volatility, employee stock option exercise behaviors and forfeiture rates. The assumptions

used in calculating the fair value of stock options and PSUs represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment.

Stock options awarded under our equity incentive plans have an exercise price that equals or exceeds the closing price of our common stock on the date of grant. The risk-free interest rate is based on the U.S. Treasury yield of those maturities that are consistent with the expected term of the stock option or PSUs in effect on the grant date of the award. Dividend rates are based upon historical dividend trends and expected future dividends. As we have never declared or paid any cash dividends and do

not presently plan to pay cash dividends in the foreseeable future, a zero dividend rate is assumed in our calculation. We have sufficient historical stock option exercise information to compute an expected term for use as an assumption in the Black-Scholes option pricing and Monte Carlo simulation models, and as such, our computation of expected term was calculated using our own historical data. We also have sufficient historical data on the volatility of our stock to use as a direct assumption in the option pricing models.

The amount of stock-based compensation expense we recognize during a period is based on the portion of the awards that are ultimately expected to vest. We estimate stock option forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The effect of a 10% change in estimates to any of the individual inputs to the Black-Scholes option pricing model or the Monte Carlo simulation model would not have a material impact on our consolidated financial statements.

Results of Operations

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

	Year Ended December 31,		
	2015	2014	2013
Revenue	100.0 %	100.0 %	100.0 %
Costs and expenses:			
Instructional costs and services	50.1 %	49.3 %	48.6 %
Admissions advisory and marketing	35.2 %	36.2 %	31.2 %
General and administrative	10.1 %	9.6 %	10.1 %
Restructuring and impairment charges	12.2 %	2.6 %	0.9 %
Total costs and expenses	107.6 %	97.7 %	90.8 %
Operating income (loss)	(7.6)%	2.3 %	9.2 %
Other income, net	0.5 %	0.5 %	0.4 %
Income (loss) before income taxes	(7.1)%	2.8 %	9.6 %
Income tax expense	5.4 %	1.2 %	3.4 %
Net income (loss)	(12.5)%	1.5 %	6.2 %

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Revenue. Our revenue for the year ended December 31, 2015 was $561.7 million, a decrease of $77.0 million, or 12.1%, as compared to revenue of $638.7 million for the year ended December 31, 2014. The decrease between periods was primarily due to the decrease in student enrollment at our academic institutions between fiscal year 2014 and fiscal year 2015. Ending student enrollment at our academic institutions was 49,159 students as of December 31, 2015, a decrease of 11.9% as compared to 55,823 students as of December 31, 2014. The average weekly enrollment at our academic institutions during the year ended December 31, 2015 decreased to 52,415 students from 61,344 students during the year ended December 31, 2014, or by 14.6%, which resulted in a decrease in tuition revenue of approximately $79.1 million. The decrease in revenue between periods was also due to a $2.8 million decrease in institutional scholarships to $102.3 million in the year ended December 31, 2015, compared to $105.1 million in the year ended December 31, 2014. Additionally, revenue generated from Constellation decreased by $0.9 million to $19.3 million in the year ended December 31, 2015, compared to $20.2 million in the year ended December 31, 2014. These decreases in revenue were partially offset by a tuition increase of approximately 2.4%, effective April 1, 2015, which resulted in an increase in revenue of approximately $12.2 million.

Instructional costs and services. Our instructional costs and services for the year ended December 31, 2015 were $281.5 million, a decrease of $33.6 million, or 10.7%, as compared to instructional costs and services of $315.1 million for the year ended December 31, 2014. The decrease between periods was reflective of the decrease in student enrollment at our academic institutions as discussed above. Specific decreases between periods include decreases in direct compensation of $14.5 million (in the areas of academic management, financial aid support and student services), facilities costs of $9.4 million, information technology costs of $4.0 million, instructor fees of $3.1 million, license fees of $1.5 million, loan impairment charges of $1.1 million and financial aid processing fees of $0.9 million. These decreases were partially offset by an increase in bad debt expense of $1.6 million.

Instructional costs and services increased as a percentage of revenue to 50.1% for the year ended December 31, 2015, as compared to 49.3% for the year ended December 31, 2014, primarily as a result of the decreased revenue. The increase of 0.8% included increases as a percentage of revenue in corporate support services of 0.9%, bad debt expense of 0.9% and instructor fees of 0.3%. These increases were partially offset by decreases as a percentage of revenue in facilities costs of 1.0% and direct compensation of 0.4%. As a percentage of revenue, bad debt expense increased to 5.3% for the year ended December 31, 2015, compared to 4.4% for the year ended December 31, 2014. We continue to focus on enhancing our processes and procedures surrounding bad debt and our accounts receivable, including increasing our efficiency in financial aid processing in order to reduce processing time, improving collection efforts on accounts receivable, and improving 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 year ended December 31, 2015 were $197.6 million, a decrease of $33.5 million, or 14.5%, as compared to admissions advisory and marketing expenses of $231.1 million for the year ended December 31, 2014. Specific factors contributing to the overall decrease between periods

were decreases in consulting and professional fees of $24.3 million, selling compensation of $8.4 million and facilities costs of $5.2 million. These decreases were partially offset by increases in advertising of $3.4 million and corporate support services of $1.1 million. Our admissions advisory and marketing expenses decreased as a percentage of revenue to 35.2% for the year ended December 31, 2015 from 36.2% for the year ended December 31, 2014. The decrease of 1.0% was primarily due to a decrease as a percentage of revenue in consulting and professional fees of 3.8%, partially offset by increases as a percentage of revenue in advertising costs of 2.0% and selling compensation expense of 0.8%.

General and administrative. Our general and administrative expenses for the year ended December 31, 2015 were $56.6 million, a decrease of $4.8 million, or 7.8%, as compared to general and administrative expenses of $61.4 million for the year ended December 31, 2014. The decrease between periods was primarily due to decreases in other administrative costs of $3.8 million, depreciation of $3.7 million, administrative compensation of $2.8 million and corporate support services of $1.1 million. These decreases were partially offset by an increase in net facilities costs of $7.5 million. Our general and administrative expenses increased as a percentage of revenue to 10.1% for the year ended December 31, 2015 from 9.6% for the year ended December 31, 2014. The 0.5% increase included an increase as a percentage of revenue in net facilities costs of 1.0%, partially offset by a decrease as a percentage of revenue in corporate support services of 0.8%.

Restructuring and impairment charges. Our restructuring and impairment charges for the year ended December 31, 2015 were $68.4 million, comprised of $43.3 million for asset impairments, $3.3 million for student transfer agreement costs, $17.0 million of lease exit costs for properties in San Diego and Denver, and $4.7 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 student enrollment. Our restructuring and impairment charges for the year ended December 31, 2014 were $16.8 million, comprised of $4.6 million for asset write offs, $6.5 million of lease exit costs for properties in San Diego and Denver, $3.6 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 student enrollment, and $2.2 million relating to impairment of capitalized software costs.

Other income, net. Our other income, net, for the year ended December 31, 2015 was $2.1 million, a decrease of $0.8 million as compared to other income, net, of $2.9 million for the year ended December 31, 2014. The decrease between periods was primarily a result of decreased interest income due to changes in the levels of average cash and cash equivalents and investment balances.

Income tax expense. Income tax expense for the year ended December 31, 2015 was $30.3 million, an increase of $22.8 million as compared to income tax expense of $7.5 million for the year ended December 31, 2014. Income tax expense was recognized at effective tax rates of (75.3)% and 43.8% for the years ended December 31, 2015 and 2014, respectively. The increase in income tax expense between periods was primarily due to the establishment of a valuation allowance against our net deferred tax assets during the year ended December 31, 2015. The negative effective tax rate for the year ended December 31, 2015 is due to income tax expense on a pre-tax loss.

Net income (loss). Our net loss for the year ended December 31, 2015 was $70.5 million compared to net income of $9.7 million for the year ended December 31, 2014, a decrease of $80.1 million as a result of the factors discussed above.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenue. Our revenue for the year ended December 31, 2014 was $638.7 million, a decrease of $112.7 million, or 15.0%, as compared to revenue of $751.4 million for the year ended December 31, 2013. The decrease between periods was primarily due to the decrease in student enrollment at our academic institutions between fiscal year 2013 and fiscal year 2014. Ending student enrollment at our academic institutions was 55,823 students as of December 31, 2014, a decrease of 12.3% as compared to 63,624 students as of December 31, 2013. The average weekly enrollment at our academic institutions during the year ended December 31, 2014 decreased to 61,344 students from 72,500 students during the year ended December 31, 2013, or by 15.4%, which resulted in a decrease in tuition revenue of approximately $114.8 million. The decrease in revenue between periods was also due to a $8.4 million decrease in institutional scholarships to $105.1 million in the year ended December 31, 2014, compared to $113.5 million in the year ended December 31, 2013. We also experienced a $5.6 million decrease in technology fees to $10.1 million in the year ended December 31, 2014 from $15.7 million in the year ended December 31, 2013, primarily due to the

decline in student enrollment at our academic institutions. Additionally, revenue generated from Constellation decreased by $0.6 million to $20.2 million in the year ended December 31, 2014, compared to $20.8 million in the year ended December 31, 2013. These decreases in revenue were partially offset by a tuition increase of approximately 1.7%, effective April 1, 2014, which resulted in an increase in revenue of approximately $12.7 million.

Instructional costs and services. Our instructional costs and services for the year ended December 31, 2014 were $315.1 million, a decrease of $50.3 million, or 13.8%, as compared to instructional costs and services of $365.4 million for the year ended December 31, 2013. The decrease between periods was reflective of the decrease in student enrollment at our academic institutions as discussed above. Specific decreases between periods include decreases in bad debt expense of $19.0 million,

direct compensation of $16.1 million (in the areas of academic management, financial aid support and student services), instructor fees of $9.6 million, facilities expense of $3.3 million and professional fees of $1.1 million. Instructional costs and services increased as a percentage of revenue to 49.3% for the year ended December 31, 2014, as compared to 48.6% for the year ended December 31, 2013, primarily as a result of the decreased revenue. The increase of 0.7% included increases as a percentage of revenue in corporate support services of 1.3%, information technology costs of 0.6% and facilities expense of 0.3%. These increases were partially offset by decreases as a percentage of revenue in bad debt expense of 1.9% and instructors fees of 0.3%. As a percentage of revenue, bad debt expense decreased to 4.4% for the year ended December 31, 2014, compared to 6.3% for the year ended December 31, 2013. We continue to focus on enhancing our processes and procedures surrounding our accounts receivable, including increasing our efficiency in financial aid processing in order to reduce processing time, improving collection efforts on accounts receivable, and improving 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 year ended December 31, 2014 were $231.1 million, a decrease of $3.4 million, or 1.4%, as compared to admissions advisory and marketing expenses of $234.5 million for the year ended December 31, 2013. Specific factors contributing to the overall decrease between periods were decreases in related compensation of $13.3 million due to fewer admissions and related personnel, corporate support services of $2.9 million and facilities expenses of $2.9 million, partially offset by increases in consulting and professional fees of $7.2 million and advertising costs of $5.2 million. Our admissions advisory and marketing expenses increased as a percentage of revenue to 36.2% for the year ended December 31, 2014 from 31.2% for the year ended December 31, 2013. The increase of 5.0% was primarily due to increases as a percentage of revenue in advertising costs of 2.2%, consulting and professional fees of 1.6%, selling compensation of 0.7% and license fees of 0.5%.

General and administrative. Our general and administrative expenses for the year ended December 31, 2014 were $61.4 million, a decrease of $14.7 million, or 19.4%, as compared to general and administrative expenses of $76.1 million for the year ended December 31, 2013. The decrease between periods was primarily due to decreases in facilities costs of $6.7 million, other administrative costs of $5.9 million, administrative compensation of $4.4 million and depreciation of $0.7 million. These decreases were partially offset by an increase in information technology costs of $1.7 million. Our general and administrative expenses decreased as a percentage of revenue to 9.6% for the year ended December 31, 2014 from 10.1% for the year ended December 31, 2013. The 0.5% decrease included decreases as a percentage of revenue in facilities of 1.3% and support services of 0.5%, partially offset by increases as a percentage of revenue in administrative compensation of 0.5%, information technology costs of 0.4% and professional fees of 0.3%.

Restructuring and impairment charges. Our restructuring and impairment charges for the year ended December 31, 2014 were $16.8 million, comprised of $4.6 million for asset impairments, $6.5 million of lease exit costs for properties in San Diego and Denver, $3.6 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 student enrollment, and $2.2 million relating to impairment of capitalized software costs. For the year ended December 31, 2013, there was $7.0 million of restructuring and impairment charges primarily related to severance costs, asset impairment and lease exit costs.

Other income, net. Our other income, net, for the year ended December 31, 2014 was $2.9 million, a decrease of $0.2 million as compared to other income, net, of $3.1 million for the year ended December 31, 2013. The decrease between periods was primarily a result of decreased interest income due to changes in the levels of average cash and cash equivalents and investment balances.

Income tax expense. Income tax expense for the year ended December 31, 2014 was $7.5 million, a decrease of $18.1 million as compared to income tax expense of $25.7 million for the year ended December 31, 2013. Income tax expense was recognized at effective tax rates of 43.8% and 35.9% for the years ended December 31, 2014 and 2013, respectively. The decrease in our effective tax rate between periods was primarily due to the expiration of the statute of limitations on a prior tax year which triggered the release of $1.9 million of tax reserve.

Net income. Our net income for the year ended December 31, 2014 was $9.7 million compared to net income of $45.9 million for the year ended December 31, 2013, a decrease of $36.2 million as a result of the factors discussed above.

Liquidity and Capital Resources

Liquidity

We financed our operating activities and capital expenditures during the years ended December 31, 2015 and 2014 either through cash provided by operating activities or through cash on hand. Our cash and cash equivalents were $282.1 million at

December 31, 2015 and $207.0 million at December 31, 2014. In addition, at December 31, 2015 and 2014, we had restricted cash of $24.7 million and $25.9 million, respectively, and total investments of $67.2 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 Item 7A, “Quantitative and Qualitative Disclosures About Market Risk.”

Stock repurchase programs

On November 10, 2013, a committee of our board of directors approved a plan to purchase up to 10.25 million shares of our common stock through a tender offer. The tender offer commenced on November 13, 2013 and expired on December 11, 2013. On December 18, 2013, we repurchased shares of our common stock through the tender offer at a price of $19.50 per share. The tender offer was oversubscribed, resulting in the purchase of approximately 10.2 million shares, including 0.2 million shares underlying previously unexercised stock options, for a total cost of $199.9 million, exclusive of fees. The repurchased shares were added to treasury stock. We did not repurchase any shares of our common stock during the years ended December 31, 2014 and 2015.

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 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, which is included as restricted cash as of December 31, 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 additional information, see Note 13, “Credit Facilities” to our annual consolidated financial statement included elsewhere in 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. In the years ended December 31, 2015, 2014 and 2013, Ashford University derived 80.9%, 83.4% and 85.6%, respectively, and University of the Rockies derived 86.6%, 88.3% and 87.6%, respectively, of their respective revenues (calculated in accordance with applicable Department regulations) from Title IV program funds. 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. For additional information regarding Title IV programs and the regulation thereof, see “Regulation” in Item 1, “Business”. 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. For additional information regarding these student financing options, see the section entitled “Student Financing” in Item 1, “Business”.

If we were to become ineligible to receive Title IV funding, our liquidity would be significantly impacted. 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.

Financial responsibility

For the fiscal year ended December 31, 2014, the composite score calculated was 2.7, satisfying the composite score requirement of the Department's financial responsibility test, which institutions must satisfy in order to participate in Title IV programs. We expect the consolidated composite score to be 1.8 for the year ended December 31, 2015. However, the consolidated calculation is subject to determination by the Department once it receives and reviews our audited financial statements for the year ended December 31, 2015. For additional information regarding Department regulations related to financial responsibility, see “Regulation — Department Regulation of Title IV Programs — Financial responsibility” in Part I, “Business.”

Internal loan program

In the past, we have had programs at both of our institutions in which the institutions provide direct loans to students. For University of the Rockies, the total amount of direct loans provided to students during 2014 and 2013 was $1.4 million and $0.8 million, respectively. University of the Rockies provided no new direct loans to students in 2015. For Ashford University, there were no new direct loans provided to students in the three most recent fiscal years.

Operating activities

Net cash provided by operating activities was $26.7 million, $25.2 million and $85.6 million for 2015, 2014 and 2013, respectively. The increase of $1.5 million from 2014 to 2015 was primarily related to increases in non-cash impairments of fixed assets of $37.9 million, deferred income taxes of $48.0 million and loss on termination of leased space of $10.6 million, as well as increases in accounts payable and accrued liabilities of $13.2 million and deferred revenue and student deposits of $5.2 million. These increases were partially offset by decreases in net income of $80.1 million, prepaid expenses and other current assets of $15.1 million and accounts receivable of $5.1 million. We expect to generate cash from our operating activities for the foreseeable future.

Investing activities

Net cash provided by investing activities was $44.6 million for 2015, compared to net cash used in investing activities of $33.0 million for 2014 and net cash provided by investing activities of $115.2 million for 2013. Our cash provided by investing activities in 2015 is primarily related to sales and maturities of investments, partially offset by purchases of investments, purchases of property and equipment, and capitalized costs for intangible assets. During 2015, there were sales and maturities of investments of $76.2 million and we purchased $20.3 million of investments. This is compared to purchases of investments of $87.9 million and sales and maturities of investments of $70.0 million in 2014, and purchases of investments of $26.8 million and sales and maturities of investments of $176.3 million in 2013. Capital expenditures were $2.5 million, $11.4 million and $14.8 million for 2015, 2014 and 2013, respectively. For the year ending December 31, 2016, we expect our capital expenditures to be approximately $5.0 million.

Financing activities

Net cash provided by financing activities was $3.8 million for 2015, compared to net cash provided by financing activities of $2.3 million for 2014 and net cash used in financing activities of $197.2 million for 2013. During 2015, net cash provided by financing activities primarily reflects the proceeds received from a sale-leaseback transaction, the cash provided by option exercises and the tax benefit of the option exercises, partially offset by cash used for the tax withholdings related to vesting of restricted stock awards. During 2014, net cash provided by financing activities primarily reflects the cash provided by option exercises and the tax benefit of the option exercises, partially offset by cash used for the tax withholdings related to vesting of restricted stock awards. During 2013, net cash used in financing activities primarily reflects our repurchase of approximately 10.2 million shares of common stock in a tender offer for a total of $199.9 million, partially offset by the impact of option exercises, net of any tax withholdings related to net exercise of stock options, and the impact of the tax benefit of the option exercises.

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 December 31, 2015, certain significant cash and contractual obligations that will affect our future liquidity:

	Payments Due by Period						
	Total	2016	2017	2018	2019	2020	Thereafter
	(In thousands)						
Operating lease obligations	$141,797	$36,655	$36,127	$31,445	$20,876	$9,546	$7,148
Other contractual obligations	51,418	10,348	8,132	6,936	6,936	6,566	12,500
Uncertain tax positions	7,870	—	7,870	—	—	—	—
Total	$201,085	$47,003	$52,129	$38,381	$27,812	$16,112	$19,648

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 December 31, 2015, our total available surety bond facility was $12.0 million and the surety had issued bonds totaling $3.7 million on our behalf under such facility.

Segment Information

We operate in one reportable segment as a single educational delivery operation using a core infrastructure that serves the curriculum and educational delivery needs of both our campus-based and online students regardless of geography. Our chief operating decision maker, our CEO and President, manages our operations as a whole, and no expense or operating income information is evaluated by our chief operating decision maker on any component level.

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 defers 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 August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. ASU 2014-15 is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. The amendments are effective for periods ending after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. We adopted ASU 2014-15 effective January 1, 2015, and the adoption did not have a material effect on our consolidated financial statements.

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. We adopted ASU 2015-01 effective April 1, 2015. The adoption of ASU 2015-01 does not have a material effect on our consolidated financial statements.

67

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740). The amendments in this Update are intended to simplify the presentation of deferred income taxes, by requiring that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. Prior to this amendment, Topic 740, Income Taxes, requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. The amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. We adopted the guidance prospectively as of December 31, 2015 and all current deferred tax assets have been classified as noncurrent as of that date.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10). The amendments in this Update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this Update eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement for to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-01 is not expected to have a material effect on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under this new guidance, as of the lease commencement date, lessees will be required to recognize the following for all leases, with the exception of short-term leases: i) a lease liability for the obligation to make lease payments arising from a lease, measured on a discounted basis; and ii) a right-of-use asset, representing the lessee’s right to use, or control the use of, a specified asset for the lease term. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a 'modified retrospective' transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. We are assessing the impact of adopting ASU 2016-02, but expect it to have a material effect on our consolidated financial statements.

Item 7A. 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 December 31, 2015, we had no outstanding borrowings.

Our future investment income may fall short of expectations due to changes in interest rates. At December 31, 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 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

BRIDGEPOINT EDUCATION, INC. AND SUBSIDIARIES

Report of Independent Registered Public Accounting Firm	71
Consolidated Balance Sheets	72
Consolidated Statements of Income	73
Consolidated Statements of Comprehensive Income	74
Consolidated Statements of Stockholders' Equity	75
Consolidated Statements of Cash Flows	76
Notes to Annual Consolidated Financial Statements	77

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Bridgepoint Education, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Bridgepoint Education, Inc. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting related to (1) the selection and application of generally accepted accounting principles related to revenue recognition and (2) the reliability of system generated data used in the operation of certain revenue recognition controls existed as of that date. 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 the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the 2015 consolidated financial statements, and our opinion regarding the effectiveness of the Company’s internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it classifies deferred income taxes in 2015.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may

deteriorate.
/s/ PricewaterhouseCoopers LLP
Los Angeles, California
March 8, 2016

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

BRIDGEPOINT EDUCATION, INC.
Consolidated Balance Sheets
(In thousands, except par value)

	As of December 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$282,145	$207,003
Restricted cash	24,685	25,934
Investments	19,387	12,051
Accounts receivable, net	24,091	21,274
Student loans receivable, net	775	1,003
Deferred income taxes	—	21,301
Prepaid expenses and other current assets	52,192	22,818
Total current assets	403,275	311,384
Property and equipment, net	21,742	78,219
Investments	47,770	111,557
Student loans receivable, net	7,394	9,510
Goodwill and intangibles, net	21,265	24,775
Deferred income taxes	—	20,175
Other long-term assets	5,320	2,475
Total assets	$506,766	$558,095
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$4,762	$1,013
Accrued liabilities	74,434	51,403
Deferred revenue and student deposits	88,756	108,048
Total current liabilities	167,952	160,464
Rent liability	20,118	22,098
Other long-term liabilities	15,046	9,652
Total liabilities	203,116	192,214
Commitments and contingencies (see Note 20)		
Stockholders' equity:		
Preferred stock, $0.01 par value: 20,000 shares authorized; zero shares issued and outstanding at both December 31, 2015, and December 31, 2014	—	—
Common stock, $0.01 par value: 300,000 shares authorized; 63,407 issued and 45,850 outstanding at December 31, 2015; 62,957 issued and 45,400 outstanding at December 31, 2014	634	630
Additional paid-in capital	188,863	180,720
Retained earnings	451,321	521,775
Accumulated other comprehensive gain (loss)	(99)	(175)
Treasury stock, 17,557 shares at cost at both December 31, 2015, and December 31, 2014	(337,069)	(337,069)
Total stockholders' equity	303,650	365,881
Total liabilities and stockholders' equity	$506,766	$558,095

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

BRIDGEPOINT EDUCATION, INC.
Consolidated Statements of Income
(In thousands, except per share amounts)

	Year Ended December 31,		
	2015	2014	2013
Revenue	$561,729	$638,705	$751,449
Costs and expenses:			
Instructional costs and services	281,496	315,079	365,404
Admissions advisory and marketing	197,584	231,134	234,511
General and administrative	56,588	61,353	76,081
Restructuring and impairment charges	68,356	16,828	6,990
Total costs and expenses	604,024	624,394	682,986
Operating income (loss)	(42,295)	14,311	68,463
Other income, net	2,106	2,884	3,082
Income (loss) before income taxes	(40,189)	17,195	71,545
Income tax expense	30,265	7,527	25,662
Net income (loss)	$(70,454)	$9,668	$45,883
Earnings (loss) per common share:			
Basic	$(1.54)	$0.21	$0.85
Diluted	(1.54)	0.21	0.83
Weighted average number of common shares outstanding used in computing earnings per common share:			
Basic	45,665	45,204	53,923
Diluted	45,665	46,512	55,487

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

BRIDGEPOINT EDUCATION, INC.
Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Net income (loss)	$(70,454)	$9,668	$45,883
Other comprehensive gain (loss), net of tax:			
Unrealized gains (losses) on investments	76	(223)	(174)
Comprehensive income (loss)	$(70,378)	$9,445	$45,709

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

BRIDGEPOINT EDUCATION, INC.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Gain/(Loss)	Treasury Stock	Total
	Shares	Par Value					
Balance at December 31, 2012	61,406	$614	$151,709	$466,224	$ 222	$(135,573)	$483,196
Stock-based compensation	—	—	13,934	—	—	—	13,934
Exercise of stock options	590	6	10,458	—	—	—	10,464
Tax withholdings related to net exercise of stock options	—	—	(9,170)	—	—	—	(9,170)
Excess tax benefit of option exercises	—	—	1,516	—	—	—	1,516
Stock issued under employee stock purchase plan	116	1	1,233	—	—	—	1,234
Stock issued under restricted stock plan, net of shares held for taxes	115	1	(1,081)	—	—	—	(1,080)
Exercise of warrants	104	1	230	—	—	—	231
Repurchase of common stock	—	—	—	—	—	(201,496)	(201,496)
Net income	—	—	—	45,883	—	—	45,883
Unrealized losses on investments, net of tax	—	—	—	—	(174)	—	(174)
Balance at December 31, 2013	62,331	623	168,829	512,107	48	(337,069)	344,538
Stock-based compensation	—	—	10,558	—	—	—	10,558
Exercise of stock options	388	4	3,104	—	—	—	3,108
Excess tax benefit of option exercises and restricted stock, net of tax shortfall	—	—	326	—	—	—	326
Stock issued under restricted stock plan, net of shares held for taxes	238	3	(2,097)	—	—	—	(2,094)
Net income	—	—	—	9,668	—	—	9,668
Unrealized losses on investments, net of tax	—	—	—	—	(223)	—	(223)
Balance at December 31, 2014	62,957	630	180,720	521,775	(175)	(337,069)	365,881
Stock-based compensation	—	—	9,710	—	—	—	9,710
Exercise of stock options	206	2	282	—	—	—	284
Excess tax shortfalls of option exercises and restricted stock, net of tax benefit	—	—	(767)	—	—	—	(767)
Stock issued under employee stock purchase plan	33	—	261	—	—	—	261
Stock issued under restricted stock plan, net of shares held	211	2	(1,343)	—	—	—	(1,341)

for taxes							
Net loss	—	—	—	(70,454)	—	—	(70,454)
Unrealized gains on investments, net of tax	—	—	—	—	76	—	76
Balance at December 31, 2015	63,407	$634	$188,863	$451,321	$ (99)	$(337,069)	$303,650

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

BRIDGEPOINT EDUCATION, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities			
Net income (loss)	$(70,454)	$9,668	$45,883
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for bad debts	29,863	28,184	47,119
Depreciation and amortization	19,578	23,317	21,666
Amortization of premium/discount	475	206	2,624
Deferred income taxes	40,944	(7,096)	(6,962)
Stock-based compensation	9,710	10,558	13,934
Excess tax benefit of option exercises	(460)	(1,271)	(2,590)
Loss on impairment of student loans receivable	1,328	2,435	1,998
Net gain (loss) on marketable securities	91	(34)	(63)
Loss on termination of leased space	17,047	6,470	328
Loss on impairment of fixed assets	44,949	7,028	751
Changes in operating assets and liabilities:			
Restricted cash	7,913	11,042	10,048
Accounts receivable	(32,383)	(27,323)	(15,973)
Prepaid expenses and other current assets	(14,446)	659	(2,607)
Student loans receivable	1,139	809	291
Other long-term assets	(2,845)	266	(412)
Accounts payable and accrued liabilities	1,104	(12,102)	13,220
Deferred revenue and student deposits	(19,170)	(24,411)	(41,607)
Other liabilities	(7,952)	(3,754)	(184)
Uncertain tax position	284	568	(1,878)
Net cash provided by operating activities	26,715	25,219	85,586
Cash flows from investing activities			
Capital expenditures	(2,477)	(11,429)	(14,825)
Purchases of investments	(20,280)	(87,933)	(26,759)
Non-operating restricted cash	(6,665)	(30)	—
Capitalized costs for intangible assets	(2,153)	(3,634)	(19,563)
Sales and maturities of investments	76,197	70,000	176,343
Net cash provided by (used in) investing activities	44,622	(33,026)	115,196
Cash flows from financing activities			
Proceeds from exercise of stock options	284	3,108	10,464
Tax withholdings related to net exercise of stock options	—	—	(9,170)
Excess tax benefit of option exercises	460	1,271	2,590
Proceeds from the issuance of stock under employee stock purchase plan	261	—	1,234
Proceeds from the exercise of warrants	—	—	231
Tax withholding on issuance of stock awards	(1,341)	(2,095)	(1,080)
Proceeds from failed sale-leaseback transaction	4,141	—	—
Repurchase of common stock	—	—	(201,496)
Net cash provided by (used in) financing activities	3,805	2,284	(197,227)
Net increase (decrease) in cash and cash equivalents	75,142	(5,523)	3,555
Cash and cash equivalents at beginning of period	207,003	212,526	208,971
Cash and cash equivalents at end of period	$282,145	$207,003	$212,526

Supplemental disclosure of cash flow information:			
Cash paid for interest	$198	$128	$146
Cash paid for income taxes	$6,136	$15,534	$38,642
Supplemental disclosure of non-cash transactions:			
Equipment included in accounts payable and accrued liabilities	$4,160	$109	$136

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

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements

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℠, 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.

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts in the 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. During 2015, the Company decided to separately show a restructuring and impairment charges line item on the Company's consolidated statements of income for each of the periods presented and has therefore reclassified certain amounts for the years ended December 31, 2014 and 2013 to this line. These reclassifications had no effect on previously reported results of operations or retained earnings. For further information, refer to Note 3, “Restructuring and Impairment Charges.”

Cash and Cash Equivalents

Cash and cash equivalents is comprised of cash and other short-term highly liquid investments that are readily convertible into known amounts of cash. The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

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.

Investments

As of December 31, 2015, the Company held short and long-term investments that consisted of mutual funds, corporate notes and bonds and certificates of deposit. The Company's investments are denominated in U.S. dollars, are investment grade and are readily marketable. The Company considers as current assets those investments which will mature or are likely to be sold in less than one year.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

The Company classifies its investments as either trading, available-for-sale or held-to-maturity. Trading securities are those bought and held principally to sell in the short-term, with gains or losses from changes in fair value flowing through current earnings. Available-for-sale securities are carried at fair value as determined by quoted market prices, with unrealized gains and losses, net of tax, reported as a separate component of comprehensive income and stockholders' equity. Held-to-maturity securities would be carried at amortized cost. Amortization of premiums, accretion of discounts, interest, and realized gains and losses are included in other income, net in the consolidated statement of income.

The Company regularly monitors and evaluates the realizable value of its investments. If events and circumstances indicate that a decline in the value of these assets has occurred and is other-than-temporary, the Company would record a charge to other income, net in the consolidated statement of income.

Deferred Compensation

The Company has a deferred compensation plan, into which certain members of management are eligible to defer a maximum of 80% of their regular compensation and a maximum of 100% of their incentive compensation. The amounts deferred by the participant under this plan are credited with earnings or losses based upon changes in values of participant elected notional investments. Each participant is fully vested in the participant amounts deferred. The Company may make contributions that will generally vest according to a four-year vesting schedule. After four years of service, participants become 100% vested in the employer contributions upon reaching normal retirement age, death, disability or a change in control. The Company's obligations under the deferred compensation plan totaled $1.2 million and $1.0 million as of December 31, 2015 and 2014, respectively, and are included in other liabilities in the consolidated balance sheets.

Fair Value Measurements

The Company uses the three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: (i) Level 1, defined as observable inputs such as quoted prices in active markets; (ii) Level 2, defined as inputs other than quoted prices in active markets that are either observable directly or indirectly, through market corroboration, for substantially the full term of the financial instrument; and (iii) Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists of student accounts receivable, which represent amounts due for tuition, course digital materials, technology fees and other fees from currently enrolled and former students. Students generally fund their education through grants and/or loans under various Title IV programs, tuition assistance from military and corporate employers or personal funds. Payments are due on the respective course start date and are considered past due dependent upon the student's payment terms. In general, an account is considered delinquent 120 days subsequent to the course start date.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. For accounts receivable, an allowance for doubtful accounts is estimated by management and is principally based on historical collection experience as well as (i) an assessment of individual accounts receivable over a specific aging and amount, (ii) consideration of the nature of the receivable accounts and (iii) potential changes in the business or economic environment. The provision for bad debt is recorded within instructional costs and services in the consolidated statements of income. The Company writes off uncollectable accounts receivable when the student account is deemed uncollectable by internal collection efforts or by a third-party collection agency.

Student Loans Receivable and Loan Loss Reserves

Student loans receivable consist of loans to qualified students and have a repayment period of 10 years from the date of graduation or withdrawal from the Company's institutions. The interest rate charged on student loans is a fixed rate of either 4.5% or 0.0% depending upon the repayment plan selected. If the student selects the rate of 0.0%, the student must pay $50 per month on the loan while enrolled in school and during the six months of grace period (after graduation or withdrawal) before the repayment period begins. On the 0.0% student loans, the Company imputes

interest using the rate that would be used in a market transaction with similar terms. Interest income on student loans is recognized using the effective interest method and is

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

recorded within other income in the consolidated statements of income. There was an immaterial amount of revenue recognized related to student loans during each of the years ended December 31, 2015, 2014 and 2013, respectively.
Student loans receivable are stated at the amount management expects to collect from outstanding balances. For tuition related student loan receivables, the Company estimates an allowance for doubtful accounts, similar to that of accounts receivable, based on (i) an assessment of individual loans receivable over a specific aging and amount, (ii) consideration of the nature of the receivable accounts, (iii) potential changes in the business or economic environment and (iv) related FICO scores and other industry metrics. The related provision for bad debts is recorded within instructional costs and services in the consolidated statements of income.
For non-tuition related student loans, the Company utilizes an impairment methodology. Under this methodology, management determines whether a loan would be impaired if the Company will be unable to collect all amounts due in accordance with the contractual terms of the individual loan agreement. This assessment is based on an analysis of several factors, including aging history and delinquency trending, the risk characteristics, credit quality and loan performance of the specific loans, and current economic conditions and industry trends. Credit quality is assessed at the outset of a loan, based upon the applicant's FICO score during the loan application process. The Company considers loans to be impaired when they reach a delinquency status that requires specialized collection efforts. The Company defines delinquency for loans as those students whose last activity is more than 120 days old. The Company records a loss reserve for the full book value of the impaired loans. For the years ended December 31, 2015, and 2014 there was $1.3 million and $2.4 million recorded for loan loss reserves, respectively. The loan loss reserve is maintained at a level deemed adequate by management based on a periodic analysis of the individual loans and is recorded within instructional costs and services in the consolidated statements of income.
Property and Equipment
Property and equipment are recognized at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives of the related assets as follows:

Buildings	39 years
Furniture and office equipment	3 - 7 years
Software	3 - 5 years
Vehicles	5 years

Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets. Upon the retirement or disposition of property and equipment, the related cost and accumulated depreciation is removed and a gain or loss is recorded in the consolidated statements of income. Repairs and maintenance costs are expensed in the period incurred.
Leases
Leases are evaluated and classified as either operating or capital leases. Leased property and equipment meeting certain criteria are capitalized, and the present value of the related lease payments is recognized as a liability on the consolidated balance sheets. Amortization of capitalized leased assets is computed on the straight-line method over the term of the lease or the life of the related asset, whichever is shorter.
If the Company receives tenant allowances from the lessor for certain improvements made to the leased property, these allowances are capitalized as leasehold improvements and a long-term liability is established. The long-term liability is amortized on a straight-line basis over the corresponding lease term. The Company records rent expense on a straight-line basis over the initial term of a lease. The difference between the rent payment and the straight-line rent expense is recorded as either a short-term or long-term liability.
The Company recognizes liabilities for exit and disposal activities on non-cancelable lease obligations at fair value in the period the liability is incurred. For the non-cancelable lease obligations, the Company records the obligation when the contract is terminated in accordance with the contract terms.

79

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

Impairment of Long-Lived Assets
The Company assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recorded if the carrying amount of the long-lived asset is not recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds fair value and is recorded as a reduction in the carrying value of the related asset and an expense to operating results.
Goodwill and Other Intangible Assets
The Company tests goodwill and indefinite-lived intangible assets for impairment annually in the fourth quarter of each fiscal year, or more frequently if events and circumstances warrant.
The Company adopted accounting guidance which simplifies how an entity tests goodwill for impairment. The Company first assesses qualitative factors, such as deterioration in general economic conditions or negative company financial performance, to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. The Company's assessment of goodwill during the fourth quarter of fiscal 2015 indicated that it was not more likely than not that the fair value of a reporting unit is less than its carrying amount, and therefore, goodwill was not impaired. There have been no related impairment losses recognized by the Company for any periods presented. If negative qualitative indicators had been noted above, the Company would then need to assess the fair value of its reporting units to determine whether they were in excess of the carrying values.
To evaluate the impairment of the indefinite-lived intangible assets, the Company assessed the fair value of the assets to determine whether they were in excess of the carrying values. Determining the fair value of indefinite-lived intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions are inherently uncertain, and can include such items as growth rates used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and a determination of appropriate market comparables. The Company's assessment of indefinite-lived intangible assets during the fourth quarter of fiscal 2015 did not result in any impairment. There have been no impairment losses for indefinite-lived intangibles recognized by the Company for any periods presented.
The Company also has definite-lived intangible assets, which primarily consist of purchased intangibles and capitalized curriculum development costs. The definite-lived intangible assets are recognized at cost less accumulated amortization. Amortization is computed using the straight-line method based on estimated useful lives of the related assets.
Revenue and Deferred Revenue
The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered or delivery has occurred, its fees or price is fixed or determinable, and collectibility is reasonably assured. The Company's revenue consists of tuition, technology fees, course digital materials and other miscellaneous fees. Tuition revenue is deferred and recognized on a straight-line basis over the applicable period of instruction net of scholarships and expected refunds, with the exception of an online student's first course per degree level at Ashford University. An online student's first course per degree level at Ashford University falls under a three-week conditional admission period in which the revenue is deferred until the student matriculates into the course.
The Company's institutions' online students generally enroll in a program that encompasses a series of five to six-week courses that are taken consecutively over the length of the program. With the exception of those students under conditional admission, the online students are billed on a payment period basis on the first day of class. The Company's institutions' campus-based students enroll in a program that encompasses a series of nine-week or 16-week courses. Campus-based students are billed at the beginning of each term. The Company assesses collectibility at the start of a student’s payment period for the courses in that payment period (generally five courses for undergraduates and four courses for graduates).

If a student's attendance in a class precedes the receipt of cash from the student's source of funding, the Company establishes an account receivable and corresponding deferred revenue in the amount of the tuition due for that payment period. Cash received either directly from the student or from the student's source of funding reduces the balance of accounts

receivable due from the student. Financial aid from sources such as the federal government's Title IV programs pertains to the online student's award year and is generally divided into two disbursement periods. As such, each disbursement period may contain funding for up to four courses. Financial aid disbursements are typically received during the online student's attendance in the first or second course. Since the majority of disbursements cover more courses than for which a student is currently enrolled, the amount received in excess effectively represents a prepayment from the online student for up to four courses. At the end of each accounting period, the deferred revenue and student deposits and related account receivable balances are reduced to present amounts attributable to the current course.

Students under conditional admission are not obligated for payment until after their conditional admission period has lapsed, so there is no related refund. For all subsequent courses, the Company records a provision for expected refunds and reduces revenue for the amount that is expected to be subsequently refunded. Provisions for expected refunds have not been material to any period presented. If a student withdraws from a program prior to a specified date, a portion of such student's tuition is refunded, subject to certain state requirements that require a pro rata refund. The Company reassess collectibility throughout the period revenue is recognized by the Company's institutions, on a student-by-student basis. The Company reassesses collectibility based upon new information and changes in facts and circumstances relevant to a student's ability to pay. For example, the Company reassesses collectibility when a student drops from the institution (i.e., is no longer enrolled) and when a student attends a course that was not included in the initial assessment of collectibility at the start of a student’s payment period.

In certain cases, the Company's institutions' provide scholarships to students for various programs. Scholarships issued by the universities are recorded in association with the related specific course, term or payment period. Scholarships are generally deferred and recognized against revenue over the course term. Incentive-based scholarships, such as the Leadership Development Grant (“LDG”) and Alumni Scholarship are recognized against revenue over the period of benefit to the student.

Ashford University records revenue from technology fee on a per course charge basis. The per course technology fee revenue for Ashford University is recognized on a straight-line basis over the applicable period of instruction.

University of the Rockies records revenue from technology fees as one-time start up fees charged to each new online student (other than military, scholarship students or certain corporate reimbursement students), and then recognizes that revenue ratably over the average expected enrollment of a student. The average expected enrollment of the student was estimated each quarter based upon historical duration of attendance and qualitative factors as deemed necessary.

Other miscellaneous fees include fees for course content and textbooks and other services, such as commencements, and are recognized upon delivery of the goods or when the related service is performed.

Workers Compensation

The Company records a gross liability for estimated workers compensation claims, incurred but not yet reported, as of each balance sheet date. The Company also records the gross insurance recoverable due for individual claim amounts. This is recorded as an other asset and as an equal accrued liability. The stop-loss premium is determined annually, but invoiced and paid on a quarterly basis. The related insurance premiums are expensed ratably over the coverage period.

Income Taxes

The Company accounts for its income taxes using the liability method whereby deferred tax assets and liabilities are determined based on temporary differences between the bases used for financial reporting and income tax reporting purposes. Deferred income taxes are provided based on the enacted tax rates expected to be in effect at the time such temporary differences are expected to reverse. A valuation allowance is provided for deferred tax assets if it is more-likely-than-not that the Company will not realize those tax assets through future operations.

The Company evaluates and accounts for uncertain tax positions using a two-step approach. Recognition (step one) occurs when the Company concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that is greater than 50%

likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Derecognition of a

tax position that was previously recognized would occur when the Company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained.

Stock-Based Compensation

Stock-based compensation expense is measured at the grant date fair value of the award and is expensed over the vesting period. The Company estimates the fair value of stock options on the grant date using the Black-Scholes option pricing model. The Company estimates the fair value of its performance stock units (“PSUs”) on the grant date using a Monte Carlo simulation model. Determining the fair value of stock-based awards at the grant date under these models requires judgment, including estimating volatility, employee stock option exercise behaviors and forfeiture rates. The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. The fair value of the Company's restricted stock units (“RSUs”) is based on the market price of the Company's common stock on the date of grant.

The amount of stock-based compensation expense recognized during a period is based on the portion of the awards that are ultimately expected to vest. The Company estimates award forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company's equity incentive plans require that stock option awards have an exercise price that equals or exceeds the closing price of the Company's common stock on the date of grant.

Stock-based compensation expense for stock-based awards is recorded in the consolidated statement of income, net of estimated forfeitures, using the graded-vesting method over the requisite service periods of the respective stock awards. The requisite service period is generally the period over which an employee is required to provide service to the Company in exchange for the award.

Instructional Costs and Services

Instructional costs and services consist primarily of costs related to the administration and delivery of the Company's educational programs. These expenses include compensation for campus-based faculty and administrative personnel, costs associated with online faculty, curriculum and new program development costs, financial aid processing costs, technology license costs, bad debt expense and costs associated with other support groups that provide services directly to the students. Instructional costs and services also include an allocation of information technology, facility, depreciation and amortization costs.

Admissions Advisory and Marketing

Admissions advisory and marketing costs include compensation of personnel engaged in marketing and recruitment, as well as costs associated with purchasing leads and producing marketing materials. Such costs are generally affected by the cost of advertising media and leads, the efficiency of the Company's marketing and recruiting efforts, compensation for the Company's enrollment personnel and expenditures on advertising initiatives for new and existing academic programs. Admissions advisory and marketing costs also include an allocation of information technology, facility, depreciation and amortization costs.

Advertising costs, a subset of admissions advisory and marketing costs, consists primarily of marketing leads and other branding and promotional activities. These advertising activities are expensed as incurred, or the first time the advertising takes place, depending on the type of advertising activity. Advertising costs were $68.4 million, $89.0 million and $76.5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

General and Administrative

General and administrative expenses include compensation of employees engaged in corporate management, finance, human resources, compliance and other corporate functions. General and administrative expenses also include professional services fees, travel and entertainment expenses and an allocation of information technology, facility, depreciation and amortization costs.

82

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

Restructuring and Impairment Charges
Restructuring and impairment 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, iv) estimated lease losses related to facilities vacated or consolidated under restructuring plans, and v) the impairment of capitalized software costs.

Earnings Per Share
Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net income available to common stockholders by the sum of (i) the weighted average number of common shares outstanding during the period and (ii) potentially dilutive securities outstanding during the period, if the effect is dilutive. Potentially dilutive common shares consist of incremental shares of common stock issuable upon the exercise of the stock options and warrants and upon the settlement of RSUs and PSUs.

Segment Information
The Company operates in one reportable segment as a single educational delivery operation using a core infrastructure that serves the curriculum and educational delivery needs of both its campus-based and online students regardless of geography. The Company's chief operating decision maker, its CEO and President, manages the Company's operations as a whole, and no revenue, expense or operating income information is evaluated by the chief operating decision maker on any component level.

Comprehensive Income
Comprehensive income consists of net income and other gains and losses affecting stockholders' equity that, under GAAP, are excluded from net income. For the year ended December 31, 2015, such items consisted of unrealized gains and losses on investments. The following table summarizes the components of other comprehensive gain (loss) and the related tax effects for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	December 31, 2015		
	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
Unrealized gains on investments	$125	$(49)	$76

	December 31, 2014		
	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
Unrealized losses on investments	$(359)	$136	$(223)

	December 31, 2013		
	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
Unrealized losses on investments	$(280)	$106	(174)

The Company reclassified an immaterial amount out of other comprehensive income for each of the years ended December 31, 2014 and 2013, respectively, relating to the net realized gain on the sale of securities. There was no such reclassification during the year ended December 31, 2015.

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 defers 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 August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The amendments are effective for periods ending after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company adopted ASU 2014-15 effective January 1, 2015, and the adoption did not have a material effect on its consolidated financial statements.

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. The adoption of ASU 2015-01 does not have a material effect on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740). The amendments in this Update are intended to simplify the presentation of deferred income taxes, by requiring that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. Prior to this amendment, Topic 740, Income Taxes, requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. The amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company adopted the guidance prospectively as of December 31, 2015 and all current deferred tax assets have been classified as noncurrent as of that date.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10). The amendments in this Update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this Update eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement for to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in this Update are effective for fiscal years beginning after December 15, 2017,

including interim periods within those fiscal years. The adoption of ASU 2016-01 is not expected to have a material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under this new guidance, as of the lease commencement date, lessees will be required to recognize the following for all leases, with the exception of short-term leases: i) a lease liability for the obligation to make lease payments arising from a lease, measured on a discounted basis; and ii) a

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

right-of-use asset, representing the lessee’s right to use, or control the use of, a specified asset for the lease term. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a 'modified retrospective' transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is assessing the impact of adopting ASU 2016-02, but expects it to have a material effect on the Company's consolidated financial statements.

3. Restructuring and Impairment Charges

During the three year period ended December 31, 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, (iv) estimated lease losses related to facilities vacated or consolidated under restructuring plans, and (v) the impairment of capitalized software costs. These charges were recorded in the restructuring and impairment charges line item on the Company's consolidated statements of income.

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. On December 22, 2015, the Company entered into a Purchase Agreement and Escrow Instructions with Clinton Catalyst, LLC (“Catalyst”) pursuant to which the Company agreed to sell the Clinton Campus to Catalyst for $1.6 million. Simultaneously with the closing of the sale on December 29, 2015, the Company entered into a Lease Agreement with Catalyst pursuant to which the Company is leasing the Clinton Campus from Catalyst through December 31, 2016.

Primarily as a result of the planned closure of the Clinton Campus, during the year ended December 31, 2015, the Company recognized asset impairment charges of $43.3 million relating to the write-off of certain fixed assets. During the years ended December 31, 2014 and 2013, the Company recognized impairment charges of $4.6 million and $0.7 million, respectively, relating to the write-off of certain fixed assets.

With the planned closure of the Clinton Campus, ground-based Ashford University students will be provided opportunities to complete their degrees based upon their respective transfer agreements. The Company recorded restructuring charges relating to future cash expenditures for student transfer agreement costs of approximately $3.3 million during the year ended December 31, 2015. This estimate is based upon several assumptions that are subject to change, including student decisions regarding transfer. There was no such charge in years prior to the year ended December 31, 2015.

In recent years, the Company has implemented reductions in force to help better align personnel resources with the decline in enrollment. During the year ended December 31, 2015, the Company recognized $4.7 million as restructuring charges related to severance costs for wages and benefits resulting from the reductions in force. We anticipate these costs will be paid out by the end of the first quarter of 2016 from existing cash on hand. During the

years ended December 31, 2014 and 2013, the Company recognized $3.6 million and $5.9 million, respectively, as restructuring charges related to severance costs for wages and benefits resulting from the reductions in force. During the fourth quarter of 2014, the Company terminated a software development program for internal operations due to a change in the Company's operating plan. As a result, the Company recorded an asset impairment charge of $2.2 million during the year ended December 31, 2014 for previously capitalized software costs.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

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. The fair value estimate of these non-cancelable leases is based on the contractual lease costs over the remaining term, partially offset by estimated future sublease rental income. The estimated rental income considers subleases the Company has executed or expects to execute, current commercial real estate market data and conditions, comparable transaction data and qualitative factors specific to the related facilities. For the year ended December 31, 2015, the Company recorded $17.0 million for lease exit costs, primarily related to properties in Denver and San Diego. For the years ended December 31, 2014 and 2013 the Company recorded $6.5 million and $0.3 million, respectively, for lease exit costs, primarily related to properties in Denver and San Diego.

The following table summarizes the amounts recorded in the restructuring and impairment charges line item on the Company's consolidated statements of income for each of the periods presented (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Asset impairment	$43,328	$4,566	$748
Student transfer agreement costs	3,264	—	—
Severance costs	4,717	3,560	5,914
Lease exit and other costs	17,047	6,470	328
Capitalized software costs	—	2,232	—
Total restructuring and impairment charges	$68,356	$16,828	$6,990

The following table summarizes the changes in the Company's restructuring liability by type during the three-year period ended December 31, 2015 (in thousands):

	Asset Impairment	Student Transfer Agreement Costs	Severance Costs	Lease Exit and Other Costs	Capitalized Software Costs	Total
Balance at December 31, 2012	$—	$—	$—	$—	$—	$—
Restructuring and impairment charges	748	—	5,914	328	—	6,990
Payments	—	—	(5,914)	—	—	(5,914)
Non-cash transaction	(748)	—	—	—	—	(748)
Balance at December 31, 2013	—	—	—	328	—	328
Restructuring and impairment charges	4,566	—	3,560	6,470	2,232	16,828
Payments	—	—	(2,700)	(218)	—	(2,918)
Non-cash transaction	(4,566)	—	—	—	(2,232)	(6,798)
Balance at December 31, 2014	—	—	860	6,580	—	7,440
Restructuring and impairment charges	43,328	3,264	4,717	17,047	—	68,356
Payments	—	(40)	(3,833)	(9,706)	—	(13,579)
Non-cash transaction	(43,328)	—	—	—	—	(43,328)
Balance at December 31, 2015	$—	$3,224	$1,744	$13,921	$—	$18,889

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

4. Investments

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

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Mutual funds	$1,314	$—	$—	$1,314
Corporate notes and bonds	—	40,843	—	40,843
Certificates of deposit	—	25,000	—	25,000
Total	$1,314	$65,843	$—	$67,157
	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. There was one transfer from Level 2 into Level 1 during the year ended 2014, as a result of the Company evaluating the related mutual funds as having readily observable market prices.

The following table summarizes the differences between amortized cost and fair value of short and long-term investments as of December 31, 2015 and 2014, respectively (in thousands):

	December 31, 2015				
			Gross unrealized		
	Maturities	Amortized Cost	Gain	Loss	Fair Value
Short-term					
Corporate notes and bonds	1 year or less	18,113	—	(40)	18,073
Long-term					
Corporate notes and bonds	3 years or less	22,887	—	(117)	22,770
Certificates of deposit	3 years or less	25,000	—	—	25,000
Total		$66,000	$—	$(157)	$65,843

The above table does not include $1.3 million for mutual funds for December 31, 2015, which are recorded as trading securities.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

	December 31, 2014				
	Maturities	Amortized Cost	Gross unrealized Gain	Loss	Fair Value
Short-term					
Corporate notes and bonds	1 year or less	$10,947	$33	$—	$10,980
Long-term					
Corporate notes and bonds	3 years or less	51,874	—	(304)	51,570
U.S. government and agency securities	3 years or less	35,000	—	(13)	34,987
Certificate of deposit	3 years or less	25,000	—	—	25,000
Total		$122,821	$33	$(317)	$122,537

The above table does not include $1.1 million for mutual funds for December 31, 2014, which are recorded as trading securities.

As of December 31, 2015, there were ten investments that were in an unrealized loss position for less than 12 months. There were no investments that were in an unrealized loss position for greater than 12 months. There was no impairment considered other-than-temporary, as it is more likely than not the Company will hold the securities until maturity or a recovery of the cost basis. The Company accumulates unrealized gains and losses on the available-for-sale debt securities, net of tax, in accumulated other comprehensive gain (loss) in the stockholders' equity section of the Company's balance sheets. As of December 31, 2014, there were no investments that were in an unrealized loss position for either less than or greater than 12 months.

5. Accounts Receivable

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

	As of December 31,	
	2015	2014
Accounts receivable	$34,205	$48,841
Less allowance for doubtful accounts	10,114	27,567
Accounts receivable, net	$24,091	$21,274

There are an immaterial amount of accounts receivable at each balance sheet date with a payment due date of greater than one year.

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

	Beginning Balance	Charged to Expense	Deductions(1)	Ending Balance
Allowance for doubtful accounts receivable:				
For the year ended December 31, 2015	$27,567	$29,782	$ (47,235)	$10,114
For the year ended December 31, 2014	26,901	27,853	(27,187)	27,567
For the year ended December 31, 2013	31,466	46,851	(51,416)	26,901

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

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

6. Student Loans Receivable

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

	As of December 31,	
Short-term:	2015	2014
Student loans receivable (non-tuition related)	$310	$509
Student loans receivable (tuition related)	555	626
Current student loans receivable	865	1,135
Less allowance for doubtful accounts	90	132
Student loans receivable, net	$775	$1,003

	As of December 31,	
Long-term:	2015	2014
Student loans receivable (non-tuition related)	$3,314	$4,805
Student loans receivable (tuition related)	4,943	6,068
Non-current student loans receivable	8,257	10,873
Less allowance for doubtful accounts	863	1,363
Student loans receivable, net	$7,394	$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.

The following table presents the changes in the allowance for doubtful accounts for student loans receivable (tuition related) for the periods indicated (in thousands):

	Beginning Balance	Charged to Expense	Deductions(1)	Ending Balance
Allowance for doubtful student loans receivable:				
For the year ended December 31, 2015	$1,495	$81	$ (623)	$953
For the year ended December 31, 2014	2,144	331	(980)	1,495
For the year ended December 31, 2013	1,895	268	(19)	2,144

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

For the non-tuition related student loans receivable, the Company monitors the credit quality using credit scores, aging history 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 years ended December 31, 2015, December 31, 2014 and December 31, 2013, there was $1.3 million, $2.4 million and $2.0 million of loans that were impaired, respectively. As of December 31, 2015, $0.4 million of loans had been placed on non-accrual status.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

As of December 31, 2015, the repayment status of gross student loans receivable was as follows (in thousands):

Less than 120 days	$10,865
From 120 - 269 days	351
Greater than 270 days	740
Total gross student loans receivable	11,956
Less: Amounts reserved or impaired	(1,398)
Less: Discount on student loans receivable	(2,389)
Total student loans receivable, net	$8,169

7. Prepaid Expenses and Other Current Assets

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

	As of December 31,	
	2015	2014
Prepaid expenses	$7,005	$8,500
Prepaid licenses	5,221	5,598
Prepaid income taxes	—	2,945
Income tax receivable	20,169	—
Prepaid insurance	1,619	1,508
Insurance recoverable	16,659	1,440
Interest receivable	299	424
Other current assets	1,220	2,403
Total prepaid expenses and other current assets	$52,192	$22,818

8. Property and Equipment, Net

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

	As of December 31,	
	2015	2014
Land	$—	$7,091
Buildings	—	29,540
Furniture and office equipment	63,354	81,030
Software	12,605	12,454
Leasehold improvements	11,136	21,096
Vehicles	22	147
Total property and equipment	87,117	151,358
Less accumulated depreciation and amortization	(65,375)	(73,139)
Total property and equipment, net	$21,742	$78,219

Included in the table above is $4.1 million as of December 31, 2015, which represents equipment sold and subsequently leased-back by the Company prior to December 31, 2015. These amounts are classified as financing activities on the Consolidated Statements of Cash Flows as “Proceeds from failed sale-leaseback transaction.”

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

Depreciation and amortization expense associated with property and equipment totaled $13.9 million, $17.6 million and $18.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

9. Goodwill and Intangibles, Net

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

	December 31, 2015		
Definite-lived intangible assets:	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Capitalized curriculum costs	$20,323	$(13,954)	$6,369
Purchased intangible assets	15,850	(3,521)	12,329
Total definite-lived intangible assets	$36,173	$(17,475)	$18,698
Goodwill and indefinite-lived intangibles			2,567
Total goodwill and intangibles, net			$21,265

	December 31, 2014		
Definite-lived intangible assets:	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
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

Goodwill and indefinite lived-intangibles includes the goodwill resulting from prior period acquisitions and the indefinite lived-intangibles attributable to the accreditation of the Company's institutions.

In October 2013, the Company entered into an agreement (the “Forbes Agreement”) to license certain trademarks and print and online content, as well as other intellectual property, for use in Ashford University's bachelor’s and master’s business programs. The Forbes Agreement has an initial 12-year term, with an option to renew. During the fourth quarter of 2013, the Company made a payment of $15 million, that was recorded as an intangible asset, and which will be amortized over the life of the Forbes Agreement. The Company began paying royalties in 2014, based on a percentage of annual revenues attributable to Ashford University’s business-related programs, subject to a $2.5 million annual minimum which is recorded within instructional costs and services on the income statement. The Company does not plan to capitalize any future costs to renew or extend the term of the acquired intangible assets.

For the years ended December 31, 2015, 2014 and 2013, amortization expense was $5.7 million, $5.7 million and $3.4 million, respectively. The following table summarizes the estimated remaining amortization expense as of each fiscal year ended below (in thousands):

Year Ended December 31,	
2016	$4,671
2017	3,183
2018	2,104
2019	1,342
2020	1,232
Thereafter	6,166
Total future amortization expense	$18,698

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

10. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	As of December 31,	
	2015	2014
Accrued salaries and wages	$10,476	$8,250
Accrued bonus	4,295	2,720
Accrued vacation	9,628	9,771
Accrued litigation and fees	720	542
Accrued expenses	17,227	18,223
Rent liability	13,406	8,528
Accrued insurance liability	18,666	2,920
Accrued income taxes payable	16	449
Total accrued liabilities	$74,434	$51,403

11. Deferred Revenue and Student Deposits

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

	As of December 31,	
	2015	2014
Deferred revenue	$23,311	$26,445
Student deposits	65,445	81,603
Total deferred revenue and student deposits	$88,756	$108,048

12. Other Long-Term Liabilities

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

	As of December 31,	
	2015	2014
Uncertain tax positions	$7,870	$7,586
Legal settlements	178	1,000
Other long-term liabilities	6,998	1,066
Total other long term liabilities	$15,046	$9,652

13. 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. Up through the date of expiration of the Facility, the Company 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 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

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

credit, but subsequent to the expiration of the Facility, the Company collateralized the letters of credit with cash, which is included as restricted cash as of December 31, 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. As of December 31, 2015, the Company's total available surety bond facility was $12.0 million and the surety had issued bonds under the facility totaling $3.7 million on the Company's behalf.

14. 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 $38.5 million, $42.2 million and $37.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The following table summarizes the future minimum rental payments under non-cancelable operating lease arrangements in effect at December 31, 2015 (in thousands):

Year Ended December 31,	
2016	$36,655
2017	36,127
2018	31,445
2019	20,876
2020	9,546
Thereafter	7,148
Total minimum payments	$141,797

The Company has signed certain agreements to sub-lease portions of its office facilities, with two active subleases as of December 31, 2015. The Company is subleasing approximately 13,000 square feet of office space in San Diego, California with a commitment to lease for 17 months for $0.4 million. This sublease has a 90-day periodic term, which renews automatically every 90 days but can be canceled by either party. In addition, the Company is subleasing approximately 35,000 square feet of office space in Denver, Colorado with a commitment to lease for 35 months and a net sublease value of $3.2 million.

15. Earnings Per Share

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

Diluted earnings per common share 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 warrants and upon the settlement of RSUs and PSUs.

93

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

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

	Year Ended December 31,		
	2015	2014	2013
Numerator:			
Net income (loss)	$(70,454)	$9,668	$45,883
Denominator:			
Weighted average number of common shares outstanding	45,665	45,204	53,923
Effect of dilutive options and restricted stock units	—	1,308	1,482
Effect of dilutive warrants	—	—	82
Diluted weighted average number of common shares outstanding	45,665	46,512	55,487
Earnings per common share:			
Basic earnings per common share	$(1.54)	$0.21	$0.85
Diluted earnings per common share	(1.54)	0.21	0.83

For the periods indicated below, the computation of dilutive common shares outstanding excludes stock options and RSUs, as applicable, because their effect was anti-dilutive.

	Year Ended December 31,		
(in thousands)	2015	2014	2013
Options	5,063	2,660	3,004
Restricted stock units	762	—	3

16. Stock-Based Compensation

The Company recorded $9.7 million, $10.6 million and $13.9 million of compensation expense related to equity awards for the years ended December 31, 2015, 2014 and 2013, respectively. The related income tax benefit was $3.6 million, $4.0 million and $5.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. The Company records stock-based compensation expense over the vesting term using the graded-vesting method.

Stock Options

The Company grants stock options from its 2009 Stock Incentive Plan (the “2009 Plan”). The compensation committee of the Company's board of directors, or the full board of directors, determines eligibility, vesting schedules and exercise prices for stock options granted under the 2009 Plan. Stock options granted under the 2009 Plan typically have a maximum contractual term of 10 years, subject to the option holder's continuing service to the Company. Stock options are generally granted with a four-year vesting requirement, pursuant to which the option holder must continue providing service to the Company at each vesting date. All stock options granted in 2015, 2014 and 2013, were awarded pursuant to the 2009 Plan. Under the 2009 Plan, the number of authorized shares is subject to automatic increase each January 1 through and including January 1, 2019, pursuant to a formula contained in the 2009 Plan, without the need for further approval by the Company's board of directors or stockholders.

Before the adoption of the 2009 Plan, the Company awarded stock options pursuant to the Company's Amended and Restated 2005 Stock Incentive Plan (the “2005 Plan”). Effective upon the closing of the Company's initial public offering, the 2005 Plan was terminated and no further stock options may be issued under the 2005 Plan, provided that all stock options then outstanding under the 2005 Plan will continue to remain outstanding pursuant to the terms of the 2005 Plan and the applicable award agreements.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

The following table presents a summary of stock option activity in 2015, 2014 and 2013 (in thousands, except for exercise prices and contractual terms):

	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
December 31, 2012	6,412	$14.17	7.21	$9,010
Granted	483	10.23		
Exercised	(1,060)	9.87		
Forfeitures and expired	(345)	20.65		
December 31, 2013	5,490	14.25	6.52	$28,769
Granted	403	14.35		
Exercised	(388)	8.01		
Forfeitures and expired	(337)	21.43		
December 31, 2014	5,168	14.26	5.73	$7,732
Granted	454	9.44		
Exercised	(206)	1.38		
Forfeitures and expired	(764)	18.15		
December 31, 2015	4,653	$13.72	4.84	$2,556
Vested and expected to vest at December 31, 2015	4,597	$13.75	4.79	$2,556
Exercisable at December 31, 2015	3,904	$14.07	4.15	$2,556

As of December 31, 2015, the Company has 7.5 million shares of common stock reserved for issuance upon the exercise of stock options and settlement of outstanding stock awards under the Company's equity incentive plans. Shares issued upon stock option exercises and settlements of stock awards are drawn from the authorized but unissued shares of common stock.

During the year ended December 31, 2015, there were 0.2 million stock options exercised with an intrinsic value of $1.6 million. The windfall tax benefit realized from these exercises was $0.5 million. The Company also recognized a tax benefit shortfall of $0.1 million related to stock options exercised at values lower than the related compensation expense, and of $0.8 million related to stock options that expired unexercised during the year. During the year ended December 31, 2014, there were 0.4 million stock options exercised with an intrinsic value of $3.3 million. The windfall tax benefit realized from these exercises was $0.7 million. The Company also recognized a tax benefit shortfall of $0.1 million related to stock options exercised at values lower than the related compensation expense, and $0.8 million related to stock options that expired unexercised during the year. During the year ended December 31, 2013, there were 1.1 million stock options exercised with an intrinsic value of $9.4 million. The windfall tax benefit realized from these exercises was $2.1 million. The Company also recognized a tax benefit shortfall of $0.6 million related to stock options exercised at values lower than the related compensation expense, and $0.5 million related to stock options that expired unexercised during the year.

During the years ended December 31, 2015 and 2014, approximately 583,000 and 203,000 stock options expired, respectively.

The fair value of each option award granted during the years ended December 31, 2015, 2014 and 2013, was estimated on the date of grant using the Black-Scholes option pricing model. The Company's determination of the fair value of share-based awards is affected by the Company's common stock price as well as assumptions regarding a number of complex and subjective variables. Below is a summary of the assumptions used for the stock options granted in the years indicated.

95

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

	2015		2014		2013	
Weighted average exercise price per share	$9.44		$14.35		$10.23	
Risk-free interest rate	1.6	%	2.0	%	1.0	%
Expected dividend yield	—		—		—	
Expected volatility	50.7	%	55.1	%	58.9	%
Expected life (in years)	5.75		5.75		5.85	
Forfeiture rate	7.0	%	6.0	%	5.0	%
Weighted average grant date fair value per share	$4.52		$7.43		$5.48	

The risk-free interest rate is based on the currently available rate on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the stock option converted into a continuously compounded rate. The Company has never declared or paid any cash dividends on its common stock and does not currently anticipate paying cash dividends in the future. The Company has enough historical option exercise information to compute an expected term for use as an assumption in the Black-Scholes option pricing model, and as such, its computation of expected term was calculated using its own historical data. The volatility of the Company's common stock is also based upon its own historical volatility.

As of December 31, 2015, 2014 and 2013, there was $1.7 million, $3.2 million and $5.6 million, respectively, of unrecognized compensation costs related to unvested stock options.

At December 31, 2015, the unrecognized compensation costs of stock options are expected to be recognized over a weighted average period of 1.10 years.

Stock Awards

The Company also grants RSUs to its employees under the 2009 Plan. Each RSU represents a future issuance of one share of common stock contingent upon the recipient's continued service to the Company through the vesting date. Upon the vesting date, RSUs are automatically settled for shares of the Company's common stock unless the applicable award agreement provides for delayed settlement. If, prior to the vesting date, the employee's status as a full-time employee is terminated, then the RSU is automatically canceled on the employment termination date, unless otherwise specified in an employee's individual employment agreement. The fair value of an RSU is calculated based on the market value of the common stock on the grant date and is amortized over the applicable vesting period using the graded-vesting method.

The Company has also granted PSUs under the 2009 Plan to certain individuals. The total amount of PSUs granted is comprised of certain shares that will vest contingent upon a market-based measure, the Company's stock price, and certain shares that will vest contingent upon a performance-based measure, the Company's diluted earnings per share. Each PSU represents a future issuance of one share of common stock contingent upon achieving certain performance measures and the recipient's continued service to the Company through the vesting date. The PSUs are subject to cliff vesting equally over four years at the end of each annual service period upon meeting the performance-based and/or market-based measures applicable to such service period. Upon the vesting date, PSUs are automatically settled for shares of the Company's common stock unless the applicable award agreement provides for delayed settlement. If, prior to the vesting date, the employee's status as a full-time employee is terminated, then the PSU is automatically canceled on the employment termination date, unless otherwise specified in an employee's individual employment agreement.

The fair value of the PSU awards on the grant date was $5.3 million. PSUs are amortized over the applicable vesting period using the graded-vesting method. The fair value of the performance-based portion of the PSU awards was based on the Company's stock price as of the date the target was approved by the Company's board of directors. Compensation cost for the portion of the PSUs with a performance-based measure is recorded based on the probable outcome of the performance conditions associated with the respective shares, as determined by management. The fair value of the market-based measure portion of the PSU awards was estimated based on the Company's stock price as of the date of grant using a Monte Carlo simulation model.

96

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

The assumptions for the market-based portion of the PSUs granted are noted in the following table:

	2015	
Grant price per share	$9.46	
Risk-free interest rate	0.7	%
Expected dividend yield	—	
Historical volatility	50.0	%
Expected life (in years)	4.0	
Forfeiture rate	7.0	%
Weighted average grant date fair value per share	$4.04	

A summary of the RSU and PSU activity and related information is as follows:

	Restricted Stock Units and Performance Stock Units					
	Time Based RSU		Performance-Based PSU		Market-Based PSU	
	Number of Shares	Weighted Average Purchase Price	Number of Shares	Weighted Average Purchase Price	Number of Shares	Weighted Average Purchase Price
Balance at December 31, 2012	362,199	$9.72	—	$—	—	$—
Awarded	1,016,035	10.50	—	—	—	—
Vested	(181,104)	9.72	—	—	—	—
Canceled	(98,613)	10.39	—	—	—	—
Balance at December 31, 2013	1,098,517	10.38	—	—	—	—
Awarded	786,250	14.33	—	—	975,295	5.39
Vested	(393,106)	10.15	—	—	—	—
Canceled	(212,572)	11.89	—	—	—	—
Balance at December 31, 2014	1,279,089	12.63	—	—	975,295	5.39
Awarded	983,473	9.33	455,765	9.86	229,017	4.04
Vested	(353,126)	12.34	—	—	—	—
Canceled	(519,425)	11.51	(96,621)	9.86	(238,084)	5.21
Balance at December 31, 2015	1,390,011	$10.78	359,144	$9.86	966,228	$5.11

As of December 31, 2015 and 2014, there was $6.9 million and $8.5 million, respectively, of unrecognized compensation costs related to unvested RSUs. The unrecognized compensation costs of RSUs are expected to be recognized over a weighted average period of 1.4 years.

During the year ended December 31, 2015, 0.4 million RSUs vested and were released with a market value of $3.3 million. The tax benefit shortfall realized from the RSUs released was $0.4 million. During the year ended December 31, 2014, 0.4 million RSUs vested and were released with a market value of $5.3 million. The actual tax benefit windfall realized from the RSUs released was $0.5 million. During the year ended December 31, 2013, 0.2 million RSUs vested and were released with a market value of $3.0 million. The actual tax benefit windfall realized from the RSUs released was $0.5 million.

As of December 31, 2015, there was $4.0 million of unrecognized compensation costs related to unvested PSUs. The unrecognized compensation costs of PSUs are expected to be recognized over a weighted average period of 1.7 years, to the extent the performance criteria is met. There were no PSUs which vested during 2014, and no PSUs granted in 2013.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

17. Stock Repurchase Programs

The Company's board of directors has authorized the Company to repurchase outstanding shares of its common stock from time to time in the open market through block trades or otherwise depending on market conditions and other considerations, pursuant to the applicable rules of the Securities and Exchange Commission (the "SEC"). The Company's policy is to retain these repurchased shares as treasury shares and not to retire them. The amount and timing of future share repurchases, if any, will be made as market and business conditions warrant.

On November 10, 2013, a special committee of the Company's board of directors approved a plan to purchase up to 10.25 million shares of the Company's common stock through a tender offer. The tender offer commenced on November 13, 2013 and expired on December 11, 2013. On December 18, 2013, the Company repurchased shares of its common stock through the tender offer at a price of $19.50 per share. The tender offer was oversubscribed, resulting in the purchase of 10.2 million shares, including 0.2 million shares underlying previously unexercised stock options, for a total cost of $199.9 million, exclusive of fees. The repurchased shares were added to treasury stock. We did not repurchase any shares of our common stock in the either 2014 or 2015.

18. Income Taxes

The Company uses the asset and liability method to account for taxes. Under this method, deferred income tax assets and liabilities result from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in income and deductions in future years. The components of income tax expense are as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal	$(10,370)	$12,686	$29,456
State	(309)	1,937	3,168
	(10,679)	14,623	32,624
Deferred:			
Federal	33,482	(6,216)	(5,952)
State	7,462	(880)	(1,010)
	40,944	(7,096)	(6,962)
Total	$30,265	$7,527	$25,662

Each reporting period, the Company assesses 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.

In the third quarter of 2015, there were several pieces of negative evidence that contributed to the Company's conclusion that a valuation allowance was appropriate against all deferred tax assets that rely upon future taxable income for realization. This negative evidence included (i) a significant third quarter pre-tax loss, (ii) projections that showed the Company would be in a three-year cumulative loss position by 2016 and (iii) the continued difficult business and regulatory environment surrounding for-profit education institutions. After weighing all positive and negative evidence, the Company concluded it could not rely upon future taxable income to support realizability of deferred tax assets and, therefore, recorded a valuation allowance against the deferred tax assets that rely on future taxable income in the third quarter of 2015. As of December 31, 2015, the Company continues to record a valuation allowance against the deferred tax assets. The Company intends to maintain a valuation allowance against its deferred tax assets until sufficient positive evidence exists to support its reversal.

98

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

Deferred income tax balances reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are paid or recovered. Significant components of the Company's deferred tax assets and liabilities and balance sheet classifications are as follows (in thousands):

	As of December 31,	
	2015	2014
Deferred tax assets:		
Net operating loss	$737	$211
Fixed assets	(1,328)	194
Bad debt	2,412	2,338
Vacation accrual	3,305	2,956
Stock-based compensation	15,766	16,291
Deferred rent	12,585	11,580
State tax	2,154	2,257
Bonus accrual	1,609	1,023
Unearned interest	898	1,118
Accrued expenses	3,939	2,121
Revenue reserves	64	9,820
Other	278	107
Total deferred tax assets	42,419	50,016
Valuation allowance	(42,419)	—
Net deferred tax assets	—	50,016
Deferred tax liabilities:		
Fixed assets and intangibles	—	(8,540)
Indefinite-lived intangibles	(744)	—
Total deferred tax liabilities	(744)	(8,540)
Total net deferred tax assets (liabilities)	$(744)	$41,476

The current year change in net deferred tax assets of $42.2 million is comprised of net deferred expense of $40.9 million recorded through income tax expense, $1.2 million related to the recognized shortfall recorded as a reduction in additional paid in capital and $0.1 million tax effect of unrealized gain on investments recorded through other comprehensive income. Deferred taxes are reflected in the balance sheet as follows (in thousands):

	As of December 31,	
	2015	2014
Current deferred tax assets	$—	$21,301
Current deferred tax liabilities	—	—
Noncurrent deferred tax assets	—	20,175
Noncurrent deferred tax liabilities	(744)	—
Total	$(744)	$41,476

At December 31, 2015, the Company had federal net operating loss carryforwards of $0.6 million, which are available to offset future taxable income. The federal net operating loss carryforwards will begin to expire in 2022. The Company's utilization of net operating loss carryforwards may be subject to annual limitations due to ownership change provisions of Section 382 of Internal Revenue Code of 1986, as amended. The Company has performed a Section 382 analysis and has determined that there is no material effect on the net operating loss carryforwards.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

A reconciliation of the income tax expense computed using the U.S. federal statutory tax rate of 35% and the Company's provision for income taxes follows (in thousands):

	Year Ended December 31,					
	2015		2014		2013	
Computed expected federal tax expense	$(14,066)	35.0 %	$6,018	35.0 %	$25,041	35.0 %
State taxes, net of federal benefit	(655)	1.6	426	2.5	1,466	2.0
Permanent differences	1,033	(2.6)	1,125	6.5	1,295	1.8
Uncertain tax positions	480	(1.2)	424	2.5	(1,762)	(2.5)
Credits	(206)	0.5	(470)	(2.7)	(378)	(0.4)
Stock compensation	1,246	(3.1)	—	—	—	—
Valuation allowance	42,419	(105.5)	—	—	—	—
Other	14	—	4	—	—	—
Income tax expense	$30,265	(75.3)%	$7,527	43.8 %	$25,662	35.9 %

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Unrecognized tax benefits at December 31, 2013	$7,387
Gross increases-tax positions in prior period	13,869
Gross decreases-tax positions in prior period	(23)
Gross increases-current period tax positions	53
Settlements	(409)
Lapse of statute of limitations	—
Unrecognized tax benefits at December 31, 2014	20,877
Gross increases-tax positions in prior period	169
Gross decreases-tax positions in prior period	(2)
Gross increases-current period tax positions	—
Settlements	(455)
Lapse of statute of limitations	—
Unrecognized tax benefits at December 31, 2015	$20,589

Included in the amount of unrecognized tax benefits at December 31, 2015 and 2014 is $13.4 million and $13.6 million, respectively, of tax benefits that, if recognized, would affect the Company's effective tax rate. Also included in the balance of unrecognized tax benefits at December 31, 2015 and 2014 is $7.2 million and $7.3 million, respectively, of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred tax assets. 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 the potential change to have a material effect on the results of operations or financial position in the next year.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. At December 31, 2015 and 2014, the Company had approximately $2.0 million and $1.9 million, respectively, of accrued interest, before any tax benefit, related to uncertain tax positions.

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The tax years 2002 through 2014 are open to examination by major taxing jurisdictions to which the Company is subject.

The Company is currently under audit by the California Franchise Tax Board for the years 2008 through 2012. In connection with the California Franchise Tax Board audit, in 2014 the Company filed a refund claim for tax years 2008 through

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

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.
The Company is also subject to various other state audits. With regard to all audits, the Company does not expect any significant adjustments to amounts already reserved.

19. 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"), and University of the Rockies is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools ("HLC").

Department of Education Program Review of Ashford University

On July 31, 2014, the Company and Ashford University received notification from the Department that it intended to conduct a program review of Ashford University's administration of federal student financial aid programs ("Title IV programs") in which the university participates. The review commenced on August 25, 2014, and 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. Ashford University was provided with the Department's program review report and has responded to such initial report. Following consideration of the university's response, the Department will issue a Final Program Review Determination letter.

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.

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-

101

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

Three negotiated rulemaking sessions held 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, which became effective on 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.

The Department held Program Integrity and Improvement negotiated rulemaking sessions between February and May of 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 became effective on July 1, 2015 and 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.

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 Your 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, and on October 30, 2015, the regulations were amended 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. Changes were also made to the FFEL Program and Federal Direct Loan Program regulations to streamline and enhance existing processes and provide additional support to struggling borrowers. The amended regulations also expand the circumstances in which an institution may challenge or appeal a draft or final cohort default rate based on the institution's participation rate index.

On October 30, 2014, the Obama administration announced that the Department would 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 has been formed and includes 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."

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 Department held two public hearings in September 2015 at which interested parties commented on the topics suggested by the Department and suggested additional topics that should be considered for action by the negotiating committee. The Department also accepted written comments and suggestions. 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, and the consequences of the assertion of such borrower defenses for borrowers, institutions and the Department. Specifically, the Department intends to address (i) the procedures to be used for a borrower to establish a defense to repayment, (ii) the criteria the Department will use to identify acts or omissions of an institution that constitute defenses to repayment, (iii) the standards and procedures the Department will use to determine the liability of the institution for amounts based on borrower defenses and (iv) the effect of borrower defenses on institutional capability assessments. The committee met in January and February of 2016, and is scheduled to meet again in March 2016.

The "90/10" Rule

Under the Higher Education Act, a for-profit institution loses its eligibility to participate in Title IV programs if the institution derives more than 90% of its revenues (calculated in accordance with applicable Department regulations) from Title IV program funds for two consecutive fiscal years. This rule is commonly referred to as the "90/10 rule." Any institution that violates the 90/10 rule for two consecutive fiscal years becomes ineligible to participate in Title IV programs for at least two fiscal years. In addition, an institution whose rate exceeds 90% for any single year will be placed on provisional certification and may be subject to other enforcement measures.

For the years ended December 31, 2015, 2014 and 2013, Ashford University derived 80.9%, 83.4% and 85.6% and respectively, and University of the Rockies derived 86.6%, 88.3% and 87.6%, respectively, of their respective revenues (calculated in accordance with applicable Department regulations) from Title IV program funds.

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 federal 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.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

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.

Substantial misrepresentation

The Higher Education Act prohibits an institution participating in Title IV programs from engaging in substantial misrepresentation of the nature of its educational programs, financial charges or graduate employability. Under the Department's rules, a “misrepresentation” is any false, erroneous or misleading statement an institution, one of its representatives, or any ineligible institution, organization, or person with whom the institution has an agreement to provide educational programs, or marketing, advertising, recruiting, or admissions services makes directly to a student or prospective student or any member of the public, or to an accrediting agency, to a state agency or the Department. The Department's rules define a “substantial misrepresentation” as any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment.

On December 10, 2015, Ashford University received a request for information from the Multi-Regional and Foreign School Participation Division of the FSA for (i) advertising and marketing materials provided to prospective students regarding the transferability of certain credit, (ii) documents produced in response to the Consumer Financial Protection Bureau's (the “CFPB”) August 10, 2015 Civil Investigative Demand 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, (iii) certain documents produced in response to subpoenas and interrogatories issued by the California Attorney General and (iv) records created between 2009 and 2012 related to the disbursement of certain Title IV funds. The FSA is investigating representations made by Ashford University to potential and enrolled students, and has asked the Company and Ashford University to assist in its assessment of Ashford University's compliance with the prohibition on substantial misrepresentations. The Company and Ashford University intend to provide the FSA with their full cooperation with a view toward demonstrating the compliant nature of their practices.

If the Department determines that one of the Company's institutions has engaged in substantial misrepresentation, the Department may (i) attempt to revoke the institution's program participation agreement if the institution is provisionally certified, (ii) impose limitations on the institution's participation in Title IV programs if the institution is provisionally certified, (iii) deny applications from the institution for approval of new programs or locations or other matters or (iv) initiate proceedings to fine the institution or limit, suspend or terminate its eligibility to participate in Title IV programs. Because Ashford University is provisionally certified, it could be subject to the actions set forth in clauses (i) and (ii) above in addition to any other actions taken by the Department if it were determined that Ashford University has engaged in substantial misrepresentation.

Return of Title IV Funds

An institution participating in Title IV programs must correctly calculate the amount of unearned Title IV program funds that have been disbursed to students who withdraw from their educational programs before completion and must return those unearned funds in a timely manner, generally within 45 days of the date the school determines that the student has withdrawn. Under Department regulations, failure to make timely returns of Title IV program funds for 5% or more of students sampled on the institution's annual compliance audit in either of its two most recently completed fiscal years can result in the institution having to post a letter of credit in an amount equal to 25% of its required Title IV returns during its most recently completed fiscal year. If unearned funds are not properly calculated and returned in a timely manner, an institution is also subject to monetary liabilities or an action to impose a fine or to limit, suspend or terminate its participation in Title IV programs. For the years ended December 31, 2015 and 2014, the Company's institutions did not exceed the 5% threshold for late refunds sampled.

Financial Responsibility

The Department calculates an institution's composite score for financial responsibility based on its (i) equity ratio, which measures the institution's capital resources, ability to borrow and financial viability; (ii) primary reserve ratio,

which measures the institution's ability to support current operations from expendable resources; and (iii) net income ratio, which measures the

institution's ability to operate at a profit. An institution that does not meet the Department's minimum composite score of 1.5 may demonstrate its financial responsibility by posting a letter of credit in favor of the Department and possibly accepting other conditions on its participation in the Title IV programs.

For the fiscal year ended December 31, 2014, the consolidated composite score calculated was 2.7, satisfying the composite score requirement of the Department's financial responsibility test, which institutions must satisfy in order to participate in Title IV programs. The Company expects the consolidated composite score to be 1.8 for the year ended December 31, 2015. However, the consolidated calculation is subject to determination by the Department once it receives and reviews our audited financial statements for the year ended December 31, 2015.

Administrative capability

The Department specifies extensive criteria by which an institution must establish that it has the requisite administrative capability to participate in Title IV programs. To meet the administrative capability standards, an institution must, among other things, (i) comply with all applicable Title IV program requirements (ii) have an adequate number of qualified personnel to administer Title IV programs, (iii) have acceptable standards for measuring the satisfactory academic progress of its students, (iv) have procedures in place for awarding, disbursing and safeguarding Title IV funds and for maintaining required records, (v) administer Title IV programs with adequate checks and balances in its system of internal control over financial reporting, (vi) not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension, (vii) provide financial aid counseling to its students, (viii) refer to the OIG any credible information indicating that any student, parent, employee, third-party servicer or other agent of the institution has engaged in any fraud or other illegal conduct involving Title IV programs, (ix) timely submit all required reports and financial statements and (x) not otherwise appear to lack administrative capability.

Ashford University and University of the Rockies were notified by the Department that it did not believe the institutions fully responded to the disclosures of data required by the Gainful Employment regulations, that this was an indication of a serious lack of administrative capability, and that as a result the Department would not make any decisions regarding the addition of any new programs or additional locations until the reporting requirements were met. The Department informed the Company that failure to fully comply in all Gainful Employment data reporting requirements could 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, including a fine, the limitation, suspension or termination of institutional eligibility to participate in Title IV programs, or revocation of the institution's program participation agreement (if provisional). The Company worked with the Department to address their concerns with respect to the reporting of the Company's institutions under the Gainful Employment regulations. The Department has since approved two new programs for Ashford University, and the Company does not anticipate any actions against its institutions related to this notification.

20. Retirement Plans

The Company maintains an employee savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended. Under the savings plan, participating employees may contribute a portion of their pre-tax earnings up to the Internal Revenue Service annual contribution limit. Additionally, the Company may elect to make matching contributions into the savings plan in its sole discretion. The Company's total expense related to the 401(k) plan was $3.4 million, $3.7 million and $3.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

21. 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 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 $0.9 million as of December 31, 2015 is split between both current and long-term liabilities.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (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 parties are currently scheduled to meet again on March 8 and 9, 2016 to discuss the status of the investigation and explore a potential resolution involving injunctive relief and a monetary payment. 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. However, if the Company were able to resolve this matter, the Company believes any such resolution would result in a material payment and certain non-monetary remedies.
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.

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, the parties entered into an agreement to settle the litigation for $15.5 million, which was funded by the Company's insurance carriers. The settlement was granted preliminary approval by the Court on December 14, 2015 and is now proceeding through the shareholder claims administration process.

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.

108

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (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. On November 24, 2015, all defendants filed motions to dismiss, which are currently pending with the Court. 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 Annual Consolidated Financial Statements (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 the case was dismissed with prejudice by the Court on November 2, 2015.

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (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 Department that the institutions were in compliance with various regulations governing 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 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 Department 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. During the pendency of the appeal, the parties agreed to settle the case for an immaterial amount and are in the process of finalizing a settlement agreement.

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 the Court dismissed the case without prejudice on January 15, 2016.

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 the Court dismissed the case without prejudice on January 29, 2016.

111

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

22. Concentration of Risk

Concentration of Revenue

In 2015, Ashford University derived 80.9% and University of the Rockies derived 86.6% of their respective revenues (in each case calculated on a cash basis in accordance with applicable Department regulations) from students whose source of funding is through Title IV programs. See Note 19, “Regulatory - The “90/10” Rule.” Title IV programs are subject to political and budgetary considerations and are subject to extensive and complex regulations. The Company's administration of these programs is periodically reviewed by various regulatory agencies. Any regulatory violation could be the basis for the initiation of potentially adverse actions including a suspension, limitation, or termination proceeding, which could have a material adverse effect on the Company's enrollments, revenues and results of operations.

Students obtain access to federal student financial aid through a Department prescribed application and eligibility certification process. Student financial aid funds are generally made available to students at prescribed intervals throughout their expected length of study. Students typically apply the funds received from the federal financial aid programs first to pay their tuition and fees. Any remaining funds are distributed directly to the student.

Concentration of Credit Risk

The Company maintains its cash and cash equivalents accounts in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Company performs ongoing evaluations of these institutions to limit its concentrations risk exposure.

Concentration of Sources of Supply

The Company is dependent on a third-party provider for its online platform, which includes a learning management system, that stores, manages and delivers course content, enables assignment uploading, provides interactive communication between students and faculty and supplies online assessment tools. The partial or complete loss of this source may have an adverse effect on enrollments, revenues and results of operations.

23. Quarterly Results of Operations (Unaudited)

The following tables set forth unaudited results of operations and certain operating results for each quarter during 2015 and 2014. The Company believes that the information reflects all adjustments necessary to present fairly the information below. Basic and diluted earnings per common share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per common share information may not equal annual basic and diluted earnings per common share.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
2015				
Revenue	$142,518	$147,057	$140,762	$131,392
Operating income (loss)	(1,200)	(512)	(34,479)	(6,104)
Net income (loss)	(371)	(650)	(62,746)	(6,687)
Earnings (loss) per common share:				
Basic	$(0.01)	$(0.01)	$(1.37)	$(0.15)
Diluted	(0.01)	(0.01)	(1.37)	(0.15)

BRIDGEPOINT EDUCATION, INC.
Notes to Annual Consolidated Financial Statements (Continued)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
2014				
Revenue	$157,270	$171,522	$162,654	$147,259
Operating income (loss)	(7,858)	22,414	10,581	(10,826)
Net income (loss)	(4,330)	12,955	6,291	(5,248)
Earnings (loss) per common share:				
Basic	$(0.10)	$0.29	$0.14	$(0.12)
Diluted	(0.10)	0.28	0.14	(0.12)

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. 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 provide reasonable assurance 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 December 31, 2015, our disclosure controls and procedures were not effective at the reasonable assurance level because of the material weaknesses in our internal control over financial reporting described below. Notwithstanding the material weaknesses described below, management has concluded that our consolidated financial statements included in this Annual Report on Form 10-K are fairly stated in all material respects in accordance with GAAP for each of the periods presented herein.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2015 based on the framework set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). 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 the annual or interim financial statements will not be prevented or detected on a timely basis. In connection with our management's assessment of our internal control over financial reporting, our management has identified control deficiencies that constituted material weaknesses in our internal control over financial reporting as of December 31, 2015. Because of these material weaknesses, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2015, based on criteria in Internal-Control-Integrated Framework (2013) issued by the COSO.

Our management has concluded that there are material weaknesses in our internal control over financial reporting as of December 31, 2015, as we did not maintain effective controls over the accounting for revenue recognition. Specifically, we did not maintain effective controls surrounding the selection and application of GAAP related to revenue recognition. We also did not maintain effective controls to assess the reliability of system generated data used in the operation of certain revenue

recognition controls. These control deficiencies did not result in a material misstatement of our consolidated financial statements for 2015 or any of the quarters in 2015. However, these control deficiencies could result in misstatements of revenue, bad debt expense, accounts receivable, deferred revenue and the related financial disclosures that would result in a material misstatement of our consolidated financial statements that would not be prevented or detected on a timely basis. Accordingly, our management has determined that these control deficiencies constitute material weaknesses.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report that appears under Item 8, “Financial Statements and Supplementary Data.”

Management's Remediation Plan

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

We plan to implement measures to remediate the underlying causes of the control deficiencies that gave rise to the material weaknesses. 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 plan to perform a review of all key reports utilized in the revenue and receivable cycle to ensure appropriate controls are in place over the completeness and accuracy of the underlying data used in these key reports. 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 these measures will remediate the control deficiencies. However, we have not completed all of the corrective processes, procedures and related evaluation or remediation that we believe are necessary. As we continue to evaluate and work to remediate the control deficiencies that gave rise to the material weaknesses, we may determine to take additional measures to address the control deficiencies.

Changes in Internal Control Over Financial Reporting

There have been no changes to our internal control over financial reporting during the three months ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference to our definitive proxy statement to be filed with the SEC in connection with our 2016 Annual Meeting of Stockholders or an amendment to this Annual Report on Form 10-K to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to our definitive proxy statement to be filed with the SEC in connection with our 2016 Annual Meeting of Stockholders or an amendment to this Annual Report on Form 10-K to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to our definitive proxy statement to be filed with the SEC in connection with our 2016 Annual Meeting of Stockholders or an amendment to this Annual Report on Form 10-K to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to our definitive proxy statement to be filed with the SEC in connection with our 2016 Annual Meeting of Stockholders or an amendment to this Annual Report on Form 10-K to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to our definitive proxy statement to be filed with the SEC in connection with our 2016 Annual Meeting of Stockholders or an amendment to this Annual Report on Form 10-K to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are included as part of this Annual Report on Form 10-K:

(1) Financial Statements.

Report of Independent Registered Public Accounting Firm	71
Consolidated Balance Sheets	72
Consolidated Statements of Income	73
Consolidated Statements of Comprehensive Income	74
Consolidated Statements of Stockholders' Equity	75
Consolidated Statements of Cash Flows	76
Notes to Annual Consolidated Financial Statements	77

(2) Financial Statement Schedules.

All financial statement schedules have been omitted as they are not required, not applicable, or the required information is otherwise included.

(3) Exhibits.

Exhibit		Description of Document	Filed Herewith	Incorporated by Reference	Form	Exhibit No.	Date Filed
		Acquisition Agreements					
2.1		Purchase and Sale Agreement dated December 3, 2004, as amended, among The Franciscan University of the Prairies, the Sisters of St. Francis and the registrant.		X	S-1	2.1	February 17, 2009
2.2		Asset Purchase and Sale Agreement dated September 12, 2007 between the Colorado School of Professional Psychology and the registrant.		X	S-1	2.2	February 17, 2009
		Charter Documents and Instruments Defining Rights of Security Holders					
3.1		Fifth Amended and Restated Certificate of Incorporation.		X	10-Q	3.1	May 21, 2009
3.2		Second Amended and Restated Bylaws.		X	S-1	3.4	March 20, 2009
4.1		Specimen of Stock Certificate.		X	S-1	4.1	March 30, 2009
4.2		Second Amended and Restated Registration Rights Agreement dated August 26, 2009 among the registrant and the other persons named therein.		X	S-1	4.4	September 4, 2009
		Employee Benefit Plans					
10.1	*	Amended and Restated 2005 Stock Incentive Plan.		X	S-1	10.1	December 22, 2008
10.2	*	2005 Stock Incentive Plan-Form of Stock Option Agreement and Notice of Option Grant for Founders.		X	S-1	10.2	February 17, 2009
10.3	*	2005 Stock Incentive Plan-Form of Stock Option Agreement and Notice of Option Grant for Charlene Dackerman, Jane McAuliffe, Ross Woodard and other non-executive employees.		X	S-1	10.3	February 17, 2009
10.4	*			X	S-1	10.4	

		2005 Stock Incentive Plan-Form of Stock Option Agreement and Notice of Option Grant for Andrew S. Clark, Daniel J. Devine, Rodney T. Sheng and Christopher L. Spohn.				February 17, 2009
10.5	*	2005 Stock Incentive Plan-Form of Stock Option Agreement and Notice of Option Grant for Robert Hartman.	X	S-1	10.12	February 17, 2009
10.6	*	Amended and Restated 2005 Stock Incentive Plan-Form of Stock Option Agreement and Notice of Option Grant for Charlene Dackerman, Jane McAuliffe, Ross Woodard and other non-executive employees.	X	8-K	10.13	January 12, 2010
10.7	*	Amended and Restated 2005 Stock Incentive Plan-Form of Stock Option Agreement and Notice of Option Grant for Andrew S. Clark, Daniel J. Devine, Rodney T. Sheng and Christopher L. Spohn.	X	8-K	10.14	January 12, 2010
10.8	*	Amended and Restated 2005 Stock Incentive Plan-Amendment to Stock Option Award	X	S-1	10.33	March 30, 2009

Exhibit		Description of Document	Filed Herewith	Incorporated by Reference	Form	Exhibit No.	Date Filed
10.9	*	Amended and Restated 2009 Stock Incentive Plan.		X	8-K	10.1	May 16, 2013
10.10	*	Amended and Restated 2009 Stock Incentive Plan - Form of Nonstatutory Stock Option Agreement for Executives and Senior Management.		X	S-8	99.4	May 13, 2009
10.11	*	Amended and Restated 2009 Stock Option Plan - Form of Nonstatutory Stock Option Agreement (effective March 2011).		X	10-Q	10.3	May 3, 2011
10.12	*	Amended and Restated 2009 Stock Incentive Plan - Form of Incentive Stock Option Agreement for Executives and Senior Management.		X	S-8	99.5	May 13, 2009
10.13	*	2009 Stock Incentive Plan - Form of Restricted Stock Unit Award Agreement (Deferred Settlement).		X	8-K	99.1	June 27, 2011
10.14	*	2009 Stock Incentive Plan - Form of Restricted Stock Unit Award Agreement (General).		X	8-K	99.2	June 27, 2011
10.15	*	Amended and Restated 2009 Stock Incentive Plan - Form of Performance Stock Unit Award Agreement.		X	8-K	10.1	December 23, 2014
10.16	*	Amended and Restated 2009 Stock Incentive Plan - Amendment to Performance Stock Unit Award Agreement		X	10-K	10.16	March 10, 2015
10.17	*	Form of Non-Plan Stock Option Agreement		X	S-8	99.6	May 13, 2009
10.18	*	Form of Compensatory Warrant Agreement.		X	S-1	4.1	March 20, 2009
10.19	*	Amended and Restated Employee Stock Purchase Plan.		X	8-K	99.1	March 22, 2010
10.20	*	Bridgepoint Education Nonqualified Deferred Compensation Plan		X	10-Q	10.7	May 3, 2010
		Agreements with Executive Officers, Directors and Warburg Pincus					
10.21	*	Amended and Restated Employment Agreement between Andrew S. Clark and the registrant.		X	10-K	10.21	March 10, 2015
10.22	*	Employment Agreement between Daniel J. Devine and the registrant.		X	S-1	10.25	March 20, 2009
10.23	*	Release of All Claims, dated October 20, 2015, between Daniel J. Devine and the registrant.		X	10-Q	10.1	November 6, 2015
10.24	*	Employment Agreement between Rodney T. Sheng and the registrant.		X	S-1	10.27	March 20, 2009
10.25	*	Offer Letter to Diane Thompson.		X	S-1	10.28	March 20, 2009
10.26	*	Offer Letter to Thomas Ashbrook.		X	S-1	10.29	March 20, 2009
10.27	*	Employment Agreement, dated March 5, 2015, between Christopher M. Henn and the registrant		X	8-K	10.1	March 19, 2015

10.28	*	Employment Agreement, dated October 1, 2015, between Kevin Royal and the registrant		X	8-K	10.1	October 1, 2015
10.29	*	Amended and Restated Executive Severance Plan.		X	10-Q	10.1	August 4, 2015
10.30	*	Amended and Restated Form of Severance Agreement under the Executive Severance Plan.		X	10-Q	10.2	August 4, 2015
10.31	*	Offer Letter to Dale Crandall.		X	S-1	10.30	March 20, 2009
10.32	*	Offer Letter to Marye Anne Fox.		X	10-K	10.30	March 7, 2012
10.33	*	Form of Indemnification Agreement.	X				
10.34	*	Stock Ownership Guidelines (effective May 14, 2013).		X	10-K	10.33	March 17, 2014
10.35		Nominating Agreement between Warburg Pincus and the registrant.		X	S-1	10.11	February 17, 2009
		Bank Documents					
10.36		Credit Agreement dated January 29, 2010 with Comerica Bank		X	8-K	99.1	February 3, 2010
10.37		Revolving Credit Note dated January 29, 2010 with Comerica Bank		X	8-K	99.2	February 3, 2010
10.38		Security Agreement dated January 29, 2010 with Comerica Bank		X	8-K	99.3	February 3, 2010
10.39		First Amendment to Loan Documents with Comerica Bank dated July 30, 2010		X	10-Q	10.1	August 3, 2010
10.40		Second Amendment to Loan Documents with Comerica Bank dated August 6, 2010.		X	10-Q	10.2	November 2, 2010
10.41		Third Amendment to Loan Documents with Comerica Bank dated December 1, 2010.		X	10-K	10.39	March 2, 2011
10.42		Fourth Amendment to Loan Documents with Comerica Bank, dated May 2, 2011.		X	10-Q	10.1	August 2, 2011

Exhibit	Description of Document	Filed Herewith	Incorporated by Reference	Form	Exhibit No.	Date Filed
10.43	Fifth Amendment to Loan Documents with Comerica Bank, dated January 27, 2012.		X	10-K	10.43	March 7, 2012
10.44	Sixth Amendment to Loan Documents with Comerica Bank, dated March 30, 2012.		X	10-Q	10.6	May 1, 2012
10.45	Amended and Restated Revolving Credit Agreement with Comerica Bank, dated as of April 13, 2012.		X	10-Q	10.1	August 7, 2012
10.46 †	Material Real Estate Agreements Office Lease dated January 31, 2008 with Kilroy Realty, L.P., as amended by the First Amendment thereto dated December 1, 2008, related to the premises located at 13480 Evening Creek Drive North, San Diego, California.		X	S-1	10.15	April 13, 2009
10.47 †	Second Amendment to Office Lease dated June 3, 2009, with Kilroy Realty L.P., related to the premises located at 13480 Evening Creek Drive North, San Diego, California.		X	10-Q	10.2	August 11, 2009
10.48 †	Office Lease and Sublease Agreements, related to the premises located at 13500 Evening Creek Drive North, San Diego, California.		X	S-1	10.16	April 13, 2009
10.49 †	First Amendment to Office Lease dated March 12, 2010, with Kilroy Realty, L.P., related to the premises located at 13500 Evening Creek Drive North, San Diego, California.		X	10-Q	10.5	May 3, 2010
10.50 †	Second Amendment to Office Lease with Kilroy Realty, L.P., dated February 29, 2012, related to the premises located at 13500 Evening Creek Drive North, San Diego, California.		X	10-Q	10.5	May 1, 2012
10.51 †	Office Lease dated June 26, 2009, with Kilroy Realty, L.P., related to the premises located at 13520 Evening Creek Drive North, San Diego, California.		X	10-Q	10.1	August 11, 2009
10.52 †	Standard Form Modified Gross Office Lease dated October 22, 2008, and addendum, with Sunroad Centrum Office I, L.P. related to the premises located at 8620 Spectrum Center Lane, San Diego, California.		X	S-1	10.17	March 2, 2009
10.53 †	First Amendment to Standard Form Modified Gross Office Lease dated September 16, 2011, with Sunroad Centrum Office I, L.P., related to the premises located at 8620 Spectrum Center Lane, San Diego, California.		X	10-Q	10.4	December 16, 2011
10.54 †	Office Lease dated February 28, 2011 with WSC 1515 Arapahoe Investors V, L.L.C., related to the premises located at located at 1515 Arapahoe Street, Denver, Colorado.		X	10-Q	10.1	May 3, 2011
10.55 †			X	10-K	10.55	March 7, 2012

		Commencement Date Memorandum and First Amendment to Office Lease dated November 18, 2011 with WSC 1515 Arapahoe Investors V, L.L.C., related to the premises located at located at 1515 Arapahoe Street, Denver, Colorado.					
10.56	†	Lease dated August 8, 2011, with CCP/MS SSIII Denver Tabor Center I Property Owner LLC, related to the premises located at 1200 17th Street and 1201 16th Street, Denver, Colorado.		X	10-Q	10.3	November 1, 2011
10.57	†	First Amendment dated June 28, 2012, with CCP/MS SSIII Denver Tabor Center I Property Owner LLC, related to the premises located at 1200 17th Street and 1201 16th Street, Denver, Colorado.		X	10-Q	10.2	August 7, 2012
10.58		Purchase Agreement and Escrow Instructions, dated December 21 2015, with Clinton Catalyst, LLC.	X				
10.59		Lease Agreement, dated December 29, 2015, with Clinton Catalyst, LLC	X				
		Material Strategic Agreements					
10.60	†	Master Services and License Agreement dated September 29, 2009, with eCollege.com		X	8-K	99.1	October 1, 2009
10.61	†	First Addendum to Master Services and License Agreement dated November 9, 2009 with eCollege.com		X	10-K	10.45	March 2, 2010
10.62	†	Second Addendum to Master Services and License Agreement dated December 15, 2009 with eCollege.com		X	10-K	10.46	March 2, 2010
10.63	†	Third Addendum to Master Services and License Agreement dated January 12, 2010 with eCollege.com		X	10-K	10.47	March 2, 2010
10.64	†	Fourth Addendum to Master Services and License Agreement dated October 14, 2010 with eCollege.com		X	10-K	10.54	March 2, 2011
10.65	†	Fifth Addendum to Master Services and License Agreement dated January 30, 2015 with eCollege.com		X	8-K	10.1	February 3, 2015
10.66	†	Software License Agreement and Campuscare Support Agreement between Campus Management Corp. and the registrant.		X	S-1	10.21	March 30, 2009

Exhibit		Description of Document	Filed Herewith	Incorporated by Reference	Form	Exhibit No.	Date Filed
10.67	†	Addenda to Software License Agreement with Campus Management Corp. dated June 29, 2009.		X	10-Q	10.5	August 11, 2009
10.68	†	Addendum to CampusCare Maintenance and Support Agreement dated February 11, 2011 with Campus Management Corporation.		X	10-Q	10.2	May 3, 2011
10.69	†	CampusCare Maintenance and Support Renewal dated December 28, 2011, with Campus Management Corp.		X	10-K	10.67	March 7, 2012
10.70	†	Addendum to Software License Agreement with Campus Management Corp. dated June 29, 2012.		X	10-K	10.72	March 12, 2013
10.71	†	Addendum to CampusCare Support Agreement dated June 29, 2012 with Campus Management Corporation.		X	10-K	10.73	March 12, 2013
10.72	†	CampusCare Maintenance and Support Renewal dated December 10, 2012, with Campus Management Corp.		X	10-K	10.68	March 17, 2014
10.73	†	CampusCare Maintenance and Support Renewal dated October 24, 2013, with Campus Management Corp.		X	10-K	10.69	March 17, 2014
10.74	†	Addendum to Software License Agreement with Campus Management Corp. dated April 1, 2014.		X	10-Q	10.1	August 7, 2014
10.75	†	Addendum to CampusCare Support Agreement dated April 1, 2014 with Campus Management Corp.		X	10-Q	10.2	August 7, 2014
10.76	†	CampusCare Maintenance and Support Renewal dated January 20, 2016, with Campus Management Corp.	X				
10.77		General Services Agreement dated January 1, 2009 between Affiliated Computer Services, Inc. and Ashford University, LLC.		X	10-K	10.68	March 7, 2012
10.78		Amendment One to General Services Agreement dated July 14, 2011 between Affiliated Computer Services, Inc. and Ashford University, LLC.		X	10-Q	10.4	August 2, 2011
10.79	†	Amendment One to Task Order One (Central Financial Aid Processing) dated January 2, 2012 between Affiliated Computer Services, Inc. and Ashford University, LLC.		X	10-K	10.70	March 7, 2012
10.80		General Services Agreement dated January 1, 2009 between Affiliated Computer Services, Inc. and University of the Rockies, LLC.		X	10-K	10.71	March 7, 2012
10.81		Amendment One to General Services Agreement dated July 15, 2011 between Affiliated Computer Services, Inc. and University of the Rockies, LLC.		X	10-Q	10.5	August 2, 2011
10.82	†	Amendment One to Task Order One (Central Financial Aid Processing) dated January 2, 2012		X	10-K	10.73	March 7, 2012

		between Affiliated Computer Services, Inc. and University of the Rockies, LLC.					
10.83	†	License Agreement dated October 31, 2013 between Forbes Education Holdings, Bridgepoint Education, Inc. and Ashford University, LLC.		X	10-K	10.76	March 17, 2014
10.84		Private Cloud Services Agreement, dated December 15, 2015, with North American Communications Resource, Inc.	X				
		Code of Ethics					
14.1		Amended and Restated Code of Ethics		X	8-K	14.1	December 1, 2009
		Subsidiaries					
21.1		List of subsidiaries of the registrant.	X				
		Consent and Power of Attorney					
23.1		Consent of independent registered public accounting firm.	X				
24.1		Power of Attorney (included on signature page).	X				
		Certifications Required by Sarbanes-Oxley Act of 2002					
31.1		Certification of Andrew S. Clark, CEO and President, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2		Certification of Kevin Royal, Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
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, CEO and President, and Kevin Royal, Chief Financial Officer	X				
99.1		Disclosure required pursuant to Section 13(r) of the Securities Exchange Act of 1934	X				

Exhibit		Description of Document	Filed Herewith	Incorporated by Reference	Form	Exhibit No.	Date Filed
101	‡	Interactive Data The following financial information from our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 8, 2016, formatted in Extensible Business Reporting Language (“XBRL”): (i) the Consolidated Balance Sheets as of December 31, 2015 and 2014; (ii) the Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013; (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013; (iv) the Consolidated Statements of Stockholder's Equity for the three years ended December 31, 2015; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013; and (vi) the Notes to Annual Consolidated Financial Statements.	X				

* Indicates management contract or compensatory plan or arrangement.

‡ Portions of this exhibit have been omitted pursuant to a request for confidential treatment and the non-public information has been filed separately with the SEC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ ANDREW S. CLARK
Andrew S. Clark
(CEO and President)

Dated: March 8, 2016

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Andrew S. Clark and Kevin Royal, jointly and severally, as his or her attorney-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ ANDREW S. CLARK Andrew S. Clark	CEO and President (Principal Executive Officer) and a Director	March 8, 2016
/s/ KEVIN ROYAL Kevin Royal	Chief Financial Officer (Principal Financial Officer)	March 8, 2016
/s/ RUSSELL SAKAMOTO Russell Sakamoto	Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)	March 8, 2016
/s/ RYAN CRAIG Ryan Craig	Director	March 8, 2016
/s/ DALE CRANDALL Dale Crandall	Director	March 8, 2016
/s/ PATRICK HACKETT Patrick T. Hackett	Director	March 8, 2016
/s/ MARYE ANNE FOX Marye Anne Fox	Director	March 8, 2016
/s/ ROBERT HARTMAN Robert Hartman	Director	March 8, 2016

/s/ VICTOR NICHOLS Victor Nichols	Director	March 8, 2016
/s/ ADARSH SARMA Adarsh Sarma	Director	March 8, 2016