

# BRIDGEPOINT EDUCATION INC

## FORM 10-Q/A (Amended Quarterly Report)

Filed 08/04/14 for the Period Ending 03/31/13

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

**(Amendment No. 1)**

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

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

Commission File Number: 001-34272

**BRIDGEPOINT EDUCATION, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**59-3551629**

(I.R.S. Employer  
Identification No.)

**13500 Evening Creek Drive North, Suite 600**

**San Diego, CA 92128**

(Address, including zip code, of principal executive offices)

**(858) 668-2586**

(Registrant's telephone number, including area code)

**None**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a  
smaller reporting company)

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

The total number of shares of common stock outstanding as of May 9, 2013, was 54,108,715.



**BRIDGEPOINT EDUCATION, INC.**  
**FORM 10-Q/A**  
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## EXPLANATORY NOTE

The Registrant is filing this Amendment No. 1 on Form 10-Q/A (this “Amended Filing”) to its Quarterly Report on Form 10-Q for the three months ended March 31, 2013 (“Original Filing”) to: (i) restate management's conclusions regarding disclosure controls and procedures as of March 31, 2013; (ii) add discussion of the risk factors associated with the material weaknesses in internal control over financial reporting as of March 31, 2013; and (iii) reissue the consolidated financial statements for the periods listed below to reflect the changes in revenue recognition and the correct classification of restricted cash resulting from the material weaknesses.

The Registrant is restating its condensed consolidated balance sheet as of March 31, 2013, and its condensed consolidated statement of income, condensed consolidated statement of comprehensive income, condensed consolidated statement of stockholders' equity and condensed consolidated statement of cash flow for the three months ended March 31, 2013. The Registrant is also revising its condensed consolidated balance sheet as of December 31, 2012, and its condensed consolidated statement of income, condensed consolidated statement of comprehensive income, condensed consolidated statement of stockholders' equity and condensed consolidated statement of cash flow for the three months ended March 31, 2012.

Accordingly, the Registrant hereby amends and replaces in their entirety Items 1, 2, and 4 in Part I, and Items 1A and 6 in Part II in the Original Filing. For the convenience of the reader, this Amended Filing sets forth the Original Filing, as modified where necessary to reflect the restatement and revisions.

The Registrant has concluded that there are two material weaknesses in internal control over financial reporting, related to revenue recognition and restricted cash, as the Registrant did not maintain effective controls over the selection and application of accounting principles generally accepted in the United States (“GAAP”). Specifically, the members of the Registrant’s management with the requisite level of accounting knowledge, experience and training commensurate with the Registrant’s financial reporting requirements did not analyze certain accounting issues at the level of detail required to ensure the proper application of GAAP in certain circumstances. Accordingly, management has determined that the Registrant's disclosure controls and procedures were not effective as of March 31, 2013.

As required by Rule 12b-15, the Registrant's principal executive officer and principal financial officer are providing new currently dated certifications. Accordingly, the Registrant hereby amends Item 6 in Part II in the Original Filing to reflect the filing of the new certifications.

Except as described above, this Amended Filing does not amend, update or change any other items or disclosures in the Original Filing and does not purport to reflect any information or events subsequent to the filing thereof. As such, this Amended Filing speaks only as of the date the Original Filing was filed, and the Registrant has not undertaken herein to amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Amended Filing should be read in conjunction with the Registrant's filings made with the SEC subsequent to the filing of the Original Filing, including any amendment to those filings.

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

	As of March 31, 2013	As of December 31, 2012
<b>ASSETS</b>	<b>(As restated)</b>	
Current assets:		
Cash and cash equivalents	\$ 275,533	\$ 208,971
Restricted cash	41,094	46,994
Investments	111,838	136,967
Accounts receivable, net	51,835	54,487
Student loans receivable, net	880	556
Deferred income taxes	15,524	15,490
Prepaid expenses and other current assets	25,245	20,053
<b>Total current assets</b>	<b>521,949</b>	<b>483,518</b>
Property and equipment, net	94,930	95,966
Investments	96,475	121,738
Student loans receivable, net	13,788	14,416
Goodwill and intangibles, net	11,471	10,739
Deferred income taxes	13,701	13,706
Other long-term assets	2,206	2,330
<b>Total assets</b>	<b>\$ 754,520</b>	<b>\$ 742,413</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,901	\$ 4,588
Accrued liabilities	58,801	44,640
Deferred revenue and student deposits	140,969	175,057
<b>Total current liabilities</b>	<b>206,671</b>	<b>224,285</b>
Rent liability	25,798	25,173
Other long-term liabilities	10,610	9,759
<b>Total liabilities</b>	<b>243,079</b>	<b>259,217</b>
Commitments and contingencies (see Note 12)		
Stockholders' equity:		
Preferred stock, \$0.01 par value:		
20,000 shares authorized; zero shares issued and outstanding at both March 31, 2013, and December 31, 2012	—	—
Common stock, \$0.01 par value:		
300,000 shares authorized; 61,416 issued and 54,109 outstanding at March 31, 2013; 61,406 issued and 54,099 outstanding at December 31, 2012	614	614
Additional paid-in capital	155,336	151,709
Retained earnings	490,891	466,224
Accumulated other comprehensive income	173	222
Treasury stock, 7,307 shares at cost at both March 31, 2013, and December 31, 2012	(135,573)	(135,573)
<b>Total stockholders' equity</b>	<b>511,441</b>	<b>483,196</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 754,520</b>	<b>\$ 742,413</b>

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(As restated)</b>	
Revenue	\$ 212,986	\$ 241,433
Costs and expenses:		
Instructional costs and services	97,028	81,202
Admissions advisory and marketing	57,543	90,042
General and administrative	18,739	25,314
Total costs and expenses	173,310	196,558
Operating income	39,676	44,875
Other income, net	837	740
Income before income taxes	40,513	45,615
Income tax expense	15,846	17,181
Net income	\$ 24,667	\$ 28,434
Earnings per share:		
Basic	\$ 0.46	\$ 0.55
Diluted	0.45	0.51
Weighted average number of common shares outstanding used in computing earnings per share:		
Basic	54,129	52,008
Diluted	55,001	56,203

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(As restated)</b>	
Net income	\$ 24,667	\$ 28,434
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investments	(49)	634
Comprehensive income	<u>\$ 24,618</u>	<u>\$ 29,068</u>

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

**BRIDGEPOINT EDUCATION, INC.**  
**Condensed Consolidated Statement of Stockholders' Equity**  
(Unaudited)  
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (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	—	—	3,623	—	—	—	3,623
Exercise of stock options	10	—	101	—	—	—	101
Excess tax benefit of option exercises, net of tax shortfall	—	—	(97)	—	—	—	(97)
Net income (as restated)	—	—	—	24,667	—	—	24,667
Unrealized losses on investments, net of tax	—	—	—	—	(49)	—	(49)
Balance at March 31, 2013 (as restated)	<u>61,416</u>	<u>\$ 614</u>	<u>\$ 155,336</u>	<u>\$ 490,891</u>	<u>\$ 173</u>	<u>\$ (135,573)</u>	<u>\$ 511,441</u>

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(As restated)</b>	
<b>Cash flows from operating activities</b>		
Net income	\$ 24,667	\$ 28,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	13,040	13,418
Depreciation and amortization	4,831	4,095
Amortization of premium/discount	1,407	2,125
Stock-based compensation	3,623	2,497
Excess tax benefit of option exercises	—	(3,588)
Changes in operating assets and liabilities:		
Restricted cash	5,900	(5,028)
Accounts receivable	(10,229)	(37,153)
Prepaid expenses and other current assets	(5,656)	32
Student loans receivable	(133)	(3,214)
Other long-term assets	124	1,944
Accounts payable and accrued liabilities	16,213	24,691
Deferred revenue and student deposits	(33,747)	3,723
Other liabilities	1,476	3,345
Net cash provided by operating activities	21,516	35,321
<b>Cash flows from investing activities</b>		
Capital expenditures	(2,994)	(7,236)
Purchases of investments	(108)	(36,573)
Capitalized curriculum development costs	(1,369)	(1,638)
Sales and maturities of investments	49,416	28,923
Net cash provided by (used in) investing activities	44,945	(16,524)
<b>Cash flows from financing activities</b>		
Proceeds from exercise of stock options	101	813
Excess tax benefit of option exercises	—	3,588
Net cash provided by financing activities	101	4,401
Net increase in cash and cash equivalents	66,562	23,198
Cash and cash equivalents at beginning of period	208,971	80,207
Cash and cash equivalents at end of period	\$ 275,533	\$ 103,405
<b>Supplemental disclosure of non-cash transactions:</b>		
Purchase of equipment included in accounts payable and accrued liabilities	\$ 673	\$ 1,465

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

## **BRIDGEPOINT EDUCATION, INC.**

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

#### **1. Nature of Business**

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

#### **2. Summary of Significant Accounting Policies**

##### ***Principles of Consolidation***

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

##### ***Unaudited Interim Financial Information***

The condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission (“SEC”) on August 1, 2014. In the opinion of management, these financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary to present a fair statement of the Company's condensed consolidated financial position, results of operations and cash flows as of and for the periods presented.

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

##### ***Use of Estimates***

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

##### ***Restatement/Revision of Previously Issued Financial Statements***

The Company has restated its consolidated balance sheet as of December 31, 2013, and its consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of stockholders' equity and consolidated statement of cash flow for the year ended December 31, 2013, as well as for the quarterly periods during that fiscal year. The Company has also revised its consolidated balance sheet as of December 31, 2012, and its consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of stockholders' equity and consolidated statements of cash flow for the years ended December 31, 2012 and 2011, as well as for the quarterly periods during 2012. During the reporting of the first quarter of 2014, the Company had identified misapplications of GAAP as it related to the accounting for revenue recognition and the classification of restricted cash. Specifically on the revenue recognition, the process for analyzing the collectibility assertion was not designed to reassess collectibility, throughout the period revenue was recognized by the Company's institutions on a student-by-student basis. As a result, the Company identified adjustments, relating to revenue, provision for bad debts, accounts receivable and restricted cash balances, which should have been recognized during the prior periods.

The following tables present the impact of the corrections on the previously reported unaudited consolidated quarterly financial information for each of the quarters in the fiscal years ended December 31, 2013 and 2012. The “As Reported” column in the tables below reflects balances previously reported by the Company in its quarterly reports on Form 10-Q or

**BRIDGEPOINT EDUCATION, INC.**

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

annual report on Form 10-K for fiscal year 2013, which include revised 2012 balances. The “As Reclassified” column shows the impact of immaterial reclassifications made by the Company to reflect changes in presentation retrospectively, including (i) the reclassification of amortization for capitalized curriculum costs from general and administrative costs to instructional costs and services on its consolidated statements of income and (ii) the reclassification of current net student loans receivable to its own line item on the consolidated balance sheets. The “As Restated” column for 2013 and the “As Revised” column for 2012 reflects final adjusted balances after the related restatement or revision, as well as previously identified immaterial adjustments.

The following tables for fiscal year 2013 are presented in thousands, except per share data:

	As Reported			As Reclassified			As Restated					
	March 31, 2013			June 30, 2013								
<b>Consolidated balance sheet data:</b>												
Cash and cash equivalents	\$	316,267	-	\$	275,533	\$	363,121	-	\$	322,578		
Restricted cash	\$	—	-	\$	41,094	\$	—	-	\$	40,543		
Accounts receivable, net	\$	69,352	\$	68,472	\$	51,835	\$	60,502	\$	58,895	\$	43,393
Student loans receivable, net, current	\$	—	\$	880	\$	880	\$	—	\$	1,607	\$	1,607
Deferred income taxes, current	\$	10,970	-	\$	15,524	\$	11,020	-	\$	15,573		
Prepaid expenses and other current assets	\$	21,445	-	\$	25,245	\$	20,294	-	\$	23,891		
Total current assets	\$	530,232	-	\$	521,949	\$	541,747	-	\$	534,395		
Student loans receivable, net, non-current	\$	14,524	-	\$	13,788	-	-	-	-	-		
Deferred income taxes, non-current	\$	13,262	-	\$	13,701	\$	13,306	-	\$	13,746		
Total assets	\$	763,100	-	\$	754,520	\$	761,992	-	\$	755,080		
Accrued liabilities	\$	56,707	-	\$	58,801	\$	45,089	-	\$	48,336		
Deferred revenue and student deposits	-	-	-	-	-	\$	135,865	-	\$	134,634		
Total current liabilities	\$	204,577	-	\$	206,671	\$	188,315	-	\$	190,331		
Total liabilities	\$	240,985	-	\$	243,079	\$	225,222	-	\$	227,238		
Retained earnings	\$	501,565	-	\$	490,891	\$	511,933	-	\$	503,005		
Total stockholders' equity	\$	522,115	-	\$	511,441	\$	536,770	-	\$	527,842		
Total liabilities and stockholders' equity	\$	763,100	-	\$	754,520	\$	761,992	-	\$	755,080		

**BRIDGEPOINT EDUCATION, INC.**

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

	As Reported	As Reclassified	As Restated	As Reported	As Reclassified	As Restated
	September 30, 2013			December 31, 2013		
<b>Consolidated balance sheet data:</b>						
Cash and cash equivalents	\$ 431,762	-	\$ 392,299	\$ 249,472	-	\$ 212,526
Restricted cash	\$ —	-	\$ 39,463	\$ —	-	\$ 36,946
Accounts receivable, net	\$ 51,123	\$ 49,441	\$ 41,842	\$ 28,565	-	\$ 22,953
Student loans receivable, net, current	\$ —	\$ 1,682	\$ 1,682	-	-	-
Deferred income taxes, current	\$ 11,033	-	\$ 15,586	\$ 15,232	-	\$ 16,683
Prepaid expenses and other current assets	\$ 16,057	-	\$ 19,072	\$ 21,369	-	\$ 21,563
Total current assets	\$ 545,196	-	\$ 545,165	\$ 381,582	-	\$ 377,615
Deferred income taxes, non-current	\$ 13,284	-	\$ 13,724	-	-	-
Total assets	\$ 765,190	-	\$ 765,599	\$ 573,979	-	\$ 570,012
Accrued liabilities	\$ 43,567	-	\$ 48,828	\$ 54,756	-	\$ 54,290
Total current liabilities	\$ 179,336	-	\$ 184,597	\$ 192,742	-	\$ 192,276
Total liabilities	\$ 214,375	-	\$ 219,636	\$ 225,940	-	\$ 225,474
Retained earnings	\$ 522,068	-	\$ 517,216	\$ 515,608	-	\$ 512,107
Total stockholders' equity	\$ 550,815	-	\$ 545,963	\$ 348,039	-	\$ 344,538
Total liabilities and stockholders' equity	\$ 765,190	-	\$ 765,599	\$ 573,979	-	\$ 570,012

	As Reported	As Reclassified	As Restated	As Reported	As Reclassified	As Restated
	Three Months Ended					
	March 31, 2013			June 30, 2013		
<b>Consolidated statement of income data:</b>						
Revenue	\$ 221,984	-	\$ 212,986	\$ 197,574	-	\$ 193,470
Instructional costs and services	\$ 101,646	\$ 102,282	\$ 97,028	\$ 106,045	\$ 106,812	\$ 99,603
General and administrative	\$ 19,375	\$ 18,739	\$ 18,739	\$ 17,919	\$ 17,152	\$ 17,152
Total costs and expenses	\$ 178,564	-	\$ 173,310	\$ 181,546	-	\$ 174,337
Operating income	\$ 43,420	-	\$ 39,676	\$ 16,028	-	\$ 19,133
Other income, net	\$ 818	-	\$ 837	\$ 1,031	-	\$ 748
Income before income taxes	\$ 44,238	-	\$ 40,513	\$ 17,059	-	\$ 19,881
Income tax expense	\$ 17,271	-	\$ 15,846	\$ 6,691	-	\$ 7,767
Net income	\$ 26,967	-	\$ 24,667	\$ 10,368	-	\$ 12,114
Basic earnings per share	\$ 0.50	-	\$ 0.46	\$ 0.19	-	\$ 0.22
Diluted earnings per share	\$ 0.49	-	\$ 0.45	\$ 0.19	-	\$ 0.22

**BRIDGEPOINT EDUCATION, INC.**

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

	As Reported	As Reclassified	As Restated	As Reported	As Reclassified	As Restated
	Three Months Ended					
Consolidated statement of income data:	September 30, 2013			December 31, 2013		
Revenue	\$ 185,612	-	\$ 182,768	\$ 163,453	-	\$ 162,225
Instructional costs and services	\$ 92,204	\$ 93,079	\$ 83,562	\$ 93,755	-	\$ 90,541
General and administrative	\$ 16,050	\$ 15,175	\$ 15,175	-	-	-
Total costs and expenses	\$ 172,761	-	\$ 163,244	\$ 175,309	-	\$ 172,095
Operating income (loss)	\$ 12,851	-	\$ 19,524	\$ (11,856)	-	\$ (9,870)
Income (loss) before income taxes	\$ 13,638	-	\$ 20,310	\$ (11,146)	-	\$ (9,159)
Income tax expense (benefit)	\$ 3,503	-	\$ 6,099	\$ (4,686)	-	\$ (4,050)
Net income (loss)	\$ 10,135	-	\$ 14,211	\$ (6,460)	-	\$ (5,109)
Basic earnings (loss) per share	\$ 0.19	-	\$ 0.26	\$ (0.12)	-	\$ (0.10)
Diluted earnings (loss) per share	\$ 0.18	-	\$ 0.25	\$ (0.12)	-	\$ (0.10)

	As Reported	As Reclassified	As Restated	As Reported	As Reclassified	As Restated
	Year to Date Period Ended					
Consolidated statement of income data:	March 31, 2013			June 30, 2013		
Revenue	\$ 221,984	-	\$ 212,986	\$ 419,558	-	\$ 406,456
Instructional costs and services	\$ 101,646	\$ 102,282	\$ 97,028	\$ 207,691	\$ 209,094	\$ 196,631
General and administrative	\$ 19,375	\$ 18,739	\$ 18,739	\$ 37,294	\$ 35,891	\$ 35,891
Total costs and expenses	\$ 178,564	-	\$ 173,310	\$ 360,110	-	\$ 347,647
Operating income	\$ 43,420	-	\$ 39,676	\$ 59,448	-	\$ 58,809
Other income, net	\$ 818	-	\$ 837	\$ 1,849	-	\$ 1,585
Income before income taxes	\$ 44,238	-	\$ 40,513	\$ 61,297	-	\$ 60,394
Income tax expense	\$ 17,271	-	\$ 15,846	\$ 23,962	-	\$ 23,613
Net income	\$ 26,967	-	\$ 24,667	\$ 37,335	-	\$ 36,781
Basic earnings per share	\$ 0.50	-	\$ 0.46	\$ 0.69	-	\$ 0.68
Diluted earnings per share	\$ 0.49	-	\$ 0.45	\$ 0.67	-	\$ 0.66
<b>Consolidated statement of cash flow data:</b>						
Net income	\$ 26,967	-	\$ 24,667	\$ 37,335	-	\$ 36,781
Provision for bad debts	\$ 18,294	-	\$ 13,040	\$ 36,865	-	\$ 24,403
Amortization of premium/ discount	\$ 1,005	-	\$ 1,407	\$ 3,100	-	\$ 2,165
Restricted cash	\$ —	-	\$ 5,900	\$ —	-	\$ 6,451
Accounts receivable	\$ (19,381)	-	\$ (10,229)	\$ (28,744)	-	\$ (13,222)
Prepaid expenses and other current assets	\$ (1,635)	-	\$ (5,656)	\$ (96)	-	\$ (4,110)
Student loans receivable	\$ 281	-	\$ (133)	-	-	-
Accounts payable and accrued liabilities	\$ 14,119	-	\$ 16,213	\$ 2,153	-	\$ 5,400
Deferred revenue and student deposits	\$ (34,088)	-	\$ (33,747)	\$ (39,192)	-	\$ (39,996)
Cash flows from operating activities	\$ 15,616	-	\$ 21,516	\$ 32,273	-	\$ 38,724

**BRIDGEPOINT EDUCATION, INC.**

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

	As Reported	As Reclassified	As Restated	As Reported	As Reclassified	As Restated
	Year to Date Period Ended					
	September 30, 2013			December 31, 2013		
<b>Consolidated statement of income data:</b>						
Revenue	\$ 605,170	-	\$ 589,224	\$ 768,623	-	\$ 751,449
Instructional costs and services	\$ 299,895	\$ 302,173	\$ 280,193	\$ 395,928	-	\$ 370,734
General and administrative	\$ 53,344	\$ 51,066	\$ 51,066	-	-	-
Total costs and expenses	\$ 532,871	-	\$ 510,891	\$ 708,180	-	\$ 682,986
Operating income	\$ 72,299	-	\$ 78,333	\$ 60,443	-	\$ 68,463
Other income, net	\$ 2,636	-	\$ 2,371	\$ 3,346	-	\$ 3,082
Income before income taxes	\$ 74,935	-	\$ 80,704	\$ 63,789	-	\$ 71,545
Income tax expense	\$ 27,465	-	\$ 29,712	\$ 22,779	-	\$ 25,662
Net income	\$ 47,470	-	\$ 50,992	\$ 41,010	-	\$ 45,883
Basic earnings per share	\$ 0.88	-	\$ 0.94	\$ 0.76	-	\$ 0.85
Diluted earnings per share	\$ 0.85	-	\$ 0.91	\$ 0.74	-	\$ 0.83
<b>Consolidated statement of cash flow data:</b>						
Net income	\$ 47,470	-	\$ 50,992	\$ 41,010	-	\$ 45,883
Provision for bad debts	\$ 53,649	-	\$ 31,670	\$ 72,313	-	\$ 47,119
Amortization of premium/discount	\$ 3,596	-	\$ 2,662	\$ 3,559	-	\$ 2,624
Deferred income taxes	-	-	-	\$ (10,506)	-	\$ (6,962)
Restricted cash	\$ —	-	\$ 7,531	\$ —	-	\$ 10,048
Accounts receivable	\$ (36,056)	-	\$ (18,826)	\$ (34,348)	-	\$ (15,973)
Prepaid expenses and other current assets	\$ 3,395	-	\$ (155)	\$ (2,411)	-	\$ (2,607)
Accounts payable and accrued liabilities	\$ 3,699	-	\$ 8,960	\$ 13,687	-	\$ 13,220
Deferred revenue and student deposits	\$ (48,610)	-	\$ (48,160)	-	-	-
Cash flows from operating activities	\$ 54,277	-	\$ 61,808	\$ 75,538	-	\$ 85,586

**BRIDGEPOINT EDUCATION, INC.**

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

The following tables for fiscal year 2012 are presented in thousands, except per share data:

	As Reported +	As Reclassified	As Revised	As Reported +	As Reclassified	As Revised
	March 31, 2012			June 30, 2012		
<b>Consolidated balance sheet data:</b>						
Cash and cash equivalents	\$ 162,148	-	\$ 103,405	\$ 180,425	-	\$ 123,901
Restricted cash	\$ 25	-	\$ 58,768	\$ —	-	\$ 56,524
Accounts receivable, net	\$ 91,129	\$ 90,708	\$ 75,846	\$ 91,139	\$ 90,620	\$ 74,826
Student loan receivables, net	\$ —	\$ 421	\$ 421	\$ —	\$ 519	\$ 519
Deferred income taxes, current	\$ 5,441	-	\$ 8,235	\$ 5,442	-	\$ 8,235
Prepaid expenses and other current assets	\$ 17,864	-	\$ 18,367	22,966	-	25,105
Total current assets	\$ 441,169	-	\$ 429,604	\$ 459,764	-	\$ 448,902
Student loan receivables, net, non-current	\$ 12,065	-	\$ 11,035	\$ 14,998	-	\$ 14,232
Deferred income taxes, non-current	\$ 10,805	-	\$ 11,604	\$ 10,810	-	\$ 11,608
Total assets	\$ 682,447	-	\$ 670,651	\$ 723,119	-	\$ 712,289
Accrued liabilities	\$ 66,755	-	\$ 64,595	\$ 54,650	-	\$ 54,006
Total current liabilities	\$ 260,575	-	\$ 258,415	\$ 248,012	-	\$ 247,368
Total liabilities	\$ 289,296	-	\$ 287,136	\$ 279,333	-	\$ 278,689
Retained earnings	\$ 383,148	-	\$ 373,512	\$ 426,406	-	\$ 416,220
Total stockholders' equity	\$ 393,151	-	\$ 383,515	\$ 443,786	-	\$ 433,600
Total liabilities and stockholders' equity	\$ 682,447	-	\$ 670,651	\$ 723,119	-	\$ 712,289

	As Reported +	As Reclassified	As Revised	As Reported +	As Reclassified	As Revised
	September 30, 2012			December 31, 2012		
<b>Consolidated balance sheet data:</b>						
Cash and cash equivalents	\$ 181,577	-	\$ 131,501	\$ 255,965	-	\$ 208,971
Restricted cash	\$ —	-	\$ 50,076	\$ —	-	\$ 46,994
Accounts receivable, net	\$ 99,919	\$ 99,386	\$ 84,178	\$ 67,371	-	\$ 54,487
Student loan receivables, net	\$ —	\$ 533	\$ 533	-	-	-
Deferred income taxes, current	\$ 5,313	-	\$ 8,106	\$ 10,936	-	\$ 15,490
Prepaid expenses and other current assets	\$ 22,722	-	\$ 22,944	19,810	-	20,053
Total current assets	\$ 452,515	-	\$ 440,322	\$ 491,605	-	\$ 483,518
Student loan receivables, net	\$ 14,992	-	\$ 14,291	\$ 15,143	-	\$ 14,416
Deferred income taxes, non-current	\$ 10,752	-	\$ 11,550	\$ 13,266	-	\$ 13,706
Total assets	\$ 736,099	-	\$ 724,003	\$ 750,787	-	\$ 742,413
Accrued liabilities	\$ 52,313	-	\$ 50,044	-	-	-
Total current liabilities	\$ 231,925	-	\$ 229,656	-	-	-
Total liabilities	\$ 265,565	-	\$ 263,296	-	-	-
Retained earnings	\$ 456,226	-	\$ 446,399	\$ 474,598	-	\$ 466,224
Total stockholders' equity	\$ 470,534	-	\$ 460,707	\$ 491,570	-	\$ 483,196
Total liabilities and stockholders' equity	\$ 736,099	-	\$ 724,003	\$ 750,787	-	\$ 742,413

**BRIDGEPOINT EDUCATION, INC.**

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

	As Reported +	As Reclassified	As Revised	As Reported +	As Reclassified	As Revised
	Three Months Ended					
	March 31, 2012			June 30, 2012		
<b>Consolidated statement of income data:</b>						
Revenue	\$ 250,437	-	\$ 241,433	\$ 256,302	-	\$ 249,534
Instructional costs and services	\$ 84,224	\$ 84,453	\$ 81,202	\$ 85,279	\$ 85,579	\$ 79,719
General and administrative	\$ 25,542	\$ 25,314	\$ 25,314	\$ 15,047	\$ 14,747	\$ 14,747
Total costs and expenses	\$ 199,808	-	\$ 196,558	\$ 187,520	-	\$ 181,660
Operating income	\$ 50,629	-	\$ 44,875	\$ 68,782	-	\$ 67,874
Other income, net	\$ 683	-	\$ 740	\$ 854	-	\$ 883
Income before income taxes	\$ 51,312	-	\$ 45,615	\$ 69,636	-	\$ 68,757
Income tax expense	\$ 19,341	-	\$ 17,181	\$ 26,378	-	\$ 26,049
Net income	\$ 31,971	-	\$ 28,434	\$ 43,258	-	\$ 42,708
Basic earnings per share	\$ 0.61	-	\$ 0.55	\$ 0.82	-	\$ 0.81
Diluted earnings per share	\$ 0.57	-	\$ 0.51	\$ 0.77	-	\$ 0.76

	As Reported +	As Reclassified	As Revised	As Reported +	As Reclassified	As Revised
	Three Months Ended					
	September 30, 2012			December 31, 2012		
<b>Consolidated statement of income data:</b>						
Revenue	\$ 252,076	-	\$ 245,917	\$ 209,356	-	\$ 206,521
Instructional costs and services	\$ 90,986	\$ 91,362	\$ 84,666	\$ 102,034	\$ 102,607	\$ 97,485
General and administrative	\$ 17,247	\$ 16,870	\$ 16,870	\$ 13,139	\$ 12,566	\$ 12,566
Total costs and expenses	\$ 204,967	-	\$ 198,270	\$ 180,412	-	\$ 175,290
Operating income	\$ 47,109	-	\$ 47,647	\$ 28,944	-	\$ 31,231
Other income, net	\$ 955	-	\$ 996	\$ 878	-	\$ 912
Income before income taxes	\$ 48,064	-	\$ 48,643	\$ 29,822	-	\$ 32,143
Income tax expense	\$ 18,244	-	\$ 18,464	\$ 11,450	-	\$ 12,318
Net income	\$ 29,820	-	\$ 30,179	\$ 18,372	-	\$ 19,825
Basic earnings per share	\$ 0.56	-	\$ 0.57	\$ 0.34	-	\$ 0.37
Diluted earnings per share	\$ 0.53	-	\$ 0.54	\$ 0.33	-	\$ 0.36

**BRIDGEPOINT EDUCATION, INC.**

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

	As Reported +	As Reclassified	As Revised	As Reported +	As Reclassified	As Revised
	Year to Date Period Ended					
	March 31, 2012			June 30, 2012		
<b>Consolidated statement of income data:</b>						
Revenue	\$ 250,437	-	\$ 241,433	\$ 506,739	-	\$ 490,967
Instructional costs and services	\$ 84,224	\$ 84,453	\$ 81,202	\$ 169,503	\$ 170,032	\$ 160,921
General and administrative	\$ 25,542	\$ 25,314	\$ 25,314	\$ 40,589	\$ 40,061	\$ 40,061
Total costs and expenses	\$ 199,808	-	\$ 196,558	\$ 387,328	-	\$ 378,218
Operating income	\$ 50,629	-	\$ 44,875	\$ 119,411	-	\$ 112,749
Other income, net	\$ 683	-	\$ 740	\$ 1,537	-	\$ 1,623
Income before income taxes	\$ 51,312	-	\$ 45,615	\$ 120,948	-	\$ 114,372
Income tax expense	\$ 19,341	-	\$ 17,181	\$ 45,719	-	\$ 43,230
Net income	\$ 31,971	-	\$ 28,434	\$ 75,229	-	\$ 71,142
Basic earnings per share	\$ 0.61	-	\$ 0.55	\$ 1.44	-	\$ 1.36
Diluted earnings per share	\$ 0.57	-	\$ 0.51	\$ 1.34	-	\$ 1.27
<b>Consolidated statement of cash flow data:</b>						
Net income	\$ 31,971	-	\$ 28,434	\$ 75,229	-	\$ 71,142
Provision for bad debts	\$ 16,669	-	\$ 13,418	\$ 33,401	-	\$ 24,289
Amortization of premium/discount	\$ 1,754	-	\$ 2,125	\$ 3,594	-	\$ 4,470
Restricted cash	\$ —	-	\$ (5,028)	\$ —	-	\$ (2,809)
Accounts receivable	\$ (46,053)	-	\$ (37,153)	\$ (62,501)	-	\$ (46,772)
Prepaid expenses and other current assets	\$ (459)	-	\$ 32	\$ (5,084)	-	\$ (6,806)
Student loans receivable	\$ (2,399)	-	\$ (3,214)	\$ (5,626)	-	\$ (6,666)
Accounts payable and accrued liabilities	\$ 26,851	-	\$ 24,691	\$ 18,492	-	\$ 17,847
Cash flows from operating activities	\$ 40,350	-	\$ 35,321	\$ 76,806	-	\$ 73,996

**BRIDGEPOINT EDUCATION, INC.**

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

	As Reported +			As Reclassified			As Revised				
	Year to Date Period Ended										
	September 30, 2012			December 31, 2012							
<b>Consolidated statement of income data:</b>											
Revenue	\$	758,815	-	\$	736,884	\$	968,171	-	\$	943,405	
Instructional costs and services	\$	260,489	\$	261,394	\$	245,587	\$	364,001	-	\$	343,072
General and administrative	\$	57,836	\$	56,931	\$	56,931	-	-	-	-	
Total costs and expenses	\$	592,295	-	\$	576,488	\$	772,707	-	\$	751,778	
Operating income	\$	166,520	-	\$	160,396	\$	195,464	-	\$	191,627	
Other income, net	\$	2,492	-	\$	2,619	\$	3,370	-	\$	3,531	
Income before income taxes	\$	169,012	-	\$	163,015	\$	198,834	-	\$	195,158	
Income tax expense	\$	63,963	-	\$	61,694	\$	75,413	-	\$	74,012	
Net income	\$	105,049	-	\$	101,321	\$	123,421	-	\$	121,146	
Basic earnings per share	\$	2.00	-	\$	1.93	\$	2.33	-	\$	2.29	
Diluted earnings per share	\$	1.87	-	\$	1.81	\$	2.21	-	\$	2.17	
<b>Consolidated statement of cash flow data:</b>											
Net income	\$	105,049	-	\$	101,321	\$	123,421	-	\$	121,146	
Provision for bad debts	\$	52,418	-	\$	36,610	\$	73,696	-	\$	52,767	
Deferred income taxes	-	-	-	-	-	\$	(9,972)	-	\$	(11,373)	
Amortization of premium/discount	\$	5,384	-	\$	6,922	\$	6,805	-	\$	8,992	
Restricted cash	\$	—	-	\$	3,639	\$	—	-	\$	6,721	
Accounts receivable	\$	(90,188)	-	\$	(68,357)	\$	(81,577)	-	\$	(62,333)	
Prepaid expenses and other current assets	\$	(3,982)	-	\$	(4,548)	\$	(1,056)	-	\$	(2,387)	
Student loans receivable	\$	(5,730)	-	\$	(6,729)	\$	(3,778)	-	\$	(5,742)	
Accounts payable and accrued liabilities	\$	19,363	-	\$	17,094	-	-	-	-	-	
Deferred revenue and student deposits	-	-	-	-	-	\$	(10,389)	-	\$	(3,921)	
Cash flows from operating activities	\$	93,588	-	\$	97,226	\$	143,185	-	\$	149,905	

+ Tables above reflecting the revision for fiscal year 2012 are after the effects of the pre-existing revision and reclassifications described below in Footnote 2 "2012 Revision of Previously Issued Financial Statements" and in Footnote 3 "Reclassification."

**2012 Revision of Previously Issued Financial Statements**

The Company identified an out of period adjustment for bad debt expense related to the aging of the Company's accounts receivable, which should have been recognized during the year ended December 31, 2012. The Company evaluated the cumulative impact of this item on prior periods under the guidance in ASC 250-10 relating to SEC Staff Accounting Bulletin ("SAB") No. 99, "Materiality." The Company also evaluated the impact of correcting this item through an adjustment to its financial statements for the three months ended March 31, 2013 and concluded, based on the guidance within ASC 250-10 relating to SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," to revise its previously issued financial statements to reflect the impact of this correction. Through this revision, the Company will increase and correct a bad debt expense total of \$7.2 million, (pre-tax) in the fiscal year ended December 31, 2012. Prior periods will be revised as filed in connection with the filing of the Company's Form 10-Q's in 2013.

After the revisions described above, the Company's condensed consolidated financial statements as of and for the three months ended March 31, 2013 are properly stated. The table below presents the impact of this revision on the Company's consolidated balance sheet data as of December 31, 2012, the consolidated statement of income data and consolidated cash flow data for the year ended December 31, 2012, as well as the impact on the quarterly periods during the year ended December 31, 2012. There was no impact to the cash flows from operating activities in any of the periods presented due to the revision. The following table is presented in thousands, except per share data:

**BRIDGEPOINT EDUCATION, INC.**

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

	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	March 31, 2012		June 30, 2012		September 30, 2012		December 31, 2012	
<b>Consolidated balance sheet data:</b>								
Accounts receivable, net	\$ 92,853	\$ 91,129	\$ 99,617	\$ 91,139	\$ 111,010	\$ 99,919	\$ 75,177	\$ 67,927
Deferred income taxes	-	-	-	-	-	-	\$ 8,228	\$ 10,936
Total current assets	\$ 442,893	\$ 441,169	\$ 468,242	\$ 459,764	\$ 463,606	\$ 452,515	\$ 496,147	\$ 491,605
Total assets	\$ 684,171	\$ 682,447	\$ 731,597	\$ 723,119	\$ 747,190	\$ 736,099	\$ 755,329	\$ 750,787
Accrued liabilities	\$ 67,409	\$ 66,755	\$ 57,858	\$ 54,650	\$ 56,609	\$ 52,313	-	-
Total current liabilities	\$ 261,229	\$ 260,575	\$ 251,220	\$ 248,012	\$ 236,121	\$ 231,925	-	-
Total liabilities	\$ 289,950	\$ 289,296	\$ 282,541	\$ 279,333	\$ 269,761	\$ 265,565	-	-
Retained earnings	\$ 384,218	\$ 383,148	\$ 431,676	\$ 426,406	\$ 463,121	\$ 456,226	\$ 479,140	\$ 474,598
Total stockholders' equity	\$ 394,221	\$ 393,151	\$ 449,056	\$ 443,786	\$ 477,429	\$ 470,534	\$ 496,112	\$ 491,570
Total liabilities and stockholders' equity	\$ 684,171	\$ 682,447	\$ 731,597	\$ 723,119	\$ 747,190	\$ 736,099	\$ 755,329	\$ 750,787
<b>Three Months Ended</b>								
	March 31, 2012		June 30, 2012		September 30, 2012		December 31, 2012	
<b>Consolidated statement of income data:</b>								
Instructional costs and services <sup>(1)</sup>	\$ 82,500	\$ 84,224	\$ 78,525	\$ 85,279	\$ 88,373	\$ 90,986	\$ 105,875	\$ 102,034
Total costs and expenses	\$ 198,084	\$ 199,808	\$ 180,766	\$ 187,520	\$ 202,354	\$ 204,967	\$ 184,253	\$ 180,412
Operating income	\$ 52,353	\$ 50,629	\$ 75,536	\$ 68,782	\$ 49,722	\$ 47,109	\$ 25,103	\$ 28,944
Income before income taxes	\$ 53,036	\$ 51,312	\$ 76,390	\$ 69,636	\$ 50,677	\$ 48,064	\$ 25,980	\$ 29,822
Income tax expense	\$ 19,995	\$ 19,341	\$ 28,932	\$ 26,378	\$ 19,232	\$ 18,244	\$ 9,962	\$ 11,450
Net income	\$ 33,041	\$ 31,971	\$ 47,458	\$ 43,258	\$ 31,445	\$ 29,820	\$ 16,019	\$ 18,372
Earnings per share:								
Basic	\$ 0.64	\$ 0.61	\$ 0.90	\$ 0.82	\$ 0.59	\$ 0.56	\$ 0.30	\$ 0.34
Diluted	\$ 0.59	\$ 0.57	\$ 0.84	\$ 0.77	\$ 0.56	\$ 0.53	\$ 0.29	\$ 0.33
<b>Year to Date Period Ended</b>								
	March 31, 2012		June 30, 2012		September 30, 2012		December 31, 2012	
<b>Consolidated statement of income data:</b>								
Instructional costs and services <sup>(1)</sup>	\$ 82,500	\$ 84,224	\$ 161,025	\$ 169,503	\$ 249,398	\$ 260,489	\$ 355,273	\$ 362,523
Total costs and expenses	\$ 198,084	\$ 199,808	\$ 378,850	\$ 387,328	\$ 581,204	\$ 592,295	\$ 765,457	\$ 772,707
Operating income	\$ 52,353	\$ 50,629	\$ 127,889	\$ 119,411	\$ 177,611	\$ 166,520	\$ 202,714	\$ 195,464
Income before income taxes	\$ 53,036	\$ 51,312	\$ 129,426	\$ 120,948	\$ 180,103	\$ 169,012	\$ 206,084	\$ 198,834
Income tax expense	\$ 19,995	\$ 19,341	\$ 48,927	\$ 45,719	\$ 68,159	\$ 63,963	\$ 78,121	\$ 75,413
Net income	\$ 33,041	\$ 31,971	\$ 80,499	\$ 75,229	\$ 111,944	\$ 105,049	\$ 127,963	\$ 123,421
Earnings per share:								
Basic	\$ 0.64	\$ 0.61	\$ 1.54	\$ 1.44	\$ 2.13	\$ 2.00	\$ 2.42	\$ 2.33
Diluted	\$ 0.59	\$ 0.57	\$ 1.43	\$ 1.34	\$ 2.00	\$ 1.87	\$ 2.29	\$ 2.21
<b>Consolidated statement of cash flow data:</b>								
Net income	\$ 33,041	\$ 31,971	\$ 80,499	\$ 75,229	\$ 111,944	\$ 105,049	\$ 127,963	\$ 123,421
Provision for bad debts	\$ 14,945	\$ 16,669	\$ 24,923	\$ 33,401	\$ 41,327	\$ 52,418	\$ 66,446	\$ 73,696
Deferred income taxes	-	-	-	-	-	-	\$ (7,264)	\$ (9,972)
Accounts payable and accrued liabilities	\$ 27,505	\$ 26,851	\$ 21,700	\$ 18,492	\$ 23,559	\$ 19,363	-	-

(1) The amounts in the "as reported" column for instructional costs and services above reflect reclassified amounts for each respective period. For additional information, see also Note 3, "Reclassification."



## BRIDGEPOINT EDUCATION, INC.

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

#### ***Restricted Cash***

Restricted cash primarily represents funds held for students from Title IV financial aid program funds that result in credit balances on a student's account. Restricted cash is excluded from cash and cash equivalents on our condensed consolidated balance sheets and statements of cash flows. Changes in restricted cash are included in cash flows from operating activities on our consolidated statements of cash flows, as these restricted funds are closely related to the Company's operational activity. Our restricted cash is primarily held in money market accounts.

#### ***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable consists of student accounts receivable, which represent amounts due for tuition, 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.

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 based on (i) an assessment of individual accounts receivable over a specific aging and amount (and all other balances on a pooled basis based on historical collection experience), (ii) consideration of the nature of the receivable accounts and (iii) potential changes in the business or economic environment. The provision for bad debts is recorded within the instructional costs and services line in the condensed consolidated statements of income.

#### ***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 month 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 recorded within other income in the condensed consolidated statements of income. Revenue recognized related to students loans was immaterial during for the three months ended March 31, 2013 and March 31, 2012 , 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 (and all other balances on a pooled basis based on historical collection experience), (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 the instructional costs and services line in the condensed 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 it is probable that 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 and loan performance of the specific loans, as well as current economic conditions and industry trends. For impaired loans, the Company would establish a specific loan loss reserve for the difference between the recorded investment in the loan and the present value of the expected future cash flows. As of March 31, 2013, there are no amounts recorded for the loan loss reserve. The loan loss reserve is maintained at a level deemed adequate by management based on a periodic analysis of the individual loans.

## BRIDGEPOINT EDUCATION, INC.

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

#### *Revenue and Deferred Revenue*

The Company recognizes 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 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. Effective in the fourth quarter of 2012, 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 which 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 (generally five courses for undergraduates and four courses for graduates) for the courses in that payment period.

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.

For those students under conditional admission, the student is not obligated for payment until after their conditional admission period has lapsed, so there is no required 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 which 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 reassess 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 at the start of a student's payment period.

The Company records technology fees, which are one-time start up fees charged to each new online student, other than military, scholarship students or certain corporate reimbursement students. Technology fee revenue is recognized ratably over the average expected enrollment of a student. Effective January 1, 2013, Ashford University eliminated the one-time technology fee charged students and replaced it with a per course charge. The per course technology fee revenue is recognized on a straight-line basis over the applicable period of instruction. 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.

#### *Recently Adopted Accounting Pronouncements*

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-02, which amends Accounting Standards Codification Topic 350, *Testing Indefinite-Lived Intangible Assets for Impairment*. The amended standard reduces the cost and complexity of testing indefinite-lived intangible assets, other than goodwill, for impairment by allowing companies to perform a qualitative assessment to determine whether further impairment testing is necessary, similar in approach to the goodwill impairment test. The guidance provided in ASU 2012-02 is effective

## BRIDGEPOINT EDUCATION, INC.

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

for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company adopted ASU 2012-02, effective January 1, 2013, and such adoption did not have a material effect on our condensed consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, or AOCI, which amends Accounting Standards Codification Topic 220, *Comprehensive Income*. Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of AOCI by component in a single note or on the face of the financial statements. The guidance provided in ASU 2013-02 is effective for interim and annual reporting periods beginning after December 15, 2012. The Company adopted ASU 2013-02, effective January 1, 2013, and such adoption did not have a material effect on our condensed consolidated financial statements.

### 3. Reclassification

Effective in the fourth quarter of 2012, the Company made changes in the presentation of its operating expenses. The Company determined that these changes would better reflect industry practices and would provide more meaningful information as well as increased transparency to its operations. The Company believes its expenses as reclassified better represent the operational changes and the business initiatives that have been implemented. The Company has reclassified prior periods to conform to the new presentation. There was no change to the total amount of operating expenses as a result of the reclassification.

The following table depicts the Company's operating expenses as previously reported as well as currently reclassified on its condensed consolidated statements of income for each of the three month periods noted below (in thousands):

	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Instructional costs and services (as reported)	\$ 68,475	\$ 65,395	\$ 75,699	\$ 105,875
Impact of reclassification	14,025	13,130	12,674	—
Instructional costs and services (as reclassified)	82,500	78,525	88,373	105,875
Impact of bad debt revision	1,724	6,754	2,613	(3,841)
Instructional costs and services (as reclassified and revised)	84,224	85,279	90,986	102,034
Admissions advisory and marketing (as reported)	80,063	78,608	90,291	65,239
Impact of reclassification	9,979	8,586	6,443	—
Admissions advisory and marketing (as reclassified)	90,042	87,194	96,734	65,239
General and administrative (as reported)	49,546	36,763	36,364	13,139
Impact of reclassification	(24,004)	(21,716)	(19,117)	—
General and administrative (as reclassified)	25,542	15,047	17,247	13,139
Total costs and expenses (as reclassified and revised)	<u>\$ 199,808</u>	<u>\$ 187,520</u>	<u>\$ 204,967</u>	<u>\$ 180,412</u>

For additional information, see also Note 2, “*Summary of Significant Accounting Policies - 2012 Revision of Previously Issued Financial Statements*.”

### 4. Earnings Per Share

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

**BRIDGEPOINT EDUCATION, INC.**

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

Potentially dilutive common shares for the three months ended March 31, 2013 and March 31, 2012, consisted of incremental shares of common stock issuable upon the exercise of options and warrants and upon the settlement of restricted stock units.

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(As restated)</b>	
Numerator:		
Net income	\$ 24,667	\$ 28,434
Denominator:		
Weighted average number of common shares outstanding	54,129	52,008
Effect of dilutive options and restricted stock units	778	3,932
Effect of dilutive warrants	94	263
Diluted weighted average number of common shares outstanding	55,001	56,203
Earnings per share:		
Basic earnings per share	\$ 0.46	\$ 0.55
Diluted earnings per share	\$ 0.45	\$ 0.51

For the periods indicated below, the computation of dilutive common shares outstanding excludes certain options to purchase shares of common stock because their effect was anti-dilutive.

	<b>Three Months Ended March 31,</b>	
<b>(in thousands)</b>	<b>2013</b>	<b>2012</b>
Options	5,478	81

**BRIDGEPOINT EDUCATION, INC.**

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

**5. Significant Balance Sheet Accounts**

**Receivables, Net**

Receivables, net, consist of the following (in thousands):

	As of March 31, 2013	As of December 31, 2012
	(As restated)	
Accounts receivable	\$ 86,483	\$ 85,953
Less allowance for doubtful accounts	(34,648)	(31,466)
Accounts receivable, net	<u>\$ 51,835</u>	<u>\$ 54,487</u>
Long term:		
Student loans receivable (non-tuition related)	\$ 9,237	\$ 9,704
Student loans receivable (tuition related)	6,426	6,568
Student loans receivable	15,663	16,272
Less allowance for doubtful accounts	(1,875)	(1,856)
Student loans receivable, net	<u>\$ 13,788</u>	<u>\$ 14,416</u>

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

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

	Beginning Balance	Charged to Expense	Deductions(1)	Ending Balance
Allowance for doubtful accounts receivable:				
For the three months ended March 31, 2013	\$ (31,466)	\$ 13,021	\$ 9,839	\$ (34,648)
For the three months ended March 31, 2012	(24,688)	13,865	8,457	(30,096)
Allowance for long term student loans receivable (tuition related):				
For the three months ended March 31, 2013	\$ (1,856)	\$ 19	\$ —	\$ (1,875)
For the three months ended March 31, 2012	(2,030)	(447)	—	(1,583)

(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 of determining if a loan is impaired. If a loan were determined to be impaired, interest would no longer accrue. As of as March 31, 2013, no loans have been impaired, however an immaterial amount of loans had been placed on non-accrual status as of the balance sheet date.

**BRIDGEPOINT EDUCATION, INC.**

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

**Prepaid Expenses and Other Current Assets**

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

	As of March 31, 2013	As of December 31, 2012
	(As restated)	
Prepaid expenses	\$ 10,454	\$ 9,367
Prepaid licenses	4,525	5,864
Prepaid insurance	3,389	1,134
Interest receivable	2,267	2,221
Other current assets	4,610	1,467
Total prepaid expenses and other current assets	<u>\$ 25,245</u>	<u>\$ 20,053</u>

**Property and Equipment, Net**

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

	As of March 31, 2013	As of December 31, 2012
Land	\$ 7,091	\$ 7,091
Buildings and building improvements	25,510	25,430
Furniture, office equipment and software	88,663	85,709
Leasehold improvements	23,880	23,756
Vehicles	147	147
Total property and equipment	145,291	142,133
Less accumulated depreciation and amortization	(50,361)	(46,167)
Total property and equipment, net	<u>\$ 94,930</u>	<u>\$ 95,966</u>

**Goodwill and Intangibles, Net**

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

	As of March 31, 2013	As of December 31, 2012
Goodwill and indefinite-lived intangibles	\$ 3,424	\$ 3,424
Definite-lived intangible assets	11,347	9,978
Less accumulated amortization	(3,300)	(2,663)
Definite-lived intangible assets, net	8,047	7,315
Total goodwill and intangibles, net	<u>\$ 11,471</u>	<u>\$ 10,739</u>

For the three months ended March 31, 2013 and March 31, 2012, amortization expense was \$0.6 million and \$0.3 million, respectively. The Company estimates that the remaining amortization expense for those intangibles which have been placed into service as of March 31, 2013, will be approximately \$2.0 million, \$2.4 million and \$1.2 million over the remaining fiscal years ending December 31, 2013, December 31, 2014 and December 31, 2015, respectively.



**BRIDGEPOINT EDUCATION, INC.**

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

**Accrued Liabilities**

Accrued liabilities consist of the following (in thousands):

	As of March 31, 2013	As of December 31, 2012
	(As restated)	
Accrued salaries and wages	\$ 12,770	\$ 11,585
Accrued bonus	3,573	1,603
Accrued vacation	9,606	8,993
Accrued expenses	18,886	15,924
Accrued income taxes payable	13,966	6,535
Total accrued liabilities	\$ 58,801	\$ 44,640

**Deferred Revenue and Student Deposits**

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

	As of March 31, 2013	As of December 31, 2012
Deferred revenue	\$ 38,818	\$ 44,967
Student deposits	102,151	130,090
Total deferred revenue and student deposits	\$ 140,969	\$ 175,057

**6. Investments**

The following tables summarize the fair value information of short and long-term investments as of March 31, 2013 , and December 31, 2012 , respectively (in thousands):

	As of March 31, 2013			
	Level 1	Level 2	Level 3	Total
Demand notes	\$ —	\$ 547	\$ —	\$ 547
Corporate notes and bonds	—	98,277	—	98,277
Total	\$ —	\$ 98,824	\$ —	\$ 98,824

  

	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Demand notes	\$ —	\$ 415	\$ —	\$ 415
Corporate notes and bonds	—	148,801	—	148,801
Total	\$ —	\$ 149,216	\$ —	\$ 149,216

The above tables do not 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 balances of such other investments were \$109.5 million at both March 31, 2013 , and December 31, 2012 , respectively. The balances of total short-term and long-term investments combined were \$208.3 million and \$258.7 million , as of March 31, 2013 , and December 31, 2012 , respectively.



## BRIDGEPOINT EDUCATION, INC.

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

The Company records the changes in unrealized gains and losses on its investments arising during the period in other comprehensive income. For the three months ended March 31, 2013 and 2012, the Company recorded a net unrealized loss of \$49,000, and a net unrealized gain of \$634,000, respectively, in other comprehensive income which were net of tax effect of \$30,000 and \$(383,000), respectively.

#### 7. Credit Facilities

On April 13, 2012, the Company entered into a \$50 million revolving line of credit ("Facility") pursuant to an Amended and Restated Revolving Credit Agreement ("Revolving Credit Agreement") with the lenders signatory thereto and Comerica, as administrative agent for the lenders. The Revolving Credit Agreement amended, restated and superseded any prior loan documents. At the Company's option, the Company may increase the size of the Facility up to \$100 million (in certain minimum increments), subject to the terms and conditions of the Revolving Credit Agreement. Additionally, the Company may request swing-line advances under the Facility up to \$3 million in the aggregate.

Under the Revolving Credit Agreement and the documents executed in connection therewith (collectively, the "Facility Loan Documents"), the lenders have agreed to make loans to the Company and issue letters of credit on the Company's behalf, subject to the terms and conditions of the Facility Loan Documents. The Facility has a term of three years and matures on April 13, 2015. Interest and fees accruing under the Facility are payable quarterly in arrears and principal is payable at maturity. The Company may terminate the Facility upon five days notice, without premium or penalty, other than customary breakage fees.

For any advance under the Facility, interest will accrue at either the "Base Rate" or the "Eurodollar-based Rate," at the Company's option. The Base Rate means, for any day, 0.5% plus the greatest of: (1) the prime rate for such day, (2) the Federal Funds Effective Rate in effect on such day, plus 1.0%, and (3) the daily adjusting LIBOR rate, plus 1.0%. The Eurodollar-based Rate means, for any day, 1.5% plus the quotient of (1) the LIBOR Rate, divided by (2) a percentage equal to 100% minus the maximum rate on such date at which the Agent is required to maintain reserves on "Eurocurrency Liabilities" as defined in Regulation D of the Board of Governors of the Federal Reserve System. For any advance under the swing line, interest will accrue at either the Base Rate or, if made available to the Company by the swing line lender, at the lender's option, a different rate quoted by such lender. For any letter of credit issued on the Company's behalf under the Facility, the Company is required to pay a fee of 1.50% of the undrawn amount of such letter of credit plus a letter of credit facing fee. The Company is also required to pay a facility fee of 0.25% of the aggregate commitment then in effect under the Facility, whether used or unused.

The Facility Loan Documents contain 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. The Company was in compliance with all financial covenants in the Facility Loan Documents as of March 31, 2013.

As security for the performance of the Company's obligations under the Facility Loan Documents, the Company granted the lenders a first priority security interest in substantially all of the Company's assets, including its real property.

As of March 31, 2013, and up to the date of filing, the Company had no borrowings outstanding under the Facility. As of March 31, 2013, the Company used the availability under the line of credit to issue letters of credit aggregating \$5.8 million.

#### *Surety Bond Facility*

As part of its normal business operations, the Company is required to provide surety bonds in certain states in which the Company does business. In May 2009, the Company entered into a surety bond facility with an insurance company to provide such bonds when applicable. As of March 31, 2013, the total available surety bond facility was \$12.0 million and the Company had issued surety bonds totaling \$8.7 million.

#### 8. Stock-Based Compensation

## BRIDGEPOINT EDUCATION, INC.

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

The Company recorded \$3.6 million and \$2.5 million of stock-based compensation expense for the three months ended March 31, 2013 and 2012, respectively. The related income tax benefit was \$1.4 million and \$0.9 million for the three months ended March 31, 2013 and 2012, respectively.

There were 0.9 million restricted stock units ("RSUs") granted during the three months ended March 31, 2013 at a grant date fair value of \$10.23. No RSUs vested during the three months ended March 31, 2013.

The Company granted options to purchase 0.5 million shares of common stock during the three months ended March 31, 2013. During the three months ended March 31, 2013, options to purchase 9,662 shares of common stock were exercised.

The following weighted average assumptions were used to value the options granted during the three months ended March 31, 2013, pursuant to the Black-Scholes option pricing model:

Exercise price per share	\$	10.23
Risk-free interest rate		1.0%
Expected dividend yield		—
Expected volatility		58.9%
Expected life (in years)		5.85
Grant date fair value per share	\$	5.48

As of March 31, 2013, there was unrecognized compensation cost of \$23.8 million related to unvested options and RSUs.

#### 9. Warrants

The Company has issued warrants to purchase common stock to various employees, consultants, licensors and lenders with exercise prices ranging from \$1.125 to \$9.00. Each warrant represents the right to purchase one share of common stock. As of March 31, 2013, warrants to purchase 0.1 million shares of common stock remain outstanding. The Company has not issued any warrants since 2005. During the three months ended March 31, 2013, there were no warrants to purchase shares of common stock exercised. All outstanding warrants are currently exercisable and begin to expire in 2013.

#### 10. Income Taxes

The Company's current estimated annual effective income tax rate that has been applied to normal, recurring operations for the three months ended March 31, 2013, was 38.3%. The Company's effective income tax rate was also 39.1% for the three months ended March 31, 2013. The effective rate for the three months ended March 31, 2013 differed from the Company's estimated annual effective tax rate due to the impact of discrete items on the Company's income before the provision for income taxes, particularly increases to gross unrecognized tax benefits and related accrued interest.

At March 31, 2013, and December 31, 2012, the Company had \$9.9 million and \$9.3 million of gross unrecognized tax benefits, respectively, of which \$7.0 million and \$6.6 million would impact the effective income tax rate if recognized.

The Company is subject to U.S. federal income tax and multiple state tax jurisdictions. The 2002 through 2012 tax years remain open to examination by major taxing jurisdictions to which the Company is subject.

The Company's continuing practice is to recognize interest and penalties related to uncertain tax positions in income tax expense. Accrued interest and penalties related to uncertain tax positions as of March 31, 2013, and December 31, 2012, was \$1.8 million and \$1.7 million, respectively.

The California Franchise Tax Board commenced an audit of the Company's 2008 and 2009 California income tax returns in October 2011.

The Company does not expect any significant adjustments resulting from this audit. It is reasonably possible that the 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.

## BRIDGEPOINT EDUCATION, INC.

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

#### 11. 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 (“Higher Education Act”), and the regulations promulgated thereunder by the U.S. Department of Education (“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 and University of the Rockies are both regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (“HLC”). As discussed below, Ashford University has been placed on Notice by HLC. In September 2010, Ashford University also applied for eligibility from the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges (“WASC”).

Loss of accreditation would denigrate the value of our institutions' educational programs and would cause them to lose their eligibility to participate in Title IV programs, which would have a material adverse effect on enrollments, revenues, financial condition, cash flows and results of operations.

*Denial of Initial Accreditation for Ashford University.* On July 5, 2012, Ashford University received official notice that WASC acted (1) to deny initial accreditation to the institution because it had not yet demonstrated substantial compliance with certain of the WASC Standards for Accreditation and (2) to permit the institution to reapply for accreditation with a single special visit to occur as early as spring 2013. On October 11, 2012, Ashford University reapplied for accreditation. Under WASC rules, the reapplication must demonstrate that Ashford University has satisfactorily addressed the report's conclusions and has come into compliance with the WASC Standards of Accreditation. A site visit by WASC took place in April 2013, and we anticipate the WASC commission's consideration of the institution's reapplication at its June 2013 meeting.

*Notification from HLC regarding placement of Ashford University on Notice .* On July 12, 2012, Ashford University received a letter from HLC stating that (1) Ashford University had been placed on special monitoring because of the decision by WASC to deny the institution initial accreditation and also because of certain other non-financial data provided by the institution that indicated a need for further commission review, and (2) the institution would be required to provide a report to HLC regarding its fulfillment of the commission's Criteria for Accreditation and Core Components, including the Minimum Expectations. Submission of the report was followed by an advisory visit.

On February 27, 2013, Ashford University received a letter from HLC stating that on February 21, 2013 the university was placed on Notice due to (1) its current non-compliance with HLC's jurisdictional policy, a policy that became effective on July 1, 2012 and requires a “substantial presence,” as defined by commission policy, in HLC's 19 -state north central region, and (2) concerns regarding its future ability to remain in compliance with certain accreditation criteria, particularly the revised criteria that became effective on January 1, 2013. Specifically, HLC noted that its action in placing the university on Notice was related in part to the alignment of the university's mission with its instructional model, governance of the university independent from its corporate parent, sufficiency of faculty, assessment of student learning and use of data to improve graduation and retention rates, and shared governance structures involving faculty and administration.

Ashford University remains accredited. Notice is a commission sanction indicating that an institution is pursuing a course of action that, if continued, could lead it to be out of compliance with one or more criteria for accreditation. HLC determined that Ashford University is not currently in compliance with HLC's substantial presence policy and set forth procedures and a timeline for evaluating the university's implementation of its previously reviewed plan with respect to substantial presence in the event Ashford University does not gain accreditation from WASC.

On or before July 19, 2013, Ashford University must provide a monitoring report to HLC stating whether the university has gained accreditation from WASC. On April 22, 2013 HLC rescheduled the date by which such monitoring report must be provided from July 10, 2013 to July 19, 2013. If the university has not been accredited by WASC by July 19, 2013, the university will also be required to host a focused evaluation no later than October 1, 2013, to evaluate, among other things, whether the university has completed specific steps, following its implementation plan, to establish presence in HLC's region as required pursuant to HLC's jurisdictional requirements. Ashford University will be required to host a focused evaluation on or before December 15, 2013 to examine retention, graduation and the university's progress in resolving the identified issues. This



## BRIDGEPOINT EDUCATION, INC.

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

evaluation will take place whether or not the university gains WASC accreditation if HLC remains the gatekeeper for Ashford University's Title IV funds or if the university has not voluntarily resigned its HLC accreditation. In its letter, HLC stated that its Board of Trustees will consider information provided in the monitoring report and in the October 2013 focused evaluation, if it is required, and the December 2013 focused evaluation at its meeting in February 2014 and take action as appropriate. HLC may remove the university from Notice, or in the event the identified concerns, including satisfaction of HLC's jurisdictional requirements, have not been satisfactorily addressed, place the university on probation or take other action, which could include a show-cause order or withdrawal of accreditation.

*HLC Notification regarding Ashford University Non-Financial Indicator Conditions.* On July 13, 2012, HLC notified Ashford University that it had been identified for further inquiry based on certain non-financial data the institution provided in its 2012 Institutional Annual Report. Under HLC's Institutional Update process, all accredited and candidate institutions are required to provide certain financial and non-financial data to the commission annually; HLC then screens the non-financial data for seven indicator conditions and requests an institutional report from institutions that meet certain of these conditions. The purpose of the screening process is to identify institutions that may be at risk of not meeting certain of HLC's Criteria for Accreditation.

Ashford University was identified for further inquiry because it met three of the indicator conditions: (1) the number of degrees awarded increased 40% or more compared to the prior year; (2) the number of full-time faculty increased 25% or more compared to the prior year; and (3) the ratio of full-time faculty to the number of degree programs was less than one in the period reported. As Ashford University was already under review through the HLC special monitoring process and was required to provide a written report and host an advisory visit, as outlined in the letter received from the commission on July 12, 2012, Ashford University addressed these non-financial indicators and related Core Components in the report it submitted on September 3, 2012 as part of the special monitoring process.

*HLC Notification regarding University of the Rockies Non-Financial Indicator Conditions.* On July 24, 2012, HLC notified University of the Rockies that it had been identified for further inquiry based on certain non-financial data the institution provided in its 2012 Institutional Annual Report. University of the Rockies was identified for further inquiry because it met two of the indicator conditions: (1) the number of degrees awarded increased 40% or more compared to the prior year; and (2) the number of full-time faculty increased 25% or more compared to the prior year. Accordingly, HLC requested that University of the Rockies provide a report to the commission demonstrating the institution's ability to continue meeting the Core Components in light of the conditions at the institution that led to the indicators being identified. This report was provided on August 29, 2012. The HLC staff will review the report, may request additional information if necessary, and will determine whether the report requires further review by a panel; if so, the panel will review the report and recommend whether the commission should accept the report, require further monitoring through a subsequent report or focused visit, or recommend action such as placing the institution on sanction.

*Notification from U.S. Department of Education regarding on-site program review of University of the Rockies.* On July 25, 2012, University of the Rockies received a letter from the Department stating that it scheduled an on-site program review. This review occurred from August 20, 2012 through August 24, 2012. The review was to assess the institution's administration of Title IV programs and initially will cover the 2010-2011 and 2011-2012 award years, but may be expanded if deemed appropriate by the Department.

*Request for information from Ashford University by Iowa College Student Aid Commission.* On September 22, 2012, the Iowa College Student Aid Commission requested that Ashford University provide the commission with certain information and documentation related to, among other matters, the denial of Ashford University's application for WASC accreditation, the university's compliance with HLC criteria and policies, a teach-out plan in the event that Ashford University is unsuccessful in obtaining WASC accreditation and is sanctioned by HLC, and information relating to admissions employees, receipt of financial aid, availability of books, credit balance authorizations, and academic and financial support and advisement services to students. The commission requested that Ashford University provide the requested information by November 12, 2012 and make an in-person presentation during the commission's meeting on November 16, 2012. The university made the presentation and continues to work with the commission to ensure they receive timely accreditation-related updates.

## BRIDGEPOINT EDUCATION, INC.

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

#### 12. Commitments and Contingencies

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. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the Company records a liability for the loss. 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. 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 ("OIG")*

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 Department's Office of Federal Student Aid ("FSA"). 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.

##### *Iowa Attorney General Civil Investigation of Ashford University*

In February 2011, Ashford University received from the Attorney General of the State of Iowa ("Iowa Attorney General") a Civil Investigative Demand and Notice of Intent to Proceed ("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 has requested 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.

##### *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 ("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 ("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 law. 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 ("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

## BRIDGEPOINT EDUCATION, INC.

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

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.

#### *Stevens v. Bridgepoint Education, Inc.*

In February 2011, the Company received a copy of a complaint filed as a class action lawsuit naming the Company, Ashford University, LLC, and certain employees as defendants. The complaint was filed in the Superior Court of the State of California in San Diego and was captioned *Stevens v. Bridgepoint Education, Inc.* In April 2011, the Company received a copy of a complaint filed as a class action lawsuit naming the Company and Ashford University, LLC, as defendants. The complaint was filed in the Superior Court of the State of California in San Diego, and was captioned *Moore v. Ashford University, LLC*. In May 2011, the Company received a copy of a complaint filed as a class action lawsuit naming the Company as a defendant. The complaint was filed in the Superior Court of the State of California in San Diego on May 6, 2011, and was captioned *Sanchez v. Bridgepoint Education, Inc.* All three of these complaints generally alleged that the plaintiffs and similarly situated employees were improperly denied certain wage and hour protections under California law.

In October 2011, the above named cases were consolidated because they involved common questions of fact and law, with *Stevens v. Bridgepoint Education, Inc.* designated as the lead case. In April 2012, the Company entered into a settlement agreement with the plaintiffs of the above named cases to settle the claims on a class-wide basis. Under the terms of the settlement agreement, the Company agreed to pay an amount to settle the plaintiffs' claims, plus any related payroll taxes. The Company accrued a \$10.8 million expense in connection with the settlement agreement during the three months ended March 31, 2012. On August 24, 2012, the Court granted final approval of the class action settlement and entered a final judgment in accordance with the terms of the settlement agreement. This settlement was paid out prior to December 31, 2012.

#### *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. Finally, 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 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. The Company intends to vigorously defend against the consolidated action and filed a motion to dismiss on February 19, 2013, which is currently pending.

#### *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 entitled *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 complaint 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 entitled *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.

## BRIDGEPOINT EDUCATION, INC.

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

On October 11, 2012, the Adolph-Laroche action was consolidated with the Clark action and the case is now entitled *In re Bridgepoint, Inc. Shareholder Derivative Action*. A consolidated complaint was filed on December 18, 2012. 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, however the Court scheduled a further status conference for September 6, 2013.

#### *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 entitled *Guzman v. Bridgepoint Education, Inc., et al*, and 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 the 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. The lawsuit is proceeding to discovery.

The Company believes the lawsuit is without merit and intends to vigorously defend against it. However, because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on the information available to the Company at present, it cannot reasonably estimate a range of loss for this action and accordingly has not accrued any liability associated with this action.

#### *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 case is entitled *United States of America, ex rel., Ryan Ferguson and Mark T. Pacheco v. Bridgepoint Education, Inc., Ashford University and University of the Rockies*. The *qui tam* complaint alleges, among other things, that since March 10, 2005, the Company caused its institutions, Ashford University and University of the Rockies, to violate the Federal False Claims Act by falsely certifying to the U.S. Department of Education that the institutions were in compliance with various regulations governing the Title IV programs, including those that require compliance with federal rules regarding the payment of incentive compensation to enrollment personnel, student disclosures, and misrepresentation in connection with the institutions' participation in the Title IV programs. The complaint seeks significant damages, penalties and other relief. On April 30, 2013, the relators petitioned the Court for voluntary dismissal of the complaint without prejudice. The dismissal is currently pending court approval.

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 case is entitled *United States of America, ex rel., James Carter and Roger Lengyel v. Bridgepoint Education, Inc., Ashford University*. The *qui tam* complaint alleges, among other things, that since March 2005, the Company and Ashford University have violated the Federal False Claims Act by falsely certifying to the U.S. Department of Education that Ashford University was in compliance with federal rules regarding the payment of incentive compensation to enrollment personnel in connection with the institution's participation in Title IV programs. Pursuant to a stipulation between the parties, the relators filed an amended complaint on May 10, 2013 and our response to the amended complaint is due on June 24, 2013. The amended complaint is substantially similar to the original complaint and seeks significant damages, penalties and other relief. The Company intends to vigorously defend against the allegations set forth in the amended complaint.

## BRIDGEPOINT EDUCATION, INC.

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

#### *Employee Class Actions*

On October 24, 2012, a class action complaint was filed in California Superior Court by former employee Marla Montano naming the Company and Ashford University as defendants. The case is entitled *Marla Montano v. Bridgepoint Education and Ashford University*. The complaint asserts a putative class consisting of former employees who were terminated in January 2012 and July 2012 as a result of a mass layoff, relocation or termination and alleges that the defendants failed to comply with the notice and payment provisions of the California WARN Act. A substantially similar complaint, entitled *Dilts v. Bridgepoint Education and Ashford University*, was also filed in the same court on the same day by Austin Dilts making similar allegations and asserting the same putative class. The complaints seek 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.

The Company and Ashford University intend to vigorously defend against these actions. On January 25, 2013, the Company filed motions to compel binding arbitration with the Court, which are currently pending.

#### **13. Stock Repurchase Program**

On April 30, 2012, the Company's board of directors authorized the repurchase of up to \$75.0 million of the Company's outstanding shares of common stock over the following 12 months. The repurchase program was authorized by the Company's board of directors with the intention of creating additional value for stockholders. Under the repurchase program, the Company is authorized to purchase shares from time to time in the open market, through block trades or otherwise. No shares were repurchased under this program.

#### **14. Subsequent Events**

*Qui Tam Complaint* - On April 30, 2013, Ryan Ferguson and Mark T. Pacheco filed a petition with the U.S. District Court for the Southern District of California for voluntary dismissal without prejudice of the *qui tam* complaint they filed with the Court under the Federal False Claims Act. The dismissal is currently pending court approval. For further discussion of the *qui tam* complaint, see Note 12, "Commitments and Contingencies."

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

*The following Management's Discussions and Analysis of Financial Condition and Results of Operations, or MD&A, should be read in conjunction with our condensed consolidated financial statements and related notes in Part I, Item 1 of this report. For additional context with which to understand our financial condition and results of operations, see the MD&A included in Part II, Item 7 of our Annual Report on Form 10-K/A for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission ("SEC") on August 1, 2014, as well as the consolidated financial statements and related notes contained therein.*

### Forward-Looking Statements

This MD&A and other sections of this report contain "forward-looking statements" as defined by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of financial resources. Such forward-looking statements may generally be identified by words such as "may," "could," "would," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar expressions, as well as statements in the future tense, although their absence does not mean that a statement is not forward-looking. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties. Such statements should be viewed with caution. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. These forward-looking statements may include, without limitation, statements regarding:

- Ashford University's plans in response to the letters from the Higher Learning Commission of the North Central Association of Colleges and Schools, or HLC, regarding the institution's compliance with the commission's jurisdictional requirements and the placement of the institution on Notice;
- Ashford University's plans in response to the denial of its application for initial accreditation by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges, or WASC;
- the effectiveness of improvements in our accounting processes in remediating internal control deficiencies;
- our ability to comply with changing regulatory requirements;
- expectations regarding financial position, results of operations, liquidity and enrollment at our institutions;
- projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance;
- 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 should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the timing of such performance or results. Forward-looking statements are based on information available at the time those statements are made and management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. See "Risk Factors" in Part II, Item 1A of this report for a discussion of some of these risks and uncertainties.

## 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 Clinton, Iowa and Colorado Springs, Colorado, respectively. As of March 31, 2013, our institutions offered approximately 1,530 courses, 80 degree programs and 140 specializations. We are also focused on developing innovative new technologies to improve the way students learn, such as Constellation, Thuze and Waypoint Outcomes, and the mobile learning platforms for our institutions.

### *Restatement/Revision of Previously Issued Consolidated Financial Statements*

The Company is restating its consolidated balance sheet as of December 31, 2013, and its consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of stockholders' equity and consolidated statement of cash flow for the year ended December 31, 2013, as well as the quarterly periods during that fiscal year. The Company is also revising its consolidated balance sheet as of December 31, 2012, and its consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of stockholders' equity and consolidated statements of cash flow for the years ended December 31, 2012 and 2011, as well as for all the quarterly periods included in 2012.

During the reporting of the first quarter of 2014, as part of a comment letter process with the Securities and Exchange Commission ("SEC"), the Company identified misapplications of GAAP as it related to the accounting for revenue recognition and the classification of restricted cash. Specifically on the revenue recognition, the process for analyzing the collectibility assertion was not designed to reassess collectibility on a student-by-student basis throughout the period revenue was recognized by the Company's institutions. As a result, the Company has changed its revenue recognition policy and has identified adjustments, relating to revenue, provision for bad debts, accounts receivable, which should have been recognized during the prior periods, and restricted cash balances, which should have been presented differently during the prior periods.

### *Key operating data*

In evaluating our operating performance, our management focuses in part on revenue, operating income and period end enrollment at our institutions, both online and campus-based. The following table, which you should read in conjunction with our condensed consolidated financial statements contained elsewhere in this report, presents our key operating data for the three months ended March 31, 2013 and 2012 (in thousands, except for enrollment data):

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Consolidated Statement of Income Data:</b>		
	(unaudited)	
Revenue	\$ 212,986	\$ 241,433
Operating Income	39,676	44,875
<b>Consolidated Other Data:</b>		
Period end enrollment (1)		
Online	77,716	93,730
Campus	1,066	1,133
Total	<u>78,782</u>	<u>94,863</u>

(1) We define enrollments as the number of active students on the last day of the financial reporting period. A student is considered active if the student attended a class within the prior 15 days or is on an institutionally-approved break not to exceed 45 days, unless the student has graduated or provided a notice of withdrawal.

### *Key enrollment trends*

Enrollment at our academic institutions declined from 81,810 at December 31, 2012, to 78,782 at March 31, 2013, a decrease of 3.7%. For the three months ended March 31, 2013, we had new student enrollments of approximately 13,300, compared with new student enrollments of approximately 24,275 for the same period in 2012, a decrease of 45.2%. The

following table presents new student enrollments for the five most recent quarters and compares them to the same periods in the previous year:

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Current period	24,275	19,300	20,500	9,260	13,300
Prior year period	27,550	19,050	22,000	13,500	24,275
Percentage change	(11.9)%	1.3%	(6.8)%	(31.4)%	(45.2)%

In recent quarters, we have generally experienced a decline in new student enrollments. We believe a primary driver for the recent decline is due to lower productivity levels of our admissions counselors and student inquiry coordinators, as a result of our various operational changes and business initiatives. We believe that the new student enrollment has also been affected by the student quality and preparedness initiatives we added during the two most recent quarters. Lastly, we believe that the negative media scrutiny of the private sector postsecondary education industry in general has had a negative impact on new enrollments.

#### ***Trends and uncertainties regarding revenue and continuing operations***

Effective January 1, 2013, Ashford University eliminated the one-time technology fee it charged students and replaced it with a per course charge.

As described in "Recent Developments" below, HLC may require changes to Ashford University's operations and business model as part of the HLC Board of Trustees' decision to place the university on Notice on February 21, 2013. The denial of initial accreditation by WASC has adversely affected Ashford University's academic reputation and may negatively impact its ability to enroll and retain students. For Ashford University to demonstrate that it has satisfactorily addressed the conclusions of the WASC visiting team report and has come into compliance with the WASC Standards of Accreditation, as part of the institution's reapplication process, the institution has made significant changes to its operations and business initiatives. Additionally, Ashford University's efforts to comply with HLC's jurisdictional requirements, which require that the institution have a substantial presence in the north central region, could result in uncertain costs and potential business disruption.

Although we continue to see a demand for postsecondary education and Title IV funds continue to be available to current and prospective students, 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.

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

We have financed our operating activities and capital expenditures during 2013 and 2012 primarily through cash provided by operating activities. At March 31, 2013, we had cash, cash equivalents, restricted cash and investments totaling \$524.9 million and no long-term debt. Based on our current level of operations and anticipated growth in enrollments, we believe that our cash flow from operating activities, our existing cash and cash equivalents and other sources of liquidity will provide adequate funds for ongoing operations, planned capital expenditures and working capital requirements for at least the next 12 months. For the year ending December 31, 2013, we expect capital expenditures to be approximately \$26.0 million.

#### ***Recent Developments***

In October 2012, Ashford University announced the election of Dr. Gregory Geoffroy as the chairman of the Board of Trustees of Ashford University, which became effective in March 2013.

*Denial of Initial Accreditation for Ashford University*. On July 5, 2012, Ashford University received official notice that WASC acted (1) to deny initial accreditation to the institution because it had not yet demonstrated substantial compliance with certain of the WASC Standards for Accreditation and (2) to permit the institution to reapply for accreditation with a single special visit to occur as early as spring 2013. On October 11, 2012, Ashford University reapplied for accreditation. Under WASC rules, the reapplication must demonstrate that Ashford University has satisfactorily addressed the report's conclusions and has come into compliance with the WASC Standards of Accreditation. A site visit by WASC took place in April 2013, and we anticipate the WASC commission's consideration of the institution's reapplication at its June 2013 meeting.

*Notification from HLC regarding placement of Ashford University on Notice* . On July 12, 2012, Ashford University received a letter from HLC stating that (1) Ashford University had been placed on special monitoring because of the decision by WASC to deny the institution initial accreditation and also because of certain other non-financial data provided by the institution that indicated a need for further commission review, and (2) the institution would be required to provide a report to HLC regarding its fulfillment of the commission's Criteria for Accreditation and Core Components, including the Minimum Expectations. Submission of the report was followed by an advisory visit.

On February 27, 2013, Ashford University received a letter from HLC stating that on February 21, 2013 the university was placed on Notice due to (1) its current non-compliance with HLC's jurisdictional policy, a policy which became effective on July 1, 2012 and requires a "substantial presence," as defined by commission policy, in HLC's 19-state north central region, and (2) concerns regarding its future ability to remain in compliance with certain accreditation criteria, particularly the revised criteria that became effective on January 1, 2013. Specifically, HLC noted that its action in placing the university on Notice was related in part to the alignment of the university's mission with its instructional model, governance of the university independent from its corporate parent, sufficiency of faculty, assessment of student learning and use of data to improve graduation and retention rates, and shared governance structures involving faculty and administration.

Ashford University remains accredited. Notice is a commission sanction indicating that an institution is pursuing a course of action that, if continued, could lead it to be out of compliance with one or more criteria for accreditation. HLC determined that Ashford University is not currently in compliance with HLC's substantial presence policy and set forth procedures and a timeline for evaluating the university's implementation of its previously reviewed plan with respect to substantial presence in the event Ashford University does not gain accreditation from WASC. See the risk factor entitled, "*If Ashford University fails to demonstrate that it is within HLC's jurisdiction, the institution could lose accreditation*" in Part II, Item 1A of this report for additional discussion.

On or before July 19, 2013, Ashford University must provide a monitoring report to HLC stating whether the university has gained accreditation from WASC. On April 22, 2013 HLC rescheduled the date by which such monitoring report must be provided from July 10, 2013 to July 19, 2013. If the university has not been accredited by WASC by July 19, 2013, the university will also be required to host a focused evaluation no later than October 1, 2013, to evaluate, among other things, whether the university has completed specific steps, following its implementation plan, to establish presence in HLC's region as required pursuant to HLC's jurisdictional requirements. Ashford University will be required to host a focused evaluation on or before December 15, 2013 to examine retention, graduation and the university's progress in resolving the identified issues. This evaluation will take place whether or not the university gains WASC accreditation if HLC remains the gatekeeper for Ashford University's Title IV funds or if the university has not voluntarily resigned its HLC accreditation. In its letter, HLC states that its Board of Trustees will consider information provided in the monitoring report and in the October 2013 focused evaluation, if it is required, and the December 2013 focused evaluation at its meeting in February 2014 and take action as appropriate. HLC may remove the university from Notice, or in the event the identified concerns, including satisfaction of HLC's jurisdictional requirements, have not been satisfactorily addressed, place the university on probation or take other action, which could include a show-cause order or withdrawal of accreditation.

*Cohort Default Rate.* For each federal fiscal year, the Department calculates a rate of student defaults over a two-year measuring period for each educational institution which is known as a "cohort default rate." An institution may lose its eligibility to participate in the Direct Loan and Pell programs if, for each of the three most recent federal fiscal years for which information is available, 25% 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. In addition, an institution may lose its eligibility to participate in the Direct Loan program if its cohort default rate exceeds 40% in the most recent federal fiscal year for which default rates have been calculated by the Department. Ashford University's cohort default rates for the 2010, 2009 and 2008 federal fiscal years were 10.2% , 15.3% and 13.3%, respectively. The cohort default rates for the University of the Rockies for the 2010, 2009 and 2008 federal fiscal years were 4.0% , 3.3% and 2.5%, respectively. The draft cohort default rates for the 2011 federal fiscal year for Ashford University and University of the Rockies were 10.1% and 4.9% , respectively.

The August 2008 reauthorization of the Higher Education Act included significant revisions to the requirements concerning cohort default rates. Under the revised law, the period for which students' defaults on their loans are included in the calculation of an institution's cohort default rate was extended by one additional year, which is expected to increase the cohort default rates for most institutions. That change was effective with the calculation of institutions' cohort default rates for the federal fiscal year ending September 30, 2009, which rates were calculated and issued by the Department in September 2012. The Department will not impose sanctions based on rates calculated under this new methodology until three consecutive years

of rates have been calculated, which is expected to occur in 2014. Until that time, the Department will continue to calculate rates under the old calculation method and impose sanctions based on those rates. The revised law also increases the threshold for ending an institution's participation in the relevant Title IV programs from 25% to 30%, effective for final, published three-year cohort default rates for the 2009 federal fiscal year and later federal fiscal years. The revised law changes the threshold for placement on provisional certification to 30% for two of the three most recent fiscal years for which the Department has published official three-year cohort default rates. Ashford University's and University of the Rockies' official three-year cohort default rates for the 2009 cohort were 19.8% and 3.3% , respectively. The draft three-year cohort default rates for the 2010 federal fiscal year for Ashford University and the University of the Rockies were 16.3% and 8.0% , respectively.

### **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.

### **Critical Accounting Policies and Use of Estimates**

For the three months ended March 31, 2013 , the material changes to the critical accounting policies and estimates discussed in “MD&A-Critical Accounting Policies and Use of Estimates” included in Part II, Item 7 of our Annual Report on Form 10-K/A for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission (“SEC”) on August 1, 2014 are discussed below.

#### ***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. Effective in the fourth quarter of 2012, 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.

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 (generally five courses for undergraduates and four courses for graduates) for the courses in that payment period.

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 that are 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. For those students under conditional admission, the student is not obligated for payment until after their conditional admission period has lapsed, so there is no required refund. For all subsequent courses, 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. 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. 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 which 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 the Company's 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 at the start of a student's payment period.

We also record revenue from technology fees that are one-time start up fees charged to each new online student, other than military, scholarship students or certain corporate reimbursement students. Technology fee revenue is recognized ratably over the average expected enrollment of a student. The average expected enrollment of the student is estimated each quarter based upon historical duration of attendance and qualitative factors as deemed necessary. Effective January 1, 2013, Ashford University eliminated the one-time technology fee and replaced it with a per course charge. The per course technology fee revenue is recognized on a straight-line basis over the applicable period of instruction.

## Results of Operations

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

	<u>Three Months Ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Revenue	100.0%	100.0%
Costs and expenses:		
Instructional costs and services	45.6	33.6
Admissions advisory and marketing	27.0	37.3
General and administrative	8.8	10.5
Total costs and expenses	81.4	81.4
Operating income	18.6	18.6
Other income, net	0.4	0.3
Income before income taxes	19.0	18.9
Income tax expense	7.4	7.1
Net income	<u>11.6%</u>	<u>11.8%</u>

### *Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012*

**Revenue.** Our revenue for the three months ended March 31, 2013, was \$213.0 million, representing a decrease of \$28.4 million, or 11.8%, as compared to revenue of \$241.4 million for the three months ended March 31, 2012. This decrease was primarily due to the enrollment decline of 17.0%, from 94,863 students at March 31, 2012, to 78,782 students at March 31, 2013. We earned technology fees of \$9.1 million for the three months ended March 31, 2013, representing 4.3% of total revenue during the period, compared to technology fees of \$15.8 million for the three months ended March 31, 2012, representing 6.5% of total revenue during that period. The decline in technology fees between periods is primarily due to the decline in new student enrollments between periods, and the change in technology fee structure for Ashford University. Effective January 1, 2013, Ashford University eliminated the one-time technology fee it currently charges students and replaced it with a per course charge. The overall decrease in revenue was partially offset by an increase due to the 3% tuition increase effective April 1, 2012.

**Instructional costs and services.** Our instructional costs and services for the three months ended March 31, 2013, were \$97.0 million, representing an increase of \$15.8 million, or 19.5%, as compared to instructional costs and services of \$81.2 million for the three months ended March 31, 2012. Specific increases between periods were direct compensation in the areas of academic management, financial aid support and student services of \$6.7 million, support services of \$4.6 million, facilities costs of \$2.6 million, information technology costs of \$1.9 million. These increases were offset by decreases in financial aid processing fees of \$0.9 million, instructor fees of \$0.7 million and bad debt expense of \$0.4 million. Instructional costs and services increased, as a percentage of revenue, to 45.6% for the three months ended March 31, 2013, as compared to 33.6% for the three months ended March 31, 2012. The increase of 12.0%, as a percentage of revenue, included relative increases in direct compensation of 4.5%, support services of 2.5%, facilities of 1.6%, information technology costs of 1.2%, and instructor fees of 0.4%. As a percentage of revenue, bad debt expense was 6.1% for the three months ended March 31, 2013, compared to 5.6% for three months ended March 31, 2012. The increase in bad debt expense as a percentage of revenue is due to the timeliness issues related to the financial aid packaging and we are allocating more resources to address this issue.

**Admissions advisory and marketing expenses.** Our admissions advisory and marketing expenses for the three months ended March 31, 2013, were \$57.5 million, representing a decrease of \$32.5 million, or 36.1%, as compared to admissions advisory and marketing expenses of \$90.0 million for the three months ended March 31, 2012. Specific factors contributing to the overall decrease between periods were decreases in selling compensation of \$14.8 million due to fewer admissions and related personnel, decreases in advertising costs of \$6.4 million, information technology costs of \$2.5 million, and facilities costs of \$1.8 million. Our admissions advisory and marketing expenses, as a percentage of revenue, decreased to 27.0% for the three months ended March 31, 2013, from 37.3% for the three months ended March 31, 2012. The decrease of 10.3% as a

percentage of revenue was mainly due to the relative decreases in selling compensation of 4.5%, advertising costs of 1.7%, information technology costs of 0.9% and facilities costs of 0.3%. Spending in the areas of admissions advisory and marketing is expected to increase during the year as we continue our branding efforts.

**General and administrative expenses.** Our general and administrative expenses for the three months ended March 31, 2013, were \$18.7 million, representing a decrease of \$6.6 million, or 26.0%, as compared to general and administrative expenses of \$25.3 million for the three months ended March 31, 2012. The overall decrease between periods was primarily due to the \$10.8 million legal expense in the first quarter of 2012 that did not occur in the first quarter of 2013, as well as decreases in other administrative of \$1.3 million. These decreases were offset by increases in support services of \$2.4 million, administrative compensation of \$0.8 million and professional fees of \$0.6 million. Our general and administrative expenses, as a percentage of revenue, decreased to 8.8% for the three months ended March 31, 2013, from 10.5% for the three months ended March 31, 2012. The decrease of 1.7% as a percentage of revenue was primarily due to the decrease in the legal expense of 4.6%, offset by relative increases in administrative compensation of 0.9%, support services of 0.6%, and professional fees of 0.4%.

**Other income, net.** Other income, net, was \$0.8 million for the three months ended March 31, 2013, as compared to \$0.7 million for the three months ended March 31, 2012, representing an increase of \$0.1 million. The increase was primarily due to increased interest income on higher average cash balances.

**Income tax expense.** We recognized income tax expense for the three months ended March 31, 2013 and 2012, of \$15.8 million and \$17.2 million, respectively, at effective tax rates of 39.1% and 37.7%, respectively. The increase in our effective tax rate between periods was primarily due to lower pre-tax income and certain non-recurring state tax items.

**Net income.** Net income was \$24.7 million for the three months ended March 31, 2013, compared to net income of \$28.4 million for the three months ended March 31, 2012, a decrease of \$3.7 million, as a result of the factors discussed above.

## **Liquidity and Capital Resources**

We financed our operating activities and capital expenditures during the three months ended March 31, 2013 and 2012, primarily through cash provided by operating activities. Our cash and cash equivalents were \$275.5 million at March 31, 2013, and \$209.0 million at December 31, 2012. At March 31, 2013, and December 31, 2012, we had investments of \$208.3 million and \$258.7 million, respectively.

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

We noted only a slight decrease in the fair value of our short and long-term investments at March 31, 2013, as compared to December 31, 2012. We believe that the fluctuations we have recently experienced are temporary in nature and we maintain that while some of our securities are classified as available-for-sale, we have the ability and intent to hold them until maturity, if necessary, to recover the value.

### **Available borrowing facilities**

On April 13, 2012, we entered into a \$50 million revolving line of credit, or the Facility, pursuant to an Amended and Restated Revolving Credit Agreement, or the Revolving Credit Agreement, with the lenders signatory thereto and Comerica, as administrative agent for the lenders. The Revolving Credit Agreement amended, restated and superseded any prior loan documents. At our option, we may increase the size of the Facility up to \$100 million (in certain minimum increments), subject to the terms and conditions of the Revolving Credit Agreement. Additionally, we may request swing-line advances under the Facility up to \$3 million in the aggregate.

Under the Revolving Credit Agreement and the documents executed in connection therewith, collectively referred to as the Facility Loan Documents, the lenders have agreed to make loans to us and issue letters of credit on our behalf, subject to the terms and conditions of the Facility Loan Documents. The Facility has a term of three years and matures on April 13, 2015.

Interest and fees accruing under the Facility are payable quarterly in arrears and principal is payable at maturity. We may terminate the Facility upon five days notice, without premium or penalty, other than customary breakage fees.

The Facility Loan Documents contain 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. As security for the performance of our obligations under the Facility Loan Documents, we granted the lenders a first priority security interest in substantially all of our assets, including our real property.

For more information about the Facility Loan Documents, see Note 7, "Credit Facilities," to our condensed consolidated financial statements which are included elsewhere in this report.

As of March 31, 2013, we had no borrowings outstanding under the Facility. As of March 31, 2013, we used the availability under the Facility to issue letters of credit aggregating \$5.8 million.

### ***Stock repurchase program***

On April 30, 2012, our board of directors authorized the repurchase of up to \$75.0 million of our outstanding shares of common stock over the following 12 months. The repurchase program was authorized by our board of directors with the intention of creating additional value for stockholders. Under the repurchase program, we are authorized to purchase shares from time to time in the open market, through block trades or otherwise. No shares were repurchased under this program.

### ***Title IV funding***

Our institutions derive the substantial majority of their respective revenues from various federal student financial assistance programs authorized under Title IV of the Higher Education Act. Our institutions are subject to significant regulatory scrutiny on the basis of numerous standards that the institutions must satisfy in order to participate in Title IV programs. For more information regarding Title IV programs and the regulation thereof, see "Regulation" in Part I, Item 1 of our Annual Report on Form 10-K/A for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission ("SEC") on August 1, 2014. The balance of revenues derived by our institutions is from military and government reimbursement, payments made in cash by individuals, reimbursement from corporate affiliates, private loans and internal loan programs.

If we were 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 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 of our students beginning their programs, affect our revenues and operating cash flow.

### ***Operating activities***

Net cash provided by operating activities was \$21.5 million and \$35.3 million for the three months ended March 31, 2013 and 2012, respectively. The overall decrease of \$13.8 million between the two periods was primarily related to the decrease in the growth of deferred revenue and student deposits of \$37.5 million between periods, as well as the decrease of \$3.8 million in net income between periods. These decreases to cash provided by operating activities were offset by the decrease in the growth of accounts receivable of \$26.9 million between periods. We expect to continue to generate cash from our operating activities for the foreseeable future.

### ***Investing activities***

Investing activities consisted primarily of maturities of investments. Net cash provided by investing activities was \$44.9 million for the three months ended March 31, 2013 and net cash used in operating activities was \$16.5 million for the three months ended March 31, 2012. During the three months ended March 31, 2013, we had maturities of \$49.4 million. This compares to purchases of investments of \$36.6 million and sales and maturities of \$28.9 million in the same period in 2012. Capital expenditures for the three months ended March 31, 2013, were \$3.0 million, compared with \$7.2 million for the three months ended March 31, 2012. We will continue to invest in computer equipment and office furniture, as well as continuing to invest in infrastructure to support the expansion of our ground campuses. We expect our capital expenditures to be approximately \$26.0 million in 2013.

## ***Financing activities***

Net cash provided by financing activities was \$0.1 million and \$4.4 million for the three months ended March 31, 2013 , and 2012 , respectively. During each of the three months ended March 31, 2013 , and March 31, 2012 , net cash provided by financing activities reflects the cash provided by option exercises and the related tax benefit of the option exercises.

We may utilize commercial financing and lines of credit for the purpose of expansion of our online business infrastructure and to expand and improve our ground campuses in Clinton, Iowa and Colorado Springs, Colorado. Based on our current level of operations and anticipated growth in enrollments, we believe that our cash flow from operations, existing cash and cash equivalents and other sources of liquidity will provide adequate funds for ongoing operations, planned capital expenditures and working capital requirements for at least the next 12 months.

## **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 March 31, 2013 , our total available surety bond facility was \$12.0 million and the surety had issued bonds totaling \$8.7 million on our behalf under such facility.

## **Recent Accounting Pronouncements Not Yet Adopted**

None.

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

### ***Market and credit risk***

Pursuant to our cash investment policy, we attempt to mitigate the exposure of our cash and investments to market and credit risk by (i) diversifying concentration risk 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, under the guidelines of the 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 deemed to be low risk remain low or decline further in this time of economic uncertainty. In addition, 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 March 31, 2013 , we had no borrowings under the Facility.

Our future investment income may vary from expectations due to changes in interest rates. At March 31, 2013 , a 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 from cash, cash equivalents or investments.

## Item 4. Controls and Procedures.

### *Evaluation of disclosure controls and procedures*

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including the chief executive officer and the chief financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. Our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures, were not effective as of December 31, 2012 or March 31, 2013, because of the material weaknesses in our internal control over financial reporting described below.

### *Material weaknesses in internal control over financial reporting*

In connection with the preparation of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q/A, we concluded that there were matters that constituted material weaknesses in our internal control over financial reporting. 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 the company's annual or interim financial statements will not be prevented or detected on a timely basis.

***Fiscal 2012 material weakness*** . We disclosed in Item 9A, *Controls and Procedures* of our annual report on Form 10-K/A, for the year ended December 31, 2012, that there were matters that constituted a material weakness in our internal control over financial reporting (the "2012 material weakness"), as we did not maintain effective internal controls over the accounting for accounts receivable. Specifically, we determined 1) that the process for estimating the allowance for doubtful accounts in 2012 was not designed to appropriately incorporate all relevant qualitative factors and 2) that accounts receivable aging was not correct. These control deficiencies resulted in the revision of the Company's consolidated financial statements for the year ended December 31, 2012 and each of the interim periods during fiscal year 2012 related to the accounting for the valuation of the Company's accounts receivable.

***Fiscal 2013 material weaknesses*** . We disclosed in Item 9A, *Controls and Procedures* of our annual report on Form 10-K/A, for the year ended December 31, 2013, that there were matters that constituted material weaknesses in our internal control over financial reporting (the "2013 material weaknesses"). Our management has concluded that there are two material weaknesses in internal control over financial reporting in 2013, as we did not maintain effective controls over the selection and application of accounting principles generally accepted in the United States ("GAAP") related to revenue recognition and restricted cash. Specifically, the members of our management team with the requisite level of accounting knowledge, experience and training commensurate with our financial reporting requirements did not analyze certain accounting issues at the level of detail required to ensure the proper application of GAAP in certain circumstances. One control deficiency related to our failure to maintain effective internal controls over the accounting for revenue recognition. Specifically, the process for analyzing the collectibility criterion for revenue recognition was not designed to reassess collectibility, on a student-by-student basis, throughout the period revenue was recognized by the Company's institutions. This control deficiency resulted in the misstatement of our revenue, bad debt expense, and accounts receivables and related financial disclosures, and resulted in the restatement of the Company's consolidated financial statements for the year 2013 and each of the quarters of 2013 and revision of the Company's consolidated financial statements for the years 2012 and 2011 and each of the quarters of 2012 and 2011. The other control deficiency related to our failure to maintain effective internal controls over the presentation of certain funds as restricted cash. This control deficiency resulted in the misstatement of our cash and cash equivalents and restricted cash accounts, cash flow provided by operating activities on the consolidated statement of cash flows, and the related financial disclosures, resulted in the revision of the Company's consolidated financial statements for the years 2013, 2012 and 2011 and each of the quarters of 2013, 2012 and 2011. Additionally, these control deficiencies could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that these control deficiencies constitute individual material weaknesses.

## **Management's Remediation Plan**

We are committed to remediating the control deficiencies that constitute the 2013 material weaknesses by implementing changes to our internal control over financial reporting. Our chief financial officer 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. We plan to achieve this primarily through additional training efforts as well as ensuring appropriate review of the related significant accounting policies by the members of management with the requisite level of knowledge, experience and training to appropriately apply GAAP. We plan to undertake additional review processes to ensure the related significant accounting policies are implemented and applied properly on a consistent basis throughout the Company. 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 were no changes in internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time, we are a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. Below is a list of certain material legal proceedings to which we or our subsidiaries are a party. For information regarding other material pending legal proceedings involving us and our subsidiaries, see “Legal Proceedings” in Part I, Item 3 of our Annual Report on Form 10-K/A for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission (“SEC”) on August 1, 2014. Except as specified below, there have been no material developments with respect to any of such proceedings since the filing of such report.

#### ***California Attorney General Investigation of For-Profit Educational Institutions***

In January 2013, we received from the Attorney General of the State of California an Investigative Subpoena relating to the Attorney General's investigation of for-profit educational institutions. Pursuant to the Investigative Subpoena, the Attorney General has requested documents and detailed information for the time period March 1, 2009 to present. We are cooperating with the investigation and cannot predict the eventual scope, duration or outcome of the investigation at this time.

#### ***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 us, Andrew Clark, Daniel Devine and Jane McAuliffe as defendants for allegedly making false and materially misleading statements regarding our 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 us, Andrew Clark and Daniel Devine. The Sacharczyk complaint asserts a putative class period stemming from May 3, 2011 to July 12, 2012. Finally, 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 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. We intend to vigorously defend against the consolidated action and filed a motion to dismiss on February 19, 2013, which is currently pending.

#### ***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 our behalf against certain of our current and former officers and directors. The complaint is entitled *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 complaint seeks unspecified monetary relief and disgorgement on our behalf, 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 our behalf against certain of our current and former officers and directors. The complaint is entitled *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 Clark action and the case is now entitled *In re Bridgepoint, Inc. Shareholder Derivative Action*. A consolidated complaint was filed on December 18, 2012. 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, however the Court scheduled a further status conference for September 6, 2013.

### ***Qui Tam Complaints***

In December 2012, we 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 case is entitled *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, we caused our institutions, Ashford University and University of the Rockies, to violate the Federal False Claims Act by falsely certifying to the U.S. Department of Education that the institutions were in compliance with various regulations governing the Title IV programs, including those that require compliance with federal rules regarding the payment of incentive compensation to enrollment personnel, student disclosures, and misrepresentation in connection with the institutions' participation in the Title IV programs. The complaint seeks significant damages, penalties and other relief. On April 30, 2013, the relators petitioned the Court for voluntary dismissal of the complaint without prejudice. The dismissal is currently pending court approval.

In January 2013, we 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 case is entitled *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, we and Ashford University have violated the Federal False Claims Act by falsely certifying to the U.S. Department of Education that Ashford University was in compliance with federal rules regarding the payment of incentive compensation to enrollment personnel in connection with the institution's participation in Title IV programs. Pursuant to a stipulation between the parties, the relators filed an amended complaint on May 10, 2013 and our response to the amended complaint is due on June 24, 2013. The amended complaint is substantially similar to the original complaint and seeks significant damages, penalties and other relief. We intend to vigorously defend against the allegations set forth in the amended complaint.

### ***Employee Class Actions***

On October 24, 2012, a class action complaint was filed in California Superior Court by former employee Marla Montano naming us and Ashford University as defendants. The case is entitled *Marla Montano v. Bridgepoint Education and Ashford University*. The complaint asserts a putative class consisting of former employees who were terminated in January 2012 and July 2012 as a result of a mass layoff, relocation or termination and alleges that the defendants failed to comply with the notice and payment provisions of the California WARN Act. A substantially similar complaint, entitled *Dilts v. Bridgepoint Education and Ashford University*, was also filed in the same court on the same day by Austin Dilts making similar allegations and asserting the same putative class. The complaints seek 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.

We and Ashford University intend to vigorously defend against these actions. On January 25, 2013, we filed motions to compel binding arbitration with the Court, which are currently pending.

## Item 1A. Risk Factors.

*Investing in our common stock involves risk. In addition to the risk factors set forth below, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 12, 2013, and amended on May 17, 2013. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.*

### **Risks Related to Material Weaknesses In Internal Control Over Financial Reporting**

*We have identified material weaknesses in our internal control over financial reporting which have resulted in material misstatements in our previously issued financial statements. 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 an inability to maintain compliance with applicable stock exchange listing requirements.*

We have concluded that there are material weaknesses in our internal control over financial reporting, as we did not maintain effective controls over the selection and application of accounting principles generally accepted in the United States ("GAAP") related to revenue recognition and restricted cash. Specifically, the members of our management team with the requisite level of accounting knowledge, experience and training commensurate with our financial reporting requirements did not analyze certain accounting issues at the level of detail required to ensure the proper application of GAAP in certain circumstances. One material weakness related to our failure to maintain effective internal controls over the accounting for revenue recognition. Specifically, the process for analyzing the collectibility criterion for revenue recognition was not designed to reassess collectibility, on a student-by-student basis, throughout the period revenue was recognized by the Company's institutions. The other material weakness related to our failure to maintain effective internal controls over the presentation of certain funds as restricted cash. These material weaknesses have resulted in the restatement of our financial statements for the year ended December 31, 2013, as well as for the interim periods included in that fiscal year (the "Restated Periods"), and the revision of our financial statements for the years ended December 31, 2012 and 2011, as well as for each of the interim periods during 2012 (the "Revised Periods"). Our management concluded that the Company's previously issued financial statements for the Restated Periods should no longer be relied upon. In light of the errors, management re-evaluated its assessment of our disclosure controls and procedures and internal control over financial reporting as of December 31, 2013 and concluded each was ineffective as of December 31, 2013. Our Annual Report on Form 10-K for the year ended December 31, 2013 and our Quarterly Reports on Form 10-Q have been amended by an Amendments No. 1 on Forms 10-K/A and 10-Q/A, respectively, to reflect the restatement of our financial statements for the Restated Periods and the change in management's conclusion regarding the effectiveness of our disclosure controls and procedures and internal control over financial reporting as of December 31, 2013.

Further, during 2012 we did not maintain effective internal controls over the accounting for accounts receivable, which also constituted a material weakness. With respect to this material weakness, we determined 1) that the process for estimating the allowance for doubtful accounts in 2012 was not designed to appropriately incorporate all relevant qualitative factors and 2) that accounts receivable aging was not correct.

Our management has determined that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2012, March 31, 2013, June 30, 2013, September 30, 2013, December 31, 2013 or March 31, 2014.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected and corrected on a timely basis. See also "Item 4. Controls and Procedures." The existence of this issue could adversely affect us, our reputation or investors' perceptions of us. We plan to take additional measures to remediate the underlying causes of the material weaknesses. We plan to achieve this primarily through: (i) ensuring appropriate review of accounting policies and procedures related to reassessing the collectibility of funds owed by students during the period of revenue recognition and the definition of restricted cash by the members of management with the requisite level of knowledge, experience and training to appropriately apply GAAP, and (ii) making improvements in the accounting processes, including additional oversight and review, and performing additional analytical procedures. 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 material weaknesses, we may determine to implement measures to address the control deficiencies. The actions that we are taking are subject to ongoing senior management review, as well as audit committee oversight.

Although we plan to complete this remediation process as quickly as possible, we cannot at this time estimate how long it will take, and our measures may not prove to be successful in remediating these material weaknesses. 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. In addition, if we are unable to successfully remediate the material weaknesses in our internal controls or if we are unable to produce accurate and timely financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements.

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

***Our institutions' failure to maintain accreditation would result in a loss of eligibility to participate in Title IV programs. Ashford University has been placed on Notice by its principal accreditor and its accreditation is under review.***

An institution must be accredited by an accrediting agency recognized by the U.S. Department of Education, or the Department, to participate in Title IV programs. Each of our institutions is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools, or HLC, which 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 HLC's standards, it could lose its accreditation.

#### *Ashford University*

On July 12, 2012, Ashford University received a letter from HLC stating that (1) Ashford University had been placed on special monitoring because of the decision by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges, or WASC, to deny the institution initial accreditation and also because of certain other non-financial data provided by the institution that indicated a need for further commission review, and (2) the institution would be required to provide a report to HLC regarding its fulfillment of the commission's Criteria for Accreditation and Core Components, including the Minimum Expectations. Submission of the report was followed by an advisory visit.

On February 27, 2013, Ashford University received a letter from HLC stating that on February 21, 2013 the university was placed on Notice due to (1) its current non-compliance with HLC's jurisdictional policy, a policy that became effective on July 1, 2012 and requires a "substantial presence," as defined by commission policy, in HLC's 19-state north central region, and (2) concerns regarding its future ability to remain in compliance with certain accreditation criteria, particularly the revised criteria that became effective on January 1, 2013. Specifically, HLC noted that its action in placing the university on Notice was related in part to the alignment of the university's mission with its instructional model, governance of the university independent from its corporate parent, sufficiency of faculty, assessment of student learning and use of data to improve graduation and retention rates, and shared governance structures involving faculty and administration.

Ashford University remains accredited. Notice is a commission sanction indicating that an institution is pursuing a course of action that, if continued, could lead it to be out of compliance with one or more criteria for accreditation. HLC determined that Ashford University is not currently in compliance with HLC's substantial presence policy and set forth procedures and a timeline for evaluating the university's implementation of its previously reviewed plan with respect to substantial presence in the event Ashford University does not gain accreditation from WASC. See the risk factor below entitled, "*If Ashford University fails to demonstrate that it is within HLC's jurisdiction, the institution could lose accreditation.*"

On or before July 19, 2013, Ashford University must provide a monitoring report to HLC stating whether the university has gained accreditation from WASC. If the university has not by such time been accredited by WASC, the university will also be required to host a focused evaluation no later than October 1, 2013, to evaluate, among other things, whether the university has completed specific steps, following its implementation plan, to establish presence in HLC's region as required pursuant to HLC's jurisdictional requirements. Ashford University will be required to host a focused evaluation on or before December 15, 2013 to examine retention, graduation and the university's progress in resolving the identified issues. This evaluation will take place whether or not the university gains WASC accreditation if HLC remains the gatekeeper for Ashford University's Title IV

funds or if the university has not voluntarily resigned its HLC accreditation. In its letter, HLC states that its Board of Trustees will consider information provided in the monitoring report and in the October 2013 focused evaluation, if it is required, and the December 2013 focused evaluation at its meeting in February 2014 and take action as appropriate. HLC may remove the university from Notice, or in the event the identified concerns, including satisfaction of HLC's jurisdictional requirements, have not been satisfactorily addressed, place the university on probation or take other action, which could include a show-cause order or withdrawal of accreditation.

#### University of the Rockies

On July 24, 2012, HLC notified University of the Rockies that it had been identified for further inquiry based on certain non-financial data the institution provided in its 2012 Institutional Annual Report. University of the Rockies was identified for further inquiry because it met two of the indicator conditions: (1) the number of degrees awarded increased 40% or more compared to the prior year; and (2) the number of full-time faculty increased 25% or more compared to the prior year. Accordingly, HLC requested that University of the Rockies provide a report to the commission demonstrating the institution's ability to continue meeting the Core Components in light of the conditions at the institution that led to the indicators being identified. This report was provided on August 29, 2012. The HLC staff will review the report, may request additional information if necessary, and will determine whether the report requires further review by a panel; if so, the panel will review the report and recommend whether the commission should accept the report, require further monitoring through a subsequent report or focused visit, or recommend action such as placing the institution on sanction.

Loss of accreditation would denigrate the value of our institutions' educational programs and would cause them to lose their eligibility to participate in Title IV programs, which would have a material adverse effect on enrollments, revenues, financial condition, cash flows and results of operations.

#### ***If Ashford University fails to demonstrate that it is within HLC's jurisdiction, the institution could lose accreditation.***

In June 2010, the HLC Board of Trustees adopted revised bylaws which outline the basis on which an institution falls within HLC's jurisdiction. The revised bylaws provide, subject to specified grace periods and grandfathering provisions, that an institution must be incorporated within a state in HLC's 19-state north central region and also have a "substantial presence" in the region, as defined by commission policy, to be considered within the commission's jurisdiction. In November 2010, HLC adopted a policy which specifies that an institution is considered to have a "substantial presence" in the north central region only if the institution can demonstrate to the commission that its operations are substantially in the north central region. The institution must provide evidence that the majority of its educational administration and activity, business operations and executive and administrative leadership are located or operating within the north central region and that it has at least one campus or additional location, as applicable, located in the north central region.

Ashford University has its campus in, is incorporated in, and has business operations, administration and leadership in Iowa, which is located in the north central region. Ashford University also has business operations, administration and leadership located outside of the north central region.

On November 30, 2012, Ashford University provided the commission with an implementation plan that demonstrates how the institution will comply with the commission's policy on substantial presence in the event that a migration to WASC either will not occur or is significantly delayed. As discussed in the risk factor above entitled, "*Our institutions' failure to maintain accreditation would result in a loss of eligibility to participate in Title IV programs. Ashford University has been placed on Notice by its principal accreditor and its accreditation is under review*," if the university is not accredited by WASC on or before July 19, 2013, the university will be required to host a focused evaluation no later than October 1, 2013 to evaluate whether it has completed specific steps, following its implementation plan, to establish presence in the north central region.

Loss of accreditation would denigrate the value of Ashford University's educational programs and would cause the institution to lose its eligibility to participate in Title IV programs, which would have a material adverse effect on enrollments, revenues, financial condition, cash flows and results of operations. If Ashford University is required to comply with HLC's jurisdictional requirements, it will implement a plan to consolidate a significant portion of its educational administration and activity, business operations and executive and administrative leadership in the north central region, which could result in management distraction, business disruption and have a material adverse effect on our financial condition, cash flows and results of operations.

***Ashford University's application for initial accreditation to WASC was denied, which has adversely affected the institution's academic reputation and may negatively impact its ability to enroll and retain students. The institution's attempt to reapply for initial accreditation may also be unsuccessful.***

In September 2010, Ashford University initiated the process of seeking regional accreditation from WASC. If Ashford University is unable to obtain initial accreditation from WASC, the institution's academic reputation and enrollments could be negatively affected. Additionally, if Ashford University does not receive WASC accreditation and loses accreditation from HLC (see the risk factors above entitled “ *If Ashford University fails to demonstrate that it is within HLC's jurisdiction, the institution could lose accreditation* ” and “ *Our institutions' failure to maintain accreditation would result in a loss of eligibility to participate in Title IV programs. Ashford University has been placed on Notice by its principal accretor and its accreditation is under review* ”), the institution would no longer be accredited by an accrediting body recognized by the Department and would be ineligible to participate in Title IV programs until it obtained accreditation by another accrediting body recognized by the Department, at which time it would need to file an application with the Department for reinstatement. Under Department regulations, an institution may not be considered eligible to participate in the Title IV programs for 24 months after it has had its accreditation withdrawn, revoked, or otherwise terminated for cause, unless the accrediting agency that took such action rescinds the action. If Ashford University becomes ineligible to participate in Title IV programs, it would have a material adverse effect on enrollments, revenue, financial condition, cash flows and results of operations.

On July 5, 2012, Ashford University received official notice from WASC that the accrediting body acted to deny initial accreditation to the institution. WASC found that Ashford University had not yet demonstrated substantial compliance with certain of the WASC Standards for Accreditation, as would be required for initial accreditation. The denial of initial accreditation by WASC has adversely affected Ashford University's academic reputation and may negatively impact its ability to enroll and retain students. A significant decline in student enrollment at Ashford University could materially and adversely affect our revenues, financial condition, cash flows and results of operations. Furthermore, although Ashford University has reapplied for initial accreditation from WASC, such efforts may be unsuccessful. As a result, the institution's academic reputation and ability to enroll and retain students may further deteriorate.

In addition, unless Ashford University receives accreditation by WASC, in order to remain eligible for Title IV programs, the institution will be required to maintain its accreditation with HLC, including satisfying the commission's jurisdictional requirements, which would require the institution to consolidate a significant portion of its educational administration and activity, business operations and executive and administrative leadership in HLC's north central region. Such consolidation could result in management distraction, business disruption and have a material adverse impact on our financial condition, cash flows and results of operations. Currently, the institution's academic and administrative activity is concentrated in San Diego, California. For more information regarding HLC's jurisdictional rules and related risks, see the risk factor above entitled “ *If Ashford University fails to demonstrate that it is within HLC's jurisdiction, the institution could lose accreditation .*”

***As a result of recent negative publicity and changes that have been made, or may be required by Ashford University's accreditors, to the institution's operations and business model, including the possibility that our institutions will be required to relocate their California-based operations and employees to HLC's north central region, our historical financial and business results may not necessarily be representative of future results.***

The denial of initial accreditation by WASC has adversely affected Ashford University's academic reputation and may negatively impact its ability to enroll and retain students. Moreover, as Ashford University has withdrawn its request for review of the WASC decision, in order for the institution to demonstrate that it has satisfactorily addressed the conclusions of the WASC visiting team report and has come into compliance with the WASC Standards of Accreditation (as part of the institution's reapplication process), the institution has launched various new initiatives. HLC may also require significant changes to Ashford University's operations and business model as part of its placement of the institution on Notice. Additionally, if Ashford University is not accredited by WASC in June 2013, it will be required to initiate the move its core operations to HLC's 19-state north central region immediately after the anticipated June 2013 WASC decision in order to comply with HLC's jurisdictional requirements, which require that the institution have a substantial presence in the north central region. This could result in management distraction, business disruption and have a material adverse effect on our financial condition, cash flows and results of operations. Accordingly, although we continue to see a demand for postsecondary education and Title IV funds continue to be available to current and prospective students, 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.

***Enrollments and revenues could decrease and our compliance with the 90/10 rule could be negatively affected if government tuition assistance offered to military personnel 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 March 31, 2013, approximately 23.1% of our institutions' students were affiliated with the military, some of whom are eligible to receive tuition assistance from the government, which they may use to pursue postsecondary degrees. The Budget Control Act of 2011 and the Statutory Pay-As-You-Go Act of 2010 each provide for the possibility of automatic across-the-board reductions in federal spending (also known as "sequestration") as a budgetary enforcement tool. Sequestration began on March 1, 2013 and could remain in effect over an extended period. On March 2, 2013, the U.S. Navy announced that tuition assistance would be suspended for new enrollments for U.S. Marines. On March 8, 2013, the U.S. Army announced a suspension of tuition assistance for new enrollments by U.S. Army service members. On March 11, 2012, the U.S. Air Force suspended tuition assistance for new enrollments as well. On March 26, 2013, the Consolidated and Further Continuing Appropriations Act, 2013, requiring the military departments to carry out tuition assistance programs for members of the armed services at appropriated levels defined in the Act, was enacted. As a result, the availability of tuition assistance was resumed for qualified new enrollments within the U.S. Marines effective April 8, 2013, within the U.S. Army on April 9, 2013, and the U.S. Air Force on April 10, 2013. If tuition assistance suspensions are restored, expanded or maintained over a protracted period, or if governmental tuition assistance programs to active duty members of the military are otherwise reduced or eliminated, or if our relationship with any military base deteriorates, enrollments could suffer, which could have a material adverse effect on our financial condition, cash flows and results of operations. Reductions in tuition assistance could also negatively affect our compliance with the 90/10 rule. The 90/10 rule provides that if an institution derives more than 90% of its revenues from Title IV program funds for two consecutive fiscal years, the institution loses eligibility to participate in Title IV programs. Additionally, we provide scholarships to students who are affiliated with the military. If we reduce or eliminate our scholarships, enrollments by military personnel may suffer. In addition, if we increase our scholarships, our per student revenue from military affiliated personnel will decline.

### **Risk Related to Our Common Stock**

***The price of our common stock has fluctuated significantly and you could lose all or part of your investment.***

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price of our common stock has fluctuated significantly in the past, and there is no assurance it will not continue to fluctuate significantly for a variety of reasons, including, without limitation:

- a failure to remediate the control deficiencies that constitute the material weaknesses in our internal controls discussed in "Item 4. 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.

*If securities or industry analysts change their recommendations regarding our stock adversely 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 stock, whether as a result of any material weakness in our internal controls or other factors, or if our operating results do not meet their expectations, our stock price could decline.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Not Applicable.**

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

<b>Exhibit</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 10-Q filed on May 21, 2009).
3.2	Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 to the Form S-1 filed on March 20, 2009).
4.1	Specimen of Stock Certificate (incorporated by reference to Exhibit 4.1 to the Form S-1 filed on March 30, 2009).
4.2	Second Amended and Restated Registration Rights Agreement (incorporated by reference to Exhibit 4.4 to the Form S-1 filed on September 4, 2009).
10.1 +	2009 Stock Incentive Plan - Form of Restricted Stock Unit Award Agreement (Non-Employee Director - Annual Grant) (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on May 15, 2013)
10.2 +	2009 Stock Incentive Plan - Form of Restricted Stock Unit Award Agreement (General - Annual Grant) (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed on May 15, 2013)
31.1	Certification of Andrew S. Clark, President and Chief Executive 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.
31.2	Certification of Daniel J. Devine, 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.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Andrew S. Clark, President and Chief Executive Officer, and Daniel J. Devine, Chief Financial Officer.
101 *	The following financial information from our Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2013, filed with the SEC on August 1, 2014, formatted in Extensible Business Reporting Language (“XBRL”): (i) the Condensed Consolidated Balance Sheets as of March 31, 2013, and December 31, 2012; (ii) the Condensed Consolidated Statements of Income for the three months ended March 31, 2013 and 2012; (iii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012; (iv) the Condensed Consolidated Statement of Stockholder's Equity for the three months ended March 31, 2013; (v) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012; and (vi) Notes to Condensed Consolidated Financial Statements.

\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

+ Indicates management contract or compensatory plan or arrangement .

## SIGNATURES

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

BRIDGEPOINT EDUCATION, INC.

August 1, 2014

/s/ DANIEL J. DEVINE

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Daniel J. Devine  
*Chief Financial Officer*  
*(Principal financial officer and duly authorized to sign on behalf of the registrant)*

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Andrew S. Clark, certify that:

1. I have reviewed this Amendment No. 1 to the Quarterly Report on Form 10-Q of Bridgepoint Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2014

/s/ ANDREW S. CLARK

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Andrew S. Clark  
*President and Chief Executive Officer*

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel J. Devine, certify that:

1. I have reviewed this Amendment No. 1 to the Quarterly Report on Form 10-Q of Bridgepoint Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2014

/s/ DANIEL J. DEVINE

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Daniel J. Devine  
*Chief Financial Officer*

