

FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome to Bridgepoint Education's second-quarter 2009 earnings conference call. Today's call is being recorded. (Operator Instructions) At this time I would like to turn the call over to Ms. Diane Salucci, Vice President of Corporate Communications and Investor Relations at Bridgepoint Education. Please go ahead.

Diane Salucci - *Bridgepoint Education - VP, Corporate Communications*

Thank you, Jennifer. Good morning, everyone. Bridgepoint Education's second-quarter earnings release was issued earlier this morning and is posted on the Company's website at BridgepointEducation.com. Representing the Company today are Andrew Clark, Chief Executive Officer, and Dan Devine, Chief Financial Officer.

Before we begin we would like to remind you that some of the statements we make today may be considered forward-looking, including statements regarding financial and related guidance. These forward-looking statements involve a number of risks and uncertainties that could cause actual performance results to differ materially. Please note that these forward-looking statements speak only as of the date of this presentation and we undertake no obligation to update these forward-looking statements in light of new information or future events except to the extent required by applicable securities laws.

Please refer to our SEC filings, including our quarterly report on Form 10-Q for the quarter ended March 31, 2009, as well as to our earnings press release for a more detailed description of the risk factors that may affect our results. Copies may be obtained from the SEC or by visiting the Investor Relations section of our website.



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Also, please note that certain financial measures that we use on this call are expressed on a non-GAAP basis and have been adjusted as detailed in our earnings press release, which contains our GAAP results and GAAP to non-GAAP reconciliations.

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A replay of this call will be available from today at 2:30 p.m. Eastern time until Tuesday, August 18, 2009, at midnight Eastern Time. To access the replay call 888-203-1112 in the United States and Canada or 719-457-0820 for international calls and enter the confirmation code 8419417. The webcast will be archived for one year on the Company's website.

At this time it is my pleasure to turn the call over to CEO Andrew Clark.

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

Thank you, Diane. Welcome to our second-quarter conference call and thank you for your interest in Bridgepoint Education. Today I will discuss the highlights of our results as well as provide some commentary on the key components driving Bridgepoint's success. I will also speak to some recent developments in our military and corporate channels.

Then we will turn the call over to Dan Devine to review our second-quarter results and key operating metrics in more detail. Finally, I will update our annual guidance and conclude with Q&A.

For the second quarter ended June 30, 2009, total student enrollment increased 101.3% to 45,504 students compared with 22,607 in the same quarter last year. Revenue increased 122.1% to \$110.9 million compared with \$49.9 million for the same period last year. New student enrollments were approximately 14,600, an increase of 80.2% compared with new enrollments of approximately 8,100 for the second quarter of 2008.

Our second-quarter results were strong, both in terms of revenue and enrollment growth, and as we will discuss later across all of our major reporting metrics. To start I would like to touch on the key drivers behind these solid results.

The first of these important drivers of our growth is the value proposition we offer to students. Many of you have heard me refer to this in the past, but allow me to delve a little deeper. While each component of the value proposition is persuasive on an individual basis, it is the combination of all four -- affordability, accessibility, transferability, and heritage -- that sets Bridgepoint apart. Let me review each of these key components.

Starting with affordability, Bridgepoint's Ashford University prices its programs 20% to 50% below a majority of our peers. Our low tuition is increasingly competitive with state colleges from whom we continue to attract student enrollments.

Transferability is another key component of our value proposition. Based on our research, Ashford University is one of only six postsecondary institutions and the only for-profit that allows students to transfer up to 99 credits towards their degree program. As a result, Ashford is well-positioned to address the needs of those students with high credit transferability requirements who are looking to complete their degree online.

Our programs are also highly accessible to a broad range of students who need flexible access to a college education. So we have designed an education that working adults can access easily as evidenced by the fact that 99% of our students take their classes entirely online. Combining the online delivery channel with Ashford University's affordability and transferability results in one of the most successful offerings available in postsecondary education today. We believe this powerful combination is the key reason our programs have attracted such a large student population.



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In addition, our value proposition is clearly aligned with the Obama administration's stated objective of increasing access to higher education and providing affordable opportunities to earn a college degree. With more than 40% of our students coming from minority groups, we believe our record of helping a highly diverse group of students met their education goal is at the heart of that mission.

The final component is university heritage, which helps establish an institutional brand for both of our traditional campuses -- Ashford University in Clinton, Iowa, and University of the Rockies in Colorado Springs, Colorado. These long-established campuses serve as an important recruitment and retention tool as well as a competitive differentiator. The feedback we receive through our student satisfaction surveys shows that taking online classes from a traditional college with a strong heritage is one of the top reasons they choose to pursue a degree from Ashford University.

The second key factor driving our success is quality academics and administration. Because we have been asked periodically how we maintain high-quality outcomes while achieving such strong growth, I want to take the opportunity to address this issue in more detail. Our commitment is demonstrated in the high level of quality of our faculty, assessment practices, and overall student experience, as well as our administrative services.

As a management team we are very focused on maintaining and improving the quality of the education we provide to our students and therefore employ several methods to monitor and ensure that quality levels remain strong. First, we have assembled a highly-qualified and dedicated faculty at the academic institutional level. Our full-time faculty develops our curriculum while providing strong governance and quality checks to ensure effective learning outcomes. The adjunct faculty focuses on maintaining consistent quality in our curricula and in the educational experience of our students.

To ensure this quality student experience Bridgepoint incorporates the use of additional academic professionals dedicated to supporting the faculty at this university. Support positions include directors of academic quality, academic staff dedicated solely to assessment and student learning, teaching assistants who provide writing support for undergraduate students, and instructional specialists who monitor faculty and ensure adherence to instructional standards.

To validate our quality Bridgepoint institutions use external as well as internal tools to consistently monitor academic quality and student experience. Bridgepoint utilizes some of the most well-respected external survey programs available. For example, in the Noel-Levitz Student Satisfaction Survey Ashford University outperformed the national average in overall student program satisfaction. When asked whether students would recommend Ashford University to others, again Ashford outperformed the national average.

In addition Ashford students ranked the following items as very important with high levels of satisfaction related to their Ashford experience -- one, they indicated that the tuition paid is a worthwhile investment; two, assessment and evaluation procedures are clear and reasonable; and three, Ashford faculty provides timely feedback about student progress.

Similarly, our students and alumni satisfaction studies show significant results that support the quality outcomes for our students. For instance, in our past six student satisfaction surveys dating back to April of 2007 97% of our students surveyed would recommend Ashford University to others seeking their degree. In Ashford's 2009 alumni survey 99% of alumni felt their Ashford University program prepared them for their current job and more than nine out of 10 alumni say they are satisfied with their AU experience.

The results of Ashford's most recent alumni survey indicate that our graduates earn an estimated annual income between \$41,000 and \$51,000. We intend to continue to survey our graduates as they progress in their professions to evaluate their income growth.

Next, the quality matters consortium, a faculty-centered quality assurance process based on peer course review, recognized Ashford University as the first institution in the nation to receive institutional recognition for its curriculum development plan.



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Finally, both Ashford University and University of the Rockies have recently joined Transparency By Design, an initiative that will assist adult learners to become educated consumers of online education. This program will also lead universities and colleges towards greater accountability and transparency. The initiative's members comprise the consortium of both for-profit and not-for-profit educational institutions that are regionally accredited and adult focused.

Our strong retention rates are also a good indicator of quality outcomes. Bridgepoint has a history of producing high retention rates while maintaining best-in-class growth. Our solid retention is a direct reflection of the academic and administrative support students receive. Quality is further verified through regional accreditation. Both Ashford University and University of the Rockies are regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools through 2016 and 2015, respectively. For Ashford University this represents the maximum accredited term allowable by HLC.

In addition, HLC requested that we submit our self-studies to be used as a model for peer institutions to follow at the annual HLC meeting. Bridgepoint also has three educators serving as consultant evaluators for HLC and two serving as HLC assessments mentors. Both of our universities voluntarily participate in the HLC assessment academy to continually evaluate our processes and results.

I will now speak to the third factor driving our success -- our experienced management team. Together we bring many years of experience in senior-level positions at some of the most successful companies in postsecondary education. We have used that experience to build a business model that allows us to ensure quality outcomes while we consistently manage our growth. Many of us have worked in education companies much larger in size, fully preparing us to manage future growth effectively.

In addition, we have developed a highly-innovative education business model built up on best practices and grounded in the concept of delivering high academic and administrative quality. From the beginning we were unencumbered by the legacy issues such as inefficient operating infrastructures, pricing models, and business processes. As a result, we have taken a conservative, scalable approach to managing our growth that ensures the delivery of a quality education at an affordable price.

We have further enhanced our model by continuing to develop our military and corporate channels. As for the military channel, you may recall that Ashford University was one of just three schools accepted into the Army LOI program in 2009. This distinction helps streamline the process for soldiers wanting to apply for courses through Ashford University, which has a direct link for on the Go Army website.

We are also pleased to announce that Ashford University has been selected by the Coast Guard to become a SOCCOAST member. SOCCOAST is the Servicemembers Opportunity Colleges degree program for the Coast Guard and is available for more than 40,000 Coast Guard members and veterans as well as to their adult family members. It consists of colleges that make associates and bachelor's degree programs accessible to Coast Guard installations worldwide.

Recently the president signed into law the 2009 supplemental appropriations bill that extends GI Bill benefits to the children of fallen soldiers. In the spirit of this new legislation Ashford University has extended its military program to include the sons and daughters of military personnel who lost their lives while serving our country.

I would also like to provide an update on our corporate channel efforts. In addition to the existing corporate development representatives who service our corporate clients, we are launching a national corporate team. This team will focus exclusively on partnering with corporations to build a more robust solution for their company education initiatives and education reimbursement programs. Beyond the obvious benefits of partnering with corporations to improve the educational level of their workforce, this program, like our military efforts, has the potential to benefit our 90/10 ratio.

In a related initiative we were prompted by the recent news of the struggling automotive industry to extend the same level of grants we provide the military to current and recently laid-off workers at GM, Ford, and Chrysler through Ashford University's auto industry grant. Recently President Obama made a statement to the Associated Press that, 'Lost auto industry jobs in states



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such as Michigan will not come back and new jobs will require greater training and post-high school education to achieve a higher skilled workforce.'

Because of that we felt we were in the right position to make a difference in the lives of auto workers who may want to seek new career opportunities by pursuing a degree program at Ashford University.

I would like to take a moment to comment briefly on the regulatory environment. First, let me say that we as a team have worked together for many years within a tightly-regulated environment and have developed a pattern of strict adherence to government guidelines so we are confident we can continue to manage the business effectively within the parameters set by the government. Because we focus on providing the highest levels of access to such a large number of students seeking to earn a postsecondary degree, we believe we are well-positioned to support the administration's goals to increase access to higher education to all Americans.

In fact, in a recent speech President Obama said that jobs requiring a college degree are expected to grow twice as fast as jobs requiring no college. We are proud of the service we provide to those who strive to improve their lives through higher education and we are deeply committed to providing the highest quality experience as they reach their goals.

Finally, as I have indicated, the Company has enjoyed success through a value proposition which resonate strongly with students wishing to pursue their degree. We feel that significant opportunities exist for us to continue to expand our presence in our current demographic as well as to further increase our presence in the military and corporate markets.

In order to take advantage of these opportunities the Company will add an additional 150 enrollment advisors in the second half of 2009 split amongst the areas of opportunity I just described. These employees are in addition to the 270 enrollment advisors hired in 2009 as we have previously discussed. The decision to add these employees reflects the Company's continuous process of evaluating our business and our commitment to long-term value creation for our shareholders.

With that I will turn the call over to our CFO, Dan Devine.

Dan Devine - *Bridgepoint Education - SVP & CFO*

Thank you, Andrew. Let me spend a few minutes covering our results for the second quarter ended June 30, 2009, as well as provide an update on our key operating metrics. As noted earlier today we will discuss certain non-GAAP financial measures which are outlined in detail in our earnings press release posted this morning.

For the second quarter of 2009 revenue was \$110.9 million compared with \$49.9 million for the same period last year, which represents an increase of 122.1%. The increase in revenue was primarily due to a substantial increase in student enrollment. As Andrew indicated, as of June 30, 2009, total student enrollment increased 101.3% to 45,504 from 22,607 at June 30, 2008.

In addition to the increase in student enrollment the revenue increase was also positively impacted by the tuition increase that was instituted on April 1 and by the decision to move to a single credit hour price for all Ashford University undergraduate courses, which contributed 6% and 12% of the revenue increase, respectively. The new credit hour price continues to offer Ashford students a per-class price significantly below our peer group and continues to maintain tuition levels below Title IV loan limits at all grade levels.

Of our total number of students at June 30, 2009, approximately 99% accessed their classes exclusively online.

For the second quarter of 2009 non-GAAP operating income excludes a non-cash charge of \$30.4 million related to the acceleration of certain exit options upon the closing of our IPO. This charge was expensed to each other our three expense categories as

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follows -- \$2.1 million to instructional costs and services, \$5 million to marketing and promotions, and \$23.3 million to general and administrative.

The quarter's non-GAAP instructional costs and services were \$26.2 million or 23.6% of revenue compared with \$12.7 million or 25.5% in the same period last year. In the second quarter the Company increased its investment as a percentage of revenue in instructional salaries and financial aid support. These investments were fully offset by the cost efficiencies in the areas of academic management, student services, and licensing fees commensurate with a larger student enrollment base.

Included in instructional costs and services for the second quarter was bad debt expense of \$4.6 million. As a percentage of revenue bad debt expense decreased to 4.1% from 4.7% for the same period last year. The improvement was primarily due to procedural improvements in the processing of receivables that we implemented during 2008. We now expect that our bad debt expense will be approximately 5% for the 2009 fiscal year period, an improvement over our previous guidance of 6%.

Non-GAAP marketing and promotional expenses for the second quarter of 2009 were \$34.6 million or 31.2% of revenue compared with \$18.4 million or 36.8% of revenue in the same period last year. The reduction in marketing and promotional expense as a percentage of revenue resulted from cost efficiencies commensurate with a larger student enrollment base and increased enrollment and marketing effectiveness.

Non-GAAP general and administrative expenses for the second quarter of 2009 were \$17.9 million or 16.1% of revenue compared with \$7.9 million or 15.9% of revenue for the same period last year. The increase in expense percentage is attributable to the inclusion this quarter of approximately \$1 million of stock compensation expense and increased investment in finance, legal, and compliance staffing versus the prior-year quarter.

Included in our three main expense categories for the second quarter of this year is approximately \$1.6 million related to ongoing stock compensation expense compared with \$41,000 the second quarter of last year. For the second quarter of 2009 non-GAAP operating income increased to \$32.2 million from \$10.9 million in the same period last year. On a percentage basis our non-GAAP operating margin of 29% increased from 21.9% for the same period last year.

Second quarter non-GAAP net income was \$20 million compared with \$8 million for the same period last year, a 148.2% increase. Non-GAAP net income excludes the net income effect of \$17.1 million related to \$30.4 million exit option acceleration charge and reflects management's current estimate of the tax impact of the \$11.1 million settlement charge taken in the first quarter of 2009.

Non-GAAP fully diluted earnings per common share, or non-GAAP EPS, is calculated based on a diluted share count of 58.7 million shares for the second quarter of 2009 as compared to 7.6 million shares for the comparable period of 2008. Non-GAAP EPS for the three months ended June 30, 2009, was \$0.34 compared with \$0.06 for the same period last year. Non-GAAP EPS is calculated using non-GAAP net income for the period less accretion for preferred dividends and assumes the conversion of all redeemable convertible preferred stock into common stock as of January 1, 2009.

Our effective tax rate of 43.3% for the six months ended June 30, 2009, reflects the fact that the \$11.1 million stock order settlement charge recorded in the first quarter of 2009 is only partially deductible for tax purposes and will have an effect on our annual effective tax rate. For the year we expect an effective tax rate of 43.6%. Excluding the settlement charge our tax rate would be 40.3% for the year.

Turning to the balance sheet. As of June 30, 2009, we had cash and cash equivalents of \$111.9 million. The Company generated \$44.2 million of cash from operations for the three months ended June 30, 2009, compared with \$12.4 million for the same period in 2008. Our accounts receivable net of allowance for doubtful accounts was \$42.4 million which represents 34 days sales outstanding compared with 40 days sales outstanding at June 30, 2008.

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Capital expenditures for the second quarter of 2009 were \$4.8 million compared with \$900,000 for the same period last year. For the year we expect that our capital expenditures will be between 5% and 6% of revenue.

Now I will turn it back over to Andrew for guidance and closing remarks.

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

Thank you, Dan. Based upon the strength of our second-quarter results I will now provide an update to our previously provided guidance for 2009. This guidance includes the non-GAAP financial measures outlined by Dan previously and which are detailed within our earnings press release.

For the year ending December 31, 2009, total student enrollment is expected to be between 48,000 and 49,000. This compares with previously provided guidance of 47,000 and 49,000. Revenue is expected to be between \$425 million and \$430 million compared with a previous range of \$405 million to \$410 million. Non-GAAP net income is expected to be between \$58.1 million and \$59.2 million compared with previous guidance of \$48 million to \$50 million.

Non-GAAP fully diluted earnings per common share is expected to be between \$1.00 and \$1.02 compared with the previous range of \$0.87 to \$0.90 based on an estimated fully diluted, weighted, average share count of 58.1 million for the year ending December 31, 2009. The share count of 58.1 million is based upon the increased net income expectations on both a quarterly and annual basis contained within our updated guidance.

Additional GAAP guidance was provided in our earnings press release. Annual GAAP and non-GAAP fully diluted earnings per common share guidance includes an estimated \$6 million in ongoing stock-based comp charges and an estimated \$2.5 million to \$4 million of public company costs.

I want to thank you again for joining us today. We are excited about our future and I look forward to sharing with you the results of our efforts to provide the highest level of access to a quality higher education.

At this time I will ask that our operator open the phone lines for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brandon Dobell, William Blair.

Brandon Dobell - *William Blair - Analyst*

Andrew, wondered if we could get a little color on if you are seeing any changes, major directional changes in the types of students that are coming in, their interests and what programs they are looking at, what kind of transferring credits they are coming in with. That would be the first area.

Second, if you could address any of the other operational or process changes that you need to take into account as you add the 150-plus advisors in the back half of the year. Just want to make sure that we are aware of any other personnel things you guys need to take care of to keep up with the strong demand. Thanks.

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Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

Sure, Brandon. Well, in terms of student changes we really have not seen any change in behavior from our students. It has been very consistent for us in terms of the type of programs they are seeking, in terms of potential students taking a look at our institutions and enrolling, retention, persistence. Everything has been very consistent for us in that regard. I think in education -- our education programs have certainly done very nicely as some of those have been relatively new and we have seen a nice response to those.

In terms of the 150 additional enrollment advisors, I think one of the really nice things here at Bridgepoint is that we have been doing this for the past five years, and as I indicated earlier we have a very strong management team here that has done this at much larger scale. And so in terms of operational processes, in terms of technology, in terms of our ability to scale with those additional advisors, it's pretty much for us just continuing to repeat what we have done consistently in the past.

We really have to make no significant changes in our processes or our technology or the way in which we approach the administrative level of our students or the academic experience that our students have to support those additional enrollment advisors.

Brandon Dobell - *William Blair - Analyst*

Okay. As a quick follow-up to the enrollment advisor question, if you would look at the, let's call it productivity metrics, of those ECs or EAs now relative to either your expectations as you started out this year or perhaps your thoughts last year. Just trying to get an idea of how happy you are with the progress you have made or how unhappy you are with the progress you have made getting those ECs up to a productivity level where you think you are close to maxing out or you are pretty happy with it.

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

I would say that we are real pleased with how our new enrollment advisors have done. It has been very consistent, again, with our experiences in the past and to what we have modeled out in terms of productivity and kind of times that it takes them to become more tenured in their position and more effective in their jobs. So I would say that we are very pleased with how things have trended there.

Brandon Dobell - *William Blair - Analyst*

Okay, great. Thanks, guys. Appreciate it.

Operator

Trace Urdan, Signal Hill.

Trace Urdan - *Signal Hill - Analyst*

Thanks. Good morning. Andrew, what are your enrollment counselors telling you, if anything, about the dynamic around price sensitivity? Do you have a sense that price is starting to matter a bit more in the decision-making process and is that entering in to the strength that you guys are seeing?

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Andrew Clark - Bridgepoint Education - CEO, Founder & President

Well, Trace, I think the price sensitivity and the affordability of our offerings has always mattered and that has been consistent. We have seen that here Ashford and the University of the Rockies, certainly at Ashford, over the past four-plus years here. So I would say that the price sensitivity of our students, again, is no greater and no less than it has been historically. It has been very consistent in that regard.

Trace Urdan - Signal Hill - Analyst

So given what is going on in the economy doesn't that surprise you a bit?

Andrew Clark - Bridgepoint Education - CEO, Founder & President

Well, I think it might surprise one just a little bit. However, I think that given that tuition rates have increased significantly, Trace, over the past three decades and that students I think have been looking for a quality higher education that is affordable for some time now, the fact that we had very favorable response to this value proposition four years ago and we continue to have it today really makes sense when you kind of take a look at the landscape.

Trace Urdan - Signal Hill - Analyst

Okay. And then I guess a follow-on question to that is how do you think about your own pricing power over the next couple of years? I guess I am hearing you say that you don't think it's really an issue, but how are you guys thinking about that over a two and three year timeframe?

Andrew Clark - Bridgepoint Education - CEO, Founder & President

Sure. Well, we always look across the entire landscape in terms of tuition increases and what we think might be appropriate. As we have said in the past and we continue to believe that kind of a 2% to 5% range for our tuition increases over the next few years is going to be probably appropriate and allow us to continue to remain extremely competitive from an affordability perspective.

Trace Urdan - Signal Hill - Analyst

Would you anticipate that 2% to 5% would allow you to sort of expand the differential versus what is out there or do you think that is kind of where the market is going to be?

Andrew Clark - Bridgepoint Education - CEO, Founder & President

I think -- it's hard for me, Trace, to get out the crystal ball here and tell you where the market is going to be two to three years from now. But I think that certainly we keep in mind what others are doing when we do our tuition increases. So as others move theirs up over the next two to three years, which they will do, you will see us respond in kind of an appropriate and measured way.

Trace Urdan - Signal Hill - Analyst

Okay. Thanks, Andrew.

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Operator

Mark Marostica, Piper Jaffray.

Mark Marostica - Piper Jaffray - Analyst

Thank you and good morning. I wanted to ask about the moratorium on new program rollouts that was brought about with the change of control and get a sense from you as to whether or not you are currently building new programs and what we should expect when the moratorium comes off. Should we expect a sudden, I suppose, push of new programs in the early part of next year that will accelerate enrollment or is it going to be a more measured introduction throughout next year of the backlog of new programs?

So any additional color on what you are building and how you will roll it out next year will be helpful.

Andrew Clark - Bridgepoint Education - CEO, Founder & President

Yes. Sure, Mark. I am really glad, too, that you asked that question because I think it's important for everybody to know that we do have the ability here through this period of time to bring on new programs at the undergraduate level at Ashford University. We don't require any HLC prior approval for undergraduate programs.

Prior to us going public, of course, we had several graduate programs that were already in the process with HLC as well. So as a result in the second quarter we added seven new programs; we had three graduate programs in that mix and four undergraduate programs. In the third and fourth quarter, the remainder of the year I would anticipate that we will probably bring on somewhere in the range of about 10 new programs. Again, all at the undergraduate level.

So we definitely -- even though, as you have stated, there is effectively kind of a moratorium on new programs that require HLC approval that doesn't apply in our case at Ashford to undergraduate programs. I think beyond as we move into kind of 2010, we get through the change of ownership visits our team at both of our institutions, our faculty and our deans and provosts are working diligently on new program offerings that they would then go through the regular process with HLC and make a request that they review those programs and consider them for approval in the future.

So nothing from a new program standpoint has really changed or slowed us down here.

Mark Marostica - Piper Jaffray - Analyst

Great, thanks for clarifying that. And then back to the additional 150 enrollment advisors, can you give us some sense as to what their focus will be? I think you have touched on that a little bit, but from the standpoint of whether or not they will be focused on a certain curriculum, a certain degree type, a certain end market, give us a little more color on that statute.

Andrew Clark - Bridgepoint Education - CEO, Founder & President

Certainly, Mark. That was really a response to kind of three components -- the strong demand that we already are experiencing across kind of all of the programmatic areas in our current demographic, and the strong demand that we are experiencing both in the military and corporate channel. So those 150 enrollment advisors will be spread kind of into those three categories here over the second half of the year to really allow us to respond to increased demand for our value proposition kind of those three key areas.

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Mark Marostica - Piper Jaffray - Analyst

Okay. Couple more questions. One on the -- I am not sure if you have covered it earlier -- the average class size that you have seen in the quarter and how that has changed and where you think that will find a home?

Andrew Clark - Bridgepoint Education - CEO, Founder & President

Well, we are not giving out class size. I can tell you that we continue to do very nicely there. Effectively, Mark, that has remained very consistent for us compared to what it has been last year for example. It's doing very nicely based upon a very unique learning model that I described in our previous quarterly call that allows for us to really, as I talked about today, do a very effective job in providing a quality education to our students.

Mark Marostica - Piper Jaffray - Analyst

Great. One last question for Dan, and that is should we expect any additional charges to be recorded in the third quarter or fourth quarter or are we all through all the charges?

Dan Devine - Bridgepoint Education - SVP & CFO

We are all through kind of the non-GAAP charges that we discussed in the first and second quarter. Some of those are subject to a tax rate, so there may be kind of a tax rate change in the subsequent quarters but that would not be significant. The two items that we had were the settlement charge and the acceleration of the exit options; that is it.

Mark Marostica - Piper Jaffray - Analyst

All right, very good. Okay, thank you. I will turn it over.

Operator

(Operator Instructions) Kelly Flynn, Credit Suisse.

Patrick O'Grobley - Credit Suisse - Analyst

Hi, this is [Patrick O'Grobley] for Kelly. Can you give us a quick update on how much military enrollments grew during the quarter? And strategically I am wondering if the potential for regulatory relief from 90/10 if that would alter how aggressively you may look to grow military given the lower price point or is that something you would still look to expand aggressively?

Andrew Clark - Bridgepoint Education - CEO, Founder & President

Well, Patrick, we don't give out any information with regards to military growth quarter to quarter. I can tell you, though, in kind of general terms that we are very pleased. And I think the indication that that is one of the areas where we will add our additional enrollment advisors gives you an idea of just the continued strong demand that we experience in that area. But it has been fairly consistent.

I think with regards to 90/10 and some of the potential favorable legislation that is out there, while certainly -- we obviously view that as positive. In terms of our military focus we are very committed to the military. We have a value proposition that

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resonates very strongly with military personnel. Certainly transferability of credit, the affordability combined with the heritage of a traditional institution is very impactful to them.

And we do quite a bit to try to focus not just on a great academic experience, but a good administrative experience for those folks, especially since they are being deployed all over the world and have so many demands on them. So I really don't view our focus on the military as changing as a result of anything from a regulatory perspective.

Patrick O'Grobley - *Credit Suisse - Analyst*

Okay. Can you update us on where you expect final '07 forward default rates to come in for Ashford? And how we should think about the impact of the weak economy or any other factors, what that will do to default rates if we look forward a year or two based on what we know now?

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

It's obviously kind of difficult for everybody to try and forecast a couple of years from now what things will look like and what the economy looks like. We kind of expect, as we have said before, that our CD-R for '07 would probably settle in around 13%.

In terms of next year, as I have said many times, we will continue to focus on that. That is kind of the way this team works when it comes to any key metric is make sure we improve that. We have added additional resources to that particular area and we have put an additional focus there.

Now if there are things from an economic perspective that I think affect everybody across both the not-for-profit and for-profit higher ed sector, as I have said in the past, I don't think we can defy gravity there. But other than that we will continue to focus on improving that metric.

Patrick O'Grobley - *Credit Suisse - Analyst*

Okay. And just one more question. One of your peers with a similar growth profile announced they will be upgrading some of their back office systems. I am curious if you can update us on your systems capability handle the rapid growth that you are generating and if there is any incremental investments that could be coming down the line? Thanks.

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

Yes, sure. Well, Patrick, we invested in our systems back when we started Bridgepoint. We selected Campus Management for our backend systems five years go and have worked very closely with the company over the past five years. It serves us very well; it has served us well, continues to serve us well.

Obviously, as I talked about earlier in the call, since April of '07 we have had recommendation rates of 97%; very high satisfaction rates. And while I think a lot of that is based upon the academic experience that our students have with faculty, I think the other part of it is definitely the student experience and the administrative experience that they have. And that is supported by our backend systems there and we have done very well there.

We are very pleased with those systems. I don't see any need for us to make any significant material investment there over and above just continuous incremental improvement as we continue to grow the organization.

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Patrick O'Grobley - *Credit Suisse - Analyst*

Great. Thanks.

Operator

Jeff Silber, BMO Capital Markets.

Jeff Silber - *BMO Capital Markets - Analyst*

Thanks so much. Wanted to focus on bad debt; your bad debt expense as a percent of revenue went down and the guidance is actually better than what you had initially thought. What are you doing to get those results? Most other companies in this sector are seeing the opposite trends. Thanks.

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

Sure. We continue to invest in that as -- if you think about it from a percentage of revenue, we are increasing our staffing in that area. We are focusing on the more effective packaging, more timely packaging of our students and we think that has had a positive effect on our bad debt. We are expecting it to be approximately 5% for the year, so we are happy with the progress in that area and we are continuing to focus on improving it.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay, great. Moving on to another issue is persistence. I am not sure if I am calculating this correctly. It looked like persistence declined just slightly on a year-over-year basis. One, is that accurate? And two, if you could just discuss persistence trends that will be helpful.

Dan Devine - *Bridgepoint Education - SVP & CFO*

Sure, Jeff. It is accurate. There was a slight decline, but we have these kind of slight fluctuations as you go year-over-year, quarter to quarter there is -- I am not probably be first CEO of an education company to describe the seasonality that can occur from quarter to quarter. However, from our standpoint it was very slight. And we expect, again, on an annualized basis that we ought to be right about where we have been historically in previous years.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay. And you mentioned seasonality; if I could just sneak one more in there. I know, obviously, you are in a very strong growth trajectory, maybe that is masking seasonality, but is there anything we need to be aware of between 3Q and 4Q for the rest of the year?

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

Well, no, I don't think there is anything that you need to be aware of. As we have kind of described before, as others described you have the typical seasonality in the fourth quarter that people experience because of the holidays. You have the Thanksgiving and Christmas holiday period; this is not a particularly good time logically for students to be trying to pursue school at that time.

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But other than that kind of typical fourth-quarter seasonality I don't think there is anything else that I would point out.

Dan Devine - *Bridgepoint Education - SVP & CFO*

I will just add one thing to that. As we have described before, kind of mechanically we do have some seasonality. We have 12 weeks of revenue in the first and fourth quarter and 13 weeks of revenue in the second and third quarter and that is because we do take a holiday on the last week of December and the first week of January. So there is, from a modeling point of view, a little bit of mechanical seasonality in the fourth quarter because we shorten it by a week.

Jeff Silber - *BMO Capital Markets - Analyst*

All right. Thanks for that reminder. Appreciate it.

Operator

Ariel Sokol, Wedbush.

Ariel Sokol - *Wedbush Morgan - Analyst*

Good morning. You posted pretty strong results for Q1, now for Q2, and you are hiring an additional 150 ECs to plan. So the question is what is the optimal growth rate that you want to achieve over the next several years and how should we think about enrollment growth for 2010 and 2011? Is it still going to be the 30% growth rate you have talked about in the past?

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

Well, Ariel, I appreciate your question. Obviously, we are not giving any guidance for 2010 here, but -- and we don't -- I think it's important for me to point out that, as I have said in the past, we don't think about growth rates per se. What we continue to focus on is our value proposition, the quality of our academic offerings, and the support that we provide students.

And then the outcome of that for us, at least historically, has been very strong growth. And as the management team we focus then on ensuring that we are looking well ahead, well down the road and making sure that we have the appropriate infrastructure, the appropriate staffing, appropriate leadership in place to be able to effectively manage that growth.

So I think that our value proposition I would expect it to continue, to resonate with students as it has in the past. I think that that will continue to provide probably some strong growth to the Company over the years to come.

Ariel Sokol - *Wedbush Morgan - Analyst*

Okay. And then the second question is can you talk a little bit about the sales and marketing expense per new student start? It increased a little bit this quarter and accelerated from last. Was it due to the hiring of the enrollment counselors or was it due to potential changes in the advertising market or some kind of other marketing spend?

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

Well, our marketing spend in general on kind of our lean cost basis has remained relatively flat, so the change would be related to the hiring of -- effectively the timing of the hiring and kind of the facilities, etc., related to the marketing staffing.

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Ariel Sokol - *Wedbush Morgan - Analyst*

Thank you.

Operator

Andrew Steinerman, JPMorgan.

Unidentified Participant

Good morning. This is [Jeff] for Andrew. Just a couple of cleanup questions. Andrew, thanks for sharing the salaries, alumni salaries information with us. Can you just give us a little more color on what is the size of that class, of alumni class that you looked at and sort of trends within salaries?

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

Just recalling here, Jeff, off the top of my head I think there was about 3,000 students that responded in that alumni survey. I will get the number here for you. Yes, I am sorry, I reversed my numbers. There was 3,800 students in the survey, 3,800 alumni, and 1,200, almost 1,300 responded. So we had a response rate of about 33%.

Unidentified Participant

Great, great. Thank you. And, Dan, for the revenue per student sort of the next two, three, four quarters should we expect the same kind of growth in that number, in that metric?

Dan Devine - *Bridgepoint Education - SVP & CFO*

You should expect the same dollar growth, not the percentage growth, because the percentage growth was based on the net change not the gross revenue. So it would be about half of that.

Unidentified Participant

All right. Thank you very much.

Operator

At this time I would like to turn the call back over to Mr. Clark for any additional or closing remarks, sir.

Andrew Clark - *Bridgepoint Education - CEO, Founder & President*

All right. Well, thank you again for joining our second-quarter conference call and have a good day.

Operator

Thank you, sir. That does conclude today's teleconference. We thank you all for your participation.

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