Bridgepoint Education Inc
Form 10-Q/A
August 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)
(Mark One)

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

For the quarterly period ended June 30, 2013
or

o	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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark 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 o	Accelerated filer x	Non-accelerated filer o (Do not check if a	Smaller reporting company o

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 o No x

The total number of shares of common stock outstanding as of August 2, 2013, was 54,188,088.

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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 June 30, 2013 (“Original Filing”) to: (i) restate management's conclusions regarding disclosure controls and procedures as of June 30, 2013; (ii) add discussion of the risk factors associated with the material weaknesses in internal control over financial reporting as of June 30, 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 June 30, 2013, and its condensed consolidated statements of income, condensed consolidated statements of comprehensive income, condensed consolidated statements of stockholders' equity and condensed consolidated statements of cash flow for the three and six months ended June 30, 2013. The Registrant is also revising its condensed consolidated balance sheet as of December 31, 2012, and its condensed consolidated statements of income, condensed consolidated statements of comprehensive income, condensed consolidated statements of stockholders' equity and condensed consolidated statements of cash flow for the three and six months ended June 30, 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 June 30, 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 June 30, 2013	As of December 31, 2012
ASSETS	(As restated)	
Current assets:		
Cash and cash equivalents	$322,578	$208,971
Restricted cash	40,543	46,994
Investments	86,810	136,967
Accounts receivable, net	43,393	54,487
Student loans receivable, net	1,607	556
Deferred income taxes	15,573	15,490
Prepaid expenses and other current assets	23,891	20,053
Total current assets	534,395	483,518
Property and equipment, net	94,719	95,966
Investments	86,283	121,738
Student loans receivable, net	12,722	14,416
Goodwill and intangibles, net	11,686	10,739
Deferred income taxes	13,746	13,706
Other long-term assets	1,529	2,330
Total assets	$755,080	$742,413
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$7,361	$4,588
Accrued liabilities	48,336	44,640
Deferred revenue and student deposits	134,634	175,057
Total current liabilities	190,331	224,285
Rent liability	26,183	25,173
Other long-term liabilities	10,724	9,759
Total liabilities	227,238	259,217
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 June 30, 2013, and December 31, 2012	—	—
Common stock, $0.01 par value:		
300,000 shares authorized; 61,485 issued and 54,178 outstanding at June 30, 2013; 61,406 issued and 54,099 outstanding at December 31, 2012	615	614
Additional paid-in capital	159,776	151,709
Retained earnings	503,005	466,224
Accumulated other comprehensive income	19	222
Treasury stock, 7,307 shares at cost at both June 30, 2013, and December 31, 2012	(135,573)	(135,573)
Total stockholders' equity	527,842	483,196
Total liabilities and stockholders' equity	$755,080	$742,413

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013 (As restated)	2012	2013 (As restated)	2012
Revenue	$193,470	$249,534	$406,456	$490,967
Costs and expenses:				
Instructional costs and services	99,603	79,719	196,631	160,921
Admissions advisory and marketing	57,582	87,194	115,125	177,236
General and administrative	17,152	14,747	35,891	40,061
Total costs and expenses	174,337	181,660	347,647	378,218
Operating income	19,133	67,874	58,809	112,749
Other income, net	748	883	1,585	1,623
Income before income taxes	19,881	68,757	60,394	114,372
Income tax expense	7,767	26,049	23,613	43,230
Net income	$12,114	$42,708	$36,781	$71,142
Earnings per share:				
Basic	$0.22	$0.81	$0.68	$1.36
Diluted	0.22	0.76	0.66	1.27
Weighted average number of common shares outstanding used in computing earnings per share:				
Basic	54,136	52,531	54,132	52,269
Diluted	55,634	56,233	55,488	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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013 (As restated)	2012	2013 (As restated)	2012
Net income	$12,114	$42,708	$36,781	$71,142
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investments	(154)	4	(203)	638
Comprehensive income	$11,960	$42,712	$36,578	$71,780

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	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	—	—	7,443	—	—	—	7,443
Exercise of stock options	17	—	183	—	—	—	183
Excess tax benefit of option exercises, net of tax shortfall	—	—	(162)	—	—	—	(162)
Stock issued under employee stock purchase plan	62	1	603	—	—	—	604
Net income (as restated)	—	—	—	36,781	—	—	36,781
Unrealized losses on investments, net of tax	—	—	—	—	(203)	—	(203)
Balance at June 30, 2013 (as restated)	61,485	$615	$159,776	$503,005	$ 19	$(135,573)	$527,842

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

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

	Six Months Ended June 30,	
	2013 (As restated)	2012
Cash flows from operating activities		
Net income	$36,781	$71,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	24,403	24,289
Depreciation and amortization	10,338	8,384
Amortization of premium/discount	2,165	4,470
Deferred income taxes	—	(2)
Stock-based compensation	7,443	6,541
Excess tax benefit of option exercises	—	(5,625)
Loss on impairment of student loans receivable	292	—
Changes in operating assets and liabilities:		
Restricted cash	6,451	(2,809)
Accounts receivable	(13,222)	(46,772)
Prepaid expenses and other current assets	(4,110)	(6,806)
Student loans receivable	3	(6,666)
Other long-term assets	801	2,071
Accounts payable and accrued liabilities	5,400	17,847
Deferred revenue and student deposits	(39,996)	1,987
Other liabilities	1,975	5,945
Net cash provided by operating activities	38,724	73,996
Cash flows from investing activities		
Capital expenditures	(6,778)	(14,957)
Purchases of investments	(26,689)	(108,354)
Restricted cash	—	25
Capitalized curriculum development costs	(2,353)	(2,935)
Sales and maturities of investments	109,916	88,189
Net cash provided by (used in) investing activities	74,096	(38,032)
Cash flows from financing activities		
Proceeds from exercise of stock options	183	1,396
Excess tax benefit of option exercises	—	5,625
Proceeds from the issuance of stock under employee stock purchase plan	604	707
Proceeds from the exercise of warrants	—	2
Net cash provided by financing activities	787	7,730
Net increase in cash and cash equivalents	113,607	43,694
Cash and cash equivalents at beginning of period	208,971	80,207
Cash and cash equivalents at end of period	$322,578	$123,901
Supplemental disclosure of non-cash transactions:		
Purchase of equipment included in accounts payable and accrued liabilities	$1,416	$1,036

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

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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 Iowa and 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

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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	As Reported	As Reclassified	As Restated
Consolidated balance sheet data:	March 31, 2013			June 30, 2013		
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
Consolidated balance sheet data:	September 30, 2013			December 31, 2013		
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					
Consolidated statement of income data:	March 31, 2013			June 30, 2013		
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
Consolidated statement of cash flow data:						
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					
Consolidated statement of income data:	September 30, 2013			December 31, 2013		
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
Consolidated statement of cash flow data:						
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
Consolidated balance sheet data:	March 31, 2012			June 30, 2012		
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, current	$—	$ 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
Consolidated balance sheet data:	September 30, 2012			December 31, 2012		
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, current	$—	$ 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, non-current	$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					
Consolidated statement of income data:	March 31, 2012			June 30, 2012		
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					
Consolidated statement of income data:	September 30, 2012			December 31, 2012		
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					
Consolidated statement of income data:	March 31, 2012			June 30, 2012		
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
Consolidated statement of cash flow data:						
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	As Reported +	As Reclassified	As Revised
	Year to Date Period Ended					
Consolidated statement of income data:	September 30, 2012			December 31, 2012		
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
Consolidated statement of cash flow data:						
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

During the first quarter of 2013, the Company identified a $7.2 million 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 and determined to revise its previously issued financial statements to reflect the impact of this correction. Prior periods are revised 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 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	
Consolidated balance sheet data:								
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
	Three Months Ended							
	March 31, 2012		June 30, 2012		September 30, 2012		December 31, 2012	
Consolidated statement of income data:								
Instructional costs and services (1)	$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
	Year to Date Period Ended							
	March 31, 2012		June 30, 2012		September 30, 2012		December 31, 2012	
Consolidated statement of income data:								
Instructional costs and services (1)	$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
Consolidated statement of cash flow data:								
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 months of grace period (after graduation or withdrawal) before the repayment period begins. On the 0.0% student loans, the Company imputes interest using the rate that would be used in a market transaction with similar terms. Interest income on student loans is recognized using the effective interest method and is recorded within other income in the condensed consolidated statements of income. Revenue recognized related to students loans was immaterial during each of the three and six months ended June 30, 2013 and June 30, 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. Based on these factors, the Company considers loans to be impaired when they reach a delinquency status that requires specialized collection efforts. The Company records a loss reserve for the full book value of the impaired loans. For both the three and six months ended June 30, 2013, there was $0.3 million recorded for loan loss reserves. The loan loss reserve is maintained at a level deemed adequate by management based on a periodic analysis of the individual loans and is recorded within the instructional costs and services line in the condensed consolidated statements of income.

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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 prorata 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)	$199,808	$187,520	$204,967	$180,412

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.

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

Potentially dilutive common shares for the three and six months ended June 30, 2013 and June 30, 2012, consisted of incremental shares of common stock issuable upon the exercise of options 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013 (As restated)	2012	2013 (As restated)	2012
Numerator:				
Net income	$12,114	$42,708	$36,781	$71,142
Denominator:				
Weighted average number of common shares outstanding	54,136	52,531	54,132	52,269
Effect of dilutive options and restricted stock units	1,402	3,447	1,261	3,674
Effect of dilutive warrants	96	255	95	260
Diluted weighted average number of common shares outstanding	55,634	56,233	55,488	56,203
Earnings per share:				
Basic earnings per share	$0.22	$0.81	$0.68	$1.36
Diluted earnings per share	$0.22	$0.76	$0.66	$1.27

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2013	2012	2013	2012
Options	3,850	1,795	3,649	1,093
Restricted stock units	22	—	11	—

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 June 30, 2013 (As restated)	As of December 31, 2012
Accounts receivable	$79,564	$85,953
Less allowance for doubtful accounts	(36,171)	(31,466)
Accounts receivable, net	$43,393	$54,487
Long term:		
Student loans receivable (non-tuition related)	$8,671	$9,704
Student loans receivable (tuition related)	5,748	6,568
Student loans receivable	14,419	16,272
Less allowance for doubtful accounts	(1,697)	(1,856)
Student loans receivable, net	$12,722	$14,416

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 six months ended June 30, 2013	$(31,466)	$24,423	$19,718	$(36,171)
For the six months ended June 30, 2012	(24,688)	24,502	20,666	(28,524)
Allowance for long term student loans receivable (tuition related):				
For the six months ended June 30, 2013	$(1,856)	$(20)	$139	$(1,697)
For the six months ended June 30, 2012	(2,030)	(213)	1	(1,816)

(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. For both the three and six months ended June 30, 2013, there was $0.3 million loans that were impaired, and as of June 30, 2013, an immaterial amount of loans had been placed on non-accrual status.

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 June 30, 2013 (As restated)	As of December 31, 2012
Prepaid expenses	$9,322	$9,367
Prepaid licenses	4,193	5,864
Prepaid income taxes	3,601	—
Prepaid insurance	1,802	1,134
Interest receivable	1,112	2,221
Other current assets	3,861	1,467
Total prepaid expenses and other current assets	$23,891	$20,053

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

	As of June 30, 2013	As of December 31, 2012
Land	$7,091	$7,091
Buildings and building improvements	26,653	25,430
Furniture, office equipment and software	91,550	85,709
Leasehold improvements	24,376	23,756
Vehicles	147	147
Total property and equipment	149,817	142,133
Less accumulated depreciation and amortization	(55,098)	(46,167)
Total property and equipment, net	$94,719	$95,966

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

	As of June 30, 2013	As of December 31, 2012
Goodwill and indefinite-lived intangibles	$3,424	$3,424
Definite-lived intangible assets	$12,330	$9,978
Less accumulated amortization	(4,068)	(2,663)
Definite-lived intangible assets, net	8,262	7,315
Total goodwill and intangibles, net	$11,686	$10,739

For the three months ended June 30, 2013 and June 30, 2012, amortization expense was $0.8 million and $0.3 million, respectively. For the six months ended June 30, 2013 and June 30, 2012, amortization expense was $1.4 million and $0.6

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

million, respectively. The Company estimates that the remaining amortization expense for those intangibles which have been placed into service as of June 30, 2013, will be approximately $1.7 million, $3.0 million, $1.9 million and $0.2 million over the remaining fiscal years ending December 31, 2013, December 31, 2014, December 31, 2015 and December 31, 2016, respectively.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	As of June 30, 2013 (As restated)	As of December 31, 2012
Accrued salaries and wages	$16,581	$11,585
Accrued bonus	3,295	1,603
Accrued vacation	9,722	8,993
Accrued expenses	18,738	15,924
Accrued income taxes payable	—	6,535
Total accrued liabilities	$48,336	$44,640

Included in the accrued salaries and wages as of June 30, 2013, is $5.1 million of severance costs for wages and benefits. There was a reduction in force announced during the second quarter of 2013 for which the Company recognized $5.9 million of severance cost during the three months ended June 30, 2013. The reduction in force was necessary in order to better align personnel resources with the impact of previously announced institutional initiatives regarding enrollments. The total severance amount was charged as $4.8 million to instructional costs and services, $0.3 million to admissions advisory and marketing expenses, and $0.8 million to general and administrative expenses. These costs are expected to be fully paid by the end of the third quarter of 2013 from existing cash on hand. The Company does not expect any additional material severance costs during the remainder of 2013 and there were no other related contract termination costs.

Deferred Revenue and Student Deposits

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

	As of June 30, 2013	As of December 31, 2012
Deferred revenue	$35,247	$44,967
Student deposits	99,387	130,090
Total deferred revenue and student deposits	$134,634	$175,057

6. Investments

The following tables summarize the fair value information of short and long-term investments as of June 30, 2013, and December 31, 2012, respectively (in thousands):

	As of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Demand notes	$—	$583	$—	$583
Corporate notes and bonds	—	73,021	—	73,021
Total	$—	$73,604	$—	$73,604

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

	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 $99.5 million at June 30, 2013, and $109.5 million as of December 31, 2012. The balances of total combined short-term and long-term investments was $173.1 million and $258.7 million, as of June 30, 2013, and December 31, 2012, respectively.

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 June 30, 2013 and 2012, the Company recorded a net unrealized loss of $154,000, and a net unrealized gain of $4,000, respectively, in other comprehensive income which were net of tax benefit of $93,000 and $5,000, respectively. For the six months ended June 30, 2013 and 2012, the Company recorded a net unrealized loss of $203,000, and a net unrealized gain of $638,000, respectively, in other comprehensive income which were net of tax benefit of $124,000 and tax expense of $378,000, 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 specific terms and conditions. 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 Comerica 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 June 30, 2013.

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

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 June 30, 2013, and up to the date of filing, the Company had no borrowings outstanding under the Facility. As of June 30, 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 June 30, 2013, the total available surety bond facility was $12.0 million and the Company had issued surety bonds totaling $8.8 million.

8. Stock-Based Compensation

The Company recorded $3.8 million and $4.0 million of stock-based compensation expense for the three months ended June 30, 2013 and 2012, respectively, and $7.4 million and $6.5 million of stock-based compensation expense for the six months ended June 30, 2013 and 2012, respectively. The related income tax benefit was $1.4 million and $1.5 million for the three months ended June 30, 2013 and 2012, respectively, and $2.8 million and $2.4 million for the six months ended June 30, 2013 and 2012, respectively.

There were 0.1 million restricted stock units (“RSUs”) granted during the three months ended June 30, 2013 at a grant date fair value of $12.81. No RSUs vested during the three months ended June 30, 2013.

The Company did not grant any options to purchase shares of common stock during the three months ended June 30, 2013. During the three months ended June 30, 2013, options to purchase 7,794 shares of common stock were exercised.

As of June 30, 2013, there was unrecognized compensation cost of $19.8 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 June 30, 2013, warrants to purchase 0.1 million shares of common stock remain outstanding. The Company has not issued any warrants since 2005. During the six months ended June 30, 2013, there were no warrants to purchase shares of common stock exercised. All outstanding warrants are currently exercisable and expire in the fourth quarter of 2013.

10. Income Taxes

The Company's current estimated annual effective income tax rate that has been applied to normal, recurring operations for the six months ended June 30, 2013, was 38.6%. The Company's effective income tax rate was 39.1% for the six months ended June 30, 2013. The effective rate for the six months ended June 30, 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 June 30, 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, respectively, 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 June 30, 2013, and December 31, 2012, was $1.9 million and $1.7 million, respectively.

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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.

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.

WASC Grant of Initial Accreditation to Ashford University. On July 10, 2013, the WASC Senior College and University Commission ("WASC") granted Initial Accreditation to Ashford University for five years, until July 15, 2018. This WASC action permits Ashford University to designate WASC as its accreditor of record, subject to (i) the Department's prior approval, (ii) the university's voluntary withdrawal from HLC, (iii) receipt of acknowledgment by HLC, and (iv) release of HLC's relevant records to WASC. WASC found that the university has responded to its previously expressed concerns, judged that Ashford University is in substantial compliance with WASC standards and established a process for monitoring progress in implementing recommendations in several areas related to growth, infrastructure, student retention and student outcomes. As part of the monitoring process, the university will host WASC in a Special Visit in spring 2015. The university intends to transition from HLC to WASC and name WASC as its accreditor of record, subject to approval by the Department.

HLC Accreditation of Ashford University. Ashford University remains accredited by HLC and on Notice. Notice is an HLC 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. 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.

On July 18, 2013 Ashford University provided a monitoring report to HLC stating that it had been granted Initial Accreditation by WASC for five years and that the university intends to name WASC as its accreditor of record, subject to approval by the Department. However, if the Department does not recognize the change of accreditor or if the Department has not yet recognized the change of accreditor, the university will be required to host HLC in a focused evaluation on or before December 15, 2013 to examine retention, graduation and the university's progress in resolving the identified issues. Unless the university withdraws from HLC prior to such date, the HLC Board of Trustees will consider information provided in the July 2013 monitoring report and the December 2013 focused evaluation at its meeting in February 2014 and take action as appropriate. At its February 2014 meeting HLC may determine to 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. 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.

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.

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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 covers the 2010-2011 and 2011-2012 award years, but may be expanded if deemed appropriate by the Department.
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. In October 2012, the HLC Special Advisory Visit Team Report stated that the team analyzed the non-financial indicators. The report did not request further information, and the University has had no further communication with HLC regarding the non-financial indicators.
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. HLC notified the University by letter dated June 13, 2013 that HLC had reviewed the report, that HLC accepts the explanatory report on the non-financial indicators, and that no further action is needed at this time.
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.
Department of Education Negotiated Rulemaking. The Department held negotiated rulemaking public hearings in May and June 2013 and has indicated that this activity is part of a series of rulemaking efforts to achieve a long-term agenda in higher education focused on access, affordability, academic quality and completion. Recent hearings have focused on topics including, but not limited to, cash management of Title IV program funds, state authorization for programs offering distance or correspondence education, gainful employment, credit and clock hour conversions, changes made to the Clery Act by the Violence Against Women Act of 2013 (P.L. 113-4), and the definition of

“adverse credit” for PLUS borrowers. In June 2013, the Department announced its intention to establish a negotiated rulemaking committee to prepare proposed regulations that would establish standards for programs that prepare students for gainful employment in a recognized occupation. The Department's Notice sought nominees for the two sessions that will occur on September 9-11, 2013 and October 21-23, 2013. This rulemaking process is expected to produce new regulations, which, if published in final form after November 1, 2013 and on or before November 1, 2014, would typically take effect in July 2015. The Notice stated that the Department plans to establish

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committees to address the other rulemaking issues in the coming months. Compliance with additional regulations, and/or regulatory scrutiny that results in the Company being allegedly out of compliance with these regulations, could result in direct and indirect costs of compliance, fines, liabilities, sanctions or lawsuits, which could have a material adverse effect on enrollments, revenues, financial condition, cash flows and results of operations.

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. On June 24, 2013, representatives from Bridgepoint and Ashford University met with Attorney General Tom Miller and other representatives from the Iowa Attorney General's office to discuss the status of the investigation and a potential resolution involving injunctive relief and a monetary payment. Ashford University is cooperating with the investigation and cannot predict the eventual scope, duration or outcome of the investigation at this time. As a result, the Company cannot reasonably estimate a range of loss for this action and accordingly has not accrued any liability associated with this action.

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

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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 1, 2009 to present. On July 24, 2013, the CA Attorney General filed a petition to enforce certain categories of the Subpoena related to recorded calls and electronic marketing data. The Company believes the requests are overly broad and unduly burdensome, and is currently preparing its response to the petition. The Company cannot predict the eventual scope, duration or outcome of the investigation at this time. As a result, the Company cannot reasonably estimate a range of loss for this action and accordingly has not accrued any liability associated with this action.

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.

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

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.
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. On March 14, 2013, the Company filed a motion to deny class certification for students enrolled on or after May 2007 when Ashford University adopted a binding arbitration policy. The motion is currently pending with the Court.
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 U.S. Department of Justice filed a notice stipulating to the dismissal and the Court granted the dismissal on June 12, 2013.

In January 2013, the Company received notice that the U.S. Department of Justice had declined to intervene in a qui tam complaint filed in the U.S. District Court for the Southern District of California by James Carter and Roger Lengyel under the Federal False Claims Act on July 2, 2010 and unsealed on January 2, 2013. The 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. 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 and filed a motion to dismiss on June 24, 2013, which is currently pending.

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 were granted on May 20, 2013. The parties are in the process of selecting an arbitrator.

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 was authorized to purchase shares from time to time in the open market, through block trades or otherwise. No shares were repurchased under this program and the program expired on April 30, 2013.

14. Subsequent Events

On July 10, 2013, WASC granted Initial Accreditation to Ashford University for five years, until July 15, 2018. For additional information, see also Note 11, “Regulatory.”

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 grant of initial accreditation by the WASC Senior College and University Commission, or WASC, and the transition of accreditor from the Higher Learning Commission of the North Central Association of Colleges and Schools, or HLC, to WASC;
- Ashford University's plans in response to the letters from HLC regarding the institution's compliance with the commission's jurisdictional requirements and the placement of the institution on Notice;
- 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, including, but not limited to, anticipated savings from the second quarter 2013 reduction in force;
- new initiatives focused on student success and academic quality;
- expectations regarding the adequacy of our cash and cash equivalents and other sources of liquidity for ongoing operations, planned capital expenditures and working capital requirements;
- 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 Iowa and Colorado, respectively. As of June 30, 2013, our institutions offered approximately 1,540 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 and six months ended June 30, 2013 and 2012 (in thousands, except for enrollment data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Consolidated Statement of Income Data:	(unaudited)			
Revenue	$193,470	$249,534	$406,456	$490,967
Operating Income	19,133	67,874	58,809	112,749
Consolidated Other Data:				
Period end enrollment (1)				
Online	70,866	91,782	70,866	91,782
Campus	819	838	819	838
Total	71,685	92,620	71,685	92,620

(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 decreased 12.4% from 81,810 at December 31, 2012, to 71,685 at June 30, 2013. Enrollment decreased 22.6% from 92,620 students at June 30, 2012 to 71,685 at June 30, 2013.

For the three months ended June 30, 2013, we had new student enrollments of approximately 10,600, compared with new student enrollments of approximately 19,300 for the same period in 2012, a decrease of 45.1%. The following table presents new student enrollments for the five most recent quarters and compares them to the same periods in the previous year:

	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Current period	19,300	20,500	9,260	13,300	10,600
Prior year period	19,050	22,000	13,500	24,275	19,300
Percentage change	1.3 %	(6.8)%	(31.4)%	(45.2)%	(45.1)%

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 fewer 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 recently added. 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 online students and replaced it with a per course charge.

Ashford University made changes to its operations and business initiatives as part of its reapplication for initial accreditation from WASC. These initiatives included hiring new leadership, implementing smaller class sizes, expanding minimum age-levels for students, implementing the Ashford Promise, hiring additional full-time faculty, and implementing new program review models. Many of these initiatives have resulted in higher expense to the organization, primarily in the areas of instructional costs and services, as well as contributed to the recent decline in new enrollment and the resulting decline in revenue.

Effective in the fourth quarter of 2012, we made changes in the presentation of our operating expenses and have reclassified prior periods to conform to that new presentation. Management determined that these changes would better reflect industry practices and would provide more meaningful information as well as increased transparency to our operations. We believe that the reclassification better represents the operational changes and the business initiatives that have been implemented. These reclassifications had no effect on previously reported total operating expenses or retained earnings.

There was a reduction in force announced during the second quarter of 2013, for which we recognized $5.9 million in total of severance costs for wages and benefits during the three months ended June 30, 2013. The reduction in force was necessary in order to better align personnel resources with the impact of previously announced institutional initiatives regarding enrollments. The total severance amount was charged as $4.8 million to instructional costs and services, $0.3 million to admissions advisory and marketing expenses, and $0.8 million to general and administrative expenses. These costs are expected to be fully paid by the end of the third quarter of 2013 from existing cash on hand at June 30, 2013. We do not expect any additional material severance costs during the remainder of 2013 and there were no other related contract termination costs. The savings from this reduction in force is anticipated to be approximately $8.0 million through December 31, 2013.

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 June 30, 2013, we had cash, cash equivalents, restricted cash and investments totaling $536.2 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 $18.0 million.

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Recent Developments

WASC Grant of Initial Accreditation to Ashford University. On July 10, 2013, WASC granted Initial Accreditation to Ashford University for five years, until July 15, 2018. This WASC action permits Ashford University to designate WASC as its accreditor of record, subject to (i) the prior approval of U.S. Department of Education, or the Department, (ii) the university's voluntary withdrawal from HLC, (iii) receipt of acknowledgment by HLC, and (iv) release of HLC's relevant records to WASC. WASC found that the university has responded to its previously expressed concerns, judged that Ashford University is in substantial compliance with WASC standards and established a process for monitoring progress in implementing recommendations in several areas related to growth, infrastructure, student retention and student outcomes. As part of the monitoring process, the university will host WASC in a Special Visit in spring 2015.

Negotiated Rulemaking. In May and June 2013 the Department held negotiated rulemaking public hearings and indicated that this activity is part of a series of rulemaking efforts to achieve a long-term agenda in higher education focused on access, affordability, academic quality and completion. Recent and future hearings and committees have focused and are expected to focus on topics including, but not limited to, cash management of Title IV program funds, state authorization for programs offering distance or correspondence education, gainful employment, credit and clock hour conversions, changes made to the Clery Act by the Violence Against Women Act of 2013 (P.L. 113-4), and the definition of “adverse credit” for PLUS borrowers. In June 2013, the Department announced its intention to establish a negotiated rulemaking committee to prepare proposed regulations that would establish standards for programs that prepare students for gainful employment in a recognized occupation. The Department's Notice sought nominees for the two sessions that will occur on September 9-11, 2013 and October 21-23, 2013. The rulemaking process is expected to produce new regulations that, if published in final form after November 1, 2013 and on or before November 1, 2014, would typically take effect in July 2015. The Notice stated that the Department plans to establish committees to address the other rulemaking issues in the coming months. Compliance with additional regulations, and/or regulatory scrutiny that results in the Company being allegedly out of compliance with these regulations, could result in direct and indirect costs of compliance, fines, sanctions or lawsuits, which could have a material adverse effect on enrollments, revenues, financial condition, cash flows and results of operations.

HLC on Notice Status of Ashford University. Ashford University remains accredited by HLC and on Notice. 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. 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.

On July 18, 2013 Ashford University provided a monitoring report to HLC stating that it had been granted Initial Accreditation by WASC for five years and that the university intends to name WASC as its accreditor of record, subject to approval by the Department. However, if the Department does not recognize the change of accreditor or if the Department has not yet recognized the change of accreditor, the university will be required to host HLC in a focused evaluation on or before December 15, 2013 to examine retention, graduation and the university's progress in resolving the identified issues. Unless the university withdraws from HLC prior to such date, the HLC Board of Trustees will consider information provided in the July 2013 monitoring report and the December 2013 focused evaluation at its meeting in February 2014 and take action as appropriate. At its February 2014 meeting HLC may determine to 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.

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 six months ended June 30, 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:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
Revenue	100.0	%	100.0	%	100.0	%	100.0	%
Costs and expenses:								
Instructional costs and services	51.5		32.0		48.4		32.8	
Admissions advisory and marketing	29.8		34.9		28.3		36.1	
General and administrative	8.9		6.0		8.8		8.2	
Total costs and expenses	90.2		72.9		85.5		77.1	
Operating income	9.8		27.1		14.5		22.9	
Other income, net	0.4		0.5		0.3		0.3	
Income before income taxes	10.2		27.6		14.8		23.2	
Income tax expense	3.9		10.5		5.8		8.7	
Net income	6.3	%	17.1	%	9.0	%	14.5	%

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Revenue. Our revenue for the three months ended June 30, 2013, was $193.5 million, representing a decrease of $56.0 million, or 22.5%, as compared to revenue of $249.5 million for the three months ended June 30, 2012. This decrease was primarily due to the enrollment decline of 22.6%, from 92,620 students at June 30, 2012, to 71,685 students at June 30, 2013. There was also a decline in technology fees between periods due to the decline in new student enrollments between periods, as well as the change in technology fee structure for Ashford University. Effective January 1, 2013, Ashford University eliminated the one-time technology fee of $1,290 it charged online students, and replaced it with a per course charge of $50. We earned technology fees of $2.6 million, or 1.4% of revenue, for the three months ended June 30, 2013, compared to technology fees of $15.9 million, or 6.4% of revenue, for the three months ended June 30, 2012. The decline in revenue was partially offset by a decrease in institutional scholarships of $3.8 million in the aggregate between periods, as well as a 2.75% tuition increase effective April 1, 2013. The offsetting tuition increase accounted for approximately 8.1% of the change in revenue between periods.

Instructional costs and services. Our instructional costs and services for the three months ended June 30, 2013, were $99.6 million, representing an increase of $19.9 million, or 24.9%, as compared to instructional costs and services of $79.7 million for the three months ended June 30, 2012. Specific increases between periods were direct compensation in the areas of academic management, financial aid support and student services of $12.4 million (including $4.8 million of severance charges), corporate support services of $5.2 million, facilities costs of $1.9 million, information technology costs of $1.8 million, and bad debt expense of $0.5 million. These increases were offset by decreases in instructor fees of $2.0 million and financial aid processing fees of $0.6 million. Instructional costs and services increased, as a percentage of revenue, to 51.5% for the three months ended June 30, 2013, as compared to 32.0% for the three months ended June 30, 2012. The increase of 19.5%, as a percentage of revenue, included relative increases in direct compensation of 9.1% (including severance), corporate support services of 3.3%, facilities of 1.7%, information technology costs of 1.6%, bad debt expense of 1.5% and instructor fees of 0.8%. As a percentage of revenue, bad debt expense was 5.9% for the three months ended June 30, 2013, compared to 4.4% for three months ended June 30, 2012. We continue to focus on enhancing our processes and procedures around our accounts receivable.

Admissions advisory and marketing expenses. Our admissions advisory and marketing expenses for the three months ended June 30, 2013, were $57.6 million, representing a decrease of $29.6 million, or 34.0%, as compared to admissions advisory and marketing expenses of $87.2 million for the three months ended June 30, 2012. Specific factors contributing to the overall decrease between periods were decreases in related compensation of $12.3 million due to fewer admissions and related personnel, decreases in advertising costs of $6.3 million, corporate support services of $6.1 million, information

technology costs of $2.2 million, and facilities costs of $2.1 million. Our admissions advisory and marketing expenses, as a percentage of revenue, decreased to 29.8% for the three months ended June 30, 2013, from 34.9% for the three months ended June 30, 2012. The decrease of 5.1% as a percentage of revenue was mainly due to the relative decreases in corporate support services of 2.7%, selling compensation of 1.5%, advertising costs of 0.5%, and information technology costs of 0.5%. Spending in this area 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 June 30, 2013, were $17.2 million, representing an increase of $2.5 million, or 16.3%, as compared to general and administrative expenses of $14.7 million for the three months ended June 30, 2012. The overall increase between periods was primarily due to increases in professional fees of $1.4 million, administrative compensation of $1.1 million, and corporate support services of $1.0 million. These increases were primarily offset by decreases in other administrative costs of $0.7 million. Our general and administrative expenses, as a percentage of revenue, increased to 8.9% for the three months ended June 30, 2013, from 6.0% for the three months ended June 30, 2012. The increase of 2.9% as a percentage of revenue was primarily due to increases in administrative compensation of 1.7%, professional fees of 0.9%, and administrative other of 0.3%. These increases were offset by a decrease in corporate support services of 0.6%.

Other income, net. Other income, net, was $0.7 million for the three months ended June 30, 2013, as compared to $0.9 million for the three months ended June 30, 2012, representing a decrease of $0.1 million. The decrease 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 June 30, 2013 and 2012, of $7.8 million and $26.0 million, respectively, at effective tax rates of 39.1% and 37.9%, 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 $12.1 million for the three months ended June 30, 2013, compared to net income of $42.7 million for the three months ended June 30, 2012, a decrease of $30.6 million, as a result of the factors discussed above.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Revenue. Our revenue for the six months ended June 30, 2013, was $406.5 million, representing a decrease of $84.5 million, or 17.2%, as compared to revenue of $491.0 million for the six months ended June 30, 2012. This decrease was primarily due to the enrollment decline of 22.6%, from 92,620 students at June 30, 2012, to 71,685 students at June 30, 2013. There was also a decline in technology fees between periods due to the decline in new student enrollments between periods, as well as the change in technology fee structure for Ashford University. Effective January 1, 2013, Ashford University eliminated the one-time technology fee of $1,290 it charged online students, and replaced it with a per course charge of $50. We earned technology fees of $11.8 million, or 2.9% of revenue, for the six months ended June 30, 2013, compared to technology fees of $31.7 million, or 6.5% of revenue, for the six months ended June 30, 2012. The decline in revenue was partially offset by a decrease in institutional scholarships of $4.4 million in the aggregate between periods, as well as a 2.75% tuition increase effective April 1, 2013. The offsetting tuition increase accounted for approximately 13.2% of the change in revenue between periods.

Instructional costs and services. Our instructional costs and services for the six months ended June 30, 2013, were $196.6 million, representing an increase of $35.7 million, or 22.2%, as compared to instructional costs and services of $160.9 million for the six months ended June 30, 2012. Specific increases between periods were direct compensation in the areas of academic management, financial aid support and student services of $19.1 million (including $4.8 million of severance charges), corporate support services of $9.7 million, facilities costs of $4.5 million, and information technology costs of $3.7 million. These increases were partially offset by a decrease in instructor fees of $2.7 million, and financial aid processing fees of $1.5 million. Instructional costs and services, as a percentage of revenue, increased to 48.4% for the six months ended June 30, 2013, as compared to 32.8% for the six months ended June 30, 2012. The increase of 15.6% included relative increases in direct compensation of 6.7% (including severance), corporate support services of 2.9%, bad debt expense of 1.1%, facilities costs of 1.6%, information technology costs of 1.4%, and instructor fees of 0.6%. As a percentage of revenue, bad debt expense was 6.0% for the six months ended June 30, 2013, compared to 4.9% for six months ended June 30, 2012.

Admissions advisory and marketing expenses. Our admissions advisory and marketing expenses for the six months ended June 30, 2013, were $115.1 million, representing a decrease of $62.1 million, or 35.0%, as compared to admissions advisory and marketing expenses of $177.2 million for the six months ended June 30, 2012. Specific factors contributing to the overall decrease between periods were decreases in selling compensation of $27.1 million due to fewer admissions and related personnel, corporate support services of $13.2 million, advertising costs of $12.7 million, information technology costs of $4.7 million, and facilities costs of $3.9 million. Our admissions advisory and marketing expenses, as a percentage of revenue, decreased to 28.3% for the six months ended June 30, 2013, from 36.1% for the six months ended June 30, 2012. The decrease of 7.8%, as a percentage of revenue, included relative decreases in selling compensation of 3.0%, corporate support services of 2.9%, advertising costs of 1.1%, and information technology costs of 0.7%. Spending in this area is expected to increase during the year as we continue our branding efforts.

General and administrative expenses. Our general and administrative expenses for the six months ended June 30, 2013, were $35.9 million, representing a decrease of $4.2 million, or 10.4%, as compared to general and administrative expenses of $40.1 million for the six months ended June 30, 2012. The overall decrease between periods was primarily due to the $10.8 million legal settlement in six months ended June 30, 2012 that did not occur in the comparable period in 2013, as well as decreases in other administrative costs of $2.1 million. These decreases were offset by increases in corporate support services of $3.4 million, professional fees of $2.0 million, and administrative compensation of $1.8 million. Our general and administrative expenses, as a percentage of revenue, increased to 8.8% for the six months ended June 30, 2013, compared to 8.2% for the six months ended June 30, 2012. The increase of 0.6%, as a percentage of revenue, included increases in administrative compensation of 1.3%, and professional fees of 0.7%, and depreciation of 0.6%. These increases were primarily offset by a decrease in legal expense of 2.2%.

Other income, net. Other income, net, was $1.6 million for the six months ended June 30, 2013, which is comparable to $1.6 million for the six months ended June 30, 2012.

Income tax expense. We recognized income tax expense for the six months ended June 30, 2013 and 2012, of $23.6 million and $43.2 million, respectively, at effective tax rates of 39.1% and 37.8%, 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 $36.8 million for the six months ended June 30, 2013, compared to net income of $71.1 million for the six months ended June 30, 2012, a decrease of $34.3 million, as a result of the factors discussed above.

Liquidity and Capital Resources

We financed our operating activities and capital expenditures during the six months ended June 30, 2013 and 2012, primarily through cash provided by operating activities. Our cash and cash equivalents were $322.6 million at June 30, 2013, and $209.0 million at December 31, 2012. At June 30, 2013, and December 31, 2012, we had investments of $173.1 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.

There was only a slight decrease in the fair value of our short and long-term investments at June 30, 2013, as compared to December 31, 2012. We believe that any 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 our prior loan agreements. 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.

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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 June 30, 2013, we had no borrowings outstanding under the Facility. As of June 30, 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 were authorized to purchase shares from time to time in the open market, through block trades or otherwise. No shares were repurchased under this program and the program expired on April 30, 2013.

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 $38.7 million and $74.0 million for the six months ended June 30, 2013 and 2012, respectively. The overall decrease of $35.3 million between the two periods was primarily related to the decrease in the growth of deferred revenue and student deposits of $42.0 million between periods due to the declining enrollment, as well as the decrease of $34.4 million in net income between periods. These decreases to cash provided by operating activities were offset by an increase to cash provided by operating activities due to the decrease in accounts receivable of $33.6 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 $74.1 million for the six months ended June 30, 2013 and net cash used in operating activities was $38.0 million for the six months ended June 30, 2012. During the six months ended June 30, 2013, we had purchases of investments of $26.7 million and maturities of $109.9 million. This compares to purchases of investments of $108.4 million and sales and maturities of $88.2 million in the same period in 2012. Capital expenditures for the six months ended June 30, 2013, were $6.8 million, compared with $15.0 million for the six months ended June 30, 2012. We will continue to invest in information technology and computer equipment, as well as continuing to invest in infrastructure to support the expansion of our ground campuses. We expect our capital expenditures to be approximately $18.0 million for the year ended December 31, 2013.

Financing activities

Net cash provided by financing activities was $0.8 million and $7.7 million for the six months ended June 30, 2013, and 2012, respectively. During each of the six months ended June 30, 2013, and June 30, 2012, net cash provided by financing activities reflects the cash provided by option exercises and any 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 June 30, 2013, our total available surety bond facility was $12.0 million and the surety had issued bonds totaling $8.8 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 June 30, 2013, we had no borrowings under the Facility.

Our future investment income may vary from expectations due to changes in interest rates. At June 30, 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 June 30, 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.

Refer to Note 12, "Commitments and Contingencies," to our quarterly consolidated financial statements included in Part I, Item 1 of this report, for legal proceedings, which note is incorporated by reference into this Item 1 of Part II.

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 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

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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

If the Department of Education does not approve the transfer of Ashford University's accreditation from HLC to WASC, Ashford University will be required to consolidate a significant portion of its educational administration and activity, business operations and executive and administrative leadership in HLC's north central region, which could result in management distraction, business disruption and have a material adverse impact on our financial condition, cash flows and results of operations.

On July 18, 2013 Ashford University provided a monitoring report to the Higher Learning Commission of the North Central Association of Colleges and Schools, or HLC, stating that it had been granted Initial Accreditation by the WASC Senior College and University Commission, or WASC, for five years and that the university intends to name WASC as its accreditor of record, subject to approval by the U.S. Department of Education, or the Department. However, if the Department does not recognize the change of accreditor and the redesignation of our main campus in Clinton, Iowa to an additional location and the designation of our San Diego, California location as our main campus, the university will be required to complete specific steps, following its implementation plan, to establish presence in HLC's region as required pursuant to HLC's jurisdictional requirements. In addition, if the Department has not yet recognized the change in accreditor and the redesignation of our campuses, Ashford University will be required to host HLC in a focused evaluation on or before December 15, 2013 to examine retention, graduation and the university's progress in resolving the identified issues. Unless the university withdraws from HLC prior to such date, the HLC Board of Trustees will consider information provided in the July 2013 monitoring report and the December 2013 focused evaluation at its meeting in February 2014 and take action as appropriate. At its February 2014 meeting, HLC may determine to 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. For more information regarding Ashford University's accreditation and related matters, see Note 11, "Regulatory," to our quarterly consolidated financial statements, which are included in Part I, Item 1 of this report. For a discussion of risks related to the loss of accreditation, see the risk factors 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." and "If Ashford University fails to demonstrate that it is within HLC's jurisdiction, the institution could lose accreditation" in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed with the SEC on May 15, 2013.

Ashford does not expect the Department to unduly delay or fail to recognize the change of accreditor, but we cannot predict with certainty any Department decision or decision timing. 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 HLC's 19-state 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.

Additional regulations or regulatory scrutiny resulting from negotiated rulemaking by the Department of Education could result in increased compliance costs, fines, sanctions or lawsuits, which could have a material adverse effect on enrollments, revenues, financial condition, cash flows and results of operations.
The Department held negotiated rulemaking public hearings in May and June 2013 and has indicated that this activity is part of a series of rulemaking efforts to achieve a long-term agenda in higher education focused on access, affordability, academic quality and completion. Recent hearings have focused on and increased regulatory scrutiny may focus on topics including, but not limited to, cash management of Title IV program funds, state authorization for programs offering distance or correspondence education and particularly issues surrounding California's exemption laws for regionally accredited institutions, gainful employment, credit and clock hour conversions, changes made to the Clery Act by the Violence Against Women Act of 2013 (P.L. 113-4), and the definition of "adverse credit" for PLUS borrowers. In June 2013, the Department announced its intention to establish a negotiated rulemaking committee to prepare proposed regulations that would establish standards for programs that prepare students for gainful employment in a recognized occupation. The Department's Notice sought nominees for the two sessions that will occur on September 9-11, 2013 and October 21-23, 2013. This rulemaking process is expected to produce new regulations, which, if published in final form after November 1, 2013 and on or before November 1, 2014, would typically take effect in July 2015. The Notice stated that the Department plans to establish committees to address the other rulemaking issues in the coming months. Compliance with additional regulations, and/or regulatory scrutiny that results in our institutions being allegedly out of compliance with these regulations, could result in direct and indirect costs of compliance, fines, sanctions or lawsuits, which could have a material adverse effect on enrollments, revenues, financial condition, cash flows and results of operations.

As a result of changes that have been made, or may be required by Ashford University's accreditors, to the institution's operations and business model, our historical financial and business results may not necessarily be representative of future results.
In order for Ashford University to demonstrate that it had satisfactorily addressed the conclusions of the initial WASC visiting team report and come into compliance with the WASC Standards of Accreditation (as part of the institution's reapplication process), the institution has made operational changes and launched various new business initiatives, and additional changes may be required. These initiatives included hiring new leadership, implementing smaller class sizes, requiring minimum age-levels for students, implementing the Ashford Promise, hiring additional full-time faculty, and implementing new program review models. Many of these initiatives result in higher expense to the organization, primarily in the areas of instructional costs and services. Some changes and initiatives have contributed to a decline in new student enrollments. 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.
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;

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- 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.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Resignation of Director

On July 31, 2013, Andrew M. Miller resigned from the Board of Directors of Bridgepoint Education, Inc., effective immediately.

Item 6. Exhibits.

Exhibit		Description
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 (General - Annual Employee Grant) (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on August 6, 2013)
10.2	†	Amendment dated April 1, 2013 to General Services Agreement between Xerox Business Services, Inc., Inc. (formerly Affiliated Business Services, Inc.) between Affiliated Computer Services, Inc. and Ashford University, LLC. (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed on August 6, 2013)
10.3	†	Task Order dated May 1, 2013 to General Services Agreement between Xerox Business Services, Inc., Inc. (formerly Affiliated Business Services, Inc.) and University of the Rockies, LLC. (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed on August 6, 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 June 30, 2013, filed with the SEC on August 1, 2014, formatted in Extensible Business Reporting Language (“XBRL”): (i) the Condensed Consolidated Balance Sheets as of June 30, 2013, and December 31, 2012; (ii) the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2013 and 2012; (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2013 and 2012; (iv) the Condensed Consolidated Statement of Stockholder's Equity for the six months ended June 30, 2013; (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012; and (vi) Notes to Condensed Consolidated Financial Statements.

\+ Indicates management contract or compensatory plan or arrangement.

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

SIGNATURES

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