

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 001-34272

BRIDGEPOINT EDUCATION, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

59-3551629

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

8620 Spectrum Center Blvd.

San Diego, CA 92123

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

(858) 668-2586

(Registrant's telephone number, including area code)

None

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The total number of shares of common stock outstanding as of November 2, 2018, was 27,142,295.

BRIDGEPOINT EDUCATION, INC.
FORM 10-Q
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	As of September 30, 2018	As of December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 163,091	\$ 185,098
Restricted cash	25,444	20,428
Investments	2,203	2,065
Accounts receivable, net	33,566	27,077
Prepaid expenses and other current assets	20,361	22,388
Total current assets	244,665	257,056
Property and equipment, net	14,715	10,434
Goodwill and intangibles, net	13,332	14,593
Other long-term assets	3,030	5,456
Total assets	\$ 275,742	\$ 287,539
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 58,369	\$ 71,165
Deferred revenue and student deposits	53,870	68,207
Total current liabilities	112,239	139,372
Rent liability	4,790	7,001
Other long-term liabilities	9,835	12,708
Total liabilities	126,864	159,081
Commitments and contingencies (see Note 15)		
Stockholders' equity:		
Preferred stock, \$0.01 par value:		
20,000 shares authorized; zero shares issued and outstanding at both September 30, 2018, and December 31, 2017	—	—
Common stock, \$0.01 par value:		
300,000 shares authorized; 65,257 and 64,887 issued, and 27,136 and 27,158 outstanding, at September 30, 2018 and December 31, 2017, respectively	653	649
Additional paid-in capital	203,913	201,755
Retained earnings	452,500	431,818
Treasury stock, 38,121 shares at cost at September 30, 2018, and 37,729 shares at cost at December 31, 2017	(508,188)	(505,764)
Total stockholders' equity	148,878	128,458
Total liabilities and stockholders' equity	\$ 275,742	\$ 287,539

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 114,858	\$ 119,367	\$ 353,723	\$ 373,438
Costs and expenses:				
Instructional costs and services	54,470	57,756	165,318	181,943
Admissions advisory and marketing	41,902	43,669	129,971	132,133
General and administrative	13,731	11,441	39,028	37,019
Legal settlement expense	—	—	141	—
Restructuring and impairment expense	1,225	8,004	3,795	8,004
Total costs and expenses	<u>111,328</u>	<u>120,870</u>	<u>338,253</u>	<u>359,099</u>
Operating income (loss)	3,530	(1,503)	15,470	14,339
Other income, net	367	381	899	1,165
Income (loss) before income taxes	3,897	(1,122)	16,369	15,504
Income tax benefit	(408)	(1,161)	(7,464)	(718)
Net income	<u>\$ 4,305</u>	<u>\$ 39</u>	<u>\$ 23,833</u>	<u>\$ 16,222</u>
Income per share:				
Basic	\$ 0.16	\$ 0.00	\$ 0.88	\$ 0.49
Diluted	\$ 0.16	\$ 0.00	\$ 0.87	\$ 0.47
Weighted average number of common shares outstanding used in computing income per share:				
Basic	27,061	29,123	27,131	33,333
Diluted	27,589	29,671	27,532	34,193

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 4,305	\$ 39	\$ 23,833	\$ 16,222
Other comprehensive income, net of tax:				
Unrealized gains on investments	—	—	—	1
Comprehensive income	\$ 4,305	\$ 39	\$ 23,833	\$ 16,223

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
	Shares	Par Value					
Balance at December 31, 2016	64,035	\$ 641	\$ 195,854	\$ 421,281	\$ (1)	\$ (337,069)	\$ 280,706
Stock-based compensation	—	—	2,834	—	—	—	2,834
Exercise of stock options	479	4	3,795	—	—	—	3,799
Stock issued under employee stock purchase plan	15	—	141	—	—	—	141
Stock issued under stock incentive plan, net of shares held for taxes	265	3	(1,765)	—	—	—	(1,762)
Stock repurchase	—	—	—	—	—	(152,000)	(152,000)
Net income	—	—	—	16,222	—	—	16,222
Unrealized gains on investments, net of tax	—	—	—	—	1	—	1
Balance at September 30, 2017	<u>64,794</u>	<u>\$ 648</u>	<u>\$ 200,859</u>	<u>\$ 437,503</u>	<u>\$ —</u>	<u>\$ (489,069)</u>	<u>\$ 149,941</u>

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
	Shares	Par Value					
Balance at December 31, 2017	64,887	\$ 649	\$ 201,755	\$ 431,818	\$ —	\$ (505,764)	\$ 128,458
Adoption of accounting standards (Note 2)	—	—	—	(3,151)	—	—	(3,151)
Stock-based compensation	—	—	3,590	—	—	—	3,590
Exercise of stock options	122	2	453	—	—	—	455
Net share settlement of stock options	—	—	(1,097)	—	—	—	(1,097)
Stock issued under employee stock purchase plan	16	—	98	—	—	—	98
Stock issued under stock incentive plan, net of shares held for taxes	232	2	(886)	—	—	—	(884)
Stock repurchase	—	—	—	—	—	(2,424)	(2,424)
Net income	—	—	—	23,833	—	—	23,833
Balance at September 30, 2018	<u>65,257</u>	<u>\$ 653</u>	<u>\$ 203,913</u>	<u>\$ 452,500</u>	<u>\$ —</u>	<u>\$ (508,188)</u>	<u>\$ 148,878</u>

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

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 23,833	\$ 16,222
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for bad debts	18,538	24,440
Depreciation and amortization	5,200	6,821
Amortization of premium/discount	—	20
Deferred income taxes	54	25
Stock-based compensation	3,590	2,834
Net gain on marketable securities	(63)	(193)
Reassessment of lease charges	1,864	5,829
Loss on disposal or impairment of fixed assets	334	66
Changes in operating assets and liabilities:		
Accounts receivable	(27,713)	(32,286)
Prepaid expenses and other current assets	2,027	(1,081)
Other long-term assets	2,082	(3,164)
Accounts payable and accrued liabilities	(14,743)	(13,920)
Deferred revenue and student deposits	(14,801)	(12,952)
Other liabilities	(10,870)	(9,405)
Net cash used in operating activities	<u>(10,668)</u>	<u>(16,744)</u>
Cash flows from investing activities:		
Capital expenditures	(1,696)	(2,876)
Purchases of investments	(1,050)	(83)
Capitalized costs for intangible assets	(700)	(438)
Sales of investments	975	—
Maturities of investments	—	22,725
Net cash (used in) provided by investing activities	<u>(2,471)</u>	<u>19,328</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	455	3,799
Tax withholdings related to net issuance of stock options	(1,097)	—
Proceeds from the issuance of stock under employee stock purchase plan	98	141
Tax withholdings on issuance of stock awards	(884)	(1,762)
Repurchase of common stock	(2,424)	(152,000)
Net cash used in financing activities	<u>(3,852)</u>	<u>(149,822)</u>
Net decrease in cash, cash equivalents and restricted cash	(16,991)	(147,238)
Cash, cash equivalents and restricted cash at beginning of period	205,526	332,335
Cash, cash equivalents and restricted cash at end of period	<u>\$ 188,535</u>	<u>\$ 185,097</u>
Supplemental disclosure of non-cash transactions:		
Purchase of equipment included in accounts payable and accrued liabilities	\$ 462	\$ 67
Issuance of common stock for vested restricted stock units	\$ 2,569	\$ 4,520
Property and equipment under build-to-suit leases	\$ 6,076	\$ —
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 163,091	\$ 165,176
Restricted cash	25,444	19,921
Total cash, cash equivalents and restricted cash	<u>\$ 188,535</u>	<u>\$ 185,097</u>

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

BRIDGEPOINT EDUCATION, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Nature of Business

Bridgepoint Education, Inc. (together with its subsidiaries, the “Company”), incorporated in 1999, is a provider of postsecondary education services. Its wholly-owned subsidiary, Ashford University[®], is a regionally accredited academic institution, which delivers programs primarily online. Ashford University offers associate’s, bachelor’s, master’s and doctoral programs.

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 U.S. (“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 annual financial statements and should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the Securities and Exchange Commission (“SEC”) on February 21, 2018. In the opinion of management, the condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary to present a fair statement of the Company’s condensed consolidated financial position, results of operations and cash flows as of and for the periods presented.

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

Use of Estimates

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers*, or Accounting Standards Codification Topic 606 (“ASC 606”), which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition* (“ASC 605”). This literature is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting guidance also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, as well as assets recognized from costs incurred to obtain or fulfill a contract. On January 1, 2018, the Company adopted ASC 606 using the modified retrospective adoption method. In accordance with the modified retrospective adoption method, the Company elected to retroactively adjust only those contracts that did not meet the definition of a completed contract at the date of initial application. The new guidance impacted the amount and timing of the Company’s revenue recognition as follows:

- Deferral of revenue recognition for the corporate full tuition grant (“FTG”) contracts that include a material right under ASC 606. This material right is deferred until the earlier of redemption or expiration.

BRIDGEPOINT EDUCATION, INC.

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

- Prior to the adoption of ASC 606, we recognized revenue to the extent of cash receipts when collectibility was not reasonably assured. Under ASC 606, collectibility issues may indicate an implied price concession, which is accounted for as variable consideration. Consequently, revenues for these types of contracts are accelerated, net of any amounts to which we expect to be entitled.
- Under ASC 606, once a student is deemed to have a history of collection issues, future revenues earned are subject to a price concession as the student has demonstrated that they may not pay the full tuition price based on past behavior. This results in a reduction in the transaction price such that revenue is recorded based on the amount to which the Company expects to be entitled if, in the future, a student is deemed to have resolved their collection issues, a price concession will no longer be recorded.

At the date of adoption of ASC 606, the Company recorded a cumulative adjustment to its consolidated balance sheet, including an adjustment to retained earnings, to adjust for the aggregate impact of these revenue items, as calculated under the new guidance. The cumulative effect adjustment decreased the opening balance of retained earnings on January 1, 2018, as follows (in thousands):

	Closing balance at December 31, 2017	Adjustments due to ASC 606	Opening balance at January 1, 2018
Accounts receivable, net	\$ 27,077	\$ (2,686)	\$ 24,391
Deferred revenue and student deposits	\$ 68,207	\$ 465	\$ 68,672
Retained earnings	\$ 431,818	\$ (3,151)	\$ 428,667

The following tables present the impact of changes to the condensed consolidated financial statement line items as a result of applying ASC 606 to the periods presented (in thousands):

	For the three months ended September 30, 2018		
	As Reported under ASC 606	Adjustments due to ASC 606	Amounts under ASC 605
Revenue	\$ 114,858	\$ 2,921	\$ 117,779
Instructional costs and services ⁽¹⁾	\$ 54,470	\$ 1,651	\$ 56,121
Net income	\$ 4,305	\$ 1,270	\$ 5,575

	For the nine months ended September 30, 2018		
	As Reported under ASC 606	Adjustments due to ASC 606	Amounts under ASC 605
Revenue	\$ 353,723	\$ 5,236	\$ 358,959
Instructional costs and services ⁽¹⁾	\$ 165,318	\$ 4,364	\$ 169,682
Net income	\$ 23,833	\$ 872	\$ 24,705

(1) Adjustment for instructional costs and services is due to change in provision for bad debts.

	As of September 30, 2018		
	As Reported under ASC 606	Adjustments due to ASC 606	Amounts under ASC 605
Accounts receivable, net	\$ 33,566	\$ 2,686	\$ 36,252
Deferred revenue and student deposits	\$ 53,870	\$ (211)	\$ 53,659
Retained earnings	\$ 452,500	\$ (4,023)	\$ 448,477

BRIDGEPOINT EDUCATION, INC.

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

Comparative historical information on the condensed consolidated statement of income has not been restated and continues to be reported under ASC 605. For further information regarding the disaggregation of revenue recorded in the current period, refer to Note 3, "Revenue Recognition" to the condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases at the lease commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees will no longer be provided with a source of off-balance sheet financing. Public companies should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the implementation date. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. The Company expects to adopt ASU 2016-02 on January 1, 2019. While the Company continues to assess all potential impacts of the standard on existing leases and contracts, it currently believes the most significant impact relates to its accounting for office operating leases. The Company anticipates that the adoption of ASU 2016-02 will have a material impact on the Company's condensed consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Non-Employee Share-Based Payment Accounting*, which simplifies the accounting for share-based payments granted to non-employees for goods and services. Under the literature, most of the guidance on such payments to non-employees would be aligned with the requirements for share-based payments granted to employees currently under ASC 718, *Compensation - Stock Compensation*. Board members are the only non-employees that the Company grants to, who are treated as "employees" under ASC 718. The guidance is effective for public companies for fiscal years, and interim fiscal periods within those fiscal years, beginning after December 15, 2018. The Company believes that the adoption of ASU 2018-07 will not have a significant impact on the Company's condensed consolidated financial statements.

3. Revenue Recognition

Revenues are recognized when control of the promised goods or services are transferred to the institutions' students, in an amount that reflects the consideration the Company expects to be entitled in exchange for those goods or services. Determining whether a valid customer contract exists includes an assessment of whether amounts due under the contract are collectible. The Company performs this assessment at the beginning of every contract and subsequently thereafter if new information indicates there has been a significant change in facts and circumstances.

The Company's contracts with customers generally include multiple performance obligations, which it identifies by assessing whether each good and service promised in the contract is distinct. For each performance obligation, the Company allocates the transaction price, including fixed and variable consideration, on the basis of the relative standalone selling prices of each good and service in the contract, which is determined using observable prices.

The following table presents the Company's net revenue disaggregated based on the revenue source (in thousands):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Tuition revenue, net	\$ 104,246	\$ 322,406
Digital materials revenue, net	6,305	18,849
Technology fee revenue, net	3,874	10,974
Other revenue, net ⁽¹⁾	433	1,494
Total revenue, net	\$ 114,858	\$ 353,723

(1) Primarily consists of revenues generated from services such as graduation fees, transcript fees, and other miscellaneous services.

BRIDGEPOINT EDUCATION, INC.

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

The following table presents the Company's net revenue disaggregated based on the timing of revenue recognition (in thousands):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Over time, over period of instruction	\$ 96,753	\$ 302,270
Over time, full tuition grant ⁽¹⁾	11,663	31,716
Point in time ⁽²⁾	6,442	19,737
Total revenue, net	<u>\$ 114,858</u>	<u>\$ 353,723</u>

(1) Represents revenue generated from the corporate full tuition grant ("FTG") program.

(2) Represents revenue generated from digital textbooks and other miscellaneous fees.

The Company operates under one reportable segment and has no foreign operations or assets located outside of the United States. For further information refer to Item 1. "Business" within the Company's 2017 Form 10-K filed with the SEC on February 21, 2018.

The Company generates the majority of its revenue from tuition, technology fees, and digital materials related to students whose primary funding source is governmental funding. Tuition represents amounts charged for course instruction, and technology fees represent amounts charged for the students' use of the technology platform on which course instruction is delivered. Digital materials fees represent amounts charged for the digital textbooks that accompany the majority of courses taught at the Company's institution. With the exception of students attending courses within the three-week conditional admission period at Ashford University, the majority of tuition and technology fees are recognized as revenue as control of the services is transferred to the student, which occurs over the applicable period of instruction. Similarly, the majority of digital materials fees are recognized as revenue when control of the product has been transferred to the student, which occurs when the student is granted unrestricted access to the digital textbook, generally, on the first day of the course. Revenue generated from students within the conditional admission period is deferred and recognized when the student matriculates into the institution, which occurs in the fourth week of the course.

The Company's institutions' online students generally enroll in a program that encompasses a series of five to six-week courses that are taken consecutively over the length of the program. With the exception of those students under conditional admission and students enrolled under the FTG program, online students are billed on a payment period basis on the first day of a course. Students under conditional admission are billed for the payment period upon matriculation.

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 related account receivable balances are reduced to present amounts attributable to the current course.

In certain cases, the Company's institution provide scholarships to students who qualify under various programs. These scholarships are recognized as direct reductions of revenue consistent with the timing of recognition associated with the related performance obligations. Also, for some customers, we do not expect to collect 100% of the consideration to which we are contractually entitled and, as a result, those customers may receive discounts or price adjustments that, based on historical Company practice, represent implied price concessions and are accounted for as variable consideration. The majority of these price concessions relate to amounts charged to students for goods and services, which management has determined will not be covered by the student's primary funding source (generally, government aid) and, as a result, the student will become directly

BRIDGEPOINT EDUCATION, INC.

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

financially responsible for them. The reduction in the transaction price that results from this estimate of variable consideration reflects the amount the Company does not expect to be entitled to in exchange for the goods and services it will transfer to the students, as determined using historical experience and current factors, and includes performing a constraint analysis. These estimates of variable consideration are recorded as direct reductions of revenue consistent with the timing of recognition associated with the related performance obligation.

A portion of tuition revenue, technology fee revenue, and digital materials revenue is generated from contracts with students enrolled under the corporate FTG program, which is a 12-month grant that, when combined with a corporate partner's annual tuition assistance program, enables eligible students to earn their degree without incurring student loan debt. Students enrolled under this program are eligible to take up to ten undergraduate or eight graduate courses per 12-month grant period and must first utilize 100% of the funds awarded under their employer's annual tuition assistance program before they can be awarded the FTG grant. The grants awarded by Ashford University under the FTG program are considered a material right, and, as such, the Company records a contract liability for a portion of the consideration received or due under these contracts. The contract liability is recorded in deferred revenue and student deposits on the Company's condensed consolidated balance sheets, and further discussed in the deferred revenue section below. The standalone selling price of the material right is determined based on the observable standalone selling price of the courses. The transaction price in each FTG contract is allocated to this material right on a relative standalone selling price basis. The contract liability is recognized as revenue at the earlier of satisfaction of the future obligation or its expiration. Billing of products and services transferred under a FTG student contract generally occurs after the conclusion of a course. There are no material differences between the timing of the products and services transferred and the payment terms.

Deferred Revenue

Deferred revenue consists of cash payments that are received or due in advance of the Company's performance as well as deferrals associated with certain contracts that include a material right. Below are the opening and closing balances of deferred revenue from the Company's contracts with customers (in thousands):

	Deferred Revenue
Opening balance, January 1, 2018	\$ 19,600
Closing balance, September 30, 2018	17,857
Increase (Decrease)	\$ (1,743)

For further information on deferred revenue and student deposits, refer to Note 7, "Other Significant Balance Sheet Accounts - Deferred Revenue and Student Deposits" and for further information on receivables, refer to Note 6, "Accounts Receivable, Net" within the condensed consolidated financial statements.

For the majority of the Company's customers, payment for products and services is due at the beginning of each course. Under special circumstances, some customers may be offered non-interest bearing payment plan arrangements that can extend for up to a maximum of three years. These payment plan arrangements give rise to significant financing components. However, since the Company historically collects substantially all of the consideration to which it expects to be entitled under such payment plans within one year or less, the impact of these significant financing components is not material to any period presented.

The difference between the opening and closing balances of deferred revenue primarily results from the timing difference between the Company's performance and the customer's payment. For the nine months ended September 30, 2018, we recognized \$19.6 million of revenue that was included in the deferred revenue balance as of January 1, 2018. Amounts reported in the closing balance of deferred revenue are expected to be recognized as revenue within the next 12 months.

4. Restructuring and Impairment Expense

The Company has implemented various restructuring plans to better align its resources with its business strategy and the related amounts are recorded in restructuring and impairment expense on the Company's condensed consolidated statements of income. During the three and nine months ended September 30, 2018, the Company recognized a total of \$1.2 million and \$3.8

BRIDGEPOINT EDUCATION, INC.

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

million , respectively, to restructuring and impairment expense, which were comprised of the components described below. There was \$8.0 million of restructuring and impairment expense during each of the three and nine months ended September 30, 2017 .

The Company closed Ashford University’s residential campus in Clinton, Iowa during 2016. With this closure, ground-based Ashford University students were provided opportunities to continue to pursue their degrees as reflected in their respective student transfer agreements. The Company previously recorded restructuring charges relating to future cash expenditures for student transfer agreements. For each of the three and nine months ended September 30, 2018 , the Company reassessed this estimate and adjusted the related restructuring charges by an immaterial amount.

During the nine months ended September 30, 2018 , the Company executed a strategic reorganization resulting in reductions in force. The reorganization was part of the Company’s overall reassessment of resources based upon benchmarking activities with competitors in the Company’s industry. As a result, for the three and nine months ended September 30, 2018 , the Company recognized \$0.9 million and \$1.9 million , respectively, as restructuring and impairment expense relating to severance costs for wages and benefits. There was \$2.2 million of such charges during each of the three and nine months ended September 30, 2017 . The Company anticipates that these costs will be paid out by the end of the fourth quarter of 2018 from existing cash on hand.

The Company had previously vacated or consolidated properties in San Diego and Denver, and subsequently reassessed its obligations on non-cancelable leases. As a result of these reassessments, during the three and nine months ended September 30, 2018 , the Company recognized expense of \$0.6 million and \$1.9 million , respectively. There was \$5.8 million of such charges during each of the three and nine months ended September 30, 2017 .

The Company vacated certain leased space and retired \$0.3 million of assets during the nine months ended September 30, 2018 . There were no such charges in the three months ended September 30, 2018 , nor in the three and nine months ended September 30, 2017 .

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Asset impairment	\$ —	\$ —	\$ 325	\$ —
Student transfer agreement costs	(268)	—	(268)	—
Severance costs	855	2,175	1,874	2,175
Lease exit and other costs	638	5,829	1,864	5,829
Total restructuring and impairment charges	\$ 1,225	\$ 8,004	\$ 3,795	\$ 8,004

The following table summarizes the changes in the Company's restructuring and impairment liability by type during the nine months ended September 30, 2018 (in thousands):

	Asset Impairment	Student Transfer Agreement Costs	Severance Costs	Lease Exit and Other Costs	Total
Balance at December 31, 2017	\$ —	\$ 594	\$ 195	\$ 10,643	\$ 11,432
Restructuring and impairment expense	325	(268)	1,874	1,864	3,795
Payments and adjustments	(325)	(270)	(1,459)	(10,605)	(12,659)
Balance at September 30, 2018	\$ —	\$ 56	\$ 610	\$ 1,902	\$ 2,568

The restructuring liability amounts are recorded within either the (i) accounts payable and accrued liabilities account, (ii) rent liability account or (iii) other long-term liabilities account on the condensed consolidated balance sheets.

BRIDGEPOINT EDUCATION, INC.

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

5. Investments

The following tables summarize the fair value information for investments as of September 30, 2018 and December 31, 2017, respectively (in thousands):

	As of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,203	\$ —	\$ —	\$ 2,203

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,065	\$ —	\$ —	\$ 2,065

The mutual funds in the tables above, represent the deferred compensation asset balances, which are considered to be trading securities. There were no transfers between level categories for investments during the periods presented. The Company's money market securities are recorded in the cash and cash equivalents line item on the Company's condensed consolidated balance sheets, and are classified as Level 1 securities.

There were no differences between amortized cost and fair value of investments as of September 30, 2018 and December 31, 2017, respectively. There were no reclassifications out of accumulated other comprehensive income during either the nine months ended September 30, 2018 and 2017.

6. Accounts Receivable, Net

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

	As of September 30, 2018	As of December 31, 2017
Accounts receivable	\$ 49,231	\$ 44,656
Less allowance for doubtful accounts	(15,665)	(17,579)
Accounts receivable, net	\$ 33,566	\$ 27,077

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

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

	Beginning Balance	Charged to Expense	Deductions (1)	Ending Balance
Allowance for doubtful accounts receivable:				
For the nine months ended September 30, 2018	\$ (17,579)	\$ 18,538	\$ (20,452)	\$ (15,665)
For the nine months ended September 30, 2017	\$ (16,154)	\$ 24,440	\$ (22,541)	\$ (18,053)

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

BRIDGEPOINT EDUCATION, INC.

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

7. Other Significant Balance Sheet Accounts

Prepaid Expenses and Other Current Assets

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

	As of September 30, 2018	As of December 31, 2017
Prepaid expenses	\$ 6,106	\$ 6,195
Prepaid licenses	5,554	4,882
Income tax receivable	4,971	8,889
Prepaid insurance	2,625	1,215
Insurance recoverable	682	1,192
Other current assets	423	15
Total prepaid expenses and other current assets	\$ 20,361	\$ 22,388

Property and Equipment, Net

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

	As of September 30, 2018	As of December 31, 2017
Buildings	\$ 6,076	\$ —
Furniture and office equipment	43,538	43,330
Software	12,516	12,313
Leasehold improvements	5,375	5,445
Vehicles	22	22
Total property and equipment	67,527	61,110
Less accumulated depreciation and amortization	(52,812)	(50,676)
Total property and equipment, net	\$ 14,715	\$ 10,434

For the three months ended September 30, 2018 and 2017 , depreciation and amortization expense related to property and equipment was \$1.0 million and \$1.3 million , respectively. For the nine months ended September 30, 2018 and 2017 , depreciation and amortization expense was \$3.2 million and \$4.2 million , respectively.

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

Goodwill and Intangibles, Net

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

	September 30, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:			
Capitalized curriculum costs	\$ 21,954	\$ (20,127)	\$ 1,827
Purchased intangible assets	15,850	(6,912)	8,938
Total definite-lived intangible assets	<u>\$ 37,804</u>	<u>\$ (27,039)</u>	<u>\$ 10,765</u>
Goodwill and indefinite-lived intangibles			2,567
Total goodwill and intangibles, net			<u>\$ 13,332</u>

	December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:			
Capitalized curriculum costs	\$ 21,463	\$ (19,300)	\$ 2,163
Purchased intangible assets	15,850	(5,987)	9,863
Total definite-lived intangible assets	<u>\$ 37,313</u>	<u>\$ (25,287)</u>	<u>\$ 12,026</u>
Goodwill and indefinite-lived intangibles			2,567
Total goodwill and intangibles, net			<u>\$ 14,593</u>

For the three months ended September 30, 2018 and 2017, amortization expense was \$0.6 million and \$0.8 million, respectively. For the nine months ended September 30, 2018 and 2017, amortization expense was \$2.0 million and \$2.6 million, respectively.

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

Year Ended December 31,	
Remainder of 2018	\$ 566
2019	2,000
2020	1,733
2021	1,495
2022	1,264
Thereafter	3,707
Total future amortization expense	<u>\$ 10,765</u>

BRIDGEPOINT EDUCATION, INC.

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

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consists of the following (in thousands):

	As of September 30, 2018	As of December 31, 2017
Accounts payable	\$ 4,004	\$ 5,619
Accrued salaries and wages	5,186	8,573
Accrued bonus	6,707	6,924
Accrued vacation	8,089	8,237
Accrued litigation and fees	8,041	9,886
Accrued expenses	19,970	16,024
Current leases payable	4,122	12,971
Accrued insurance liability	2,250	2,931
Total accounts payable and accrued liabilities	\$ 58,369	\$ 71,165

Deferred Revenue and Student Deposits

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

	As of September 30, 2018	As of December 31, 2017
Deferred revenue	\$ 17,857	\$ 19,135
Student deposits	36,013	49,072
Total deferred revenue and student deposits	\$ 53,870	\$ 68,207

Other Long-Term Liabilities

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

	As of September 30, 2018	As of December 31, 2017
Uncertain tax positions	\$ 842	\$ 8,893
Lease financing obligation	6,076	—
Other long-term liabilities	2,917	3,815
Total other long-term liabilities	\$ 9,835	\$ 12,708

8 . Credit Facilities

The Company has issued letters of credit that are collateralized with cash in the aggregate amount of \$15.4 million , which is included in restricted cash as of September 30, 2018 .

As part of its normal business operations, the Company is required to provide surety bonds in certain states in which the Company does business. The Company has entered into a surety bond facility with an insurance company to provide such bonds when required. As of September 30, 2018 , the Company's total available surety bond facility was \$6.5 million and the surety had issued bonds totaling \$4.3 million on the Company's behalf under such facility.

BRIDGEPOINT EDUCATION, INC.

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

9. Lease Obligations

Operating Leases

The Company leases certain office facilities and office equipment under non-cancelable lease arrangements that expire at various dates through 2023. The office leases contain certain renewal options. Rent expense under non-cancelable operating lease arrangements is accounted for on a straight-line basis and totaled \$11.3 million for each of the nine months ended September 30, 2018 and 2017, respectively. Rent expense in certain periods also includes the restructuring and impairment charges recorded and therefore, may differ significantly from cash payments. For additional information, refer to Note 4, "Restructuring and Impairment Expense."

The following table summarizes the future minimum rental payments under non-cancelable operating lease arrangements in effect at September 30, 2018 (in thousands):

Year Ended December 31,		
Remainder of 2018	\$	5,104
2019		21,010
2020		11,209
2021		7,321
2022		3,825
Thereafter		20,677
Total minimum payments	\$	<u>69,146</u>

During the third quarter of 2018, the Company entered into a lease agreement consisting of approximately 131,000 square feet of office space located in Chandler, Arizona. Although the Company is not the legal owner of the leased space, the Company is involved in the construction and the build-out of the space, and as such, serves as the construction agent on behalf of the landlord. Under such arrangement, the Company has obligations to fund cost over-runs in its capacity as the construction agent, and accordingly has determined that under lease accounting standard ASC 840, *Leases*, it bears substantially all of the risks and rewards of ownership as measured under GAAP. The Company is therefore required to report the landlord's costs of construction on its balance sheet as a fixed asset during the construction period as if the Company owned such asset. In connection with this arrangement, the Company has recorded a \$6.1 million building in construction in property and equipment, net, and an equal and corresponding lease financing obligation in other long-term liabilities, on the condensed consolidated balance sheets as of September 30, 2018.

10. Income Per Share

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

Diluted income per share is calculated by dividing net income available to common stockholders for the period by the sum of (i) the weighted average number of common shares outstanding for the period, plus (ii) potentially dilutive securities outstanding during the period, if the effect is dilutive. Potentially dilutive securities for the periods presented include stock options, unvested restricted stock units ("RSUs") and unvested performance stock units ("PSUs").

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

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Numerator:				
Net income	\$ 4,305	\$ 39	\$ 23,833	\$ 16,222
Denominator:				
Weighted average number of common shares outstanding	27,061	29,123	27,131	33,333
Effect of dilutive options and stock units	528	548	401	860
Diluted weighted average number of common shares outstanding	<u>27,589</u>	<u>29,671</u>	<u>27,532</u>	<u>34,193</u>
Income per share:				
Basic	\$ 0.16	\$ 0.00	\$ 0.88	\$ 0.49
Diluted	\$ 0.16	\$ 0.00	\$ 0.87	\$ 0.47

The following table sets forth the number of stock options, RSUs and PSUs, excluded from the computation of diluted income per share for the periods indicated below because their effect was anti-dilutive (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Stock options	1,560	2,625	2,709	1,858
RSUs and PSUs	2	19	2	9

11. Stock Repurchase Program

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

During the nine months ended September 30, 2017, the Company repurchased approximately 18.1 million shares of the Company's common stock for an aggregate purchase price of approximately \$152.0 million, including fees.

On November 17, 2017, the Company's board authorized a share repurchase program of up to \$20.0 million in aggregate value of shares of its common stock over the next 12 months. The timing and extent of any repurchases will depend upon market conditions, the trading price of the Company's shares and other factors, and subject to the restrictions relating to volume, price and timing under applicable law. The Company may commence or suspend share repurchases at any time, or from time to time. Under this program, during the nine months ended September 30, 2018, the Company repurchased approximately 0.4 million shares of the Company's common stock for an aggregate purchase price of approximately \$2.4 million, including fees.

Separate from the authorized repurchase program noted above, on November 21, 2017, the Company repurchased 2.1 million shares of the Company's common stock for an aggregate purchase price of approximately \$16.7 million, including fees.

12. Stock-Based Compensation

The Company recorded \$1.3 million and \$1.1 million of stock-based compensation expense for the three months ended September 30, 2018 and 2017, respectively, and \$3.6 million and \$2.8 million of stock-based compensation expense for the nine months ended September 30, 2018 and 2017, respectively.

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

The related income tax benefit was \$0.3 million and \$0.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$0.9 million and \$1.1 million for the nine months ended September 30, 2018 and 2017, respectively.

During the nine months ended September 30, 2018, the Company granted 0.8 million RSUs at a grant date fair value of \$6.84 and 0.4 million RSUs vested. During the nine months ended September 30, 2017, the Company granted 0.5 million RSUs at a grant date fair value of \$10.48 and 0.4 million RSUs vested.

During the nine months ended September 30, 2018 and 2017, no performance-based or market-based PSUs were granted and no performance-based or market-based PSUs vested.

During the nine months ended September 30, 2018, the Company granted 35,088 stock options at a grant date fair value of \$2.97 and 0.8 million stock options were exercised. During the nine months ended September 30, 2017, the Company granted 0.3 million stock options at a grant date fair value of \$4.76 and 0.5 million stock options were exercised.

As of September 30, 2018, there was unrecognized compensation cost of \$5.9 million related to unvested stock options, RSUs and PSUs.

13. Income Taxes

The Company uses the asset-liability method to account for taxes. Under this method, deferred income tax assets and liabilities result from temporary differences between the tax basis of assets and liabilities and their reported amounts in the condensed consolidated financial statements that will result in income and deductions in future years.

The Company recognizes deferred tax assets if realization of such assets is more-likely-than-not. In order to make this determination, the Company evaluates a number of factors including the ability to generate future taxable income from reversing taxable temporary differences, forecasts of financial and taxable income or loss, and the ability to carryback certain operating losses to refund taxes paid in prior years. The cumulative loss incurred over the three-year period ended September 30, 2018 constituted significant negative objective evidence against the Company's ability to realize a benefit from its federal deferred tax assets. Such objective evidence limited the ability of the Company to consider in its evaluation certain subjective evidence such as the Company's projections for future growth. On the basis of its evaluation, the Company determined that its deferred tax assets were not more-likely-than-not to be realized and that a valuation allowance against its deferred tax assets should continue to be maintained as of September 30, 2018.

The Company determines the interim income tax provision by applying the estimated effective income tax rate expected to be applicable for the full fiscal year to income before income taxes for the period. In determining the full year estimate, the Company does not include the estimated impact of unusual and/or infrequent items, which may cause significant variations in the customary relationship between income tax expense and income before income taxes.

The Company's current effective income tax rate that has been applied to normal, recurring operations for the nine months ended September 30, 2018 was 1.4%. The Company's actual effective income tax rate was (45.6)% for the nine months ended September 30, 2018, which includes a discrete tax benefit of \$1.7 million recorded in the first quarter of 2018 associated with refund claims for qualified production activities tax deductions for the tax years 2013 and 2014, a discrete benefit of \$5.7 million recorded in the second quarter of 2018 associated with a reduction in uncertain tax position mainly associated with the California audit examination settlement for the tax years 2008 through 2012, a discrete benefit of \$0.1 million recorded in the third quarter of 2018 associated with a reduction in uncertain tax position associated with the Oregon audit examination settlement for the tax years 2012 through 2014 as well as other states.

On December 22, 2017, President Donald Trump signed into law H.R.1, formerly known as the Tax Cuts and Jobs Act (the "Tax Legislation"). The Tax Legislation significantly revised the U.S. tax code that will affect the Company's year ending December 31, 2018, including, but not limited to, lowering the U.S. federal corporate income tax rate from 35% to 21%; bonus depreciation that will allow for full expensing of qualified property; limitations on the deductibility of certain executive compensation and other deductions; and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

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

The enactment of the Tax Legislation resulted in a one-time remeasurement of the Company's U.S. federal deferred tax assets and liabilities from 35% to the lower enacted corporate tax rate of 21%. The provisional remeasurement of the Company's deferred tax balance was primarily offset by a corresponding change in the valuation allowance. The Company is still analyzing the impact the Tax Legislation will have on the remeasurement of the deferred taxes or whether new deferred taxes exist. Where the Company has not yet been able to make reasonable estimates of the impact of certain elements, it has not recorded any amounts related to those elements and has continued to account for them in accordance with ASC 740 on the basis of the tax laws in effect immediately prior to the enactment of the Tax Legislation. Examples of certain elements include accounting for the existence of deferred taxes, as well as the impact the Tax Legislation may have on state jurisdictions. New guidance from regulators, interpretation of the law, and refinement of the Company's estimates from ongoing analysis of data and tax positions may change the provisional amounts.

As of September 30, 2018, the Company had \$0.8 million of gross unrecognized tax benefits, of which \$0.7 million would impact the effective income tax rate if recognized. As of December 31, 2017, the Company had \$18.9 million of gross unrecognized tax benefits, of which \$14.8 million would impact the effective income tax rate if recognized. Although the Company cannot predict the timing of resolution with taxing authorities, if any, the Company believes it is reasonably possible that the total of the unrecognized tax benefits could change in the next twelve months due to settlement with tax authorities or expiration of the applicable statute of limitations. These unrecognized tax benefits primarily relate to apportionment of online service revenues for corporate income tax purposes. Although the Company believes the tax accruals provided are reasonable, the final determination of tax returns under review or returns that may be reviewed in the future and any related litigation could result in tax liabilities that materially differ from the Company's historical income tax provisions and accruals.

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The tax years 2001 through 2017 are open to examination by major taxing jurisdictions to which the Company is subject.

The Company is currently under Internal Revenue Service audit examinations of the Company's income and payroll tax returns for the years 2013 through 2016.

During the prior quarter ended June 30, 2018, the Company executed a Closing Agreement with the California Franchise Tax Board to settle a tax audit examination principally associated with sales factor apportionment issues. The settlement resolved the sales factor sourcing and research and development credit issues for the audit period covering the California income tax returns for fiscal years 2008 through 2012. The sales factor sourcing issues under the aforementioned audit period have no impact on the future years due to the California tax law changes that were in effect starting in 2011. The unrecognized tax benefits previously recorded for the audit were \$7.8 million. Upon executing the Closing Agreement, an income tax benefit of \$5.7 million was recognized for the prior quarter ended June 30, 2018. The Company's income tax returns for the tax years 2013 through 2015 are under examination by the FTB and the Company continues to work toward resolution, and based on all available information the Company has accrued for any uncertain tax positions that may be addressed in the audit.

In September 2018, the Company executed a Closing Agreement with the Oregon Department of Revenue to settle a tax audit examination. The unrecognized tax benefits previously recorded for the audit, less the settlement, were recognized for the quarter ended September 30, 2018.

In March 2018, the Company was notified by the Florida Department of Revenue that the Company's income tax returns are under examination for the tax years 2014 through 2016. The Company was notified in early July 2018 that no adjustments would be made to the income tax returns filed for all examination years. Accordingly, the Company executed a Taxpayer Agreement to close the tax audit examination for the aforementioned audit period in July 2018.

14. 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

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student financial aid programs under Title IV of the Higher Education Act (“Title IV programs”). Ashford University is regionally accredited by WASC Senior College and University Commission (“WSCUC”).

Department of Education Open Program Review of Ashford University

On July 7, 2016, Ashford University was notified by the Department that an off-site program review had been scheduled to assess Ashford University’s administration of the Title IV programs in which it participates. The off-site program review commenced on July 25, 2016 and covered students identified in the 2009-2012 calendar year data previously provided by Ashford University to the Department in response to a request for information received from the Multi-Regional and Foreign School Participation Division of the Department’s Office of Federal Student Aid (“FSA”) on December 10, 2015, but may be expanded if the Department deems such expansion appropriate.

On December 9, 2016, the Department informed Ashford University that it intended to continue the program review on-site at Ashford University. The on-site program review commenced on January 23, 2017 and initially covered the 2015-2016 and 2016-2017 award years, but may be expanded if the Department deems such expansion appropriate. To date, the Company has not received a draft report from the Department.

Program Participation Agreement for Ashford University

On April 23, 2018, Ashford University received an updated Program Participation Agreement from the Department. Based on the updated Program Participation Agreement, Ashford University is provisionally certified to participate in Federal Student Financial Aid Programs until March 31, 2021. Ashford University is required to submit its reapplication for continued certification by December 31, 2020.

WSCUC Accreditation of Ashford University

In July 2013, WSCUC granted Initial Accreditation to Ashford University for five years, until July 15, 2018. In December 2013, Ashford University effected its transition to WSCUC accreditation and designated its San Diego, California facilities as its main campus and its Clinton, Iowa campus as an additional location. As part of a continuing monitoring process, Ashford University hosted a visiting team from WSCUC on a special visit in April 2015. In July 2015, Ashford University received an Action Letter from WSCUC outlining the findings arising out of its visiting team’s special visit. The Action Letter stated that the WSCUC visiting team found evidence that Ashford University continues to make progress in all six areas recommended by WSCUC in 2013. As part of its institutional review process, WSCUC commenced its comprehensive review of Ashford University with an off-site review in March 2018. Ashford University was notified on June 8, 2018 that the Ashford University Accreditation Visit originally scheduled for fall 2018 had been rescheduled to April 3-5, 2019.

GI Bill Benefits

On May 20, 2016, the Company received a letter from the Iowa Department of Education (“Iowa DOE”) indicating that, as a result of the planned closure of the Clinton Campus, the Iowa State Approving Agency (“ISAA”) would no longer continue to approve Ashford University’s programs for benefits under the GI Bill after June 30, 2016, and recommending Ashford University seek approval through the State Approving Agency of jurisdiction for any location that meets the definition of a “main campus” or “branch campus.” Ashford University began the process of applying for approval through the State Approving Agency in California (“CSAAVE”), and the Company subsequently disclosed that on June 20, 2016 it received a second letter from the Iowa DOE indicating that the Iowa DOE had issued a stay of the ISAA’s withdrawal of approval of Ashford University’s programs for GI Bill benefits effective immediately until the earlier of (i) 90 days from June 20, 2016 or (ii) the date on which CSAAVE completed its review and issued a decision regarding the approval of Ashford University in California. Ashford University received communication from CSAAVE indicating that additional information and documentation would be required before Ashford University’s application could be considered for CSAAVE approval. Ashford University subsequently withdrew the CSAAVE application and continued working with the U.S. Department of Veterans Affairs (“VA”), the Iowa DOE and the ISAA to obtain continued approval of Ashford University’s programs for GI Bill benefits and to prevent any disruption of educational benefits to Ashford University’s veteran students.

On September 15, 2016, in response to a Petition for Declaratory and Injunctive Relief (“Petition”) filed by Ashford University, the Iowa District Court for Polk County entered a written order (“Order”) staying the Iowa DOE’s announced

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

intention to withdraw the approval of Ashford University as a GI Bill eligible institution until the entry of a final and appealable order and judgment in the action. On June 23, 2017, the Iowa District Court held a hearing on Ashford University's Petition and on July 17, 2017, the Court ruled in favor of the Iowa DOE and denied the petition. Ashford University filed a motion for reconsideration of this ruling, which was denied on August 17, 2017. On August 23, 2017, Ashford University filed a Petition to Vacate or Modify the Iowa District Court's July 17, 2017 ruling, based on material evidence, newly discovered, which could not with reasonable diligence have been previously discovered by Ashford University ("First Petition to Vacate"). On September 18, 2017, Ashford University appealed, *inter alia*, the July 17, 2017 ruling to the Iowa Supreme Court and posted an appeal bond, which stayed this matter pending resolution of Ashford University's appeal. As a result, Ashford University's approval was not withdrawn, and Ashford University's programs remain approved for GI Bill purposes. The Assistant Attorney General handling this matter on behalf of the Iowa DOE also advised Ashford University that the Iowa DOE would take no action pending the post-ruling motions and appeal. On October 12, 2017, Judge Eliza Ovrom, the Iowa District Court Judge who issued the July 17, 2017 ruling, filed a Disclosure Statement revealing family ties to the Iowa Attorney General's Office. Following motions by Ashford University for her recusal, Judge Ovrom recused herself from all further proceedings. On October 24, 2017, Ashford University filed with the Iowa Supreme Court a Petition to Vacate or, in the Alternative, for Limited Remand ("Second Petition to Vacate"), in which Ashford University argued that the July 17, 2017 ruling and all other material orders entered by Judge Ovrom should be vacated due to her previously undisclosed conflict of interest. On January 8, 2018, the Iowa Supreme Court remanded the Second Petition to Vacate to the District Court, where all proceedings in this matter were consolidated before Judge Michael Huppert. On April 26, 2018, Judge Huppert granted the Second Petition to Vacate and vacated all material rulings by Judge Ovrom, including the July 17, 2017 ruling, thus on June 21, 2018, the Iowa Supreme Court issued a *Procedendo* stating that the appeal was concluded. Judge Huppert's decision mooted the First Petition to Vacate and Ashford's appeal of, *inter alia*, the July 17, 2017 ruling. The case will now proceed on the merits *de novo* before Judge Huppert.

On July 6, 2017, Ashford University received approval from the Arizona State Approving Agency ("ASAA") to provide GI Bill benefits to its students. On September 13, 2017, the VA accepted the ASAA's approval, subject to Ashford University's compliance with the approval requirements, and the University subsequently received a facility code from the VA. On November 9, 2017, the VA informed Ashford University that the ASAA had not provided sufficient evidence to establish that it has jurisdictional authority over Ashford University's online programs. The VA stated that they intend to suspend payment of educational assistance and approval of new student enrollments and student re-enrollments for Ashford University's online programs in 60 days unless corrective action was taken.

On November 17, 2017, Ashford University filed a petition for review in the United States Court of Appeals for the Federal Circuit challenging the VA's actions. In response to that petition, the VA agreed to stay the actions with respect to the suspension and reenrollment it had announced on November 9, 2017 through the entry of judgment in the Federal Circuit case, on the condition that Ashford University request and submit an application for approval to CSAAVE on or before January 8, 2018. Ashford University submitted an application to CSAAVE for approval on January 5, 2018. On February 21, 2018, CSAAVE provided notice of its intention not to act on Ashford University's initial application for approval for the training of veterans and other eligible persons. The notice directs Ashford University to request approval of its application by the VA. Ashford University continues to work in good faith with the VA while its petition for review remains pending with the Federal Circuit.

15. Commitments and Contingencies

Litigation

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. When the Company becomes aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. In accordance with GAAP, the Company records loss contingencies in its financial statements only for matters in which losses are probable and can be reasonably estimated. Where a range of loss can be reasonably estimated, the best estimate within that range should be accrued. If no estimate is better than another, the Company records the minimum estimated liability in the range. 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 could be material. The Company continuously assesses the potential liability related to the Company's pending litigation and

BRIDGEPOINT EDUCATION, INC.

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

revises its estimates when additional information becomes available. Below is a list of material legal proceedings to which the Company or its subsidiaries is a party.

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 requested documents and detailed information for the time period March 1, 2009 to present. On July 24, 2013, the CA Attorney General filed a petition to enforce certain categories of the Investigative Subpoena related to recorded calls and electronic marketing data. On September 25, 2013, the Company reached an agreement with the CA Attorney General to produce certain categories of the documents requested in the petition and stipulated to continue the hearing on the petition to enforce from October 3, 2013 to January 9, 2014. On January 13, 2014 and June 19, 2014, the Company received additional Investigative Subpoenas from the CA Attorney General, each requesting additional documents and information for the time period March 1, 2009 through the current date.

Representatives from the Company met with representatives from the CA Attorney General’s office on several occasions to discuss the status of the investigation, additional information requests, and specific concerns related to possible unfair business practices in connection with the Company’s recruitment of students and debt collection practices.

The parties also discussed a potential resolution involving injunctive relief, other non-monetary remedies and a payment to the CA Attorney General and the Company recorded an expense of \$8.0 million related to the cost of resolving this matter.

The parties did not reach a resolution and on November 29, 2017, the CA Attorney General filed suit against Ashford University and Bridgepoint Education.

The Company intends to vigorously defend this case and emphatically denies the allegations made by the CA Attorney General that it ever deliberately misled its students, falsely advertised its programs, or in any way was not fully accurate in its statements to investors. However, the outcome of this legal proceeding is uncertain at this point because of the many questions of fact and law that may arise. At present, the Company cannot reasonably estimate any updated range of loss for this action based on currently available information and as such, the prior accrual remains.

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

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

Department of Justice Civil Investigative Demand

On July 7, 2016, the Company received from the U.S. Department of Justice (“DOJ”) a Civil Investigative Demand (“DOJ CID”) related to the DOJ’s investigation concerning allegations that the Company may have misstated Title IV refund revenue or overstated revenue associated with private secondary loan programs and thereby misrepresented its compliance with the 90/10 rule of the Higher Education Act. Pursuant to the DOJ CID, the DOJ has requested from the Company documents and information for fiscal years 2011 to 2015. The Company is cooperating with the DOJ and cannot predict the eventual scope, duration or outcome of the investigation at this time. The Company has not accrued any liability associated with this action.

BRIDGEPOINT EDUCATION, INC.

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

Shareholder Derivative Actions

In re Bridgepoint, Inc. Shareholder Derivative Action

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

On October 11, 2012, the Adolph-Laroche action was consolidated with the Martinez action and the case is now captioned *In re Bridgepoint, Inc. Shareholder Derivative Action*. A consolidated complaint was filed on December 18, 2012 and the defendants filed a motion to stay the case while the underlying securities class action is pending. The motion was granted by the Court on April 11, 2013. A status conference was held on October 10, 2013, during which the Court ordered the stay continued for the duration of discovery in the underlying securities class action, but permitted the plaintiff to receive copies of any discovery responses served in the underlying securities class action. The stay was lifted following the settlement of the underlying securities class action and all defendants filed demurrers on October 3, 2016, which were granted with leave to amend on October 6, 2017. On October 17, 2017, the plaintiff submitted a litigation demand to the Company's Board of Directors, which appointed a working group to evaluate the demand. The Board refused the demand and the Plaintiff filed a Second Amended Complaint on October 3, 2018. The Defendants are evaluating the Complaint and intend to file another motion to dismiss.

Reardon v. Clark, et al.

On March 18, 2015, a shareholder derivative complaint was filed in the Superior Court of the State of California in San Diego. The complaint asserts derivative claims on the Company's behalf against certain of its current and former officers and directors. The complaint is captioned *Reardon v. Clark, et al.* and generally alleges that the individual defendants breached their fiduciary duties of candor, good faith and loyalty, wasted corporate assets and were unjustly enriched. The lawsuit seeks unspecified monetary relief and disgorgement, as well as other equitable relief and attorneys' fees. Following the dismissal of the underlying *Zamir* securities class action and pursuant to a stipulation among the parties, on May 10, 2018, the Court ordered the case stayed while the Company's Board of Directors evaluates a litigation demand submitted by the plaintiff.

Larson v. Hackett, et al.

On January 19, 2017, a shareholder derivative complaint was filed in the Superior Court of the State of California in San Diego. The complaint asserts derivative claims on the Company's behalf against certain of its current and former officers and directors. The complaint is captioned *Larson v. Hackett, et al.* and generally alleges that the individual defendants breached their fiduciary duties of candor, good faith and loyalty, wasted corporate assets and were unjustly enriched. The lawsuit seeks unspecified monetary relief and disgorgement, as well as other equitable relief and attorneys' fees. Following the dismissal of the underlying *Zamir* securities class action and pursuant to a stipulation among the parties, on May 10, 2018, the Court ordered the case stayed while the Company's Board of Directors evaluates a litigation demand submitted by the plaintiff.

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

The following Management's Discussions and Analysis of Financial Condition and Results of Operations should be read in conjunction with our condensed consolidated financial statements and related notes thereto included in Part I, Item 1 of this report. For additional information regarding our financial condition and results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 ("Form 10-K"), filed with the Securities and Exchange Commission ("SEC") on February 21, 2018, as well as our consolidated financial statements and related notes thereto included in Part II, Item 8 of the Form 10-K.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements may include, among others, statements regarding future events, future financial and operating results, strategies, expectations, the competitive environment, regulation and the availability of financial resources, including, without limitation, statements regarding:

- our ability to successfully convert Ashford University to a not-for-profit university;
- Ashford University's ability to continue to operate an accredited institution subject to the requirements of the State of California, Department of Consumer Affairs, Bureau for Private Postsecondary Education ("BPPE");
- our ability to comply with the extensive and continually evolving regulatory framework applicable to us and Ashford University, including Title IV of the Higher Education Act of 1965, as amended ("Higher Education Act"), and its implementing regulations, the gainful employment rules and regulations, the "defense to repayment" regulations, state laws and regulatory requirements, and accrediting agency requirements;
- projections, predictions and expectations regarding our business, financial position, results of operations and liquidity, and enrollment trends at our institution;
- our ability to obtain continued approval of Ashford University's programs for GI Bill benefits through the Iowa State Approving Agency ("ISAA"), the Arizona State Approving Agency ("ASAA"), or the California State Approving Agency for Veteran's Education ("CSAAVE"), and to prevent any disruption of educational benefits to Ashford University's veteran students;
- Ashford University's ability to continue participating in the U.S. Department of Defense Tuition Assistance Program for active duty military personnel and to prevent any disruption of educational benefits to Ashford University's active duty military students;
- the outcome of various lawsuits, claims and other legal proceedings;
- new initiatives focused on student success, retention and academic quality;
- changes in our student fee structure;
- expectations regarding the adequacy of our cash and cash equivalents and other sources of liquidity for ongoing operations;
- expectations regarding investment in online and other advertising and capital expenditures;
- our anticipated seasonal fluctuations in operational results;
- management's goals and objectives; and
- other similar matters that are not historical facts.

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

Forward-looking statements should not be interpreted as a guarantee of future performance or results and will not necessarily be accurate indications of the times at or by which such performance or results will be achieved. Forward-looking statements are based on information available at the time such statements are made and the current good faith beliefs, expectations and assumptions of management regarding future events. Such statements are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. For a discussion of some of these risks and uncertainties, see Part II, Item 1A, “Risk Factors” as well as the discussion of such risks and uncertainties contained in our other filings with the SEC, including the Form 10-K.

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

Overview

We are a provider of postsecondary education services through our regionally accredited academic institution, Ashford University®. Ashford University offers associate’s, bachelor’s, master’s and doctoral programs primarily online. As of September 30, 2018, our academic institution offered approximately 1,260 courses and approximately 90 degree programs. We are also focused on providing innovative technologies to enhance the student experience and support faculty and student engagement.

Key operating data

In evaluating our operating performance, management focuses in large part on our revenue and operating income and period-end enrollment at our academic institution. The following table, which should be read in conjunction with our condensed consolidated financial statements included in Part I, Item 1 of this report, presents our key operating data for each of the periods presented (in thousands, except for enrollment data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Consolidated Statement of Income Data:				
Revenue	\$ 114,858	\$ 119,367	\$ 353,723	\$ 373,438
Operating income (loss)	\$ 3,530	\$ (1,503)	\$ 15,470	\$ 14,339
Consolidated Other Data:				
Period-end enrollment (1)				
Online	39,536	42,065	39,536	42,065
Campus-based	48	67	48	67
Total	39,584	42,132	39,584	42,132

- (1) We define period-end enrollment as the number of active students on the last day of the financial reporting period. A student is considered active if the student has attended a class within the prior 15 days or is on an institutionally-approved break not to exceed 45 days, unless the student has graduated or provided notice of withdrawal, unless the student has graduated or provided notice of withdrawal, or for new students who have completed their third week of attendance, and posted attendance in the fourth week.

Key enrollment trends

Enrollment at our academic institution decreased 6.0% to 39,584 students at September 30, 2018 as compared to 42,132 students at September 30, 2017 . Enrollment decreased by 2.8% since the end of the preceding fiscal year, from 40,730 students at December 31, 2017 to 39,584 students at September 30, 2018 .

We believe the decline in enrollment over the past few years is partially attributable to a general strengthening of the economy which drives lower unemployment and increased competition, as well as a general weakening in the overall education industry due in large part to increased regulatory scrutiny. The decline is also partially caused by the initiatives our institution has put in place to help ensure student preparedness, raise academic quality and improve student outcomes, as well as our voluntary decision to stop enrolling new students eligible to use GI Bill benefits in the period from mid-November 2017 through early February 2018.

We also believe new enrollment has been impacted by the deliberate changes in our marketing strategy in which we significantly reduced our spending in the affiliate channel and reinvested some of those savings in other, more cost effective, channels. We have been implementing this updated marketing strategy that reflects a shift in our advertising mix, in an effort to attract prospective students who have a higher probability of being academically successful, while concurrently making meaningful improvements to the efficiency of our advertising, admissions and marketing spend.

We continue to focus our efforts on first stabilizing and then restarting enrollment growth. Through the end of October 2018, Ashford University has launched 14 of the 16 programs for which they received approval from the Department in November 2017, and plans to launch the remaining new programs during the remainder of 2018. Expanding the course offerings with these new programs will be one factor that will contribute to our goal of stabilizing enrollment and then achieving new enrollment growth, and over time total enrollment growth.

One area in which we are experiencing positive enrollment trends is within the Corporate Full Tuition Grant (“FTG”) program, which is a portion of our Education Partnerships programs with various employers. These corporate partnership programs provide companies with the opportunity to offer their employees a way to pursue and complete a college degree without incurring any student debt. Enrollments in the FTG program account for approximately 15% of our total enrollment as of September 30, 2018 . Revenue derived from Education Partnerships is cash pay, and is therefore not considered federal student aid for purposes of calculations under the 90/10 rule.

Trends and uncertainties regarding revenue and continuing operations

Proposed conversion transactions

Ashford University submitted a separate application to WSCUC seeking approval to convert Ashford University to a not-for-profit California public benefit corporation. The WSCUC team site visit for the conversion application occurred in September, with a recommendation to WSCUC sometime in November. As part of the conversion transaction, Ashford University will separate from the Company. Following the proposed conversion and separation, the Company anticipates that it would be a technology services provider and would provide certain services to the newly-formed not-for-profit university. The transactions described above are collectively hereinafter referred to as the “Proposed Transaction.”

The Company and Ashford University are continuing to review various federal and state regulatory requirements that could impact the viability and timing of the conversion transaction and separation. The Company and Ashford University's board of trustees are taking steps to protect Ashford University's independence in considering the conversion transaction in order to enable Ashford University to act in the best interests of Ashford University and its students. As such, the Company is not bound to move forward with the conversion at this time.

Restructuring and impairment charges

We have implemented various restructuring plans to better align our resources with our business strategy and the related charges are recorded in the restructuring and impairment expense line item on our condensed consolidated statements of income. Changes to these estimates could have a material impact on the Company's condensed consolidated financial statements. For information regarding the restructuring and impairment charges recorded, refer to Note 4, “Restructuring and Impairment Expense” to our condensed consolidated financial statements included in Part I, Item 1 of this report.

Valuation allowance

We recognize deferred tax assets if realization of such assets is more-likely-than-not. In order to make this determination, we evaluate factors including the ability to generate future taxable income from reversing taxable temporary differences, forecasts of financial and taxable income or loss. The cumulative loss incurred over the three-year period ended September 30, 2018 constituted significant negative objective evidence against our ability to realize a benefit from our federal deferred tax assets. Such objective evidence limited our ability to consider in our evaluation other subjective evidence such as our projections for future growth. On the basis of our evaluation, we determined that our deferred tax assets were not more-likely-than-not to be realized and that a valuation allowance against our deferred tax assets should continue to be maintained as of September 30, 2018 .

Recent Regulatory Developments

Negotiated Rulemaking and Other Executive Action

On December 16, 2016, the Department released final regulations to clarify state authorization requirements for postsecondary institutions offering distance education that participate in federal student loan programs, as required by the Higher Education Act. The final regulations were scheduled to take effect on July 1, 2018, however, on May 25, 2018, the Department published a Notice of Proposed Rulemaking in the *Federal Register* announcing the postponement, until July 1, 2020, of the effective date of the final regulations. The Department delayed the regulations based on concerns raised by regulated parties and to ensure that there would be adequate time to conduct negotiated rulemaking to reconsider the final regulations, and as necessary, develop revised regulations.

On July 31, 2018, the Department published a notice in the *Federal Register* announcing their intention to establish a negotiated rulemaking committee to prepare proposed regulations for the Federal Student Aid programs authorized under title IV of the Higher Education Act of 1965, as amended. In September 2018, interested parties commented at three public hearings on the topics suggested by the Department in the notice, and suggested additional topics for consideration for action by the negotiated rulemaking committee.

The proposed topics for negotiation include those regarding accreditation agencies, such as requirements for accrediting agencies in their oversight of member institutions; requirements for accrediting agencies to honor institutional mission; criteria used by the Secretary to recognize accrediting agencies, emphasizing criteria that focus on educational quality; developing a single definition for purposes of measuring and reporting job placement rates; and simplifying the Department's process for recognition and review of accrediting agencies.

Additional proposed topics outside of those regarding accreditation agencies include: state authorization, to address the requirements related to programs offered through distance education or correspondence courses, including disclosures about such programs to enrolled and prospective students, and other State authorization issues; the definition of “regular and substantive interaction,” as that term is used in the definitions of “correspondence course” and “distance education”; the definition of the term “credit hour”; the requirement that an institution demonstrate a reasonable relationship between the length of a program and entry-level requirements for the recognized occupation for which the program prepares the student; the arrangements between an institution and another institution or organization to provide a portion of an educational program; the roles and responsibilities of institutions and accrediting agencies in the teach-out process; the barriers to innovation and competition in postsecondary education or to student completion, graduation, or employment, including, but not limited to, those contained in the Department's institutional eligibility regulations and student assistance general provisions; and direct assessment programs and competency-based education, including consideration of regulations that are barriers to the implementation of such programs, such as certain requirements for term-based academic calendars and satisfactory academic progress.

Gainful Employment

In October 2014, the Department published gainful employment regulations impacting programs required to prepare graduates for gainful employment in a recognized occupation. Almost all academic programs offered by Title IV-participating private sector institutions of higher education must prepare students for gainful employment in a recognized occupation. The gainful employment regulations became effective July 1, 2015, with certain institutional disclosure requirements which became effective early 2017. The gainful employment regulations have a framework with three components:

- *Certification:* Institutions must certify that each of their gainful employment programs meet state and federal licensure, certification and accreditation requirements.
- *Accountability Measures:* To maintain Title IV eligibility, gainful employment programs will be required to meet minimum standards for the debt burden versus the earnings of their graduates.
 - Pass: Programs whose graduates have annual loan payments less than 8% of total earnings or less than 20% of discretionary earnings.
 - Zone: Programs whose graduates have annual loan payments between 8% and 12% of total earnings or between 20% and 30% of discretionary earnings.
 - Fail: Programs whose graduates have annual loan payments greater than 12% of total earnings and greater than 30% of discretionary earnings.

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

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

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

On October 20, 2016, we received draft debt-to-earnings rates and certain underlying data from the Department for the first gainful employment measurement year. On January 8, 2017, we received our institutions' final debt-to-earnings rates for the first gainful employment measurement year. Based on the final rates, none of our institutions' programs were determined to fail. Two of our current programs, including the Associate of Arts in Early Childhood Education and the Bachelor of Arts in Early Childhood Education/Administration, were determined to be in the zone. As of September 30, 2018, approximately 3.1% of our institutions' students were enrolled in the Associate of Arts in Early Childhood Education and approximately 8.7% of our institutions' students were enrolled in the Bachelor of Arts in Early Childhood Education/Administration. During the three months ended September 30, 2018, we derived revenue of approximately \$2.7 million from the Associate of Arts in Early Childhood Education and approximately \$7.7 million from the Bachelor of Arts in Early Childhood Education/Administration.

The fact that none of our programs were determined to fail and only two of our current programs were determined to be in the zone is significant given the framework discussed above, as a program would be disqualified from participation in Title IV programs only if it were to fail for two out of three consecutive years, or either fail or be in the zone for three out of four consecutive years. The gainful employment regulations contemplate a transition period in the first several years to afford institutions the opportunity to make changes to their programs and retain Title IV eligibility.

On June 15, 2017, the Department announced its intention to conduct additional negotiated rulemaking on certain issues related to gainful employment. Because the negotiated rulemaking committee did not reach consensus, the Department planned to publish a proposed regulation through a Notice of Proposed Rulemaking ("NPRM"), take public comment, and issue final regulations by November 1, 2018, with the final regulations effective July 1, 2019.

On June 30, 2017, the Department granted institutions until July 1, 2018 to comply with disclosure provisions related to promotional materials and prospective students, and extended the deadline for all programs to file alternate earnings appeals. The Department did not change a July 1, 2017 deadline requiring institutions to provide a completed disclosure template, or a link thereto, on gainful employment program web pages and our schools have complied with this requirement. In January 2018, the Department announced the release of the 2018 gainful employment template. While the aesthetic of the template remained the same, the Department removed certain data points. This included the amount for off-campus room and board, the percentage of students who borrow money to pay for the degree program, and the typical annual earnings after leaving the program.

On March 16, 2018, the Department announced it would release a new draft gainful employment completers list in late spring. On April 27, 2018, the Department announced that it would send institutions their completers lists on April 30, 2018. Schools had until June 13, 2018 to review, correct, and submit the lists back to the Department. The Department has not announced when schools can expect the next round of draft debt-to-earnings rates.

On June 18, 2018, the Department announced it will allow additional time, until July 1, 2019, for institutions to comply with the requirements of the gainful employment regulations in 34 CFR 668.412 (d) and (e) that include the disclosure template, or a link thereto, in their gainful employment program promotional materials; and directly distribute the disclosure template to prospective students. Because the Department intends to develop proposed regulations that would replace the gainful employment regulations, and as part of that rulemaking process, the Department continues to evaluate the efficacy of these disclosures to students and the implementation of these requirements. Institutions must continue to comply with the requirements in 34 CFR 668.412(a), (b), and (c) to post disclosures on their gainful employment program web pages using the approved disclosure template provided by the Department. The deadline for these actions was April 6, 2018 and, as discussed above, our institution has complied with this requirement.

On August 14, 2018, the Department proposed to rescind the gainful employment regulations and update the College Scorecard, a web-based tool, to provide program-level outcomes for all higher education programs at all institutions that participate in Title IV.

On August 24, 2018, the Department announced that it would still require institutions to comply with the October 1, 2018 reporting requirement. Schools were to submit gainful employment program data for the 2017-18 Award Year to the National Student Loan Data System by October 1, 2018. Our institution submitted this reporting timely.

We continue to review the information provided by the Department to understand the potential impact of the gainful employment regulations on our programs. We will also continue to evaluate options related to new programs or adjustments to current programs that could help mitigate the potential adverse consequences of the regulations. We will also continue to monitor changes to the existing regulations.

The Company's institution had compliance findings during the year ended December 31, 2017 related to gainful employment requirements and is uncertain of the impact, if any, to the condensed consolidated financial statements.

Defense to Repayment

On June 18, 2015, the Department announced processes that will be established to assist students in gaining relief under the "defense to repayment" provisions of the Direct Loan Program regulations. The defense to repayment provisions currently in effect allow a student to assert as a defense against repayment of federal direct loans any commission of fraud or other violation of applicable state law by the school related to such loans or the educational services for which the loans were provided.

On June 14, 2017, the Department announced a postponement of the defense to repayment regulations and its intention to resubmit the regulations through the negotiated rulemaking process. The Department announced an additional postponement on October 24, 2017. On February 14, 2018, the Department announced that it was postponing the effective date of this rule until July 1, 2019 so that it could complete the negotiated rulemaking process and develop the new regulations. Because the negotiated rulemaking committee did not reach consensus, the Department published a proposed regulation through an NPRM, took public comment, and planned to issue final regulations by November 1, 2018, effective July 1, 2019. While rulemaking occurs, the Department will continue to process claims under the current borrower defense rules. We will continue to monitor changes to the existing regulations.

Cohort Default Rate

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

The most recent official three-year cohort default rates for Ashford University for the 2015, 2014 and 2013 federal fiscal years were 13.5% , 14.9% and 14.5% , respectively.

For additional information regarding the regulatory environment and related risks, see Part I, Item 1, “Business” and Part I, Item 1A, “Risk Factors” of the Form 10-K.

Seasonality

Our operations are generally subject to seasonal trends. We generally experience a seasonal increase in new enrollments during the first quarter of each year, subsequent to holiday break, as well as during the third quarter each year, when most other colleges and universities begin their fall semesters. While we enroll students throughout the year, our fourth quarter revenue generally is lower than other quarters due to the holiday break in December, with an increase in the first quarter of each year.

Critical Accounting Policies and Use of Estimates

The critical accounting policies and estimates used in the preparation of our consolidated financial statements are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Use of Estimates” included in Part II, Item 7 of the Form 10-K.

On January 1, 2018, the Company adopted ASU 2014-09, using the modified retrospective method. For information regarding the impact of this recent accounting pronouncements, refer to Note 2, “Summary of Significant Accounting Policies - Recent Accounting Pronouncements” as well as Note 3, “Revenue Recognition” to our condensed consolidated financial statements included elsewhere in this report. There were no other material changes to these critical accounting policies and estimates during the nine months ended September 30, 2018 .

Results of Operations

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:				
Instructional costs and services	47.4	48.4	46.8	48.8
Admissions advisory and marketing	36.5	36.6	36.7	35.4
General and administrative	12.0	9.6	11.0	9.9
Legal settlement expense	0.0	0.0	0.0	0.0
Restructuring and impairment expense	1.1	6.7	1.1	2.1
Total costs and expenses	97.0	101.3	95.6	96.2
Operating income (loss)	3.0	(1.3)	4.4	3.8
Other income, net	0.3	0.3	0.3	0.3
Income (loss) before income taxes	3.3	(1.0)	4.7	4.1
Income tax benefit	(0.4)	(1.0)	(2.0)	(0.2)
Net income	3.7 %	0.0 %	6.7 %	4.3 %

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Revenue. Our revenue for the three months ended September 30, 2018 and 2017, was \$114.9 million and \$119.4 million, respectively, representing a decrease of \$4.5 million, or 3.8%. The decrease between periods was primarily due to a decrease of 7.5% in average weekly enrollment from 42,280 students for the three month period ended September 30, 2017 to 39,107 students for the three month period ended September 30, 2018. As a result of the decrease in enrollments, tuition revenue decreased by approximately \$4.1 million. The decrease in revenue between periods was also due to higher scholarships for the period, an increase of \$3.5 million, as well as the decrease due to the implementation of the new revenue recognition standards in 2018, of approximately \$2.9 million for the three months ended September 30, 2018. The overall decrease was partially offset by a tuition increase, effective February 6, 2018, as well as an increase in net revenue generated from course digital materials of approximately \$1.6 million.

Instructional costs and services. Our instructional costs and services for the three months ended September 30, 2018 and 2017, were \$54.5 million and \$57.8 million, respectively, representing a decrease of \$3.3 million, or 5.7%. In addition to the decline in enrollment, specific decreases between periods primarily include direct compensation (including financial aid processing fees) of \$1.8 million, bad debt of \$0.6 million, information technology costs of \$0.3 million, professional fees of \$0.2 million, and amortization of intangible assets of \$0.2 million. The change in bad debt included the impact from implementing the new revenue recognition standards in 2018, was approximately \$1.7 million for the three months ended September 30, 2018. Instructional costs and services, as a percentage of revenue, for the three months ended September 30, 2018 and 2017, were 47.4% and 48.4%, respectively, representing a decrease of 1.0%. This decrease primarily included decreases in direct compensation (including financial aid processing fees) of 0.8%, bad debt of 0.3%, and professional fees of 0.2%, offset by an increase in instructional supplies of 0.3%. As a percentage of revenue, bad debt expense was 5.9% for the three months ended September 30, 2018, compared to 6.3% for three months ended September 30, 2017.

Admissions advisory and marketing. Our admissions advisory and marketing expenses for the three months ended September 30, 2018 and 2017, were \$41.9 million and \$43.7 million, respectively, representing a decrease of \$1.8 million, or 4.0%. Specific factors contributing to the overall decrease between periods were decreases in compensation of \$2.2 million, and advertising costs of \$0.6 million, primarily offset by increases in professional fees of \$0.6 million, license fees of \$0.3 million and corporate support services of \$0.2 million. Admissions advisory and marketing, as a percentage of revenue, for the three months ended September 30, 2018 and 2017, were 36.5% and 36.6%, respectively, representing a decrease of 0.1%. This

decrease primarily included decrease s in compensation of 1.3% , mainly offset by increases in professional fees of 0.5% , license fees of 0.3% , advertising costs of 0.1% , and corporate support services of 0.1% .

General and administrative. Our general and administrative expenses for the three months ended September 30, 2018 and 2017 , were \$13.7 million and \$11.4 million , respectively, representing an increase of \$2.3 million , or 20.0% . The increase between periods was primarily due to increase s in professional fees of \$1.1 million , other administrative costs of \$0.9 million , and administrative compensation of \$0.3 million . General and administrative expenses, as a percentage of revenue, for the three months ended September 30, 2018 and 2017 , were 12.0% and 9.6% , respectively, representing an increase of 2.4% . This increase was primarily due to increase s in professional fees of 1.1% , other administrative costs of 0.9% , and administrative compensation of 0.6% , partially offset by a decrease in corporate support services of 0.3% .

Legal settlement expense. There were no legal settlement expenses for either the three months ended September 30, 2018 or 2017 , respectively.

Restructuring and impairment charges. We recorded a charge of \$1.2 million to restructuring and impairment for the three months ended September 30, 2018 , comprised primarily of revised estimates of lease charges as well as severance costs resulting from a reduction in force. For the three months ended September 30, 2017 , there were \$8.0 million of similar restructuring and impairment charges.

Other income, net. Our other income, net, was approximately \$0.4 million for the three months ended September 30, 2018 and approximately \$0.4 million for the three months ended September 30, 2017 . The slight decrease between periods was primarily due to decrease d interest income on average cash balances.

Income tax benefit. We recognized an income tax benefit of \$0.4 million and \$1.2 million for the three months ended September 30, 2018 and 2017 , respectively, at effective tax rates of (10.5)% and 103.5% , respectively.

Net income. Our net income was \$4.3 million for the three months ended September 30, 2018 , compared to net income of \$39,000 for the three months ended September 30, 2017 , a \$4.3 million increase in net income as a result of the factors discussed above.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Revenue. Our revenue for the nine months ended September 30, 2018 and 2017 , was \$353.7 million and \$373.4 million , respectively, representing a decrease of \$19.7 million , or 5.3% . The decrease between periods was primarily due to a decrease of 9.1% in average weekly enrollment from 44,469 students for the nine month period ended September 30, 2017 to 40,420 students for the nine month period ended September 30, 2018 . As a result of the decrease in enrollments, tuition revenue decreased by approximately \$17.5 million . The decrease in revenue between periods was also due to higher scholarships for the period, an increase of \$7.9 million , as well as a decrease due to the implementation of the new revenue recognition standards in 2018, of approximately \$5.2 million for the nine months ended September 30, 2018 . The overall decrease was partially offset by a tuition increase, effective February 6, 2018, as well as an increase in net revenue generated from course digital materials of approximately \$5.2 million .

Instructional costs and services. Our instructional costs and services for the nine months ended September 30, 2018 and 2017 , were \$165.3 million and \$181.9 million , respectively, representing a decrease of \$16.6 million , or 9.1% . In addition to the decline in enrollment, specific decrease s between periods include bad debt of \$5.9 million , direct compensation costs of \$4.4 million , license fees of \$2.2 million , instructor fees of \$1.7 million , corporate support services of \$1.3 million , and information technology costs of \$1.1 million . The change in bad debt included the impact from implementing the new revenue recognition standards in the first quarter of 2018, was approximately \$4.4 million for the nine months ended September 30, 2018 . Instructional costs and services, as a percentage of revenue, for the nine months ended September 30, 2018 and 2017 , were 46.8% and 48.8% , respectively, representing a decrease of 2.0% . This decrease primarily included decrease s in bad debt of 1.3% , license fees of 0.5% , and direct compensation costs of 0.3% . As a percentage of revenue, bad debt expense was 5.2% for the nine months ended September 30, 2018 , compared to 6.5% for the nine months ended September 30, 2017 .

Admissions advisory and marketing. Our admissions advisory and marketing expenses for the nine months ended September 30, 2018 and 2017 , were \$130.0 million and \$132.1 million , respectively, representing a decrease of \$2.1 million , or 1.6% . As a result of our change in marketing strategy and the shift in advertising mix, specific factors contributing to the overall decrease between periods include decrease s in compensation of \$6.2 million , and facilities costs of \$0.9 million . These

decreases were partially offset by increases in advertising costs of \$3.2 million, consulting fees of \$1.1 million and license fees of \$0.4 million. Our admissions advisory and marketing expenses, as a percentage of revenue, for the nine months ended September 30, 2018 and 2017, were 36.7% and 35.4%, respectively, representing an increase of 1.3%. This increase primarily included increases in advertising costs of 1.7% and consulting fees of 0.3%, partially offset by a decrease in compensation of 0.9%.

General and administrative. Our general and administrative expenses for the nine months ended September 30, 2018 and 2017, were \$39.0 million and \$37.0 million, respectively, representing an increase of \$2.0 million, or 5.4%. The increase between periods was primarily due to increases in other administrative costs of \$1.5 million, corporate support services of \$1.5 million and professional fees of \$1.5 million, partially offset by decreases in administrative compensation of \$2.4 million. Our general and administrative expenses, as a percentage of revenue, for the nine months ended September 30, 2018 and 2017, were 11.0% and 9.9%, respectively, representing an increase of 1.1%. This increase was primarily due to increases in professional fees of 0.6% and other administrative costs of 0.6%.

Legal settlement expense. For the nine months ended September 30, 2018, there were \$0.1 million of legal settlement expenses. There were no legal settlement expenses for the nine months ended September 30, 2017.

Restructuring and impairment charges. We recognized \$3.8 million of restructuring and impairment charges for the nine months ended September 30, 2018, comprised primarily of revised estimates of lease charges, as well as severance costs resulting from a reduction in force. For the nine months ended September 30, 2017, there were \$8.0 million of similar restructuring and impairment charges.

Other income, net. Our other income, net, was \$0.9 million for the nine months ended September 30, 2018, as compared to \$1.2 million for the nine months ended September 30, 2017, representing a decrease of \$0.3 million. The decrease between periods was primarily due to decreased interest income on average cash balances.

Income tax benefit. We recognized an income tax benefit of \$7.5 million and \$0.7 million for the nine months ended September 30, 2018 and 2017, respectively, at effective tax rates of (45.6)% and 4.6%, respectively.

Net income. Our net income was \$23.8 million for the nine months ended September 30, 2018 compared to net income of \$16.2 million for the nine months ended September 30, 2017, representing a \$7.6 million increase as a result of the factors discussed above.

Liquidity and Capital Resources

We finance our operating activities and capital expenditures primarily through cash on hand and through cash provided by operating activities. At September 30, 2018 and December 31, 2017, our cash and cash equivalents were \$163.1 million and \$185.1 million, respectively. At September 30, 2018 and December 31, 2017, we had restricted cash of \$25.4 million and \$20.4 million, respectively, and investments of \$2.2 million and \$2.1 million, respectively. At September 30, 2018, we had no long-term debt.

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

There was a slight increase in the fair value of our investments at September 30, 2018 as compared to December 31, 2017. We believe that any fluctuations we have recently experienced are temporary in nature and that while some of our securities are classified as available-for-sale, we have the ability and intent to hold them until maturity, if necessary, to recover their full value.

Title IV and other governmental funding

Our institution derives the substantial majority of its respective revenues from students who enroll and are eligible for various federal student financial assistance programs authorized under Title IV of the Higher Education Act. Our institution is subject to significant regulatory scrutiny as a result of numerous standards that must be satisfied in order to participate in Title

IV programs. For additional information regarding Title IV programs and the regulation thereof, see “Business—Regulation” included in Part I, Item 1 of the Form 10-K. The balance of revenues derived by our institution is from government tuition assistance programs for military personnel, including veterans, payments made in cash by individuals, reimbursement from corporate affiliates and private loans.

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

Stock repurchase programs

The Company's board of directors may authorize us to repurchase outstanding shares of its common stock from time to time in the open market through block trades or otherwise depending on market conditions and other considerations, pursuant to the applicable rules of the SEC. The Company's policy is to retain these repurchased shares as treasury shares and not to retire them. The amount and timing of future share repurchases, if any, will be made as market and business conditions warrant. The timing and extent of any repurchases will depend upon market conditions, the trading price of our shares and other factors, and subject to the restrictions relating to volume, price and timing under applicable law. We may commence or suspend share repurchases at any time or from time to time. For information regarding share repurchases, refer to Note 11, “Stock Repurchase Programs” to our condensed consolidated financial statements included elsewhere in this report.

Operating activities

Net cash used in operating activities was \$10.7 million for the nine months ended September 30, 2018 , compared to net cash used in operating activities of \$16.7 million for the nine months ended September 30, 2017 , an overall decrease between periods in net cash used in operating activities of \$6.1 million . This decrease in cash used in operating activities is primarily attributable to the \$7.6 million increase in net income between periods, decrease in liabilities in current period versus prior period, changes in long-term assets, and a decrease in accounts receivable balances. These changes were partially offset by the release of an uncertain tax position accrual, lower bad debt in the current period versus prior period, and a decrease in the reassessment of lease charges. Despite the cash used in operating activities during the period, we expect to generate cash from our operating activities for the foreseeable future.

Investing activities

Net cash used in investing activities was \$2.5 million for the nine months ended September 30, 2018 , compared to net cash provided by investing activities of \$19.3 million for the nine months ended September 30, 2017 . During the nine months ended September 30, 2018 , we had purchases of investments of \$1.1 million , sales of investments of \$1.0 million , and no maturities of investments. This is compared to purchases of investments of \$83,000 , no sales of investments, and \$22.7 million maturities of investments for the nine months ended September 30, 2017 . Capital expenditures for the nine months ended September 30, 2018 were \$1.7 million , compared to \$2.9 million for the nine months ended September 30, 2017 . We expect our capital expenditures to be approximately \$4.5 million for the year ending December 31, 2018 .

Financing activities

Net cash used in financing activities was \$3.9 million for the nine months ended September 30, 2018 , compared to net cash used in financing activities of \$149.8 million for the nine months ended September 30, 2017 . During the nine months ended September 30, 2018 , we repurchased approximately 0.4 million shares of our common stock for an aggregate purchase price of approximately \$2.4 million , including fees. During the nine months ended September 30, 2017 , we repurchased approximately 18.1 million shares of our common stock for an aggregate purchase price of approximately \$152.0 million , including fees. During the nine months ended September 30, 2018 net cash used included tax withholdings related to the net issuance of stock options. During each of the nine months ended September 30, 2018 and 2017 , net cash used also included tax withholdings related to the issuance of restricted stock units vesting. During the nine months ended September 30, 2018 and 2017 , the cash used was partially offset by the cash provided by stock option exercises.

Based on our current level of operations, we believe that our future cash flows from operating activities and our existing cash and cash equivalents will provide adequate funds for ongoing operations, planned capital expenditures and working capital requirements for at least the next 12 months. However, changes could occur that would consume our available capital resources before that time. Our capital requirements depend on numerous factors, including our ability to continue to generate revenue. There can be no assurance that additional funding, if necessary, will be available to us on favorable terms, if at all.

Off-Balance Sheet Arrangements and Significant Contractual Obligations

As part of our normal business operations, we are required to provide surety bonds in certain states where we do business. In May 2009, we entered into a surety bond facility with an insurance company to provide such bonds when required. As of September 30, 2018, our total available surety bond facility was \$6.5 million and the surety had issued bonds totaling \$4.3 million on our behalf under such facility.

The following table sets forth, as of September 30, 2018, certain significant cash and contractual obligations that will affect our future liquidity:

<i>(In thousands)</i>	Payments Due by Period						
	Total	2018	2019	2020	2021	2022	Thereafter
Operating lease obligations	\$ 69,146	\$ 5,104	\$ 21,010	\$ 11,209	\$ 7,321	\$ 3,825	\$ 20,677
Other contractual obligations	41,268	6,335	11,656	9,496	3,626	2,620	7,535
Uncertain tax positions	842	—	842	—	—	—	—
Total	\$ 111,256	\$ 11,439	\$ 33,508	\$ 20,705	\$ 10,947	\$ 6,445	\$ 28,212

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 2, “Summary of Significant Accounting Policies” to our condensed consolidated financial statements included in Part I, Item 1 of this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market and Credit Risk

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

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

We have no derivative financial instruments or derivative commodity instruments.

Interest Rate Risk

To the extent we borrow funds, we would be subject to fluctuations in interest rates. As of September 30, 2018, we had no outstanding borrowings.

Our future investment income may fall short of expectations due to changes in interest rates. At September 30, 2018, a hypothetical 10% increase or decrease in interest rates would not have a material impact on our future earnings, fair value or cash flows related to interest earned on our cash, cash equivalents or investments.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our chief executive officer and our principal financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) and Rule 15d-15(b) of the Exchange Act. Based on this evaluation, our chief executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2018 .

Changes in Internal Control Over Financial Reporting

We continually assess the adequacy of our internal control over financial reporting and make improvements as deemed appropriate. There were no changes in internal control over financial reporting, during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

For information regarding our legal proceedings, refer to Note 15, “Commitments and Contingencies” to our condensed consolidated financial statements included in Part I, Item 1 of this report, which note is incorporated by reference into this Part II, Item 1.

Item 1A. Risk Factors.

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

If the proposed change in organizational structure is consummated, we will be subject to various risks and uncertainties, any of which could materially and adversely affect our business and operations, and our stock price.

As discussed above under “Item 2. Management’s Discussion and Analysis – Trends and uncertainties regarding revenue and continuing operations,” we are seeking approval of the Proposed Transaction. The consummation of the Proposed Transaction would be dependent upon several factors, including but not limited to, obtaining the necessary approvals, agreement between us and Ashford University on financial and other terms, and execution of definitive agreements. If the Proposed Transaction is ultimately consummated, then many aspects of our operations would change. These changes include, but are not limited to, the following:

- Our academic and related operations and assets, as well as a percentage of our full-time employees and substantially all of our part-time employees, would transfer to Ashford University. Following this transfer, we would no longer own and operate a regulated institution of higher education, but would instead provide a host of services in support of Ashford University’s operations. While the services we would provide are services that we currently provide as part of our business, we have limited to no experience operating as a service provider to third parties.
- Initially, all of our revenue would be derived pursuant to a services arrangement with Ashford University. Accordingly, Ashford University’s ability to continue to increase its enrollment and tuition and fee revenue, and our ability to continue to perform the services necessary to enable Ashford University to do so, would be critical to the success of our services business.
- It is anticipated that a significant portion of consideration payable by Ashford University for the acquired assets, which will be material, will be in the form of a long-term obligation. All of the key terms, including amount, form, interest rate and timing are being negotiated.

If the Proposed Transaction is consummated, but we are unable to successfully transition our business to providing services to third parties, or if the contemplated services arrangement with Ashford University fails to achieve the anticipated levels of performance, then our business, financial condition and results of operations, as well as our stock price, could be materially and adversely affected.

We may experience unforeseen tax consequences.

On December 22, 2017, President Donald Trump signed into law H.R.1, formerly known as the Tax Cuts and Jobs Act (the “Tax Legislation”). The Tax Legislation significantly revised the U.S. tax code that will affect our year ending December 31, 2018, including, but not limited to, lowering the U.S. federal corporate income tax rate from 35% to 21%; bonus depreciation that will allow for full expensing of qualified property; limitations on the deductibility of certain executive compensation and other deductions; and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017 to 80% of taxable income with an indefinite carryforward period.

The enactment of the Tax Legislation resulted in a one-time re-measurement of our U.S. federal deferred tax assets and liabilities from 35% to the lower enacted corporate tax rate of 21%. The provisional remeasurement of our deferred tax balance was primarily offset by a corresponding change in the valuation allowance. We are still analyzing the impact the Tax

Legislation will have on the remeasurement of the deferred taxes or whether new deferred taxes exist. Where we have not yet been able to make reasonable estimates of the impact of certain elements, we have not recorded any amounts related to those elements and have continued to account for them in accordance with ASC 740 on the basis of the tax laws in effect immediately prior to the enactment of the Tax Legislation. Examples of certain elements include accounting for the existence of deferred taxes, as well as the impact the Tax Legislation may have on state jurisdictions. New guidance from regulators, interpretation of the law, and refinement of our estimates from ongoing analysis of data and tax positions may change the provisional amounts.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit	Description
10.1	<u>Office Lease dated August 15, 2018 with Ascend Northrop, LLC, related to the premises at 1811 E. Northrop Boulevard, Chandler, Arizona</u>
31.1	<u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>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 Kevin Royal, Chief Financial Officer.</u>
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, filed with the SEC on November 8, 2018, formatted in Extensible Business Reporting Language ("XBRL"): (i) the Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017; (ii) the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017; (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017; (iv) the Condensed Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2018 and 2017; (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017; and (vi) the Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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

BRIDGEPOINT EDUCATION, INC.

November 8, 2018

/s/ KEVIN ROYAL

Kevin Royal
Chief Financial Officer
(Principal financial officer and duly authorized to
sign on behalf of the registrant)

SINGLE TENANT OFFICE LEASE

This Lease, dated for reference purposes as of August 15, 2018, is entered into by and between Ascend Northrop, LLC, an Arizona limited liability company (“Landlord”) and Bridgepoint Education, Inc., a Delaware corporation (“Tenant”).

In consideration of the mutual covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties do agree as follows:

1. BASIC TERMS. The following terms shall have the meaning set forth in this Section unless specifically modified by other provisions of this Lease:

- 1.1 **Project:** The land, building(s), improvements and appurtenants commonly known as Ascend at Chandler Airport Center in Chandler, Arizona, as shown on attached Exhibit A.
 - 1.2 **Building/Building Parcel:** The “Building Parcel” is that portion of the Project designated on Exhibit A-1 attached hereto. The “Building” is the building in which the Premises are situated known as Ascend C as shown on attached Exhibit A-1, and located at 1811 E. Northrop Boulevard, Chandler, Arizona 85286.
 - 1.3 **Premises:** The space within the Building containing approximately 130,642 square feet of floor area, as shown on Exhibit B attached hereto, together with the Building and Building Parcel.
 - 1.4 **Common Areas:** The areas of the Project not regularly and customarily leased for exclusive use of tenants, including, but not limited to, any driveways; walks; landscaped areas; storm water retention and detention systems; multi-tenant monument signs as identified on Exhibit F and other sign monuments.
 - 1.5 **Term:** Eleven (11) years and six (6) months commencing on the Commencement Date and terminating on the Termination Date.
 - 1.6 **Commencement Date:** The earlier of (i) the date upon which Tenant occupies the Premises and (ii) April 15, 2019, subject to adjustment as set forth in Section 2 below.
 - 1.7 **Termination Date:** The last day of the one hundred thirty-eighth (138th) full calendar month following the Commencement Date, subject to adjustment as set forth in Section 43 below.
 - 1.8 **Monthly Base Rent:** See Exhibit E attached hereto and made a part hereof.
 - 1.9 **Initial Estimated Monthly Operating Expense:** \$.3508 per square foot (\$4.21 per square foot per year).
 - 1.10 **Tenant’s Proportionate Share:** 100%, subject to adjustment as set forth in Section 3.2 below.
 - 1.11 **Permitted Use:** Call center, general office, administrative offices and other uses reasonably incidental thereto, and as further set forth in Section 6 below,
-

including, without limitation, the marketing of for-profit, primarily online secondary education courses.

- 1.12 Security Deposit: \$5,600,000.00 in the form of a letter of credit, subject to reduction as set forth in Section 4 below.
- 1.13 Tenant Improvement Allowance: \$7,223,496.18
- 1.14 Guarantor(s): None
- 1.15 Exhibits: A - Site Plan/Project
 A-1 - Building Parcel and Building
 B - Premises
 C - TI Construction Terms and Conditions
 D - Confirmation of Lease Term Agreement
 E - Base Rent Schedule
 F - Signage
 G - SNDA Form
 H - Form of Letter of Credit

2. DEMISE AND TERM. Landlord leases the Premises to Tenant and Tenant leases the Premises described in Section 1.3 above from Landlord subject to the provisions of this Lease. The Term of this Lease shall commence on the Commencement Date set forth in Section 1.6 and shall end on the Termination Date set forth in Section 1.7 unless adjusted or sooner terminated as provided herein. Landlord shall, subject to force majeure events (as more particularly set forth in Section 38) and Tenant Delays (as defined in Exhibit C), complete the various phases of Landlord's Work under Exhibit C hereto on or before the date set forth for substantial completion of same in Schedule C-1 (as applicable, and subject to force majeure events and Tenant Delays as aforesaid, the "Scheduled Completion Date"). Provided this Lease is signed by Tenant on or before August 9, 2018, then, to the extent Landlord fails to substantially complete any portion of Landlord's Work with a Scheduled Completion Date of December 15, 2018 (the "Phase One Work") by January 15, 2019, all Base Rent and other amounts otherwise owed hereunder shall be abated on a day-for-day basis until such portion of Landlord's Work is substantially complete. In addition, in the event Landlord has not substantially completed all of the Phase One Work on or before June 15, 2019, Tenant may elect to terminate this Lease by written notice to Landlord on or before June 20, 2019. Further, in the event Landlord has not substantially completed all of Landlord's Work on or before December 15, 2019, Tenant may elect to terminate this Lease by written notice to Landlord on or before December 20, 2019. Each party agrees, at the request of the other, to execute and deliver an instrument in substantially the form attached hereto as Exhibit D confirming the actual Commencement Date and the Termination Date when determined. Subject to applicable laws, statutes, ordinances and governmental rules, regulations or requirements, Tenant shall have access to, and the right to operate from, the Premises twenty-four (24) hours per day, seven (7) days per week, three hundred sixty-five (365) days per year.

Landlord shall work with Tenant to provide Tenant early access to the Premises commencing December 15, 2018 for the installation of the Tenant Finishing Work (as defined in Exhibit C), furniture, fixtures and equipment on the following conditions: (i) Tenant and Tenant's contractors and employees shall not unreasonably interfere with Landlord's contractors, (ii) Tenant shall provide evidence of insurance reasonably acceptable to Landlord covering personal injury, property damage and other liabilities related to the activities of Tenant and its employees and contractors on the Premises, and Tenant shall be responsible for the costs of any additional security associated with such early access, but shall not be responsible for any utilities or Operating Expense, (iii) Tenant shall indemnify Landlord and hold it harmless from and against any and all losses, costs, damages and liabilities arising out of the activities of Tenant and its employees and contractors on the Premises, and (iv) all such work shall be performed by contractors that will work in harmony with Landlord's contractors (union or otherwise) and, if applicable, Tenant shall be responsible for the cost of a secondary access for any nonunion laborers to the extent such secondary access has not already been provided by Landlord's contractor.

3. RENT. Tenant agrees to pay to Landlord at Landlord's address set forth in Section 33 of this Lease or such other place designated by Landlord, without prior demand or notice, the Rent for the Premises consisting of Base Rent set forth in Section 3.1 and Tenant's Proportionate Share of Operating Expense as set forth in Section 3.2 and any other additional payments due under this Lease. As used herein, the term "Rent" shall be defined as the Base Rent and Tenant's Proportionate Share of Operating Expense and any other additional payments to be made by Tenant under this Lease. The parties hereto agree that, except as otherwise expressly set forth in this Lease, the Base Rent payable under the terms of this Lease shall be an absolute net return to Landlord for the Lease Term free from any expense, charge, deduction, offset or counterclaim by reason of any obligation of Landlord or any other reason and all of the provisions of this Lease shall be construed and interpreted to such end. Not less than thirty (30) days prior to the Commencement Date, Tenant shall pay to Landlord the sum of the amounts stated in Section 1.8 and 1.9 for the first full month of the Term. The obligation of Tenant to pay Rent is hereby declared to be an independent covenant.

3.1 Base Rent. The amount specified in Section 1.8 shall be payable in advance on or before the first day of each month during the Term. In the event the Term commences on other than the first day of a calendar month, the Base Rent for such partial month shall be prorated based upon the actual number of days of the Term during such month.

3.2 Operating Expense. Tenant shall pay to Landlord, as additional rent, Tenant's Proportionate Share of Operating Expense as defined below. The parties agree for the purpose of this Lease that Tenant's Proportionate Share stated above has been calculated to represent the Premises' pro rata share of Operating Expense for the Building and the Common Areas exclusively serving the Building. Operating Expense shall also include the Building's pro rata share of any and all Operating Expense incurred with respect to (i) any Common Areas serving the Building and other buildings within the Project and (ii) the Chandler Airport Center Owners Association. The allocation of Operating Expense between the Building and any other buildings within the Project shall be determined by the Landlord, consistent with any recorded easements or other agreements governing such Operating Expense. The Tenant's Proportionate Share stated above and any such allocation of Operating Expense between buildings within the Project shall be as reasonably determined by Landlord from time to time. Estimated amounts of such Operating Expense shall be paid in monthly installments in advance on or before the first day of each month during the Term. The initial estimated payment of Tenant's Proportionate Share of Operating Expense is set forth in Section 1.9. From time to time during the Term, Landlord may notify Tenant in writing of any adjustment to the monthly installments to be paid by Tenant hereunder and, thereafter, Tenant shall make payments accordingly. Within ninety (90) days after the expiration of each calendar year or as soon thereafter as is reasonably practicable, Landlord shall notify Tenant of the actual Operating Expense for such calendar year and provide Tenant a statement thereof in reasonable detail. Within thirty (30) days after such notice, Tenant shall pay to Landlord or Landlord shall credit against the obligations of Tenant, as the case may be, the difference between the estimated payments made by Tenant during the prior calendar year and the actual amount of Tenant's Proportionate Share of Operating Expense as shown on such statement. Tenant's Proportionate Share of Operating Expense for the years in which the Term commences and ends shall be prorated based upon the number of days of the Term during such years. Tenant's obligation to pay Tenant's Proportionate Share of Operating Expense through the Termination Date shall survive termination.

"Operating Expense" as used herein shall mean all sums expended or obligations incurred by Landlord with respect to the Building, all Common Areas of the Project exclusively serving the Building and the Building's pro rata share of all Common Areas of the Project serving the Building and one or more other buildings within the Project, whether or not now foreseen, determined on an accrual basis (including reasonably foreseeable expenditures not occurring annually), including, but not limited to, real estate taxes allocable to the Building Parcel and Building, special and/or area assessments and charges (or any substitutes hereafter collected by any governmental authority or assessment district in lieu thereof or in addition thereto whether based on the value of the Project, cost of services, rent paid or received or otherwise) and any costs of seeking or obtaining a reduction or refund thereof; assessments and/or charges under any covenants and/or easements; salaries, fringe benefits and related costs of employees engaged on site in operation, maintenance or security; general liability and property insurance covering hazards, casualties and potential losses, including rental loss insurance; license, permit and inspection fees; administrative and/or management fees payable to third parties and/or to Landlord or its affiliates, not to exceed five percent (5%) of gross Rent; auditors' fees and legal fees; internal accounting and administrative services; materials and supplies, including charges for telephone, telegraph, postage and supplies; repairs, maintenance and replacements respecting the Building Parcel and Building, including costs of materials, supplies, tools and equipment used in connection therewith and including the repaving of parking areas, replanting of landscaped areas and replacing building components; costs incurred in connection with

the operation, maintenance, repair, replacing, inspection and servicing (including maintenance contracts) of electrical, plumbing, heating, air conditioning and mechanical equipment and the cost of materials, supplies, tools and equipment used in connection therewith; and all other expenses and costs necessary or desirable to be incurred for the purpose of operating and maintaining the Project as an office complex properly allocable to the Building Parcel and Building, whether or not similar to the foregoing. Operating Expense shall not include (i) depreciation of the Building and major components, (ii) special assessments to the extent such assessments can be paid in installments and such installments are not then due, (iii) debt service on indebtedness of Landlord, (iv) costs incurred by Landlord in connection with any tenant lease in the Project, including leasing commissions, legal fees, and leasehold improvement expenses (and/or allowances therefor) and other lease concessions of any kind whatsoever and any increased tax expenses resulting from above-standard tenant improvements (provided, however, any tax expenses resulting directly from Tenant constructing above-standard tenant improvements shall be reimbursed in their entirety by Tenant), (v) cost of repairs, replacements or other work occasioned by fire, windstorm or other casualty, or the exercise by the governmental authorities of the right of eminent domain, except to the extent of a commercially reasonable deductible limit in Landlord's insurance policies (which such deductible shall be included in Operating Expense), (vi) attorney or accountant's fees, costs, disbursements and other expenses incurred by Landlord in connection with the negotiation of, disputes with and/or enforcement of, any leases with tenants, other occupants, or prospective tenants or other third parties and in connection with any Landlord ownership matters (such as sales of the Building, financings and refinancings, income tax returns, ownership interest transfers, etc.) and in connection with any default by Landlord under its contractual obligations (provided, however, accounting fees arising from the operation of Building, such as in connection with budgeting and calculating Operating Expense and preparing reconciliation statements, shall be included in Operating Expense), (vii) depreciation and other amortization, except for amortization charges as provided for herein, (viii) intentionally omitted, (ix) services, items and benefits for which Tenant specifically reimburses Landlord (other than through Operating Expense) or for which Tenant pays third persons, (x) costs or expenses (including fines, penalties, and legal fees) incurred due to the willful misconduct or gross negligence of Landlord or the violation by Landlord, its employees, agents and/or contractors, any tenant or other occupant of the Building, of any terms or conditions of this Lease or of the leases of other tenants in the Building, and/or of any valid, applicable laws, rules, regulations and codes of any federal, state, county, municipal or other governmental authority having jurisdiction over the Building that would not have been incurred but for such violation by Landlord, its employees, agents, and/or contractors, it being intended that each party shall be responsible for the costs resulting from its own violation of such leases and laws, rules, regulations and codes as same shall pertain to the Building, (xi) penalties for late payment where such penalties are within Landlord's control, including, without limitation, in connection with taxes, equipment leases, service contracts, etc., (xii) Landlord's general corporate overhead and all general administrative overhead expenses for services not specifically performed for the Building, except to the extent same result in a reduction of Operating Expense with respect to the Building, (xiii) compensation paid to clerks, attendants or other persons in commercial concessions or retail locations (such as a snack bar, shoeshine stand, restaurant or newsstand), if any, operated by Landlord or any subsidiary or affiliate of Landlord, (xiv) rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment ordinarily considered to be of a capital nature, except (A) equipment which is used in providing janitorial services and which is not affixed to the Building, (B) security equipment, and (C) equipment the cost of which would have been included in Operating Expense had Landlord purchased such equipment, (xv) advertising and promotional expenses, (xvi) costs or expenses for purchasing or repairing sculpture, paintings or other works of art, (xvii) costs for which Landlord is actually compensated through or actually reimbursed by insurance or other means of recovery, (xviii) costs of correcting or repairing defects in the Building or Project, and/or equipment or the replacement of defective equipment, to the extent such costs are covered by warranties of manufacturers, suppliers or contractors, or are otherwise borne by parties other than Landlord, (xix) contributions to Operating Expense reserves or reserves of any other kind, (xx) contributions to charitable organizations, (xxi) wages, salaries, benefits, and expenses attributable to Landlord's executive personnel above the level of senior group building manager (or such other equivalent title), and with respect to any off-site personnel, the costs thereof may be included in Operating Expense based upon the percentage of their time allocated for management, maintenance, repair or operation of the Project, (xxii) costs incurred to test, report on, encapsulate, remove or otherwise deal with any hazardous or toxic materials, substances or waste as now or hereafter designated under any statute, law, ordinance, rule, regulation, order or ruling of the United States, the State of Arizona or any local governmental authority including without limitation asbestos located in the Building or in the Project, provided Operating Expense may include costs to dispose of paint, lamps, ballasts, adhesives and other items that are typical office building items, (xxiii) any entertainment, dining or travel expenses for any purpose, (xxiv) any flowers, gifts, balloons, etc. provided to any entity whatsoever, to include, but not limited to, Tenant, other tenants, employees, vendors, contractors, prospective tenants and agents, (xxv) any costs to replace the exterior and structural portions of the Building and Premises including walls, foundations, floor/ceiling slabs, structural supports, roofs, roof structures,

exterior glass & mullions, columns, beams, shafts (including elevator shafts), stairs, stairwells and elevators, unless the costs to replace the same are permitted to be included as set forth above, (xxvi) any "finders fees", brokerage commissions, job placement costs or job advertising cost, (xxvii) depreciation deductions taken by the Landlord for tax purposes, (xxviii) costs incurred in connection with the initial development and construction of the Building, including, without limitation, impact fees, tap fees, permit fees and any costs whatsoever in connection with the design and construction of the Building, (xxix) costs incurred to cause the Project to comply with governmental requirements and Law that are applicable to the Project as of the Lease Date, (xxx) costs incurred by Landlord in connection with the preparation of any income tax and/or sales tax returns and any income taxes of Landlord. Replacements (as opposed to ordinary maintenance and repair) of the structural elements of the Building, including the foundation, exterior walls, roof (including the roof membrane and all roofing systems), mezzanine, elevators, base Building fire and life safety, and all utility service lines to the point where same enter the Building shall be Landlord's responsibility, at Landlord's sole cost and expense, and not as an Operating Expense. Replacements not contemplated by the immediately preceding sentence shall be included in Operating Expense; provided that, if the cost of any single component is greater than \$50,000, such cost shall be charged ratably over ten (10) years. Expenses not billed to Tenant within one hundred eighty (180) days of being incurred by Landlord shall be deemed waived by Landlord.

Notwithstanding anything to the contrary contained in this Lease, throughout the Initial Term of this Lease, Tenant's Proportionate Share of Controllable Operating Expense (as hereinafter defined) shall not exceed the Cost Cap (as defined below), unless attributable to an Uncontrollable Event (as defined below). "Cost Cap" shall mean, for the calendar year immediately following the first full calendar year of the Term, one hundred five percent (105%) of Tenant's Proportionate Share of Controllable Operating Expense for the first full calendar year of the Term, and for each subsequent calendar year, the Cost Cap shall be increased by five percent (5%) on an annual, cumulative and compounded basis. Controllable Operating Expense shall be determined on an aggregate basis and not on an individual basis, and the cap on Controllable Operating Expense shall be determined on Controllable Operating Expense as they have been adjusted for vacancy or usage pursuant to this Section 3.2. "Controllable Operating Expense" shall be Operating Expense as set forth above, inclusive of management fees not to exceed five percent (5%) of gross Rent, but excluding real estate taxes and special and/or area assessments and charges (or any substitutes hereafter collected by any governmental authority or assessment district in lieu thereof or in addition thereto whether based on the value of the Project, cost of services, rent paid or received or otherwise (including Chandler Airport Center Owners Association fees)) and any costs of seeking or obtaining a reduction or refund thereof, general liability and property insurance covering hazards, casualties and potential losses, including rental loss insurance, security costs, and utilities. An "Uncontrollable Event" shall be deemed to have occurred if (i) the increase in Controllable Operating Expense as a whole exceeds the Cost Cap for that year, and (ii) Landlord can reasonably demonstrate to Tenant that the amount over the Cost Cap ("Excess Expense") is attributable to a line item or line items in the budget for which the Excess Expense could not be avoided by Landlord in the commercially reasonable and prudent management of the Project. Records of line item costs shall be kept and the determination of particular line items shall be made in accordance with customary and standard practice in the office leasing industry. As an example, if the increase in Controllable Operating Expense exceeds the Cost Cap for a calendar year and the Excess Expense are incurred for landscaping, such Excess Expense would be deemed to be due to an Uncontrollable Event if Landlord reasonably demonstrates to Tenant that Landlord has competitively bid out the landscaping work to at least three (3) qualified landscape service providers and that the scope of landscaping work provided is commercially reasonable and consistent with the level and quality of landscaping services provided in the suburban Chandler, Arizona metropolitan area for comparable buildings, resulting in an Uncontrollable Event.

If Tenant shall not dispute any item or items shown on Landlord's statement within sixty (60) days after such notice, Tenant shall be conclusively presumed to have approved such statement and shall be estopped from contesting such statement or the amount due. If Tenant shall dispute any item or items included by Landlord in determining Operating Expense, Tenant shall nevertheless pay to Landlord in full the amount claimed by Landlord and shall not offset or withhold any payment while its dispute is pending. If such dispute is not amicably settled between Landlord and Tenant within thirty (30) days after such notice of dispute, either party may during the fifteen (15) days after the expiration of such thirty (30) day period refer such disputed item or items to a reputable firm of independent certified public accountants designated by Landlord and reasonably approved by Tenant for resolution, and the decision of such firm shall be conclusive and binding upon Landlord and Tenant. The expenses involved in such determination shall be borne by the party against whom a decision is rendered by such accountants, provided that if more than one item is disputed and the decision shall be against each party in respect to any item or number of items disputed, then the expenses shall be apportioned according to the monetary value of the items decided against each party.

Tenant, at Tenant's sole cost and expense, shall have the right, to be exercised by written notice given to Landlord within one hundred eighty (180) days after receipt of such statement, to audit Landlord's books and records, in Landlord's offices during normal business hours, provided such audit commences within thirty (30) calendar days after Tenant's notice to Landlord and thereafter proceeds diligently to conclusion. Landlord agrees to cooperate with Tenant in the conduct of any such audit. In the event Tenant's audit accurately reveals that Landlord's statement of Operating Expense overstated actual Operating Expense by more than four percent (4%), Landlord shall reimburse Tenant, within ten (10) business days after written demand from Tenant, for the reasonable, out-of-pocket costs and expenses incurred by Tenant in conducting such audit, not to exceed \$4,000.00. In the event Tenant's audit accurately reveals that Landlord's statement of Operating Expense did not overstate actual Operating Expense by more than four percent (4%), Tenant shall reimburse Landlord, within ten (10) business days after written demand from Landlord, for the reasonable, out-of-pocket costs and expenses incurred by Landlord in connection with such audit, not to exceed \$4,000.00. Tenant agrees that Tenant will not employ, in connection with any audit or dispute under this Lease, any person who is to be compensated in whole or in part, on a contingency fee basis.

Notwithstanding that the entire Premises is being leased to Tenant as of the Commencement Date, for purposes of determining Tenant's Proportionate Share under this Lease, the size of the Premises and the corresponding Tenant's Proportionate Share shall be deemed to be as follows during the Term:

Period	Size of Premises	Tenant's Proportionate Share
Months 1 - 3	50,000 SF	38.27%
Months 4 - 6	75,000 SF	57.41%
Months 7 - 9	100,000 SF	76.55%
Months 10 - 12	115,000 SF	88.03%
Months 13 - 138	130,642 SF	100.00%

3.3 Personal Property Taxes. Tenant agrees to timely pay when due all personal property taxes, whether assessed against Landlord or Tenant, on Tenant's furniture, equipment and other items of personal property owned by Tenant and located in or about the Premises.

3.4 Late Charge. Tenant acknowledges that late payment of Rent involves additional costs to Landlord for collection and bookkeeping, and, in some instances could result in Landlord's mortgagee imposing a late charge on Landlord, and, accordingly, Tenant agrees that, if Rent due hereunder is not paid by the fifth day after it is due, then Tenant shall pay upon demand, as additional rent, a late charge equal to five percent (5%) of the amount required to be paid. The foregoing provision for payment of a late charge shall not be construed to extend the date for payment of any sums required to be paid by Tenant hereunder or to relieve Tenant of its obligation to pay all such sums at the time or times herein stipulated, and neither the demand for, nor collection by, Landlord of such late charge shall be construed as a cure of Tenant's default in the payment of Rent. Landlord shall waive any such late charge for the first late payment during any consecutive twelve (12) month period during the Term.

4. SECURITY DEPOSIT. Tenant shall deposit with Landlord upon execution of this Lease a Security Deposit in the amount of Five Million Six Hundred Thousand and 00/100ths Dollars (\$5,600,000.00) through the posting of an irrevocable standby letter of credit in the form attached hereto as Exhibit H issued by a bank satisfactory to Landlord (the "LOC"). It shall be Tenant's obligation to assure that at all times during the Term and any extensions thereof and for 100 days thereafter, a LOC in the form of Exhibit H or otherwise satisfactory to Landlord and in the amount required hereunder (as applicable, the "LOC Amount") shall remain in effect and shall be in the possession of Landlord. The first such LOC shall be for a term expiring 100 days after the first anniversary of the Commencement Date, the second LOC shall be for a term expiring 100 days after the second anniversary of the Commencement Date and so on. Within thirty (30) days after each anniversary of the Commencement Date throughout the Term and any extensions thereof, Tenant shall deliver to Landlord a new LOC in the form of Exhibit H or otherwise satisfactory to Landlord in the LOC Amount, for a term commencing immediately upon expiration of the then existing LOC and expiring 100 days after the next anniversary of the Commencement Date thereafter. If Tenant fails to deliver to Landlord a new LOC as aforesaid within such thirty (30) day period, then, on or before the date that is sixty (60) days after the immediately preceding anniversary of the Commencement Date, Tenant shall deposit with Landlord cash in the amount of the LOC Amount such that the entire Security Deposit Amount is then held by Landlord in cash. If Landlord fails to timely

draw on a LOC and the LOC expires, Tenant shall, within five (5) days after notice from Landlord, replace the LOC in the form required herein, or deposit with Landlord cash in the amount of such LOC; Landlord shall hold and have the right to use such cash deposit as the Security Deposit to obtain a substitute LOC of credit in the form provided for herein, which substitute LOC shall constitute the Security Deposit required hereunder. Landlord would not have entered into this Lease without the LOC.

A. The Security Deposit shall be deposited as evidence of good faith and as security for the full and faithful performance and observance by Tenant of all the provisions, covenants and obligations herein contained and shall be returned to Tenant as, when and provided that Tenant shall have fully performed and observed all the said covenants, provisions and obligations on Tenant's part to be performed and observed. It is expressly agreed that the sum so deposited is not an advance payment of or on account of the Rent herein reserved, or any part or installment thereof, or a measure of Landlord's damages, and in no event shall Tenant be entitled to the return or particular application of said sum or any part thereof until the expiration or earlier termination of the Term hereby granted and until Landlord shall have had a reasonable time (but not more than sixty (60) days) to determine whether the provisions, covenants and obligations of this Lease have been fully performed and observed. No interest shall be paid to Tenant in regard to said Security Deposit and Landlord shall be entitled to commingle said Security Deposit with Landlord's general operating funds. The Security Deposit may be applied by Landlord to cure any default of Tenant under this Lease, and upon notice by Landlord of such application; Tenant shall replenish the Security Deposit in full, within ten (10) days of demand therefor from Landlord, by timely paying to Landlord the amount so applied.

B. It is further agreed that should Tenant default in the performance of any of the provisions, covenants or obligations of this Lease, and fails to cure said default within the period allowed under the default provisions hereof after notice in writing sent to Tenant by Landlord advising Tenant of said default, and Landlord thereafter elects to exercise Landlord's privilege of declaring the Term of this Lease ended or Tenant's right to possession ended, thereupon, Landlord, at Landlord's option, shall be authorized and is hereby empowered by Tenant to apply such portion of the Security Deposit as may be required to the payment of such damages as are suffered by the Landlord and/or to arrearages in payments owed Landlord in connection with this Lease and the Premises demised herein.

C. It is further agreed that Tenant shall have no right at any time during the Term of this Lease to apply the Security Deposit, in part or in whole, against current or accrued Rent due to Landlord or against any payments due and arising out of the conditions to be fulfilled by the during the Term of this Lease. It is further understood and agreed that the service of any five (5) day notice, the institution of any legal suit for possession, a judgment of court pertaining to the possession of the Premises or the issuance of any warrant, writ of restitution, execution or final order in any summary proceedings, shall have no effect upon the right of Landlord to retain the Security Deposit, and in the event of the happening of any of the contingencies provided for hereinabove or in the event Tenant shall abandon the Premises, the Tenant shall, nevertheless, continue to be liable for the payment of the Rent and the keeping, observing and full performance of all of the other provisions, covenants and obligations herein contained on Tenant's part to be kept, observed and performed. It is hereby stipulated that in the event Tenant shall default in any of the provisions of this Lease and this Lease is terminated by reason thereof, then and in such event, the Security Deposit herein shall be applied to the extent thereof and shall be retained by Landlord as payment of damages, in whole or in part.

D. If and so long as (i) Tenant has never defaulted under this Lease, beyond any applicable notice and/or grace period, and (ii) Tenant has not received a notice that Tenant is then in default under this Lease (provided, however, as contemplated by Section 24(a) of this Lease, Tenant shall only be entitled to a single notice from Landlord during any consecutive twelve (12) month period during the Term relating to Tenant's failure to pay the Rent or any other sums due hereunder), then, commencing on the first day of the thirty-first (31st) full calendar month after the date of this Lease, the LOC Amount shall be reduced to Two Million Six Hundred Eighty Thousand and 00/100ths Dollars (\$2,680,000.00) for the balance of the Term. Provided the foregoing conditions have been met, such reduction shall be accomplished by Tenant presenting to Landlord either a modification of the existing LOC then being held by Landlord (in which event Landlord agrees to promptly execute and deliver to Tenant and the issuer of the LOC such documents as shall be required to effect such modification), or by a new letter of credit (which complies with the terms of this Section 4) (in which event Landlord agrees to return the existing LOC to Tenant concurrently with the delivery to Landlord of the new letter of credit).

5. **CONDITION OF PREMISES.** Prior to the commencement of the Term, Landlord shall substantially complete the Landlord's Work, if any, as described on Exhibit C attached hereto. Landlord's Work shall be conclusively presumed

to be substantially complete on the date when Landlord is ready and able to deliver possession of the Premises to Tenant in such condition that Tenant may occupy the same to complete the Tenant Finishing Work, subject to minor incomplete items which would not have a material adverse effect on Tenant's completion of the Tenant Finishing Work, and "punch list items" relating to finishing the Landlord's Work, adjustments and other matters remaining to be completed. All such work shall be done in a good and workmanlike manner in compliance with all building codes and regulations applicable to the Building. Tenant's taking possession of the Premises shall be evidence that Tenant accepts the Premises and that the Premises are in satisfactory condition except for minor items which do not have a material adverse effect on Tenant's occupancy and "punch list items" relating to finishing, adjustments and other matters remaining to be completed of which Tenant gives written notice to Landlord within thirty (30) days after the Commencement Date which shall be corrected or repaired by Landlord. Tenant, at its sole cost and expense, shall perform the Tenant Finishing Work and all other alterations, improvements and other work necessary to prepare the Premises for Tenant's use. All such work shall be done in accordance with Exhibit C and Section 14 below.

6. USE. The Premises shall be used only for the purpose set forth in Section 1.11 above and for no other purposes. Tenant shall not do or permit anything to be done in or about the Premises which in any way will obstruct or interfere with any other occupants of the Building, or use or allow the Premises to be used for any improper, immoral or unlawful purpose or which could injure the reputation of the Project or otherwise violate any recorded covenant or restriction affecting the Project. Tenant shall not cause or maintain or permit any nuisance or commit or suffer the commission of any waste in, on or about the Project. Tenant shall not place a load upon any floor of the Premises which exceeds the floor load per square foot which such floor was designed to carry and shall not cause or permit in or about the Premises any offensive odors or other odors objectionable to Landlord or other tenants or patrons of the Building. Tenant expressly acknowledges that it shall be the sole responsibility of Tenant to secure all necessary permits, licenses and approvals from all governmental authorities having jurisdiction for the operation of Tenant's business.

7. COMPLIANCE WITH LAWS AND BUILDING RULES. Landlord represents and warrants that, upon completion of Landlord's Work, (i) the Building will be in compliance in all material respects with all applicable laws, statutes, ordinances and governmental rules, regulations or requirements, including, without limitation, the Americans with Disabilities Act and/or other related laws, (ii) the base building fire, life, safety systems are in compliance with all codes and regulations, and (iii) all structural aspects of the Building, including the foundation, exterior walls, roof (including the roof membrane and all roofing systems), mezzanine, elevators, base building and all service lines shall be in good operating condition. Tenant shall, at its sole cost and expense, promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now or hereafter in force, and with the requirements of any insurance company insuring the Project, the local Board of Fire Underwriters or any similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the Premises. Tenant shall not do or permit anything to be done on or about the Project or bring or keep anything therein which will in any way increase the cost of any insurance now or thereafter carried on the Project or any of its contents or that will invalidate any such insurance. If Tenant installs any electrical equipment that overloads the electrical lines in the Premises, Tenant shall, at its own expense, make such changes as may be necessary to comply with the requirements of insurance underwriters and any governmental authority having jurisdiction. Tenant shall also comply with all rules and regulations to regulate the use, occupancy and operation of the Project which may from time to time be established by Landlord in writing (the "Building Rules"), and any modifications or amendments thereto provided they are applied uniformly to all tenants of the Project. Landlord shall not be responsible to Tenant for the noncompliance by other tenants or occupants with the Building Rules.

8. ENVIRONMENTAL REQUIREMENTS. Tenant shall comply with all applicable federal, state and local environmental laws, ordinances and all amendments thereto and rules and regulations implementing the same, together with all common law requirements, which relate to discharge, emissions, waste, nuisance, pollution control, hazardous substances and other environmental matters as the same shall be in existence during the Lease Term. All of the foregoing laws, regulations and requirements are hereinafter referred to as "Environmental Laws". Tenant shall obtain all environmental licenses, permits, approvals, authorizations, exemptions, certificates and registrations (hereinafter collectively referred to as "Permits") and make all applicable filings required of Tenant under the Environmental Laws required by Tenant to operate at the Premises. Tenant shall make the Permits and required filings available for inspection by Landlord at Tenant's offices upon reasonable notice and during business hours and, upon request, Tenant shall furnish to Landlord copies of any and all such Permits and required filings. Tenant shall not cause or permit any flammable or explosive material, petroleum or petroleum by-products, contaminant, radioactive material, hazardous waste or material, toxic waste or material or any similar substance which is or may become regulated under any applicable

federal, state or local law (hereinafter collectively referred to as "Hazardous Substances") to be brought upon, kept or used in or about the Premises except for small quantities of such substances as is necessary in the ordinary course of Tenant's business provided that Tenant shall handle, store, use and dispose of any such Hazardous Substance in compliance with all applicable laws and the highest standards prevailing in the industry for the storage and use of such substances or materials, in a manner which is safe and does not contaminate the Premises, and Tenant shall give Landlord written notice of the identity of such substances. Landlord represents and warrants that, as of December 15, 2018, to Landlord's knowledge, the Building does not contain Hazardous Substances in violation of applicable Environmental Laws.

If any lender or governmental agency shall ever require testing to ascertain whether or not there has been any release of any Hazardous Substance, then the reasonable costs thereof shall be reimbursed by Tenant to Landlord upon demand as additional rent if such requirement applies to the Premises. In addition, Tenant shall execute affidavits, representations and the like from time to time at Landlord's request concerning Tenant's best knowledge and belief regarding the presence of Hazardous Substances on the Premises. Tenant shall indemnify and hold Landlord harmless from any liability, claim or injury, including without limitation attorney fees and the cost of any required or necessary repair, cleanup, remediation or detoxification arising out of (i) the use, manufacture, handling, storage, disposal or release of any Hazardous Substances by Tenant, its agents and employees on, under or about the Premises, or (ii) an actual or alleged violation of Environmental Laws in connection with the occupancy of the Premises by Tenant or any occupant of the Premises or the operation of Tenant's business on the Premises during the Lease Term. The foregoing covenants and indemnification shall survive the expiration of the Term of this Lease.

Landlord shall protect, defend, indemnify and hold Tenant harmless from any liability, claim or injury, including, without limitation, reasonable attorney fees and the cost of any required or necessary repair, cleanup, remediation or detoxification arising out of the use, manufacture, handling, storage, disposal or release of any Hazardous Substances outside of the Premises and/or Building Parcel by any party other than Tenant, its agents and/or employees.

9. COMMON AREAS. Tenant and its employees, customers and invitees shall have the reasonable nonexclusive right to use, in common with Landlord and the other tenants and occupants of the Project and their respective employees, customers and invitees and all others to whom Landlord has or may hereafter grant rights to use the same, the public portion of the Common Areas as may from time to time exist. Landlord shall have the right to close any or all portions of the Common Areas to such extent as may, in Landlord's opinion, be necessary to prevent a dedication thereof or the accrual of any rights to any person or the public therein. Landlord shall at all times have full control, management and direction of the Common Areas. Tenant shall not cause or allow any storage of materials or equipment outside of the Premises on any of the Common Areas. Landlord reserves the right at any time and from time to time to reduce, increase, enclose or otherwise change the size, number, location, layout and nature of the Common Areas, to construct additional buildings and stories, to create additional rentable areas through use and/or enclosure of Common Areas, to close portions of the Common Areas for maintenance, repair or replacement, to place signs in the Common Areas and on the Building or in the Project, to change the name of the Project and to change the nature of the use of any portion of the Project.

10. PARKING. Tenant and Tenant's employees, customers and invitees shall have the exclusive right to use all eight hundred six (806) parking spaces located within the parking areas on the Building Parcel at no additional cost to Tenant. Provided, however, notwithstanding the foregoing, three hundred forty-one (341) of such eight hundred six (806) parking spaces shall be covered parking spaces, in locations mutually acceptable to Landlord and Tenant (the "Covered Spaces"). The Covered Spaces shall be subject to a rental rate of Thirty and No/100ths Dollars (\$30.00) per month per covered parking space, plus any applicable sales or use taxes, payable by Tenant as additional Rent on the first day of each month throughout the Term. In the event the Term commences on other than the first day of a calendar month, the additional Rent for the Covered Spaces for such partial month shall be prorated based upon the actual number of days of the Term during such month. Tenant's right to use the parking spaces located within the Project is limited to the parking of passenger motor vehicles, and Tenant shall not permit its employees, customers and invitees to use the parking areas for the parking of buses, trucks, RVs, boats or other equipment. Tenant shall not permit vehicles to be abandoned or stored in the Project's parking areas. Tenant's use and the use by Tenant's employees, customers and invitees, of the Project's parking areas shall be at the sole risk of Tenant, and Landlord shall not be liable for any damage to any vehicle brought onto the Project by Tenant or Tenant's employees, customers or invitees.

Tenant, at Tenant's sole cost, may convert no less than ten (10) parking stalls to vehicle charging stations; however, Tenant may apply funds from the Tenant Improvement Allowance toward the costs of any such conversion. Tenant shall be entitled to all financial benefits arising out of or relating to the installation and/or use of such vehicle charging stations, including without limitation any utility savings, rebates, tax credits or deductions.

11. REPAIRS. Landlord shall maintain the Common Areas and the structural elements of the Building, including the foundation, exterior walls, roof (including the roof membrane and all roofing systems), mezzanine, elevators, base Building fire and life safety, and all utility service lines to the point where same enter the Building, and the heating, ventilating, air conditioning, electrical, plumbing and mechanical systems provided by Landlord in the Building, and the cost thereof shall be included in Operating Expense; provided, however, that if any such repairs shall be occasioned by the acts or negligence of Tenant, its agents, employees, customers or invitees, or the particular nature of Tenant's use of the Premises, Tenant shall be responsible for the entire cost of such repairs. Except for the repairs Landlord is specifically obligated to make as set forth above, Tenant shall, at its expense, during the Lease Term, make all other necessary repairs and replacements to the Premises, including the heating, ventilating, air conditioning, electrical, plumbing and mechanical systems serving the Premises and all Tenant Finishing Work, and keep and maintain the same in good condition and repair so that at the expiration of the Term, the Premises shall be surrendered to Landlord in the same condition that the same are in at the commencement of the Term, ordinary wear and tear excepted. Tenant shall replace any light bulbs, tubes and ballasts in the Premises. Tenant shall be responsible for repairing any damage to the Building caused by the installation or moving of Tenant's furniture, equipment, cabling and personal property. Tenant shall, at its expense, also repair or replace with glass of equal quality any broken or cracked plate or other glass in doors, windows and elsewhere in or adjacent to the Premises. Tenant shall not defer any repairs or replacements to the Premises by reason of the anticipation of the expiration of the Term. The surrender of the Premises upon the expiration or early termination of this Lease shall not relieve Tenant of the obligation to pay for all repairs or replacements to the Premises which Tenant was obligated to perform during the Lease Term, which obligation shall survive the expiration or early termination of this Lease. If Tenant fails to perform its obligations hereunder and such failure continues for ten (10) days after notice thereof, Landlord, at Landlord's option, may elect to perform all or part of the maintenance, repairs and servicing which is the obligation of the Tenant hereunder and/or the obligation of all of the other tenants of the Building with respect to the premises occupied by them, in which event the cost thereof shall be at Landlord's option either billed directly to and paid by Tenant as additional rent or included in Operating Expense. Except as aforesaid, in the event that, at the request of Tenant, Landlord performs any maintenance, repairs or servicing of the Premises which is the obligation of Tenant hereunder, then Tenant shall pay Landlord directly therefor.

12. JANITORIAL SERVICES. Tenant shall provide janitorial service for the Premises and arrange for trash removal from the Premises to the Project trash dumpster on a daily basis or otherwise in a manner sufficient to keep and maintain the Premises and the Project in a first-class and clean condition.

13. UTILITIES. Tenant shall be responsible for obtaining all utility services to the Premises, including gas, electricity, water and sanitary sewer and telephone directly from the utility providing such service and shall pay for such services as and when payments are due.

No discontinuance of any utility service shall relieve Tenant from performing any of its obligations under this Lease, and Landlord shall not be liable for any discontinuance in or failure of any utility service, and no such failure or discontinuance shall be deemed a constructive eviction. Notwithstanding the foregoing, if, as a result of any failure or delay in providing heating, air conditioning, ventilation, plumbing, water, or electricity caused by Landlord's negligence or willful misconduct, Tenant becomes unable to use the Premises or any material part thereof in the manner typically used by Tenant before the interruption, and such inability to use the Premises continues for more than five (5) consecutive business days after the start of such interruption, then Rent for the portion of the Premises rendered unusable shall abate from the sixth (6th) business day after the start of the interruption until such portion is rendered usable and the applicable service is restored. In the event that Tenant's disproportionate use or timing of its use of any form of energy should subject the Project or Landlord to any cost, fee or tax, Tenant shall pay or reimburse Landlord for the same as additional Rent within fifteen (15) days after Landlord's bill therefor.

14. ALTERATIONS. The Tenant Finishing Work shall be performed by Tenant in accordance with the provisions of Exhibit C. Tenant shall not make any other nonstructural alterations, additions or improvements "Non-Structural Alterations" (defined below) with an aggregate cost in excess of \$100,000.00 in, on or to the Premises or any part thereof without delivering to Landlord the plans and specifications therefor and obtaining the prior written consent of

Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. For any Non-Structural Alterations that do not require the consent of Landlord hereunder, Tenant shall nevertheless provide Landlord written notice at least ten (10) days prior to the commencement of any work on such Non-Structural Alteration. Tenant shall not make any "Structural Alteration(s)" (defined below), additions or improvements in, on or to the Premises or any part thereof without delivering to Landlord the plans and specifications therefor and obtaining the prior written consent of Landlord, which consent may be granted or withheld in Landlord's sole discretion. The term "Structural Alteration(s)" shall mean any alteration of the exterior walls; windows; roof; foundation; heating, ventilating, air conditioning, electrical, plumbing and mechanical systems; life safety systems; or load bearing walls, structures or beams. The term Non-Structural Alteration shall mean any alteration that is not a Structural Alteration. Non-Structural Alteration and Structural Alteration shall be generally referred to herein as an "Alteration." If it is unclear that an Alteration is a Non-Structural Alteration or a Structural Alteration, it shall be deemed a Structural Alteration. Landlord's consent to any Alteration may be made contingent upon Tenant agreeing to such conditions relating thereto as Landlord may impose, including, but not limited to, depositing sufficient funds to assure full payment of all sums due for such work, providing other assurances of Tenant's financial ability to pay, or removing such Alteration upon Tenant's surrender of the Premises, but in no event will Tenant be required to obtain a performance bond. Any Alteration must be made at Tenant's own cost and expense and in a good and workmanlike manner by contractor(s) approved by Landlord in accordance with the laws, ordinances and codes relating thereto and free from any claim or claims for construction liens, and Tenant shall indemnify and hold Landlord harmless from and against any and all claims, liens, costs and expenses on account of such work. Upon completion of any Alteration, Tenant shall provide Landlord with a copy of the as-built plans, blueprints and other items requested by Landlord for the same.

15. SIGNS. Tenant shall not install or affix any sign, plaque, picture, advertisement, name, notice, lettering or direction on any part of the Project or on any part of the inside of the Premises which can be seen from outside of the Premises, without in each instance first obtaining the prior written consent of the Landlord. Subject to City of Chandler and Chandler Airport Center Owners Association rules, regulations, and ordinances, Tenant, at Tenant's sole cost, shall be entitled to (i) exterior signage on the Building, as depicted on Exhibit F, (ii) an exclusive single tenant monument sign in the location identified as "Single Tenant Monument Sign C" on, and in conformance with the plans and specifications set forth in, Exhibit F (the "Exclusive Monument Sign"), and (iii) signage on multi-tenant monument signs in the locations identified as "Multi-Tenant Monument Sign A" and "Multi-Tenant Monument Sign B" on, and in conformance with the plans and specifications set forth in, Exhibit F (each and together, the "Multi-Tenant Monument Sign(s)"). Tenant shall obtain Landlord's approval in writing of the appearance of Tenant's exterior Building signage, the Exclusive Monument Sign and the Multi-Tenant Monument Sign(s) (including Tenant's panel(s) thereon) prior to fabrication and installation, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant, at Tenant's expense, shall be required to obtain and shall be responsible for maintaining all approvals, licenses and permits required by the City of Chandler and Chandler Airport Center Owners Association in connection with Tenant's exterior Building signage, the Exclusive Monument Sign and the Multi-Tenant Monument Signs. Tenant shall be solely responsible for all costs and expenses relating to Tenant's exterior Building signage, the Exclusive Monument Sign and the Multi-Tenant Monument Signs, including, without limitation, design, fabrication, installation, any operating costs, maintenance, cleaning, repair and removal. Tenant shall be obligated to pay the cost of repairing any damage associated with the removal of any such signage. Notwithstanding the foregoing, when another occupant of the Project places its signage panel(s) on a Multi-Tenant Monument Sign, then, thereafter, Tenant's liability associated with such Multi-Tenant Monument Sign shall be limited to Tenant's proportionate share (based on a fraction, the numerator of which is the size of Tenant's panel(s) on such Multi-Tenant Monument Sign, and the denominator of which is the size of all panel(s) on such Multi-Tenant Monument Sign) of any operating, maintenance, cleaning and repair costs. In the event an occupant of the Project entitled to signage on a Multi-Tenant Monument Sign occupies more square footage within the Project than Tenant, such occupant shall be entitled to proportionately more prominent signage (both in terms of size and location) than Tenant on such Multi-Tenant Monument Sign and, in the event a position higher than Tenant on such Multi-Tenant Monument Sign is not then available, Tenant shall, at Tenant's sole cost, within thirty (30) days after written request by Landlord, relocate Tenant's sign panel(s) to a lower position to accommodate the sign panel(s) of such larger occupant on such Multi-Tenant Monument Sign.

16. LIENS. Tenant shall not suffer or permit any liens under any construction lien law to be filed or recorded against the Premises or against the interest of either Landlord or Tenant therein. No person shall be entitled to any lien directly or indirectly derived through or under Tenant or through or by virtue of any act or omission of Tenant upon the Premises for any improvements or fixtures made thereon or installed therein or for or on account of any labor or material furnished to the Premises or for or on account of any matter or thing whatsoever; and nothing in this Lease

contained shall be construed to constitute a consent by Landlord to the creation of any lien. If any such lien is filed or recorded, Tenant shall immediately cause such lien to be discharged of record. Tenant shall indemnify, defend and hold harmless Landlord from any and all loss, liability, damage or expense, including reasonable attorneys' fees, arising out of or in any way connected with the filing or recording of any such lien. Tenant's obligations hereunder shall survive the expiration or termination of this Lease.

17. RIGHT OF ENTRY. Landlord and its agents shall at all times have the right to enter the Premises to inspect the condition thereof, to supply any service to be provided by Landlord to Tenant hereunder, to show, upon reasonable advance notice, the Premises, and to alter, improve, or repair the Premises and any portion of the Building in the company of a representative of Tenant. Landlord shall use commercially reasonable efforts to minimize any injury, inconvenience or interference with Tenant's business in connection with any such entry. In addition, Landlord reserves the right to display "For Lease" and "For Sale" signs within the Project but not within or on the Building. Tenant shall not add or change the locks, or limit or withhold key card access to Landlord, to any doors of the Premises. Tenant agrees to deposit or permit Landlord to deposit on Tenant's behalf a key or access card to the Premises in a lock box if required by and for the benefit of the local fire department. Any entry to the Premises shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction, of Tenant or impose any liability on Landlord. Nothing contained herein shall be deemed to impose on Landlord any obligation or duty to make repairs or alterations to the Premises except as expressly provided in this Lease.

18. INSURANCE. Tenant shall, at its expense, obtain and carry at all times during the Term of this Lease (a) commercial general liability insurance including contractual liability coverage for the indemnification obligations of Tenant contained in this Lease covering injury to or death of persons and damage to property in an amount not less than \$2,000,000.00 combined single limit per occurrence/\$2,000,000.00 annual aggregate (or such higher amounts as Landlord shall from time to time determine); (b) property insurance protecting Tenant against all loss or damage by fire and such other risks as are insurable under their available standard forms of "special form" (previously known as "all risk") insurance policy including without limitation vandalism and malicious mischief and theft and mysterious disappearance, without deductible or coinsurance, covering Tenant's personal property and trade fixtures in or about the Premises and all alterations, additions and leasehold improvements (either made by Landlord or Tenant) in the amount of their full replacement value without deduction for depreciation; and (c) such other insurance as may be required from time to time by Landlord or any underlying lessor or mortgagee of the Project. All of such policies shall be written by an insurance company or companies satisfactory to Landlord, shall cover Tenant, Landlord, and any other parties in interest designated by Landlord, as their interests may appear, shall be written as primary policy coverage and not contributing with or in excess of any coverage which Landlord may carry, and shall contain a clause that the insurer will not cancel or change the insurance coverage without at least thirty (30) days prior written notice to Landlord. A certificate of Tenant's insurers in form and substance satisfactory to Landlord evidencing such insurance shall be furnished to Landlord prior to the Commencement Date and at least thirty (30) days prior to the renewal date and at such other times as may be reasonably requested by Landlord. Landlord may at any time and from time to time inspect and/or copy any and all insurance policies required to be procured by Tenant under this Lease.

Landlord shall at all times carry casualty insurance in the full replacement cost of the Premises, the Building and the Project, and such other types of insurance, in such amounts as are typically carried by landlords of other comparable projects in the vicinity of the Project. Tenant shall not be responsible for the cost of any portion of any insurance policy of a type or in an amount beyond those typically carried by other landlords of comparable projects in the vicinity of the Project.

19. WAIVER OF SUBROGATION. Each party hereby expressly releases the other from liability it may have on account of any loss to the Premises or Building or contents of either, including, without limitation, personal property, trade fixtures, alterations, additions and leasehold improvements due to fire or any peril included in the coverage of any applicable fire and extended coverage and material damage insurance, however caused, including such losses as may be due to the negligence of the other party, its agents or employees, but only to the extent of any amount recovered by reason of such insurance, and each party hereby waives any right of subrogation which might otherwise exist in or accrue to such party on account thereof, provided that such release of liability and waiver of the right of subrogation shall not be operative in any case where the effect thereof is to invalidate such insurance coverage under applicable state law (or increase the cost thereof, unless the other party reimburses the insured for any cost increase). If Tenant fails to maintain in force any insurance required by this Lease to be carried by it, then for purposes of this waiver of subrogation it shall be deemed to have been fully insured and to have recovered the entire amount of its loss.

20. TENANT PROPERTY. All personal property including, without limitation, all contents, inventory, furniture, fixtures, equipment, data cabling, alterations, additions and leasehold improvements in or about the property or in the Premises belonging to Tenant, its agents, employees or invitees shall be at the sole risk of Tenant or such other person and Landlord shall not be liable for damage thereto or theft, misappropriation or loss thereof. Tenant shall insure all personal property against all loss or damage as provided in Section 18, above. Landlord shall not be liable to Tenant, and Tenant hereby waives all claims against Landlord, for any injury or damage to personal property in or about the Project as aforesaid resulting from the Project, Building or Premises, or any part thereof or any equipment thereof becoming out of repair; flooding of basements or other areas; damage caused by sprinkling devices, air-conditioning apparatus, snow, frost, water leakage, steam, excessive heat or cold, falling plaster, broken glass, sewage, gas, odors or noise or the bursting or leaking of pipes or plumbing fixtures; any act or neglect of Landlord or of other tenants or occupants or employees in the Project; or any other thing or circumstance whatsoever, whether of a like nature or of a wholly different nature.

21. CASUALTY. If the Premises and/or the parking areas on the Building Parcel are destroyed or damaged by fire or other casualty covered by a standard fire and extended coverage policy, then (unless this Lease is terminated by Landlord as hereinafter provided) Landlord shall proceed, after adjustment of such loss, to repair or restore the Premises and such parking areas to the condition which Landlord furnished to Tenant upon the commencement of the Term. Landlord shall be under no obligation to restore any Alterations to the Premises made by Tenant unless the same is covered by Landlord's insurance. In no event shall Landlord be obligated to expend an amount in excess of the insurance proceeds available to Landlord for such repair or restoration. If Landlord repairs or restores the Premises and such parking areas as provided herein, then Tenant shall repair and restore its furnishings, furniture and equipment to at least a condition equal to that prior to its damage. If the Premises or any part thereof shall be rendered untenable by any destruction or damage, then a pro rata portion of the Rent based upon the number of square feet of area in the Premises which are untenable shall be abated until the Premises or such part thereof shall have been put in tenable condition. If, however, any destruction or damage to the Premises or Building (regardless of whether or not the Premises are affected) is so extensive that Landlord, in its reasonable discretion, elects not to repair or restore the Premises or Building, or the proceeds of insurance are not sufficient or available to fully pay the cost of repair or restoration, then Landlord may terminate this Lease effective as of the date of the damage by written notice to Tenant. The provisions of this Section are subject to the rights of Landlord's mortgagees, if any.

22. CONDEMNATION. If all or substantially all of the Premises and/or the parking areas on the Building Parcel are sold to or taken by any public authority under its power of condemnation or the threat thereof, this Lease shall terminate as of the date possession shall be transferred to the acquiring authority, and the Rent payable hereunder shall be apportioned accordingly. Upon any taking of less than substantially all of the Premises, this Lease shall continue in force as to the part of the Premises not taken, and the Rent payable thereafter shall be reduced in proportion to the amount of total floor area of the Premises taken. Upon any taking of less than substantially all of the parking areas on the Building Parcel, this Lease shall continue in force as to the part of the parking areas not taken, and the Rent payable thereafter shall be equitably reduced based on the amount of the parking areas taken. In the event of any such taking, Landlord, upon receipt and to the extent of the award in condemnation or proceeds of sale, shall, unless this Lease has been terminated, make necessary repairs and restorations (exclusive of Tenant's leasehold improvements and Alterations) to restore the Premises remaining to as near its former condition as circumstances will permit and to rebuild or restore the remainder of the Premises to the approximate condition in which they existed at the time of such taking. In any event, all damages awarded by or amounts paid by the acquiring authority for any such taking, whether for the whole or a part of the Premises or the Building or Common Areas, shall belong to and be the sole property of Landlord whether such damages are awarded as compensation for loss of, or diminution in value to, the leasehold or the fee thereof; provided, however, Tenant shall have the right to pursue such claim or claims as Tenant may have legally for relocation expenses, interruption of business and such items which do not reduce the award or proceeds of sale payable to Landlord. In the event that this Lease is terminated as hereinabove provided, Tenant shall not have any claim against Landlord for the value of the unexpired term hereof. The provisions of this Section are subject to the rights of Landlord's mortgagees, if any.

23. ASSIGNMENT AND SUBLETTING. Tenant shall not assign, pledge, mortgage or otherwise transfer or encumber this Lease or sublet any part or all of the Premises, or any transfer of an interest in the Premises by operation of law. Landlord agrees not to unreasonably withhold, condition or delay its consent in connection with any proposed assignment or subletting. The following shall be deemed to be an assignment of this Lease within the meaning of this Section: (a) the sale, issuance or transfer of any voting stock of Tenant (if Tenant be a nonpublic corporation or if Tenant

is a public corporation and such sale, issuance or transfer results in Tenant becoming a nonpublic corporation) which results in a change in voting control of Tenant; (b) the sale, issuance or transfer of any partnership or membership interest in Tenant if Tenant is a partnership or limited liability company; (c) the change or conversion of a general or limited partnership to a limited liability company, limited liability partnership or any other entity which possesses the characteristics of limited liability; (d) the sale, issuance or transfer of any beneficial interest in Tenant if Tenant be a trust; and (e) the death or incapacity of Tenant if Tenant be a natural person. Without waiving Landlord's right hereunder to declare a default in the event of an assignment of this Lease or a subletting of the Premises or any part thereof or occupancy of the Premises by anyone other than Tenant, Landlord may collect from the assignee, sublessee or occupant, any rental and other charges herein required, but such collection by Landlord shall not be deemed an acceptance of the assignee, sublessee or occupancy, nor a release of Tenant from the performance by Tenant of this Lease. Further, Tenant at all times and under all circumstances shall remain liable to Landlord for the payment of Rent due and to become due and the performance of all other obligations of Tenant hereunder for the term hereof, as same may be extended pursuant to Section 43 of this Lease. Tenant shall pay to Landlord, as additional rent, any actual, reasonable third party costs and expenses including reasonable attorney fees incurred by Landlord in connection with any proposed or purported assignment, sublease or other transfer. Tenant shall have the right to advertise the availability of the Premises without restrictions as to the rental rate advertised. Except in connection with a Permitted Transfer (as defined below), Landlord shall be entitled to fifty percent (50%) of all profits realized by Tenant in connection with any assignment or subletting net of all costs incurred by Tenant in connection therewith.

Notwithstanding anything to the contrary herein, Tenant may, without obtaining Landlord's consent, assign this Lease or sublet all or any portion of the Premises to any one or more of the following parties (each, a "transferee") on the following conditions (each, a "Permitted Transfer"): (i) any subsidiary or affiliate of Tenant of which Tenant owns a controlling interest; (ii) any controlling parent corporation or entity of Tenant; (iii) any subsidiary or affiliate of Tenant's parent corporation or entity of which such parent owns a controlling interest; and (iv) any corporation or entity into which Tenant merges or consolidates or any corporation, entity or individual which purchases all or substantially all of the assets or stock of Tenant; the foregoing clauses (i) through (iv), inclusive, of this Section 23 are subject to the following conditions: (A) unless Tenant shall not survive a merger, Tenant remains primarily liable for all of its obligations hereunder; (B) the transferee assumes in writing and is bound by all obligations of Tenant for payment of all amounts of Base Rent and other sums and the performance of all covenants required by Tenant pursuant to this Lease; (C) the transferee complies with the usage restrictions of this Lease; (D) Guarantor(s), if any, remain liable for all of its obligations under any Guaranty of this Lease; (E) such transferee shall have a net worth not less than the greater of the net worth of Tenant as of the Commencement Date or immediately prior to such Permitted Transfer; and (F) not less than thirty (30) days prior to the effective date of a Permitted Transfer, Tenant notifies Landlord of the Permitted Transfer and provides Landlord with such evidence as Landlord may reasonably require to establish that such assignment or subletting meets the requirements of a Permitted Transfer; provided, that in the event such assignment or subletting does not satisfy the requirements for a Permitted Transfer set forth in this Section 23, Landlord shall have the right to disapprove of any such assignment or subletting as set forth above.

Landlord's consent shall not be required with respect to Tenant's utilization of third party operators to provide and/or manage employee amenities (e.g., cafeteria, on-site clinic, etc.).

24. **DEFAULT**. If (a) Tenant shall fail to pay the Rent or any other sums due hereunder within five (5) days after the same is due (provided that for the first failure to pay during any consecutive twelve (12) month period during the Term, it shall not be a default under this Lease if Tenant shall pay the Rent or other charge due within five (5) days after Tenant's receipt of written notice of nonpayment from Landlord), or (b) Tenant shall fail to perform any of the other covenants or conditions herein contained on the part of Tenant, and such default shall continue for thirty (30) days after written notice thereof shall have been given to Tenant (except that such thirty (30) day period shall be automatically extended for an additional period of time reasonably necessary to cure such default, not to exceed an additional thirty (30) days, if such default cannot be cured within such original thirty (30) day period and provided Tenant commences the process of curing such default within said original thirty (30) day period and continuously and diligently prosecutes such cure to completion), or (c) if this Lease shall, by act of Tenant or by operation of law or otherwise, pass to any party other than Tenant, or (d) if Tenant shall abandon the Premises, or (e) Tenant or any guarantor of this Lease shall become insolvent or bankrupt or make an assignment for the benefit of creditors, or (f) a receiver or trustee of Tenant's property or that of any guarantor of this Lease shall be appointed and such receiver or trustee, as the case may be, shall not be discharged within thirty (30) days after such appointment, or (g) an execution or attachment is levied against Tenant's property or that of any guarantor of this Lease, or (h) Tenant shall be in default under any

other lease between Landlord (or any affiliate of Landlord) and Tenant (or an affiliate of Tenant), then in any such case, Landlord may, without further notice to Tenant, recover possession of and reenter the Premises without affecting Tenant's liability for past Rent and other sums due or future Rent and other sums to accrue hereunder. In the event of any such default, Landlord shall be entitled to recover from Tenant, in addition to Rent, all other damages sustained by Landlord on account of the breach of this Lease, including, but not limited to, the costs, expenses and attorney fees incurred by Landlord in enforcing the terms and provisions hereof and in reentering and recovering possession of the Premises and for the cost of repairs, alterations and brokerage and attorney fees connected with the reletting of the Premises. Further, at the election of Landlord, Landlord shall have the right to declare this Lease terminated and cancelled, without any further rights or obligations on the part of Landlord or Tenant (other than Tenant's obligation for Rent and other sums due and owing through the date of termination), so that Landlord may relet the Premises without any right on the part of Tenant to any credit or payment resulting from any reletting of the Premises. In case of a default under this Lease, Landlord may, in addition to terminating this Lease, or in lieu thereof, pursue such other remedy or combination of remedies and recover such other damages for breach of tenancy and/or contract as available at law or otherwise.

Landlord may, but shall not be obligated to, cure any default by Tenant (specifically including, but not by way of limitation, Tenant's failure to obtain insurance, make repairs, or satisfy lien claims) after notice to Tenant and a five (5) business day opportunity to cure, and whenever Landlord so elects, all costs and expenses paid by Landlord in curing such default, including without limitation attorney fees, shall be payable to Landlord as additional rent due on demand, together with interest at the rate provided in Section 26 below from the date of the advance to the date of repayment by Tenant to Landlord.

No receipt of money by Landlord from Tenant after the expiration or termination of this Lease or after the service of any notice or after the commencement of any suit, or after final judgment for possession of the Premises shall reinstate, continue or extend the Term of this Lease or affect any such notice, demand or suit.

A waiver by Landlord of a breach or default by Tenant under the terms and conditions of this Lease shall not be construed to be a waiver of any subsequent breach or default nor of any other term or condition of this Lease, and the failure of Landlord to assert any breach or to declare a default by Tenant shall not be construed to constitute a waiver thereof so long as such breach or default continues unremedied.

If Landlord shall fail to reimburse Tenant as aforesaid or otherwise fail to perform any covenant or condition of this Lease upon Landlord's part to be performed and, as a consequence of such default, Tenant shall recover a money judgment against Landlord, such judgment shall be satisfied only out of the proceeds of sale received upon execution of such judgment and levied thereon against the right, title and interest of Landlord in the Building and out of rents or other income from the Building receivable by Landlord and Landlord shall not be personally liable for any deficiency.

25. ATTORNEY FEES. In the event either party shall bring an action to interpret or enforce the provisions of this Lease, the prevailing party therein shall be entitled to recover its actual reasonable attorneys' fees and costs arising out of such action.

26. INTEREST. Any amount due from Tenant to Landlord hereunder which is not paid when due shall bear interest at an annual rate equal to the greater of (i) five percent (5%) per annum in excess of the prime rate of interest announced, from time to time, by The Wall Street Journal or (ii) twelve percent (12%) per annum (but in no event shall such rate of interest exceed the maximum rate of interest permitted to be charged by law) from the date due until paid, compounded monthly, but the payment of such interest shall not excuse or cure any default by Tenant under this Lease.

27. SURRENDER. Upon the termination of this Lease, by expiration or otherwise, Tenant shall peaceably surrender the Premises to Landlord broom-clean and in good condition and repair consistent with Tenant's duty to make repairs as provided herein. All Alterations and decorations made to the Premises by Tenant shall remain and be the property of the Landlord. All furniture, equipment and unattached movable personal property owned by Tenant shall be removed from the Premises by Tenant no later than the termination date, and Tenant shall repair any and all damage caused by such removal. If the Premises are not surrendered upon the termination of this Lease as set forth herein, Tenant shall indemnify Landlord against all loss or liability resulting from delay by Tenant in so surrendering the Premises including, without limitation, any claim made by any succeeding tenant founded on such delay. Tenant shall also surrender all keys to the Premises and shall inform Landlord of combinations in any locks, safes and vaults, if any,

in the Premises. Subject to the foregoing, Tenant shall have no restoration obligations at the expiration or earlier termination of the Lease.

28. HOLDOVER. In the event Tenant remains in possession of the Premises after the expiration of this Lease, it shall be deemed to be occupying said premises as a month-to-month tenant, subject to all of the conditions, provisions and obligations of this Lease insofar as the same are applicable to a month-to-month tenancy until the termination of such tenancy, provided that Tenant shall pay to Landlord an amount equal to one hundred twenty-five percent (125%) of the Base Rent in effect immediately preceding the holdover period for the first two (2) months of the holdover and one hundred fifty percent (150%) of the Base Rent in effect immediately preceding the holdover period for each month thereafter, or the maximum amount allowed by law, together with Tenant's Proportionate Share of Operating Expense on a monthly basis (or pro-rata for partial months) with respect to the holdover period. Such month-to-month tenancy may be terminated at the end of any calendar month by either Landlord or Tenant giving the other at least twenty-eight (28) days prior written notice. The foregoing provisions shall not affect or impair, and shall be in addition to, Landlord's rights to pursue any and all remedies for Tenant's default resulting from such holdover available under this Lease, at law or in equity.

29. TRANSFER BY LANDLORD. In the event of a sale or conveyance by Landlord of the Building, the same shall operate to release Landlord from any future liability upon any of the covenants or conditions herein contained, and in such event Tenant agrees to look solely to the successor in interest of Landlord in and to this Lease. This Lease shall not be affected by any such sale or conveyance, and Tenant agrees to attorn to the purchaser or grantee, which shall be obligated on this Lease only so long as it is the owner of Landlord's interest in and to this Lease.

30. SUBORDINATION. This Lease is and shall be subject and subordinate at all times to all ground or underlying leases which now exist or may hereafter be executed affecting the Building and to the lien of any mortgages now or hereafter placed on or against the Building, or on or against Landlord's interest or estate therein, and including all extensions, renewals, amendments and supplements to any such lease or mortgage, without the necessity of the execution and delivery of any further instruments on the part of Tenant to effectuate such subordination. Tenant covenants and agrees to execute and deliver to Landlord, within ten (10) business days after request therefor from Landlord, a subordination, non-disturbance and attornment agreement in the form attached hereto as Exhibit G (the "SNDA"), and such further reasonably acceptable instruments evidencing such subordination of this Lease to any ground or underlying leases and to the lien of any such mortgages as may be required by Landlord provided that any lessor under any such ground or underlying lease or the holder of any mortgage has agreed not to terminate or disturb Tenant's right to use and occupy the Premises pursuant to the terms of this Lease so long as Tenant is not in default hereunder after notice and any applicable cure period. Failure of Tenant to execute and deliver such instrument within such ten (10) business day period shall constitute a breach of this Lease after an additional notice and two (2) business day cure period and Landlord may, at its option, cancel this Lease and terminate Tenant's interest herein. Further, Tenant hereby irrevocably appoints Landlord as attorney-in-fact for Tenant with full power and authority to execute and deliver in the name of Tenant any such instrument if Tenant fails to execute and deliver the same within the time period as aforesaid. Notwithstanding anything herein above contained in this Section, in the event the holder of any mortgage shall at any time elect to have this Lease constitute a prior and superior lien to its mortgage, then and in such event, upon any such holder notifying Tenant to that effect in writing, this Lease shall be deemed prior and superior in lien to such mortgage, whether this Lease is dated prior to or subsequent to the date of such mortgage. Landlord agrees to obtain and deliver to Tenant an SNDA from Landlord's current lender after the effective date of this Lease.

31. MODIFICATIONS. Tenant agrees to execute any modification of this Lease which may be required by a lender as a condition to making a first mortgage loan on the Project; provided that no such modification shall alter the rent or term provided herein or materially reduce the economic value or beneficial interest hereof to Tenant or materially increase Tenant's obligations hereunder.

32. ESTOPPEL CERTIFICATES. Tenant agrees that at any time and from time to time within ten (10) business days after request from Landlord or one of Landlord's mortgagees, Tenant shall execute, acknowledge and deliver to Landlord a statement in writing certifying (a) that this Lease is unmodified and in full force and effect (or if there have been modifications, specifying the same), and (b) the dates to which the Rent and other sums have been paid, and (c) that, so far as the Tenant knows, Landlord is not in default under any provisions of this Lease (or if Tenant knows of any such default, specifying the same) and (d) such other matters as Landlord or Landlord's mortgagee may reasonably

require. It is intended that any such statement may be relied upon by any person proposing to acquire Landlord's interest in this Lease or any prospective mortgagee of, or assignee of any mortgage upon, such interest.

33. NOTICES. All notices, consent, approval, waivers, demands or elections which may or are required to be given by either party to the other hereunder shall be in writing, and delivered in person or sent by either United States certified mail, return receipt requested, postage prepaid or by a nationally recognized overnight delivery service and shall be effective when received or refused, if delivered in person, by certified mail or by courier and addressed to the respective parties at the addresses below.

If to Landlord:	Ascend Northrop, LLC c/o Irgens Partners, LLC 833 East Michigan Street, Suite 400 Milwaukee, WI 53202 Attention: CEO/Manager
If to Tenant:	
Prior to Commencement Date:	Bridgepoint Education, Inc. 8620 Spectrum Center Boulevard San Diego, CA 92123 Attention: Jon Allen, Associate VP of Facilities and Security
On and After the Commencement Date:	Bridgepoint Education, Inc. 1811 E. Northrop Boulevard Chandler, AZ 85286 Attention: Jon Allen, Associate VP of Facilities and Security
With a copy to:	Procopio, Cory, Hargreaves & Savitch LLP 525 B Street, Suite 2200 San Diego, CA 92101 Attention: Thomas W. Turner, Jr.

Either party may, from time to time, change the address to which notice shall be sent by notice given to the other party, except that no party may change its address to other than a street address. Any notice given that does not conform to this Section shall be effective only upon receipt.

34. EXECUTION. The submission of this document for examination does not constitute an offer to lease, or a reservation of, or option for, the Premises and this document becomes effective and binding only upon the execution and delivery hereof by both Landlord and Tenant. Tenant confirms that Landlord has made no representations or promises with respect to the Premises or the making or entry into of this Lease except as are expressly set forth herein, and agrees that no claim or liability shall be asserted by Tenant against Landlord for, and Landlord shall not be liable by reason of, breach of any representations or promises not expressly stated in this Lease. This Lease can be modified or altered only by agreement in writing between Landlord and Tenant. Tenant shall not record this Lease without the prior written consent of Landlord.

35. BINDING EFFECT. The covenants, agreements and obligations herein contained, except as herein otherwise specifically provided, shall extend to, bind and inure to the benefit of the parties hereto and their respective personal representatives, heirs, successors and assigns (but in the case of assigns only to the extent that assignment is permitted hereunder). No third party, other than such successors and assigns, shall be entitled to enforce any or all of the terms of this Lease or shall have rights hereunder whatsoever.

36. INTENTIONALLY OMITTED.

37. INTERPRETATION. The laws of the State in which the Project is situated shall govern the validity, performance and enforcement of this Lease. The invalidity or unenforceability of any provision of this Lease shall not affect or impair any other provision. Whenever the singular number is used, the same shall include the plural, and the masculine gender shall include the feminine and neuter genders. The captions appearing in this Lease are inserted only as a matter of convenience and in no way define, limit, construe or describe the scope or intent of such sections or paragraphs of this Lease nor in any way affect this Lease.

38. FORCE MAJEURE. In the event either party shall be delayed or hindered in or prevented from the performance of any act required hereunder by reason of strikes, lockouts, labor troubles, inability to procure materials, failure of power, restrictive governmental laws, regulations, orders or decrees, riots, insurrection, war, acts of God, inclement weather, or other reason beyond such party's reasonable control, then performance of such act shall be excused for the period of the delay and the period for the performance of any such act shall be extended for a period equivalent to the period of such delay. Notwithstanding the foregoing, force majeure shall not apply to Tenant's payment of Rent or any other amounts Tenant is obligated to pay Landlord under this Lease.

39. AUTHORITY. If Tenant is a corporation or limited liability company or other entity, each individual executing this Lease on behalf of Tenant represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said corporation, limited liability company or other entity, as the case may be, and that this Lease is binding upon said entity in accordance with its terms without the joinder or approval of any other person.

40. JOINT AND SEVERAL LIABILITY. If Tenant is more than one natural person, the individuals collectively referred to herein as Tenant shall be jointly and severally liable with respect to the obligation to pay Rent and perform all of the other obligations, covenants and agreements of Tenant set forth in this Lease. In the event that Tenant is any type of business entity, each of such entity's shareholders, members or partners shall personally guaranty payment and performance of all the obligations of Tenant under this Lease in a form satisfactory to Landlord. Any action or occurrence which would render such a guaranty ineffective or uncollectible shall constitute a default hereunder.

41. FINANCIAL STATEMENTS. Except at such times as Tenant is a publicly traded company, Tenant shall, within thirty (30) days after receipt of written request from Landlord and in any event within ninety (90) days after the end of each completed fiscal year of Tenant, provide to Landlord, for the benefit of Landlord, Landlord's mortgagee and any prospective mortgagee or purchaser of the Project a current financial statement for Tenant and any guarantors of this Lease, including profit and loss statements and balance sheet for the latest fiscal year, prepared by an independent certified public accountant in accordance with generally accepted accounting principles consistently applied. Landlord shall keep all financial information provided by Tenant and any guarantor confidential to the extent such information has not already been publicly disclosed by Tenant or such guarantor via public filings or otherwise; provided that Landlord may disclose Tenant's and any guarantor's financial information to Landlord's mortgagees, to prospective purchasers of membership interests in Landlord and to purchasers under bona fide accepted offers to purchase the Project, provided such parties agree to keep such information confidential.

42. BROKERS. Each party warrants and represents to the other party that it has not dealt with any broker in connection with the negotiation and execution of this Lease other than Irgens Partners, LLC, Cushman & Wakefield and CBRE, and hereby agrees to indemnify and hold the other party harmless from and against any and all liability, obligation, loss, cost and/or expense (including reasonable attorneys' fees) in connection with the claims of any other broker or other person which are based on the conduct, actions or agreements of such party. Landlord shall pay any commission due the above named broker(s) pursuant to separate agreement.

43. OPTION TO EXTEND. Tenant shall have the option to extend the Term of this Lease for two (2) additional periods of five (5) years each commencing upon the expiration of the then current Term. Such option shall be exercised only by Tenant giving written notice thereof which is received by Landlord not more than fifteen (15) months and not less than twelve (12) months prior to the expiration of the then current Term, time being of the essence; provided, however, Tenant shall be entitled to exercise the option to extend granted herein, and the Term of this Lease shall, in fact, be extended by reason of such exercise, only if this Lease is in full force and effect and Tenant is not in default hereunder after notice and any applicable cure period. Tenant's failure to exercise the option granted herein in accordance with this Section shall extinguish all subsequent options, if any. In the event the Term of this Lease is in fact extended

pursuant to the foregoing, then any such extension shall be upon all of the same terms, covenants, provisions and conditions as contained in this Lease except the Monthly Base Rent shall be the Market Rent (as hereinafter defined) for the Premises. The rights hereby granted may only be transferred by Tenant in connection with a Permitted Transfer, or to an assignee of all of Tenant's right, title and interest under this Lease approved in writing by Landlord pursuant to Section 23 of this Lease. Except as aforesaid, in the event of any assignment of this Lease, the rights set forth in this Section shall automatically terminate and shall thereafter be null and void.

As used herein, "Market Rent" means the monthly fair market rent for the Premises as agreed to by the parties or failing such agreement within forty-five (45) days following Landlord's receipt of Tenant's notice exercising its option to extend, determined by appraisal in accordance with the following: Tenant shall, on or before the sixtieth (60th) day following Landlord's receipt of the notice exercising the option to extend, select an Appraiser (as hereinafter defined) to determine the monthly fair market rent for the Premises during the extension period and advise Landlord in writing of the name of such Appraiser. As used herein, "Appraiser" means an experienced and qualified appraiser who is a Member of the American Institute of Real Estate Appraisers (or if such institute is not in existence at the time in question, a member of a similar or successor organization) or a licensed real estate broker with substantial experience with respect to comparable office properties in the suburban Chandler, Arizona metropolitan area, who has not been regularly employed or retained during the prior five (5) years as a consultant by the party selecting such person. Landlord shall within fifteen (15) days thereafter select an Appraiser to make a similar determination and advise Tenant in writing of the name of such Appraiser. Each party shall be responsible for paying the fees and expenses of the Appraiser selected by it. The two (2) Appraisers so appointed shall be instructed to each prepare a written appraisal which will show the monthly fair market rent of the Premises during the extension period, giving appropriate consideration to the length of the lease term, the size and location of the premises being leased, tenant improvement allowances, annual increases in rent and other pertinent terms and conditions of tenancy. Landlord and Tenant shall each be entitled to present evidence and argument to the initial two (2) Appraisers upon request promptly after the appointment of such Appraisers and for such purpose, the parties may be represented by counsel. Such Appraisers shall notify both parties, simultaneously and in writing, of their determination as described herein within thirty (30) days after the appointment of Landlord's Appraiser. Provided that the appraisals vary by less than five percent (5%) of the fair market rent amount in the higher appraisal, then the arithmetic average of the two (2) appraisals shall be the Market Rent for the Premises, and such determination shall be conclusive and binding upon the parties. If the difference between such two (2) appraisals is more than five percent (5%), then within fifteen (15) days after the date that the parties are notified of such appraisals, the two (2) Appraisers previously retained shall jointly appoint a third qualified and experienced Appraiser and shall advise the parties in writing of the name of said Appraiser who shall be subject to the approval of Landlord and Tenant. If such two (2) Appraisers are unable to agree upon the appointment of a third Appraiser within such fifteen (15) day period, they will give written notice of such failure to agree to the parties and thereafter if the parties fail to agree upon the selection of a third Appraiser within fifteen (15) additional days after they are so advised, then either party may make application to the then acting chief judge of the Circuit Court for the County in which the Premises are located to designate or appoint such third Appraiser. Each of the parties hereto shall pay one-half (1/2) of the fees of any such third Appraiser. Such third Appraiser shall then be instructed as the initial two (2) Appraisers were previously instructed to prepare an appraisal showing the monthly fair market rent for the Premises during the extension of the term. Such third Appraiser shall notify both parties, simultaneously and in writing of its determination as described herein within thirty (30) days after its appointment. If the total rent during the extension period as determined by the third Appraiser is between the total market rent during the extension period as determined by the other two (2) appraisals, then such determination shall be binding and conclusive upon the parties. If the third Appraiser's determination as aforesaid is higher than the higher of the two (2) appraisals or lower than the lower of the other two (2) appraisals, then the middle of the three (3) appraisals shall be binding and conclusive upon the parties. If the Market Rent for the extension period is not determined as of the commencement date thereof, then the Monthly Base Rent payable by Tenant immediately prior to such extension shall remain in effect until such determination is, in fact, made, and appropriate adjustments shall be promptly made by the parties when the Market Rent has been determined.

44. GENERATOR. Provided Tenant is not in default, Tenant shall have the right, during the Term hereof, to install in a location within the Premises mutually acceptable to Landlord and Tenant, an auxiliary generator and/or battery back-up, together with applicable cabling, wiring and other connection facilities (collectively, "Auxiliary Equipment"), for its business continuity needs. All such Auxiliary Equipment shall be at the sole risk and expense of Tenant, shall be installed and maintained by Tenant in conformance with all applicable laws and regulations and shall be removed by Tenant, if required by Landlord, upon the expiration or earlier termination of the Term. All damage caused by such installation or removal of the Auxiliary Equipment shall be promptly repaired by Tenant at Tenant's sole cost. Tenant

shall not do any of the foregoing unless and until it submits plans to Landlord and obtains Landlord's written approval thereof, which approval shall not be unreasonably withheld, conditioned or delayed.

45. ADDENDA. The provisions, if any, included at the end of this Lease, and any riders and exhibits appended to this Lease, are hereby made a part of this Lease as though set forth in full at this point.

[Remainder of page left blank. Signatures on following page.]

EXECUTED as of the date first written above.

LANDLORD:

Ascend Northrop, LLC

By: IDP Ascend Northrop, LLC, its Manager

By: Irgens Partners, LLC, its Manager

By: /s/ Mark F. Irgens
Mark F. Irgens, CEO/Manager

TENANT:

Bridgepoint Education, Inc.

By: /s/ Kevin Royal

Name: Kevin Royal

Title: CFO

EXHIBIT E

BASE RENT SCHEDULE

Months	SF Occupied	SF Abated	SF Paying	Base Rate	Monthly Base Rent	Proportionate Share
1	50,000	(50,000)	0	\$16.00	\$0.00	38.27%
2	50,000	(50,000)	0	\$16.00	\$0.00	38.27%
3	50,000	(50,000)	0	\$16.00	\$0.00	38.27%
4	75,000	(50,000) (25,000)	0	\$16.00	\$0.00	57.41%
5	75,000	(50,000) (25,000)	0	\$16.00	\$0.00	57.41%
6	75,000	(50,000) (25,000)	0	\$16.00	\$0.00	57.41%
7	100,000	(25,000) (25,000)	50,000	\$16.00	\$66,666.67	76.55%
8	100,000	(25,000) (25,000)	50,000	\$16.00	\$66,666.67	76.55%
9	100,000	(25,000) (25,000)	50,000	\$16.00	\$66,666.67	76.55%
10	115,000	(25,000) (15,000)	75,000	\$16.00	\$100,000.00	88.03%
11	115,000	(25,000) (15,000)	75,000	\$16.00	\$100,000.00	88.03%
12	115,000	(25,000) (15,000)	75,000	\$16.00	\$100,000.00	88.03%
13	130,642	(15,000) (15,000)	100,642	\$16.48	\$138,215.01	100.00%
14	130,642	(15,000) (15,000)	100,642	\$16.48	\$138,215.01	100.00%
15	130,642	(15,000) (15,000)	100,642	\$16.48	\$138,215.01	100.00%
16	130,642	(15,000)	115,642	\$16.48	\$158,815.01	100.00%
17	130,642	(15,000)	115,642	\$16.48	\$158,815.01	100.00%
18	130,642	(15,000)	115,642	\$16.48	\$158,815.01	100.00%
19	130,642		130,642	\$16.48	\$179,415.01	100.00%
20	130,642		130,642	\$16.48	\$179,415.01	100.00%
21	130,642		130,642	\$16.48	\$179,415.01	100.00%
22	130,642		130,642	\$16.48	\$179,415.01	100.00%
23	130,642		130,642	\$16.48	\$179,415.01	100.00%
24	130,642		130,642	\$16.48	\$179,415.01	100.00%
25 - 36	130,642		130,642	\$16.97	\$184,797.46	100.00%
37 - 48	130,642		130,642	\$17.48	\$190,341.39	100.00%
49 - 60	130,642		130,642	\$18.01	\$196,051.63	100.00%
61 - 72	130,642		130,642	\$18.55	\$201,933.18	100.00%
73 - 84	130,642		130,642	\$19.10	\$207,991.17	100.00%
85 - 96	130,642		130,642	\$19.68	\$214,230.91	100.00%
97 - 108	130,642		130,642	\$20.27	\$220,657.84	100.00%
109 - 120	130,642		130,642	\$20.88	\$227,277.57	100.00%
121 - 132	130,642		130,642	\$21.50	\$234,095.90	100.00%
133 - 138	130,642		130,642	\$22.15	\$241,118.78	100.00%

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

**Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Andrew S. Clark, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bridgepoint Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

/s/ ANDREW S. CLARK

Andrew S. Clark
President and Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

**Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Kevin Royal, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bridgepoint Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

/s/ KEVIN ROYAL

Kevin Royal
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2018 (the “Report”) of Bridgepoint Education, Inc. (the “Company”), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2018

/s/ ANDREW S. CLARK

Andrew S. Clark
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 8, 2018

/s/ KEVIN ROYAL

Kevin Royal
Chief Financial Officer
(Principal Financial Officer)

This certification shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing.

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.