

# FINAL TRANSCRIPT

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## **BPI - Q3 2009 BRIDGEPOINT ED INC Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Diane Salucci**

*Bridgepoint Education, Inc. - VP IR & Corporate. Communications*

**Andrew Clark**

*Bridgepoint Education, Inc. - Co-Founder, CEO, President*

**Dan Devine**

*Bridgepoint Education, Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Brandon Dobell**

*William Blair - Analyst*

**Jeff Silber**

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**Mark Marostica**

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**Andrew Steinerman**

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**Alex Chan**

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## PRESENTATION

**Operator**

Welcome to Bridgepoint Education's Third Quarter 2009 Earnings Conference Call. Today's call is being recorded. (Operator Instructions).

At this time I would like to turn the all over to Ms. Diane Salucci, Vice-President of Corporate Communications and Investor Relations for Bridgepoint Education. Please go ahead.

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**Diane Salucci** - *Bridgepoint Education, Inc. - VP IR & Corporate. Communications*

Thank you, Dana, and good morning, everyone. Bridgepoint Education's Third Quarter Earning's Release was issued earlier this morning and is posted on the Company's website at [Bridgepointeducation.com](http://Bridgepointeducation.com). Representing the Company today are Andrew Clark, Chief Executive Officer; Dan Devine, Chief Financial Officer and Dr. Jane McAuliffe, Chief Academic 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 or 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 security laws.



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Please refer to our SEC filings, including our quarterly report on Form 10-Q for the quarter ended September 30th, 2009, which we plan to file later today, as well as our earnings press release posted this morning 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 Relation section of our website.

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

This call is the property of Bridgepoint Education. Any distribution, transmission, broadcast or rebroadcast of this call in any form without the express written consent of the Company, is prohibited.

A replay of this call will be available today at two-thirty PM Eastern time until Wednesday, November 11th, 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 confirmation code 3184840. The webcast will be archived on the Company's website for one year.

At this time, it is my pleasure to introduce Bridgepoint Education CEO, Andrew Clark.

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**Andrew Clark** - *Bridgepoint Education, Inc. - Co-Founder, CEO, President*

Thank you, Diane, and welcome to our third quarter earnings conference call. Today I am excited to report our strong third quarter results, after which I will review our operating highlights and provide further insight into our competitive differentiators and value proposition.

After discussing some of our important business and operational initiatives, I will turn the call over to CFO, Dan Devine, to review our Q3 results and key operating metrics. Following his remarks, I will update our annual guidance and conclude with a general Q&A session.

As of September 30th, 2009, total student enrollments increased 79.7% to 54,894 students compared with enrollment at the same date last year. For the third quarter ended September 30th, 2009, revenue increased 111.3% to \$127.4 million compared with \$60.3 million for the same period last year.

New student enrollments were approximately 19,500, an increase of 55% compared with new enrollments of approximately 12,600 for the third quarter of 2008.

Having reported three consecutive quarters of positive results as a public company, I am extremely pleased with our continued progress. We have performed well across all of our major reporting lines further validating our value proposition, a combination of affordability, transferability, heritage and accessibility.

I continue to believe that the advantages we offer our students are responsible for our strong results. It is especially gratifying to witness the extent to which Bridgepoint's value proposition resonates with our students and addresses many of the shortcomings of the post-secondary education space.

With tuition priced 20% to 50% below a majority of our for-profit peers and comparable with state and community colleges, Bridgepoint's Ashford University is more affordable for students. In addition, based on our research, Ashford remains one of only six post-secondary institutions and the only for-profit that allows students to transfer up to 99 credits towards their degree program. The heritage provided by the physical campus of Ashford University and University of the Rockies is of particular importance to our online students who embrace the comfort and familiarity of being associated with traditional universities.



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Finally, we strive to offer the highest level of access to our students, the majority of whom are working adults who require the flexibility of online education, including online delivery and weekly start dates. We believe that our value proposition, as well as our highly efficient and scalable model, is a major differentiator among our peers.

Our mission is also well-aligned with the Obama administration's stated objective of increasing access to higher education and providing affordable opportunities for Americans to earn a college degree.

One of the major contributing factors to Bridgepoint's success is our steadfast commitment to academic and administrative quality. As a management team, we are focused on maintaining and improving the quality of the education we provide our students. To accomplish this high level of quality, while continuing to achieve strong growth, we focus our efforts in several key areas; faculty, assessment, student services and administration.

The foundation of our academic quality is grounded in the strength and dedication of our full-time faculty, 100% of whom have graduate degrees. This group of highly qualified academic professionals develops a curriculum that is leveraged from our traditional campuses across all of our online programs.

We offer a robust collection of student support services to enhance the learning experience including, but not limited to, online writing center labs and tutoring. In addition, each student is assigned to a student services support team or pod, which includes enrollment, academic and financial advisors. The support team remains in place throughout the life cycle of the student's education and further enhances the student experience. These services help us to effectively focus on maintaining retention.

Bridgepoint also utilizes a number of important internal and external tools to help us measure and maintain quality. Internally, we consistently measured the satisfaction of our students and alumni through survey. We believe the results speak for themselves. 97% of current students surveyed over the past five quarters would recommend Ashford University to others seeking a degree, and 99% of Ashford alumni felt that Ashford had prepared them for their current jobs. We believe these results reflect both the academic experience our students received as well as the administrative support that we provide.

As for external measurements of quality, we, along with several other for-profit and not for-profit institutions, joined Transparency by Design, which allows our Universities to be more transparent in order to better inform adult learners while they are making choices about their education.

Because of our commitment to continuous improvement and excellent student experience, we recently announced that we entered into a license agreement with Pearson eCollege to use its online learning platform at both of our academic institutions. This was a decision driven by our faculty as we expect the eCollege solution to provide greater reporting and assessment options, enhanced content and a better student experience. We believe eCollege's platform and services will effectively serve our student population over the long term, and I am pleased to report that the implementation of the online platform is proceeding on schedule.

During the quarter, we also announced that Ashford University completed its exit interview as part of the current audit process being conducted by the U.S. Department of Education's Office of Inspector General. While we had expected to receive the draft report by this time, we have not, and have not received any additional information regarding when we might receive it. This is not unexpected or unusual, given the multiple groups within the OIG are often involved in the audit review process.

Since the inception of Bridgepoint Education, we have fostered a strong culture of compliance and have continually and heavily invested in this important area of our business. Currently, we employ nearly 90 people, whose sole focus is on regulatory compliance. As a group, these individuals have established a system of internal checks and balances that work to ensure we are in compliance. In addition, our policies and procedures are developed with and reviewed by outside legal teams, who are expert in DOE regulation, and we believe that we are operating our business within current government regulations and applicable safe harbors.



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As you know, we have increased the level of resources dedicated to supporting our military and corporate channel efforts, which continued to make progress during the third quarter. We are in the early stages for each of these channels but, based upon their initial success, we believe we have significant growth opportunities in both areas.

Returning to program expansion, we've added five new undergraduate programs at Ashford University during the quarter. All new programs at Ashford fall within vertical markets with high demand in the workplace, including business, health care, psychology, education and social science. This raises our total new programs year to date to 13 undergraduate and three graduate degree programs.

We have also been successful in growing our graduate student base. Since 2006, graduate enrollment has a compound annual growth rate of 173%, and this will continue to be an area of focus for Bridgepoint in the future. As with our undergraduate programs, we will focus on high demand areas, such as health care and education and with the University of the Rockies, psychology. We are encouraged about our future prospects in the graduate space and believe it presents us with a tremendous opportunity over the coming years.

Finally, I am proud to say that Bridgepoint Education distinguishes itself by making our commitment to social responsibility a core value of our business. As an active corporate citizen, we reach out in a variety of ways to contribute positively to the communities we serve. We have identified three areas of focus most relevant to our mission; education, youth and teachers, and we support organizations that serve these areas through scholarships, donations and volunteering.

By working with teachers through our teacher scholarship program and fostering the Salute to Teachers program, which recognizes our Country's finest educators, as well as supporting organization's focused on helping children, we believe we are making a difference through education.

On an individual level, each of our executives serves in some capacity in non-profit organizations. We will continue to focus on this important area and will seek additional opportunities to make a contribution not only in donation, but just as importantly, in time and personal involvement.

With that, I will turn the call over to our CFO, Dan Devine, who will review our Q3 financial result.

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**Dan Devine** - *Bridgepoint Education, Inc. - CFO*

Thank you, Andrew. Let me spend a few minutes covering our results for the third quarter ended September 30th, 2009, as well as provide an update on our key operating figures.

For the third quarter 2009, revenue was \$127.4 million compared with \$60.3 million for the same period last year, which represents an increase of 111.3%. The increase in revenue is primarily due to a substantial increase in student enrollment. As of September 30th, 2009, total student enrollment increased 79.7% to 54,894 from 30,547 at September 30th, 2008. Of the total number of students at September 30th, 2009, approximately 99% accessed their classes exclusively on line.

The quarter's instructional costs and services were \$33.1 million, or 26% of revenue, compared with \$16.4 million, or 27.1%, in the same period last year.

In the third quarter, the Company increased its investments as a percentage of revenue in instructional salaries. These investments were fully offset by cost efficiencies in the areas of academic management, financial aid support, student services and licensing fees commensurate with a larger student enrollment base.

Included in instructional costs and services for the third quarter was bad debt expense of \$6.8 million. As a percentage of revenue, bad debt expense decreased 5.3% from 5.8 % for the same period last year. The improvement was primarily due to



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procedural improvement in the processing of receivables that we implemented during 2008. We now expect our bad debt expense will be approximately 5% for the 2009 fiscal year period.

Marketing and promotional expenses for the third quarter of 2009 we're \$36.5 million, or 28.7% of revenue, compared with \$21.1 million, or 34.9% of revenue, in the same period of last year. The reduction of marketing and promotional expense, as percentage of revenue, resulted from cost efficiencies from having a larger student enrollment base and increased enrollment and marketing effectiveness.

General and administrative expenses for the third quarter of 2009 were \$18.9 million, or 14.8% of revenue, compared with \$11.2 million, or 18.6% of revenue, for the same period last year. The decrease in expense percentage is attributable to a reduction in general and administrative expense as percentage of revenue resulting from the cost efficiencies from having a larger student enrollment base.

Included in the three main expense categories for the third quarter of this year is approximately \$1.9 million related to ongoing stock compensation expense in the aggregate compared with \$41,000 for the third quarter last year.

For the third quarter of 2009, operating income increased to \$38.8 million from \$11.7 million in the same period last year. On a percentage basis, our operating margin of 30.5% increased from 19.4% from last year.

Third quarter net income was \$22.4 million compared with \$8.8 for the same period last year, 155.5% increase from the same period.

Non-GAAP net income for the third quarter of 2009 was \$22.5 million. This reflects a \$0.1 million increase in the net income effect of the settlement charge taken in the first quarter of 2009 based on management's current estimate of the tax impact of this charge.

For the third quarter ended September 30th, 2009, fully diluted earnings per share, or EPS, increased 428.6% to \$0.37 from \$0.07 for the same period in 2008. Fully diluted earnings per common share calculated based on a diluted share count of 59.8 million shares for the third quarter of 2009 and 7.8 million shares for the comparable period of 2008.

Non-GAAP fully diluted earnings per common share for the third quarter of 2009 and for the nine months ended September 30th, 2009, were \$0.38 and \$0.92 respectively.

Our effective tax rate of 42.8% for the nine months ended September 30th, 2009, reflect the fact that \$11.1 million stockholders 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 42.7%. Excluding the settlement charge, our effective tax rate would be 40.4% for the year.

Turning to the balance sheet, as of September 30th, 2009, we had cash, cash equivalents and marketable securities of \$156.3 million. The Company generated \$39.2 million of cash from operations for the three months ended September 30th, 2009, compared with \$16.1 million for the same period in 2008.

Our accounts receivable, net of allowance for doubtful accounts, was \$53.1 million, which represents a 37 day sales outstanding compared with a 45 day sales outstanding at September 30th, 2008.

Capital expenditures for the third quarter of 2009 were \$4.8 million compared with \$7.2 million for the same period last year. For the year, we continue to expect that our capital expenditures will be between 5% and 6% of revenue.

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



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**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

Thank you, Dan. I will now provide an update to our previous guidance for 2009. This guidance includes certain non-GAAP financial measures, which are detailed within our earnings press release.

For the year ending December 31st, 2009, total student enrollment is expected to be between 52,500 and 54,500. This compared with previously provided guidance of 48,000 and 49,000.

Revenue is expected to be between \$443 million and \$448 million compared with a previous range of \$425 million to \$430 million.

Non-GAAP net income is expected to be between \$66.2 million and \$67.4 million compared with previous guidance of \$58.1 million to \$59.2 million.

Non-GAAP fully diluted earnings per common share is expected to be between \$1.15 and \$1.17, based on an estimated on a fully diluted weighted average share count of 57.6 million for the year ending December 31st, 2009, compared with a previous range of \$1.00 to \$1.02.

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.

Before concluding our call, let me say that I am extremely proud to work with an experienced team of motivated executives, who have effectively executed on our plan to bring about the superior results that we have demonstrated. We have worked closely together for years to successfully build a dynamic educational Company that we believe will continue to benefit our students, employees and shareholders for a long time to come.

I want to thank you again for joining us today. We're excited about our future and look forward to sharing with you the results of our efforts to provide what we believe is the highest level of access to a quality, higher education in the industry.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). And we will take our first question from Brandon Dobell with William Blair.

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### Brandon Dobell - William Blair - Analyst

A couple of quick ones related to new programs, how's the relationship with HLC been in terms of how fast they're taking a look at new programs or they're making major changes to proposed programs? Are they doing anything with the rollouts that may be different from years past? Just trying to get a feel for the qualitative side of how the accreditors are looking at you guys these days.



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**Andrew Clark** - *Bridgepoint Education, Inc. - Co-Founder, CEO, President*

Yes sure, Brandon, well certainly, I think to begin with we've had a very strong relationship with our crediting body, which I give all the credit to our University Presidents and our Provost and our faculty. What I should point out to you is that we haven't requested any new programs from HLC pending the change of ownership visits that will occur in November from both Ashford and University of the Rockies. So, the three graduate programs that we introduced in the second quarter, those were already in the pipeline prior to the IPO and were approved. And the undergraduate programs, we have the ability to institute any undergraduate programs that we'd like. We have approval, prior approval, from HLC to do so for Ashford University.

**Brandon Dobell** - *William Blair - Analyst*

Okay that's helpful. Focus on retention for a second, any difference that you're seeing in retention rates or persistence rates with the different types of students so, from two perspectives; one, kind of by program or two, relative to how many credits there're bringing in. Do you see any major differences across that student body these days?

**Andrew Clark** - *Bridgepoint Education, Inc. - Co-Founder, CEO, President*

Yes certainly I would characterize things as being very consistent. You know, Brandon, we saw our retention this quarter, internally it would be out about a point from last year, but it was the same as what it was the year before. And it looks probably a little greater to you on the external, externally because you don't have visibility to our graduates, and we had quite a few graduates during the quarter, which is a good thing, and we're happy to see that.

**Brandon Dobell** - *William Blair - Analyst*

Okay and then a final question on retention then I'll get out of here, as you think about students that are taking a class and taking some time off, if you exclude kind of military students that have obviously special circumstances, how have the trends been for people taking breaks in between classes, longer, shorter? Do you see the same kind of return rates that you've seen historically? Anything to talk about there?

**Andrew Clark** - *Bridgepoint Education, Inc. - Co-Founder, CEO, President*

You know what, I think again, I would just say it's been very consistent to what we've experienced in the past. Certainly, the fact that we offer weekly starts, provides opportunities for students to get right back engaged into their next class. In terms of students taking breaks, I would say that it looks no different to us than it has over the past few years.

**Brandon Dobell** - *William Blair - Analyst*

Okay great. Thanks, guys. Appreciate it.

**Operator**

Jeff Silber, BMO Capital Markets.

**Jeff Silber** - *BMO Capital Markets - Analyst*

Thanks so much. The enrollment numbers you posted were much better than guidance. Was there anything or any area specifically responsible for that?

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**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

Yes, Jeff, well, certainly I think from a new enrollment standpoint, we were very pleasantly surprised with how we did during the quarter. We saw a really nice conversion there, productivity amongst our enrollment advisors, so I would characterize it, you know, we were pleasantly surprised by how we did in new enrollments for the quarter, and that really is what drove things for us.

**Jeff Silber** - BMO Capital Markets - Analyst

Were there any specific programs stronger than others? That's what I was trying to get at.

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

Oh I wouldn't say -- I would I guess make the one comment that our health care programs seem to really be taking hold and doing a bit better than probably we had forecasted them to do. So that's been nice to see.

**Jeff Silber** - BMO Capital Markets - Analyst

And health care represents roughly what percentage of your population?

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

I don't have that number in front of me to give you. But I can certainly loop back through with you and provide that.

**Jeff Silber** - BMO Capital Markets - Analyst

Okay, I'll follow up on that. And in terms of the leverage in your model, I mean obviously you saw this across all three of your line items. How much lower can we expect some of those line items to go as a percentage of revenues?

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

Well, I certainly am pleasantly very happy with how we've done there. We kind of first took a look at the year. We anticipated that we'd get some of this leverage a year or two from now. So it's come much more quickly than kind of what we originally had forecasted at the beginning of 2009. I still believe that there is opportunity in the future in marketing and promotions and a little bit in G&A. I would say that our direct cost line ought to remain relatively flat. We certainly wouldn't expect any improvement in that particular line.

**Jeff Silber** - BMO Capital Markets - Analyst

Okay, great. Thanks for the color.

**Operator**

Mark Marostica, Piper Jaffray.

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**Mark Marostica** - Piper Jaffray - Analyst

Thank you. Great job on the quarter. Could you first give us a sense of the rationale for the decision to move to eCollege.

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

Sure, Mark. Well, I think I tried to provide it in my opening comments there. It was really a faculty driven decision in terms of our ability to have increased reporting, increased assessment. We focus very strongly in terms of assessment of learning outcomes, and this just provided an opportunity to do that at an even higher level.

And certainly the student experience and continuously improving that, this is something where we're really looking a few years out from now. And, as I also mentioned, it's going right along as scheduled.

**Mark Marostica** - Piper Jaffray - Analyst

And on that point, Andrew, could you give us a sense of the timing of the implementation and touching on that point also, your process of ensuring a smooth transition?

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

Sure. Well, you know, we already have some students and some faculty in the new environment. We have a plan for that to continue throughout November and December and into January. In the meantime, we're running parallel systems, so we certainly have our blackboard environment, which is remaining in place and being used as we transition into the eCollege environment.

**Mark Marostica** - Piper Jaffray - Analyst

And then could you also comment, if you would, if there is any financial impact that we should consider for modeling around this transition?

**Dan Devine** - Bridgepoint Education, Inc. - CFO

This is Dan. For the fourth quarter, there is no impact contemplated. Next year, it actually has no impact either. It's also along our -- it's just a part of our licensing fees and it's pretty consistent with what we spent in prior years as a percentage of revenue.

**Mark Marostica** - Piper Jaffray - Analyst

Okay fair enough. And then regarding the growth in graduate student population, I am curious as of the end of Q3 what your graduate mix is or was.

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

I think it was -- I believe it was about 9%, Mark.

**Mark Marostica** - Piper Jaffray - Analyst

Great and do you have a specific target in mind, say by the end of fiscal '10 or how do you think about where that will trend?

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**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

You know, the target that we've kind of always talked about with people and thought about internally is to kind of be able to improve that one to two points a year over the next three years as a percentage, so I think -- so that's our target. If we do better than that certainly we would welcome that.

**Mark Marostica** - Piper Jaffray - Analyst

Right, and refresh my memory on the differential in tuition price per credit hour, undergraduate versus graduate.

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

It's about a 20% -- it's about 20% higher in the graduate ranks.

**Mark Marostica** - Piper Jaffray - Analyst

Great thanks. I'll turn it over.

**Operator**

Ariel Sokol, Wedbush Morgan.

**Ariel Sokol** - Wedbush Morgan - Analyst

As we get closer to 2010 and, given some of the progress you've been making in the military, I was hoping to get an update with respect to 90/10 and where you guys think you might flush out next year.

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

Yes certainly, Ariel. Well, I can tell you that we are comfortable with where we think we will be for 90/10. This is a management team, Ariel, that has effectively managed the 90/10 for several years now for the four years that we've owned Ashford University and we have a good comfort level that will be fine in that regard for this year. We haven't -- we are in the process of modeling 2010 with regards to that, as we put together our budget for next year and our plans for next year in terms of what we think we'll do. Again, we've been very consistent in managing that effectively and I don't see any reason why that would change next year.

**Ariel Sokol** - Wedbush Morgan - Analyst

Okay and then other question with respect to the current default rates, when do you anticipate you might share with the Street and investors what your three-year rate might be perhaps for 2008?

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

Well, I think we'd probably share that. I am guessing it would be on our next call. I think I've been pretty consistent in saying well, you know, a couple points that I would make here. First, we've spent a tremendous amount of time and investment in that particular area and we continue to do so but this will be the CDRs for 2008 so I think from an institutional perspective, a sector



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perspective, I think everybody anticipates since the economic difficulties of '08 were so magnified that you'll see those CDRs go up across all institutions, not for profit and for profit, and I don't think we can defy gravity in that regard.

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**Operator**

Andrew Steinerman, JP Morgan.

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**Andrew Steinerman - JP Morgan - Analyst**

Dan, if you could just go over normal seasonality of a fourth quarter operating margin compared to a third quarter? Obviously in the kind of implied fourth quarter operating margin guidance you have operating margins coming down quite a bit from third quarter and I just wanted to know is that modeling in a normal seasonality or are there any additional investments in the fourth quarter that weren't in the third quarter and I recognize revenues will be, as seasonally appropriate, a little bit lower than the third quarter.

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**Andrew Clark - Bridgepoint Education, Inc. - Co-Founder, CEO, President**

Okay yes you're correct. Both revenue -- if you look at the revenue line for the fourth quarter, as we've said before, the fourth quarter is a 12-week revenue quarter for the purpose of revenue rec. The fourth quarter and the first quarter are 12 weeks. Second quarter and the third quarter are 13-week quarters and that's because we take a break in the last week of December and the first week of January for the holiday season for our students. So effectively if you look at the way our guidance, our implied guidance, is we're actually flat on the revenue line and we also make a pretty large investment in marketing in the fourth quarter in order to build the recruitment process for the students who come in in January, which is our second largest enrollment period behind basically Labor Day in September.

So the driver of the lower margin in the fourth quarter is primarily the lack of the one week of revenue so, if we push that down, it affects all areas pretty much ratably and there are no standalone large investment in the fourth quarter that have an impact.

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**Andrew Steinerman - JP Morgan - Analyst**

And so every fourth quarter is 12 weeks; every third quarter is 13 weeks, so year-over-year it's the same number of weeks?

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**Andrew Clark - Bridgepoint Education, Inc. - Co-Founder, CEO, President**

That's correct. So this quarter is 12 weeks. Next quarter will be 12 weeks and then you'll hit the second quarter will be 13/13 and then back to 12. I am assuming 2010 is 12. We -- I am almost positive of that.

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**Andrew Steinerman - JP Morgan - Analyst**

Right so you say the only difference is normal seasonality here.

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**Andrew Clark - Bridgepoint Education, Inc. - Co-Founder, CEO, President**

Yes it's only normal yes.

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**Operator**

[Alex Chan], Signal Hill.

**Alex Chan** - *Signal Hill - Analyst*

I'm calling in for Trace Urdan and I have a couple questions about the Government's direct lending program, wondering how many students are currently using it and whether or not you're promoting it? And going forward, as it becomes more prominent, do you plan on taking responsibility for default management?

**Andrew Clark** - *Bridgepoint Education, Inc. - Co-Founder, CEO, President*

Well, I can give you an overview on what we're doing with our direct lending program. Currently I don't believe we have any students who are selecting or being directed to direct lending. We have put together a plan with our outsourcer, ACS, where we expect that we'll fully implement direct lending by the beginning of the second quarter of 2010.

And the default management part of it, I'll be honest with you, we are still working that through our plan. We currently have -- we do currently have a default management internal program, as well as we use an external resource. Our focus will be whatever is the best thing to continue to motivate the student to make their payments. That's the process we will go with.

**Alex Chan** - *Signal Hill - Analyst*

Okay great and turning now to incentive comp, did you ever have a conversation with the OIG about the addition of it as a topic in the draft report and did you ever get anymore information on what the nature of their concern was?

**Andrew Clark** - *Bridgepoint Education, Inc. - Co-Founder, CEO, President*

No we've had no conversations with them other than when they informed us about it in the exit. We responded in the 10-day time frame that they provided us with our view of enrollment compensation as it's applied within our institution that they're reviewing, Ashford University. In terms of negotiated rule making, we certainly haven't had any conversations with them in that regard and I know that that process is very early and that there's a lot more to go there.

**Operator**

And our final question today comes from Kelly Flynn with Credit Suisse.

**Kelly Flynn** - *Credit Suisse - Analyst*

Just in light of the revenue recognition questions that have come up across the space, can you just confirm that you have or have not been, received an inquiry from the SEC about revenue recognition?

**Andrew Clark** - *Bridgepoint Education, Inc. - Co-Founder, CEO, President*

Yes I can confirm for you, Kelly, that we've not received anything from the SEC.

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**Kelly Flynn** - *Credit Suisse - Analyst*

Okay great. And then I guess a related topic of return of total [IV] funds, can you go over basically how it works for you guys or are you module based and does that mean you don't have to return money if someone completes the first five weeks or are you on the 60% plan? Can you just give us as much detail there as you think is relevant? Thanks.

**Andrew Clark** - *Bridgepoint Education, Inc. - Co-Founder, CEO, President*

Sure. So, Kelly, I kind of have a prepared comment for this if that's okay. Here is the way our revenue recognition and return of -- our revenue recognition and our refund policy works as well as how Federal funds are applied. The student begins a class at the institution. The institution records a receivable from the student for the total cost of the course with accounts or account being deferred revenue.

As the student moves through the course, in the case of Ashford University, a five-week undergraduate course, the institution records revenue ratably by week over the five-week period recording revenue and reducing the deferred revenue. If a student drops the course prior to its completion, the institution will stop recording revenue based on its refund policy, as published in its course catalog. Drops are processed as they are received from the student or determined by a two-week lapse in attendance in a course.

When a student begins a class a receivable is placed on the student's ledger card and the student has the obligation to pay the school. The student may elect to pay the course or to take advantage of financial aid, if eligible. If the student elects and completes a complete -- the required financial aid information, the school will receive a disbursement and apply that disbursement to the student's ledger card. If the student then drops and does not complete the term, the institution is required to do a return of funds calculation that will determine how much of the funding the student is ultimately eligible for. That net amount will be applied to the student balance and will result in a credit due to the student or in a receivable due from the student.

So, in general, obviously the recognition and the receipt of Title IV has nothing to do with our revenue recognition policy. We receive disbursements twice per year for a student at Ashford and that represents two increments of four courses each. We record revenue at the course level but a student eligibility is based on how much they get through each term, which is a 20-week term including four courses. If the student completes effectively 13 weeks they earn the entire financial aid that they're eligible for. That balance is placed on their ledger card. If they complete the entire term, then there is no refund to the student. If they complete less than the entire term it may result in either the student owing us money or where they earned more than we've recognized, we would refund money to the student.

**Kelly Flynn** - *Credit Suisse - Analyst*

Okay so it sounds like basically you said about the 13 weeks that you're subject to kind of this 60% cutoff as opposed to if they attend for five weeks you get to keep all the money? Is that fair?

**Andrew Clark** - *Bridgepoint Education, Inc. - Co-Founder, CEO, President*

We are subject to the 60% rule yes, ratably up 60%.

**Kelly Flynn** - *Credit Suisse - Analyst*

Okay got it.

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**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

Let's just for clarification, the school is not subject to anything. This is all the individual students and the Government. That's how they pay us so.

**Kelly Flynn** - Credit Suisse - Analyst

Okay got it. And then just finally, a different question related to revenue per student, you're growing so quickly I know the revenue per student growth moves around a lot but can you help us understand why the revenue per student growth? For example, in this quarter was using under period enrollments it was almost 18%, which is obviously a lot more than your price increase. How should we think about that and model it going forward?

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

Well, if you look at what our growth was, we had a, you know, the increase, which was this quarter over last year \$67.1 million. 80% of that was related to enrollment growth and 20% of that increase was related to the 5% price increase as well as the single credit, the change to the single credit hour. So there is some impact in the mix of the going to the single credit hour impact over prior year.

**Kelly Flynn** - Credit Suisse - Analyst

Okay great. I'll follow up on that later. Thanks a lot.

**Operator**

And that does conclude today's question and answer session. I'd like to turn the conference back over to Mr. Andrew Clark for any additional or closing remarks.

**Andrew Clark** - Bridgepoint Education, Inc. - Co-Founder, CEO, President

All right well, thank you for all your questions and for your interest in Bridgepoint Education. We look forward to speaking with you again.

**Operator**

That does conclude today's presentation. We thank you for your participation.

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