

FINAL TRANSCRIPT

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BPI - Q2 2010 Bridgepoint Education Inc. Earnings Conference Call

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Bridgepoint Education, Inc. - CEO

Dan Devine

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Operator

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PRESENTATION

Operator

Good day and welcome to the Bridgepoint Education Second Quarter 2010 Earnings Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Rob Wernli, Vice President, Corporate Attorney. Please go ahead sir.

Rob Wernli - *Bridgepoint Education, Inc. - VP and Senior Corporate Attorney*

Thank you, Leena, and good morning everyone. Bridgepoint Education's second quarter 2010 earnings release was issued earlier today and is posted on the Company's website at www.bridgepointeducation.com.



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Representing the Company today are Andrew Clark, Chief Executive Officer; Dan Devine, Chief Financial Officer; and 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 our future operating results and financial performance.

These forward-looking statements are subject to 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 securities laws.

Please refer to our SEC filings including our quarterly report on Form 10-Q for the period ended June 30, 2010, 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 Relations section of our website.

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

A replay of this call will be available from today at 2:30 P.M. Eastern Time until August 11, 2010 at 12 o'clock A.M. 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 1482664. The webcast will be archived on the Company's website for one year.

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

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Thank you, Rob and welcome to Bridgepoint Education's second quarter earnings call. Today, I will review our quarterly results, operational highlights and progress on key business initiatives, before turning the call over to our Chief Financial Officer, Dan Devine. Following Dan's review of our financial and operating results in greater depth, I will update our 2010 full-year guidance and conclude with general Q&A.

Bridgepoint Education brings affordable high-quality and highly acceptable post-secondary education within reach for broad segments of the U.S. population. In the second quarter, our results once again demonstrated the strong nationwide demand among working adults to pursue college degrees.

I would like to briefly review the highlights of our second quarter results. As of June 30, 2010, 67,744 students were enrolled in associates, bachelors and graduate degree programs through our two academic institutions as per university and the University of the Rockies. During the second quarter, demand for an affordable college education in this nation's knowledge-based economy remains strong. We experienced increases in total student enrollment and revenue of 48.9% and 56.7% respectively over the same period in 2009. In the second quarter, combined new student enrollments at Bridgepoint's universities increased by 26.4% over the second quarter of 2009 to approximately 18,450 students. Bridgepoint's second quarter revenue increased to \$173.8 million from \$110.9 million in the same period in 2009.

Turning to the regulatory discussion taking place in Washington, let me reiterate that we support efforts to improve the transparency of data on student outcome in all sectors of post-secondary education. We believe a broad based effort to clarify gainful employment, academic preparedness and learning outcome metrics can serve students well if applied evenly across traditional, as well as private sector colleges and universities.

As you know, the Department's gainful employment proposed rulemaking was released on July 23. As others have indicated, several complexities remain with respect to applicable data, definitions and access to government informations in the newly proposed language. While we know the proposed language is subject to further comment and potential revision, we conducted



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an initial assessment of its impact. Using the typical Ashford graduate's average debt of \$13,500, we believe Ashford University would meet the proposed 8% debt-to-income threshold.

Additionally, our initial analysis indicates that all Ashford University programs would be in compliance with and meet the proposed 45% repayment threshold. Ashford University students represents the substantial majority of students at our academic institutions. And we focused our initial testing efforts on that student population. We will soon begin a similar assessment with students from the University of the Rockies, which historically have had very low cohort default rates and a demographic makeup of masters and doctoral candidates. This demographic mix gives us confidence that the school and its programs would be in compliance with the new debt-to-income and repayment thresholds.

In Washington and in the media, there has also been considerable discussion about private sector marketing and instructional costs. Let me briefly comment on marketing cost. We believe the best comparative measure of marketing effectiveness is cost per new enrollment, and that's the metric we use. Based on the most recent set of comparable data for various types of institutions, we believe that the mean marketing cost per new enrollment, is \$2,538 at private sector institutions and \$2,366 at traditional institutions. Ashford's marketing cost per new enrollment was approximately \$2,386, well below cost at private sector colleges and universities and comparable to non-profit schools.

Turning to instructional cost. In 2009 instructional cost and services represented approximately 26.4% of Bridgepoint revenues, only slightly below the traditional school average of 28% for the same period. Our level of instructional expenditures and investments is driven by student outcomes, which as we've indicated before are strong with a four-year graduation rate of 49% in 2009. Ashford's graduation rate is comparable to both traditional and private sector educational competitors.

Additionally, based on our internal survey, Ashford University graduates who earned bachelors degrees saw their annual salaries increase over entering levels by an average of 16.7% to \$44,370. And 93% of students who previously attended a traditional school said the quality of the education at Ashford is equal to or better than their previous schools.

Statistics like these give us confidence that our expenditures are not only effective and appropriate, but also support our ability to provide a high quality college education affordably. Affordability and low student debt along with successful learning outcomes are at the very heart of Bridgepoint's mission.

Our goal is to bring a high-quality college education within reach of working adults across the country. Our university system was designed with affordability in mind, that's why we work hard to operate efficiently, efficiently free of the legacy cost and practices that burden most traditional schools. We use innovative technology to deliver learning and formats that suit our students and help them succeed.

The results of our efforts means that not only is Ashford's tuition low compared to most traditional and private sector colleges and universities, but when Ashford students graduate, their average debt load is well below that of other schools.

Average graduate debt for a Bachelor's degree at private sector colleges is \$24,635 and ranges between \$19,839 and \$27,349 at public and private non-profit colleges and universities respectively. In contrast, the historical Ashford Bachelor's degree average graduate debt load is significantly lower at \$13,500. To help ensure continued student success, we are committed to making certain that our incoming students are ready to succeed.

As you know, Ashford University has developed a new pilot orientation program for undergraduate students who transfer in fewer than 24 credits. Beginning in the third quarter, the new pilot orientation program will assess student preparedness in the areas of writing, critical thinking, quantitative skills and literacy. The pilot program will then provide necessary support to help the students succeed. This program also will educate students about student loan debt and the financial aid process generally, better preparing them for the financial responsibilities associated with their college experience. By providing Ashford faculty with better assessments of student readiness, the university is focusing its resources on students most likely to achieve their educational goals and to ensure that these students do so in a financially responsible manner.



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Longer term as we track results from this new orientation program, we expect that better prepared students will lead over time to improvement in student outcome, student retention and graduation rates as well as lower cohort default rates. In that same vein, let me call your attention to our success in improving student quality at Ashford University's Clinton, Iowa, campus. Beginning with this fall's incoming class, Ashford has introduced a new expanded program of President scholarships, which are full-tuition scholarships.

Scholarships are granted only to those incoming students who have a GPA of at least 3.5. Not only has nearly half of the incoming class earned President's scholarships, but this incoming class will be the largest in the 19-year history of the Clinton campus with between 350 and 400 new students. Particularly satisfying to us is the improvement in the overall quality of Ashford's incoming students, whose average GPA is 3.39, which compares to GPAs of previous classes of 2.72.

We are specially proud of Ashford's progress which would help you understand not only that we are fully committed to student's success and academic rigor, but also that we continue to build on our track record of improving student quality.

Before moving on to our outlook, I can give you an update on the OIG draft audit report process. Ashford University submitted its response to the OIG draft audit report; the next step will be receipt of the final audit report.

Following Dan's remarks, I will update you on our business outlook for 2010. Consistent with our commitment to helping you better understand our long-term performance; we are nearing completion of a three-year strategic plan that encompasses our best assessment of the ultimate content and impact of the department's proposed regulations as well as the effect of our current quality initiatives and programs. By mid-September, we expect to be in a position to share with you our perspective on the next three years.

As our 2010 initiatives indicate, Bridgepoint is focused on enrolling well prepared students at our institutions and providing them with a high quality learning experience to ensure they achieve their academic goals. The attractiveness of our value propositions to students has generated significant growth over the past five years and we expect to exit 2010 with between 69,000 and 71,000 enrollments. As we have said before, we expect our enrollment growth rate to normalize towards the growth rates of our peer group as total enrollment increases.

Finally, we are pleased to announce that our Board of Directors has authorized the repurchase of up to \$60 million worth of the Company's outstanding common shares over the next 12 months. As a result of our solid cash flow over the past few years, we have the financial resources available to fund this repurchase program while preserving flexibility for strategic alternatives and supporting the quality growth of our academic institution.

We believe this repurchase program is a prudent use of capital, and reaffirms our commitment to building shareholder value over the longer-term.

Now, Dan will provide more detail on our second quarter results. Dan?

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

Thank you, Andrew. And thanks everyone for joining us today. Let me add to Andrews's earlier comments that we're pleased with Bridgepoint's continued strong execution and overall performance in the second quarter.

The momentum we had during the first quarter had continued through the second quarter achieving strong revenue and enrollment growth through June 30. Specifically, second quarter revenue increased 56.7% to \$173.8 million compared with \$110.9 million for the second quarter of 2009.



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Revenue growth was primarily driven by significant increase in student enrollments. As of June 30, 2010, total student enrollment increased 48.9% to 67,744 from 45,504 students at the end of the second quarter of 2009. For the second quarter of 2010, instructional costs and services were \$43.3 million or 24.9% of revenue compared to \$28.4 million or 25.6% of revenue in the second quarter of 2009. The decrease in instructional cost and services as a percentage of revenue was primarily due to the option acceleration charge of \$2.1 million taken in the second quarter of 2009. The decrease was slightly offset by an increase in license agreements related to the conversion from blackboard to eCollege.

Included in our instructional cost and services figure for the second quarter is bad debt expense of \$8.4 million, which equates to 4.8% of revenue as compared with 4.1% of revenue for the same period of 2009. The performance for the quarter was in line with our full year expectation of bad debt coming in at 5.1% of revenue. We remain focused and committed to improving this operating metric.

Marketing and promotional expenses for the quarter were \$50.1 million or 28.8% of revenue compared with \$39.7 million or 35.8% of revenue in the second quarter of 2009. The decrease in marketing and promotional expenses as a percentage of revenue was primarily due to the option acceleration charge of \$5 million taken in the second quarter of 2009, as well as continued efficiencies gained from a larger student enrollment base, continued improvement in requirement of our targeted lead purchasing and a more mature enrollment workforce.

General and administrative expenses for the second quarter were \$21.3 million or 12.2% of revenue compared with \$41.1 million or 37% of revenue for the second quarter of 2009, which included \$23.3 million related to the general and administrative portion of the charge related to the acceleration of certain stock options upon the IPO.

Operating income for the second quarter increased to \$59.2 million resulting in a 34.1% operating margin. This compares with a 1.6% operating margin in the second quarter of 2009, which included a non-cash charge of \$30.4 million related to the acceleration of certain stock options.

Net income for the second quarter was \$35.3 million compared with \$1.3 million in the second quarter of 2009. Net income for the prior year period included the net income effect of \$17.1 million related to the \$30.4 million option acceleration charge.

Fully diluted earnings per common share or EPS was \$0.58 compared with fully diluted EPS of \$0.02 for the period in 2009. Fully diluted earnings per common share is calculated based on a diluted share count of 60.7 million shares in the second quarter of 2010 and 52.2 million shares for the comparable period in 2009. The Company's effective tax rate for the second quarter of 2010 was 40.8%.

Now let's turn to some key components of our cash flow and balance sheet, as of June 30, 2010, we had cash, cash equivalents and marketable securities of \$205.9 million compared with \$170.6 million as of December 31, 2009.

Bridgepoint Education generated \$45.4 million of cash from operations for the six-month period ended June 30, 2010 compared with \$76.5 million for the same period in 2009. The decrease in cash provided by operating activities compared to the prior year was primarily due to an increase in income tax payments of \$37.9 million, due to increased earnings as well as the timing of student's receipts.

On June 30, 2010, our accounts receivable net of allowance for doubtful accounts was \$81.5 million, which represents 42 days sales outstanding on a quarter-to-date basis compared with 35 days sales outstanding as of June 30, 2009.

Capital expenditures for the second quarter were \$12.1 million compared with \$12.0 million for the same period last year. The amount spent year-to-date reflects our commitment to the campuses as we broke ground on an athletic field in Iowa and continue to expand to other campus facilities. The amount also reflects leasehold improvements to our facilities in San Diego.

Now let me turn the call back over to Andrew who will finish up with our business outlook for 2010.



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Andrew Clark - Bridgepoint Education, Inc. - CEO

Thank you, Dan. Turning to our outlook for the remainder of the year, we expect to build on the momentum of the second quarter by significantly leveraging our student value proposition and innovation to drive positive student outcome and foresee continued demand throughout 2010 for our higher education course offerings.

With respect to our full-year outlook, based on our strong second quarter financial performance, we are raising our expectations for both net income and fully diluted earnings per common share. Specifically, we are now expecting net income for the full year to increase to a range of \$118 million to \$120 million. Fully diluted earnings per common share is now expected to increase to a range of \$1.94 to \$1.97.

Furthermore, we're also adjusting our expected capital expenditures for 2010 to 5% to 6% of revenue from 7% of revenue. Earnings per share is based on an estimated fully diluted weighted average share count of 60.9 million for the full year, which excludes potential impact from the share repurchase program announced today.

We continue to expect the following financial and operating metrics for the full year. Total student enrollment is expected to be between 59,000 and 71,000; revenue is expected to be between \$688.2 million and \$691.2 million; bad debt as a percentage of revenues for 2010 is expected to be 5.1%; the Company's effective tax rate for 2010 is estimated to be 40.8%.

Now we would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll go first to Peter Appert with Piper Jaffray.

Peter Appert - Piper Jaffray - Analyst

Thanks. Andrew, I'm just wondering in the context of all the PR around the post-secondary education industry, do you see any impact in terms of flowing query or questions you're getting from potential students? And related to that, if you've done anything to tweak the marketing efforts or the training of counselors in response to that? Thanks.

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, sure, Peter. Well, first of all, with regards to the PR, we have not seen anything in terms of lead flow or interest in pursuing degrees at our institutions. And we have always done and continue to do a very concerted and strong effort with regards to training of our enrollment advisors. They not only get training obviously when they join the institution, but they get repeated training after that, at any time they have an opportunity to -- when we offer a new degree program, they get training obviously for that new program in addition. We do compliance training with them and we repeat that. We do a variety of different trainings with our enrollment advisors as we do with all of our staff that has contact with students, whether it's an academic advisor or financial service advisor. So we spend quite a bit of money, time and resources in making sure that our staff that is talking with students is best trained as possible.

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Peter Appert - Piper Jaffray - Analyst

Right. Great. And then so I guess sort of related to all this. Have you talked about what you're thinking a appropriate longer term level of margin is for the business and any changes and you're thinking about that again in the context of some of the scrutiny the industry is under?

Andrew Clark - Bridgepoint Education, Inc. - CEO

No, Peter, we haven't talked about it. And that's why I said in my opening remarks that we've been working and are continuing to work on kind of our longer term view for the Company over the next three years, which we hope to be sharing that information with everyone around mid-September.

Peter Appert - Piper Jaffray - Analyst

Got it. Okay. And then just one last thing. Dan, you gave the usual caveats in terms of timing around stock buyback. But should our expectation be that your goal would be to execute this say over the next 12 months?

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

Yes, I think it is stated out in our release.

Peter Appert - Piper Jaffray - Analyst

Okay. Thank you.

Operator

And we'll go next to Paul Condra with BMO Capital Markets.

Jeff Silber - BMO Capital Markets - Analyst

Thanks so much. It's actually Jeff Silber, I apologize I came on late. I wanted to talk about the new student enrollment. I know last call I believe you talked about the orientation program and the metrics that you reported this morning was a little bit slower than we, I think most had anticipated. Is that having any impact on your new student enrollment? And what kind of new student enrollment growth guidance are you using for your assumptions for this year?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, Jeff, well, certainly we were pleased internally with our new student enrollment. It was exactly what we thought it would be. I believe that our quality initiatives that we instituted during the second quarter both at the associate degree as well as the perfect attendance component have had a positive effect. You saw 130 basis point increase in our retention. And our guidance for the full year shows that our total enrollment remains -- growth remains at about 32%. So I'm very comfortable with where we are. The orientation program pilot will happen in the third quarter and I think that will just continue to enhance things. We don't provide new enrollment guidance though for the full year.

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Jeff Silber - *BMO Capital Markets - Analyst*

Okay. I appreciate that. Just to shift gears a little bit. We noticed in one of your -- I think it was one of the supplements in your -- on your website about an increase in the technology fee. I think it's going to affect now or it had just recently gone into effect. Is that part of the reason for the -- your increased revenue growth guidance?

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

Well, we didn't increase revenue growth.

Jeff Silber - *BMO Capital Markets - Analyst*

Sorry, the increased revenues?

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

Increased revenues for --.

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

For the quarter?

Jeff Silber - *BMO Capital Markets - Analyst*

I apologize.

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

No, we did not change our annual revenue guidance. And that does not have a material effect, the change in the [effect].

Jeff Silber - *BMO Capital Markets - Analyst*

Okay, great. That was my question. Thanks.

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Yes. Okay.

Operator

And we'll go next to Brandon Dobell with William Blair.

Brandon Dobell - *William Blair - Analyst*

Hi, guys, thanks. A couple of ones, I guess, kind of let's call it start small and then finish up with a broader perspective. How should we think about the quality initiatives impacting bad debt as we look out the next couple of quarters or maybe from a

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longer term perspective? Is there much room based on the quality initiatives, or do you think that structural bad debt level is just kind of what it's going to be based on what the economy gives you?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Well, I'll make a couple of comments, Brandon, and then I'll turn it over to Dan. I think that the quality initiatives in the longer term will have a positive impact on bad debt. In the next year, I think as those initiatives gain a greater foothold in this year. But obviously for this year, our guidance is for it to remain flat to what it was in 2009 and I think we're comfortable with that guidance (multiple speakers).

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

Yes. I would agree with Andrew. Certainly we're comfortable with the guidance, we have a pretty reliable model we think in place to make that projection. And I also agree with Andrew that I think the benefit of those quality initiatives would likely be felt 2011 and beyond, just because of the trailing nature kind of a bad debt.

Brandon Dobell - William Blair - Analyst

Okay. Any sense for us on how big of a contributor these days either corporate relationships or community college articulation agreements have become in terms of sources for students and any updates there in terms of recent successes of the strategy to make those a bigger part of the organization's growth path?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes. We're having a nice success in terms of our corporate relationships and our community college articulation agreements. I don't have the numbers right in front of me, Brandon, for community college, I can get those to you. But I know that we've increased our number of agreements, we service about 1.5 million students are -- make-up all of our articulation agreements that we have with various community colleges. And I think we're in about 15 states. So that's off the top of my head.

On the corporate side, we've done nicely in the quarter, in the second quarter including signed agreement that we just did in the second quarter with Disney. So, we continue to see a nice development in that area as well.

Brandon Dobell - William Blair - Analyst

Okay. And then final question for you. With the quality initiatives relative to where new starts are coming in at, how should we think about enrollment rep head counts or kind of an average 10-year trends? Just trying to get a sense of what that part of the expense base might look like as we go through the back half of this year and how to think about next year?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Well, I think you should think of it from a fairly consistent standpoint, that's certainly how we're looking at it internally. We don't see any dramatic or material changes there.

Brandon Dobell - William Blair - Analyst

Okay. Thanks, guys.

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Operator

And we'll go next to Kelly Flynn with Credit Suisse.

Kelly Flynn - Credit Suisse - Analyst

Thanks. Could you guys talk in more detail about the Constellation program? Just kind of give an update on when we should expect that to start to show up in the revenue and just remind us of kind of what the fee is and how we should think about the revenue ramp there over time?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes. So I'll let Dan talk about the revenue side, Kelly. And then I'll talk about it more broadly.

Kelly Flynn - Credit Suisse - Analyst

Okay. Thanks.

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

Oh, I thought you were going to talk about it first. Sorry, Kelly, as we said before, there is not a tremendous amount of revenue effect in 2010. We do expect that throughout 2011 that approximately 33% of our courses would be using Constellation and that in 2012 approximately I think 75% to 80% would be our final year of the roll out would be using Constellation. The cost is \$75 per course per student. So, you can kind of do your math based on that. So I'd use the 30 point as kind of a mid -- 30% next year as a mid-year kind of estimate as it ramps up over time. We're rolling out course after course after course and by the end of this year I think we have 10 scheduled to be fully rolled out. So most of that impact is in 2011.

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, and so Kelly, as Dan mentioned, we're going to have 10 courses done this year. We've rolled out four of those 10 courses so far. So we're right on schedule internally in terms of how that's rolling out. We've had -- it's been very well received by students and by faculties and we have tremendous increased visibility from a data perspective in terms of how students use their text book, how many pages they're reading, what chapters they're reading, what they're highlighting and taking notes on. And we hope to work as we develop Constellation and build that capacity so that that data can be steadfast to professors and can ultimately improve student learning outcomes.

Kelly Flynn - Credit Suisse - Analyst

Okay, great. And then a related question actually going back to what Jeff Silber asked about the technology fee, it looks like you've instituted an increase in the technology fee to \$1,290, I think from \$990. I mean can you just explain, actually a bit about kind of why you do your technology fee that way, I think a lot of the other schools do at per course like a \$100 per course or something like that. And then also, what's behind the \$300 increase, and then since you went into effect, August 3, I would imagine we would get a revenue per student boost, maybe you could just help us Dan on the modeling with that, that would be great.



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Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes. So, obviously, for our online students and all the support that we make available through technology for our online students, it's important for us to offset some of that expense with the technology fee. And we have a variety of different services that would probably be too long to go down the list with you on this call. But, we saw a need there as we continue to add services to increase the fee slightly. We like to do it upfront, Kelly, we don't want students to feel like we're kind of nickel-and-diming them, charging them every single course here. We've found in our research with students that, that that can become a fairly large [irritant] and they rather just pay their fees upfront and get them out of the way.

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

Yes, Kelly, obviously you're right. Those students will be charged at. The reason why the impact is pretty small in 2010 is because that fee gets amortized. So, we don't recognize that fee upfront. We recognize it now over approximately I think 5.5 months. So, when you have, the majority of this, you have the natural new enrollments will be strong in September, most of that will be amortized when they get billed, when they start the second class. So, we have a strong September enrollment. They don't even get billed to the second class until the middle of October, and then that's amortized over five months.

Kelly Flynn - Credit Suisse - Analyst

Okay, great. And just one last one, I think you mentioned in the [rest] in your press release something about the higher learning commission, jurisdictional rules changing, what are you guys talking about, and could you just go into any risk that may relate to that? Thanks.

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, sure I mean we've got Dr. McAuliffe in the room, so I'll let Jane answer your question, Kelly.

Jane McAuliffe - Bridgepoint Education, Inc. - SVP, Chief Academic Officer

Hi, Kelly, how are you? We are watching all the policy changes that the commission is proposing or implementing around this topic right now. There are bylaw changes that have been made, and some policy changes that are currently in process of review, regarding substantial presence or jurisdictional review. And they're not going to be finalized until November. And the commission must have a timeline in place for schools to transition. Their proposed policy changes indicate that schools have to comply by 2012.

So, at this point, we're just watching the changes in the language that they are proposing. We have a great relationship with our staff liaison. The commission have had some successful visits in the past. So, we don't anticipate that these changes would significantly impact our business for our students, so we're watching at this point.

Kelly Flynn - Credit Suisse - Analyst

So, what is -- I really wasn't aware of that until I saw it in your release. What exactly is this jurisdictional thing that they're talking about doing?

Jane McAuliffe - Bridgepoint Education, Inc. - SVP, Chief Academic Officer

They're really looking at substantial presence, for instance being defined as the operation to the school or within their 19 state region of the commission and if the school is incorporated in that region as well. So they're looking to sort of define that and



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make sure that schools are in full compliance with that. So, it's really the jurisdiction, and how those schools are operating in their region.

Kelly Flynn - *Credit Suisse - Analyst*

Okay that makes sense. Thanks a lot for taking all those.

Operator

And our next question comes from Alex Paris with Barrington Research.

Alex Paris - *Barrington Research - Analyst*

Good morning.

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Good morning, Alex.

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

Good morning, Alex.

Alex Paris - *Barrington Research - Analyst*

Hey, I just have a couple of clarification questions. On the ground campus, did you say the incoming class is, 350 to 400 and that half are recipients of the President scholarship?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

That's correct, Alex. That's what I said.

Alex Paris - *Barrington Research - Analyst*

Okay, good. And then, overall, your enrollment of 67,744, what percentage of it is online, you usually give that, I assume it's around 99%.

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Yes, I don't think it's changed.

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

Yes, I don't think it's changed.

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Alex Paris - *Barrington Research - Analyst*

Okay. Second, the OIG response, you probably said or you're going to say, but I think you got the draft on May 24, you had 30 days to respond, you've responded. When would, should one expect a response from the OIG, a final report?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Sir, yes, you're correct, I mean, we had 30 days to respond, we actually -- you can get an extension for an additional 30 days and we took that opportunity to get the extension, it was granted. Then we submitted our response and it does, the IG will issue a final report, the timing of which we don't have visibility to, the report could be issued in a couple of months or longer. It's -- they don't [call us out] Alex and kind of give us updates on when we might expect it. So, we just kind of stand by like all of you do and wait to see that report issued.

Alex Paris - *Barrington Research - Analyst*

And then as I understand it, it is issued and delivered to the Department of Education. And at that point, is it made public?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Yes. At that point, when the final report is done, it's issued to the department, to the institution, and it's made public as well. And it should have most, if not all, of our responses to any findings that were in the draft report, in that final report that's made public. So you would be able to see the institution's view on the findings as well.

Alex Paris - *Barrington Research - Analyst*

And then at that point, discussions will begin with regard to remedies if any that need to be implemented?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

That's correct.

Alex Paris - *Barrington Research - Analyst*

Got you. Okay, the third and possibly final question is, you mentioned the three year plan, that you ought to have something to gather and ready to provide to the street by mid-September. Is that your plan, do you plan on releasing it to the street calling a conference call? Or would you talk about it on your next earnings conference call?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Well, I'm sure we'll talk about it on the next earnings call. We will find a way to make it broadly available in September. So there is probably a variety of different ways in which we could accomplish that and we haven't really decided at this point, which one we'll pick. But we'll make sure that it's broadly available to everyone.

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Alex Paris - *Barrington Research - Analyst*

And what sort of thing should we expect in that forecast or at least the portion you're going to make available to us, revenue targets, margin targets, enrollment targets, that sort of thing?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Yes, I'll let Dan answer your question.

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

Yes, I would expect that the guidance that we currently give it would be similar to that, which would be enrollment targets, enrollment revenue, operating income, likely EPS, that's what you should expect.

Alex Paris - *Barrington Research - Analyst*

Very good. Thank you.

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

Yes.

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Thanks, Alex.

Operator

And we'll go next to Andrew Steinerman with JPMorgan.

Andrew Steinerman - *JPMorgan - Analyst*

Hi, there. I wanted to talk about the new enrollment figure a little bit more. I guess we heard you say that it was impacted by the new minimum age requirement, but not impacted by the orientation that starts in the third quarter. When I look at 18,450, that really is off more than a normal seasonality from the first quarter. So I just want to know when looking at new enrollment levels in the second quarter [than] the first quarter, what items influenced the change?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Yes Andrew, well first, I just want to clarify something you said there. Our new enrollments, I think, were a reflection of the quality initiatives, not only of the associate degree and the age requirement. But also if you'll recall, we've talked for some time now about the perfect attendance and our approach to that in the first course that a student takes at the end of graduate level. I think that is a component as well. I think our overall new enrollment growth, as I indicated earlier, I believe was very much in line with what we thought and expected internally for the second quarter. Again, our focus continues to be making sure that we're enrolling students that are academically prepared for college and we're enrolling quality students that have an opportunity to be successful and retain at higher levels and that's what drove these initiatives in the first place. Our full year total enrollment



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growth remains unchanged at 32%. So again that should also give you an indication that we're very comfortable with new enrollment and that the second quarter met our expectations.

Andrew Steiner - *JPMorgan - Analyst*

Right. But could you tell us -- and maybe it's hard to measure, how much did the quality initiative temper new enrollment in the second quarter?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Yes, that's really difficult to measure. Andrew, it is not a report that comes out that would give us that is more assessed overall from the institution and from our admissions group, academic advisors of the students and what we're seeing in terms of new applicants.

Andrew Steiner - *JPMorgan - Analyst*

Right. And then the last part, could you just go over how roll out -- will the orientation roll out be starting in the third quarter?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Yes, sure. The third quarter that orientation program again will be a pilot. So it won't be broad-based against prospective students that have less than 24 credits. We think it's appropriate to pilot it, make sure that it's effective, that it's accomplishing the kind of goals that we've set for ourselves in terms of quality and in terms of being able to measure a student's academic preparedness coming into the institution at low levels of credit. And so once we go through that in the third quarter, we may continue to pilot it in the fourth or we may roll it out more broadly. I think my general expectation is that this would be a broad initiative for the first quarter of 2011.

Andrew Steiner - *JPMorgan - Analyst*

Okay. Perfect. Thank you, Andrew.

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Yes.

Operator

And we'll go next to Trace Urdan with Signal Hill.

Trace Urdan - *Signal Hill - Analyst*

Hey, thanks. Good morning, guys.

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Good morning.

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Trace Urdan - *Signal Hill - Analyst*

A few questions. I wondered if you're comfortable sharing, I know that the OIG draft reports that they had insufficient information upon which to determine whether or not you are in compliance with incentive comp. Would you be comfortable sharing with us what information you did provide to them? And then the second question, Andrew, you mentioned the training initiatives you have for enrollment counselors, I wonder if you could also touch on the control mechanisms that you have. Do you tape call, you are going to remind us about mystery shopping and describe that aspect of your operation as well? Thanks.

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Okay. Yes, sure. Trace, with regards to the OIG draft report and their request for more documentation, we provided them and I don't -- I can't recall all the numbers off the top of my head here, but we provided them with 300 enrollment advisor personnel files, I think there was about 130, 150 hours of interviews. We provided them with 5000 pages of documentation. We provided them with very extensive documentation with regards to our enrollment advisors as well as obviously interviewed time that they had with both enrollment advisors as well as with management. So in terms of additional documentation, I'm really not sure what more could be apt in terms of additional documentation that will be wrapped up to the Department of Education, the office of Federal Student Aid. When the final report gets issued, if that remains a finding that they think we should provide more documentation of course it's the Department's option to request that of the institution or to not request it. So we kind of won't know until we get there. In terms of training and controls, we do quite a bit as I mentioned on training.

In terms of the control atmosphere here, we do a lot of quality assurance and quality review. We have certainly management that listen in on the various conversations that enrollment advisors have with prospective students. We have QA individuals that listen in on calls and will actually score calls in terms of how our enrollment advisors do in terms of accuracy of providing programmatic information, the correct information and accuracy in terms of providing and answering any questions with regard to tuition, with regards to student debt, with regards to financial aid, questions obviously enrollment advisors don't get too much into financial aid, that goes over to the financial service advisors at the point at which the student gets to that part of the process. We also score them on -- commitment to mission, customer service, they're just their general tone in terms of how they are speaking with students. So we do quite a bit there.

We're very extensive in terms of listening in on those conversations that our advisors have with prospective students. We actually then take recordings from those sessions and we'll use those back in training to give examples to enrollment advisors of something that was very well done or if there was a mistake made which we have -- we're all human beings, so that happens. What was the mistake and how can people avoided it and correct it in the future.

Trace Urdan - *Signal Hill - Analyst*

Andrew you worked it at online and on ground schools. Do you feel because you're largely an online institution that you have more control over compliance issues with respect to enrollment [out of campus], is that a fair statement or not?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

You know what Trace, I think it's, it can be a fair statement. I think the online environment and nature of technology allows us to have a pretty high level of transparency in terms of the interactions between our staff and administration, and prospective students, or current students. I think it's a little more difficult in the ground environment although not impossible to accomplish, it's just probably a little more challenging.

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Trace Urdan - *Signal Hill - Analyst*

Okay, thank you.

Operator

And we'll go next to Frank McEvoy with Craig-Hallum.

Frank McEvoy - *Craig-Hallum - Analyst*

Hey, good morning everyone.

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

Good morning.

Frank McEvoy - *Craig-Hallum - Analyst*

Nice quarter. The question I have -- first question is just could you talk a little bit about, give us a sense of the relative growth of different degree programs, associates, bachelors, graduate. I know bachelors have been in the neighborhood of 77% of total enrollments. Can you give us any color on that?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Yes. You know what, Frank, I don't have those numbers in front of me. I would say that the undergraduate and graduate remains fairly consistent. And I don't have it broken out by programs.

Frank McEvoy - *Craig-Hallum - Analyst*

Was there more of a shift do you think in just towards B.A., in light of the stuff you've done with the associates?

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

You know what, I don't know the answer to that. I think I believe and I'm trying to recall off the top of my head from the last time I looked at, again our associates was a little less as a percentage, but not --.

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

Yes. I mean our growth rate in the graduate programs have been better, because we continue to increase our graduate percentage. But I don't have it for this particular quarter right in front of us. But I don't think there has been any dramatic shift. And I know there has been no dramatic shift within the quarter, correct.

Frank McEvoy - *Craig-Hallum - Analyst*

Okay. All right, very good. And could you give an update on the beta test of the new enrollment advisor compensation programs? Perhaps you can tell us a little bit about what you're seeing and what the timing of the roll out might be?

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Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes. I mean that continues to go well. We have, now have three groups, beta groups going. We continue to make -- to review and make adjustments in the compensation plan for those folks and continue to analyze that. And our timing remains unchanged. I think that we'll do a more broad roll out in the first quarter, perhaps the second quarter. Certainly, our intend is to be well positioned on this before the July 1, 2011 deadline.

Frank McEvoy - Craig-Hallum - Analyst

Okay, very good. And then finally, the way I calculate the averages, the revenue per average student was relatively flat from Q1 to Q2. But you do have a 5% tuition hike that went into effect April 1, right? Was there a certain, what was the explanation for that?

Andrew Clark - Bridgepoint Education, Inc. - CEO

You are correct. We had a revenue, a tuition increase of 5% that took place on April 1. I would say some of that just has to do with substantially more new students in the second quarter, I mean sorry, in the first quarter, just in quantity. It was 24,000 new enrollments in the first quarter and 18,004 in the second quarter. So you do have so many amortization of those technology fees that that may change your revenue per student in, over those two quarters.

Frank McEvoy - Craig-Hallum - Analyst

Okay, very good. Thank you.

Andrew Clark - Bridgepoint Education, Inc. - CEO

Thank you.

Operator

And we'll go next to Bob Wetenhall with RBC.

Bob Wetenhall - RBC - Analyst

Hey, good morning.

Andrew Clark - Bridgepoint Education, Inc. - CEO

Good morning.

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

Good morning.



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Bob Wetenhall - RBC - Analyst

Between the end of the June quarter last year and December 31, you added around 8,200 students. And using the high total enrollment number of 71,000, it looks like you are adding about 3,500 between the end of this year's June quarter and December 31, 2010. I just was, just curious even though you are implementing some quality control standards that might slow down enrollment, it still sounds like you are putting your foot pretty hard on the decelerator. How much growth do you think is getting pushed forward?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Well Bob, our total enrollment growth for the full year is around 32% and that remains unchanged. And I think that in terms of the second half of the year, the law of large numbers here as we continue to have a larger total enrollment base, means as I said kind of at the beginning of the call that we will begin to normalize here to the overall sector kind of growth rate average.

Bob Wetenhall - RBC - Analyst

What is that average in your mind?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Well, I think it depends on who you are talking to, I think anywhere around kind of 15%-ish, 15% to 17%, is kind of what I see out there. And other people have different opinions, but it's kind of how I view it.

Bob Wetenhall - RBC - Analyst

Got it. That's my only question. Thank you very much.

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes.

Operator

And we have no further questions. At this time, I would like to turn it back to Mr. Clark for any additional or closing remarks.

Andrew Clark - Bridgepoint Education, Inc. - CEO

All right. Well, thank you everybody for your time today, we appreciate it. And we look forward to talking to all of you.

Operator

And this concludes today's conference. Thank you for your participation.

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