

# FINAL TRANSCRIPT

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**BPI - Q3 2010 Bridgepoint Education Inc. Earnings Conference Call**

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## CORPORATE PARTICIPANTS

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*Bridgepoint Education, Inc. - Associate VP, IR*

**Andrew Clark**

*Bridgepoint Education, Inc. - CEO*

**Jane McAuliffe**

*Bridgepoint Education, Inc. - SVP and Chief Academic Officer*

**Dan Devine**

*Bridgepoint Education, Inc. - SVP and CFO*

## CONFERENCE CALL PARTICIPANTS

**Operator**

**Jeff Silber**

*BMO Capital Markets - Analyst*

**Brandon Dobell**

*William Blair & Company - Analyst*

**Andrew Steinerman**

*JPMorgan - Analyst*

**Peter Appert**

*Piper Jaffray - Analyst*

**Trace Urdan**

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**James Samford**

*Citigroup - Analyst*

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## PRESENTATION

**Operator**

Good day and welcome to the Bridgepoint Education third quarter 2010 earnings conference call. Today's conference is being recorded. At this time, I would like to turn the call over to Mr. Paul Goodson, Bridgepoint's new Associate Vice President of Investor Relations, please go ahead.

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**Paul Goodson** - *Bridgepoint Education, Inc. - Associate VP, IR*

Thank you, operator, and good morning, everyone. Bridgepoint Education's third quarter 2010 earnings release was issued earlier today and is posted on the Company's website at [www.bridgepointeducation.com](http://www.bridgepointeducation.com). Representing the Company today are Andrew Clark, Chief Executive Officer; Dan Devine, Chief Financial Officer; and Jane McAuliffe, Chief Academic Officer.

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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 September 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 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 a 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 until November 9, 2010 at 12:00 A.M. Eastern. To access the replay, call 888-203-1112 in the US and Canada, or 719-457-0820 for international calls and enter the confirmation code 1337043. The webcast will be archived on the Company's website for one year.

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

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

Thank you, Paul, and welcome to Bridgepoint Education's third quarter earnings call. On the call today, I will review our quarterly results, operational highlights and progress on key business initiatives, before turning the call over to Jane who will update you on academic developments; then, Dan will review our financial and operating results in greater depth, and I will update our 2010 full-year guidance and conclude with your questions.

In the third quarter, Bridgepoint Education successfully continued to meet the demand for higher education, by bringing affordable, high-quality and highly accessible post-secondary education within reach for broad segments of the US population. As of September 30, 2010, 77,179 students were enrolled in associate's, bachelor's, master's and doctoral degree programs through our two academic institutions, Ashford University and University of the Rockies.

During the third quarter, demand for a high-quality, affordable college education remains strong. We experienced increases in total student enrollment of 40.6% over the same period in 2009. In the third quarter, combined new student enrollments at Bridgepoint's Universities increased by 23.1% over the third quarter of 2009 to approximately 24,000 students. Bridgepoint's third quarter revenue increased 49.9% to \$190.9 million from \$127.4 million for the same period in 2009.

A highlight of the quarter was the success we achieved at Ashford University's Clinton, Iowa campus. Beginning with this fall's incoming class, Ashford has introduced a new expanded program of full-tuition President scholarships. Scholarships were granted to those incoming students who have a GPA of at least 3.5. I am pleased to say that not only has more than 40% of the incoming class earned President scholarships, but this semester's enrollment of more than [760] full-time traditional students is the largest class in the 91-year history of the Clinton campus.

More importantly, the class of more than 440 new students represents a significant increase over the previous record for an entering class of 189 students and positions us well to achieve our future growth objectives at the campus.

In addition to increasing enrollment at the campus, we're very satisfied with the improvement we have seen in the overall quality of Ashford's incoming students. The average GPA of the incoming class was 3.32, which compares with GPA's of previous classes of 2.72.



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

While we focus on the statistics, it is also important to understand how powerful the role of the President's Scholarship Program is on an individual level in providing access to a quality college education. One of our students, a most deserving freshman is one of our President's scholarship recipient. Since the age of [16], this young man has worked at a local nursing home to pay all of his own expenses. His mother can only afford to pay for his school lunches, so he had to pay for everything else, like clothes and school supply. He used the same backpack since junior high. One thing he had going for himself was a passion for learning and his hard work in high school paid off resulting in a high school GPA of 3.7.

Without a scholarship, college would not have been financially feasible. His proud mother and family scrapped together the money to purchase him a laptop as a high school graduation gift. And today, he is on campus majoring in Social and Criminal Justice. This student's humble, grateful manner truly demonstrates the significance of Ashford University's President Scholarship Program. This story and others like it demonstrate our commitment to providing access to high-quality education to deserving students regardless of their financial means.

As I mentioned, we are fully committed to student success for all of our students and we believe success requires an environment that nurtures learning. In the third quarter, we made significant strides in completing the first phase of our Clinton campus expansion. We completed the development of a new athletic field on the site of the additional acreage purchased at the end of 2009. Development is continuing on our master plan for the campus, which will be presented to our students, faculty, alumni and the Clinton community soon. We anticipate that this expansion will allow us to meet our goal of growing the campus to 3,000 students over the next several years.

Now, I'd like to turn to the Department of Education's final rules, which were published five days ago. Although we are still analyzing the new rules and their potential impact on our business, I'm able to comment on state authorization. The Department adopted a final regulation that requires all institutions that offer an online program to students in a state in which it is not physically located to meet any requirement in that state regarding our secondary distance education.

We don't view this rule as adding any additional regulatory burden on our institution, as we are already required to comply with applicable state requirements regarding distance learning. Each state has different rules in this area and some states regulate distance learning more actively than others. We have a robust internal process to evaluate each state and its requirements, and we routinely work with state agencies to determine appropriate steps. If a state makes changes to requirements, we have an established process by which we can make the required changes to ensure that we are meeting the state's new requirements.

In previous calls, I had mentioned that we have taken some proactive steps in anticipation of the new rules. For example, over the past two quarters, we implemented a minimum age of 22 for online associate programs. We have also instituted a full attendance requirement for a student's first course. In addition, we recently introduced a pilot orientation program to ensure that students with fewer than 24 credits are prepared for the academic rigor of our programs. While these programs are too new to provide definitive results, we expect that these initiatives over time will result in better-prepared students as well as help improve retention, graduation, bad debt and repayment rates.

We have also mentioned in prior calls that we've been piloting new enrollment advisor compensation plans. We are continuing to refine these plans based on the initial results, a process that will continue into early 2011 and that we plan to have fully implemented prior to June 30, 2011. These initiatives demonstrate that Bridgepoint's institutions remain focused on providing high-quality and compliance programs to their students.

Before turning the call over to Jane, I would like to acknowledge two key team members Bridgepoint has added recently. Doug Abts joined us as our new Senior Vice President of Strategy and Corporate Development. In this role, he'll be working both strategically and tactically to drive innovation in support of educational outcomes and Bridgepoint's continued growth. Doug comes to us from SAIC in San Diego and brings significant corporate development and M&A experience. Doug also served in



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the US Navy for six years where he was a SEAL Team Operations Officer. He has an MBA from Harvard and a Bachelor's degree from Stanford.

Next, I know many of you on the call today will be pleased to join me in welcoming Paul Goodson, our new Associate Vice President of Investor Relations. Paul is a veteran of the investor relations field, having served as the Head of IR for three different companies and as Account Group Manager for the world's largest IR agency. Paul has an MBA from UCLA, a Master's degree from the University of Wisconsin and a Bachelor's degree from Caltech.

Now, I will turn the call over to Jane for her comments.

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

Thank you, Andrew. I'm going to take this opportunity to discuss Ashford University's recent decision to seek a change of regional accreditation to the Western Association of Schools and Colleges or WASC. Ashford University has matured as an institution over the past five years. Our increased presence in the WASC region, along with the complementary alignment of WASC standards with Ashford University focus, particularly in the area of assessment drove the university's academic management and Board of Trustees to make a decision to pursue accreditation through WASC at this time.

We believe this move will enhance the institution's administrative capabilities and strengthen the university's ability to succeed in its mission of providing accessible, affordable, innovative, and high-quality learning opportunities and degree programs that meet the diverse needs of our students. It should be noted that we are in good standing with our current regional accreditor and fully intend to remain so through the migration process.

Our current accreditor staff is fully aware of our decision to migrate to WASC, and have been cooperative in this transitional process. Prior to initiating the accreditation process with WASC, Ashford University notified the Department of Education of its intentions to change primary accreditors and the department responded that it had no objection. At this time, we have initiated the application process with WASC and we are hopeful that we will have a visit by a WASC team and a decision confirmed by the end of 2011.

Both accrediting bodies have agreed to transparency and collaboration through the entire process. And our expectation is that at no time during this process will the university lose or have its current accreditation, which has been in place since 1950, impaired. Once accredited by WASC, the university will be able to initiate request for new degree program approval at both the bachelor's and master's level through the well-defined process developed by WASC.

In summary, the migration to WASC accreditation at this time is an appropriate decision for the institution and our students, and we're looking forward to participating in the migration process, meeting new colleagues in the WASC region and developing a strong relationship with the WASC team.

Before I turn the call over to Dan, I'd like to take a moment to give you a brief update on Constellation and Quality Matters. Constellation continued to grow in both the number of offerings and in student utilization, and is proving to be an effective learning tool. Students are taking advantage of its features and the customized materials we provide and we expect improved educational outcomes as a result. We've had more than a million visits from our students accessing it from within the US and also from 94 other countries.

One of the unique features of our system is that you can track student behavior and we have already seen that students are taking advantage of the wealth of materials and tools we provide for them. We have seen students access more than 6.4 million page views and make nearly 700,000 highlights on those pages.



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More than 180,000 downloads of material have occurred and were able to track the most popular content, which will better inform our curricular design. We are very pleased with the metrics we've seen so far and look forward to further analysis if this model continues to grow.

Finally, I'm proud to share that we continue to grow the number of courses that are officially reviewed and endorsed by Quality Matters, a nationally recognized faculty centered peer review process certifying the quality of online education. University of the Rockies has eight courses endorsed by Quality Matters, while Ashford now has 99 courses recognized, making us the institutional leader among colleges and universities participating in this review process.

We are particularly proud of Ashford's achievements because Quality Matters sets an industry-wide standard designed to certify the quality of online courses. While our internal goal is always excellent, this independent third-party validation is a clear demonstration of our commitment to course design and the quality of our instructions, which in turn promote student learning.

Now, I will turn the call over to Dan to review our financial and operating results.

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

Thank you, Jane. And thanks to everyone for joining us today. Let me echo Andrews's earlier comments that we're pleased with Bridgepoint's continued strong execution and overall performance in the third quarter. Before we move to the numbers, let me highlight that during the third quarter, the Company repurchased 3 million shares at a weighted average price of \$14.05 for a total cost of \$42.2 million, pursuant to the \$60 million share repurchase program announced in August. As a result, \$17.8 million remains authorized and available under the repurchase program, which is set to expire at the end of July 2011.

Now, I will provide you with an overview of the quarter. Specifically, third quarter revenue increased 49.9% to \$190.9 million compared with \$127.4 million for the third quarter of 2009. Revenue growth was primarily driven by a significant increase in student enrollments. As of September 30, 2010, total student enrollment increased 40.6% to 77,179 from 54,894 students at the end of the third quarter of 2009.

For the third quarter of 2010, instructional cost and services were \$50.2 million or 26.3% of revenue compared with \$33.1 million or 26% of revenue in the third quarter of 2009. Included in our instructional cost and services for the third quarter is bad debt expense of \$10.6 million, which equates to 5.5% of revenue as compared with 5.3% of revenue for the same period in 2009. We believe, the continued weak economy is the primary contributor to this result. We remain focused on improving this operating metric.

Marketing and promotional expenses for the quarter were \$55 million or 28.8% of revenue compared with \$36.5 million or 28.7% of revenue in the third quarter of 2009. General and administrative expenses for the quarter were \$23.3 million or 12.2% of revenue compared with \$18.9 million or 14.8% of revenue for the third quarter of 2009. General and administrative expenses improved from prior year, as we continue to gain efficiencies from a larger student enrollment base.

Operating income for the third quarter increased to \$62.4 million, resulting in a 32.7% operating margin. This compares with 30.5% operating margin in the third quarter of 2009. Net income for the third quarter was \$36.1 million compared with \$22.4 million in the third quarter of 2009. Fully diluted earnings per common share or EPS was \$0.61 for the third quarter of 2010 compared with EPS of \$0.37 for the same period in 2009.

EPS is calculated on a diluted share count of 59.3 million in the third quarter of 2010 and 59.8 million shares for the comparable period in 2009. The stock repurchase of 3 million shares in the quarter resulted in an increase of \$0.02 to EPS in the quarter.

The Company's effective tax rate for the third quarter of 2010 was 42.4% and for the nine months ended September 30, 2010, the effective tax rate was 41.4%. In the third quarter, we recorded an increase in tax expense to revalue our net state deferred



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tax assets related to favorable California Tax Legislation effective in 2011. Our effective tax rate at September 30, 2010 excludes the impact of California Proposition 24, which could repeal these future benefits. We will record any impact of California Proposition 24 in the fourth quarter.

Now, let's turn to some key components of our cash flow and balance sheet. As of September 30, 2010, we had cash, cash equivalents and marketable securities of \$229.7 million compared with \$170.6 million as of December 31, 2009. Bridgepoint Education generated \$115.2 million of cash from operations for the nine-month period ended September 30, 2010 compared with \$115.7 million for the same period in 2009. As of September 30, 2010, our accounts receivable net of allowance for doubtful accounts was \$76.1 million, which represents 36 days sales outstanding on a quarter-to-date basis compared with 37 days sales outstanding as of September 30, 2009.

For the first three quarters of 2010, capital expenditures were \$18.5 million compared with \$16.8 million for the same period last year. The amount spent year-to-date reflects our commitment to the campuses, as we constructed an athletic field in Iowa and continued to expand our other campus facilities. The amount also reflects leasehold improvements to certain facilities in San Diego.

Before turning the call back over to Andrew, I would like to update you on the status of the OIG audit. As we have reported before, Ashford University submitted its response to the OIG draft audit report this past July. As you are aware, the next step will be the issuance of a final audit report. Although we do not have an estimate of when this will occur, we will make announcements as developments warrant.

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 third quarter by significantly leveraging our student value proposition and innovation to drive positive student outcomes. We foresee continued demand for the rest of 2010 for our higher education course offerings.

As you model our performance for the full year, I want to remind you of our comments on our first quarter call about seasonality. Over the past few years, our fourth quarter enrollment and revenue growth have consistently slowed in comparison to the preceding third quarter. The seasonality reflects the impact of both the holiday break and fewer new enrollments in the fourth quarter of every year. And we expect this effect to be more pronounced in this year's fourth quarter than in prior years, which is an outcome of the normalization of our growth rate.

With this in mind, here are the financial and operating metrics we are expecting for the full year. Total student enrollment is expected to be between 71,800 and 73,800 at the end of the year. Revenue is forecast to be between \$700.3 million and \$702.8 million. Net income is expected to be between \$120.8 million and \$122.3 million. Fully diluted earnings per common share is expected to be between \$2.02 and \$2.05, based on an estimated fully diluted weighted average share count of 59.6 million for the year. The stock repurchase of 3 million shares in the third quarter is expected to contribute \$0.04 to fully diluted EPS for the year. Bad debt as a percentage of revenue for 2010 is expected to be 5.4%. Capital expenditures for 2010 are expected to be approximately 5% of revenue and the effective tax rate for 2010 is estimated to be 41.4%.

Now, with that, I would be happy to take any of your questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions) And we will now take our first question from Jeff Silber with BMO Capital Markets, please go ahead.

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

Thanks so much. Just wanted to get a little bit more color on your outlook for the year. I know you don't officially give fourth quarter guidance, but backing out where you look to go for the year, I'm just curious what kind of starts growth in retention is implied in the fourth quarter to hit your year-end goal?

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

Well, we don't give out -- obviously, as you said, we don't give out the start enrollments for the upcoming quarter and we don't give out our expected retention. I will say that we do anticipate that starts for the fourth quarter will be above the rate -- the number of starts we had. We are not going to have decelerating growth of new starts in the fourth quarter.

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

I am sorry, you said it will not decelerate, is that what you said?

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

We will not -- we will have higher growth in the fourth quarter compared to the prior year in new enrollments. We are not decelerating growth in the fourth quarter [on new enrollments].

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

And then, also just on bad debt and I know you are not giving quarterly guidance, but by my math it's implying bad debt expense of about 6%. I mean, is the economy getting weaker, is there something going on that I am not aware of? I'm just curious why you think it will spike up?

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

Well, it only spiked up as a percentage as it was higher last fourth quarter also. So it's the growth in our bad debt, we don't expect any further deterioration in the fourth quarter due to the economy than what we saw in the third quarter, which was 20 basis points.

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

So nothing else going on there?

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

I mean, last year's fourth quarter, I believe was also a higher number.

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

Okay, great. All right. I'll jump back in the queue.

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

Yes.

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

Thanks so much.

**Operator**

We will now take our next question from Brandon Dobell with William Blair, please go ahead.

**Brandon Dobell** - William Blair & Company - Analyst

All right. Thanks. Going back to Jeff's retention question a little bit. In the third quarter, any color on how retention trends were if you look at it exclusive of the ground campus and graduations just trying to get an idea of, if any, impacts -- what impacts on the changes student quality metrics are having?

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

Sure, Brandon. We saw about a 70 basis point increase in our retention for the quarter, which we were pleased with. We certainly can't, as I said previously in the call, really quantify for you the effect the -- all of our initiatives are having. But we do believe strongly and we do forecast in our thinking for next year that all of these various initiatives ought to have a positive impact on retention in 2011.

**Brandon Dobell** - William Blair & Company - Analyst

Okay. And then over the past two weeks, you've put a number of your peers talk about all kinds of different issues, concerns, drivers, what have you, anything from the media to more expensive lead. I wonder if you could comment on the cost of a student acquisition these days or the logistics of that and say if there is any major changes for you guys, you had to change your strategy to go out and find those new students.

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

Sure, Brandon. I mean I really can only tell you what it is that I see here at Bridgepoint and we continue to execute very strongly on a plan that we put in place around November of last year. And our media costs have been very consistent. Everything that we have -- that we forecasted and planned for last year has really come to fruition this year. And we've been very consistent I think each quarter this year on each earnings call about our view for the full year. And we haven't changed from that because we haven't seen anything out there in the external environment that has impacted us. Obviously, I've been talking to you almost two years now. If I thought something that I thought would negatively impact Bridgepoint and any of our metrics, I would certainly share that with you. But I don't see anything right now.

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**Brandon Dobell** - *William Blair & Company - Analyst*

Okay. Thanks. And final question, going back to the accreditation situation between HLC and WASC, you mentioned you would be open or has approved to open new programs. Is there any delay, once the final WASC decision is handed down? Is there like a cooling-off period where you're going to wait three months before you can apply for new programs or is it pretty much once that decision is handed to you, you can start the new program process?

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

Yes, I'll let Jane answer your question.

**Brandon Dobell** - *William Blair & Company - Analyst*

Thanks.

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

Yes, good question. No, as soon as we have confirmed our approval status with that new accreditor, then that very next day, in fact we've had conversations about it we can submit for a new program approval. So no delay.

**Brandon Dobell** - *William Blair & Company - Analyst*

Great. Thanks a lot.

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

Thanks, Brandon.

**Operator**

And we will now take our next question from Peter Appert with Piper Jaffray.

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

Peter?

**Operator**

I do apologize Peter is no longer on the line, we will go to Andrew Steinerman with JPMorgan. Please go ahead, sir.

**Andrew Steinerman** - *JPMorgan - Analyst*

Hi, Andrew. I think you did a very good job, especially addressing it upfront with state authorization, but I just wanted to make sure I caught everything. I think you were saying that you're already authorized in all the states you need for Ashford. And so compliance with the new Reg formalized last week is no change, is that the message?

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

Yes, [especially] that's the message. I mean, as I commented, we have a very robust system. We recruit from all 50 states and we -- whenever there is changes in any of the states, we have a system -- we have about four individuals, Andrew, inside the organization that are focused just on this, that monitor any changes in regulation to make sure that our institutions are either in compliance or are in the process of submitting the paperwork to become in compliance with any changes in any case.

**Andrew Steinerman** - *JPMorgan - Analyst*

Right. And Dan, I think you said no deceleration in new enrollment. I wanted to make sure that I understood that correctly. So in the third quarter, new enrollments grew 23%, so the fourth quarter should be similar or better --

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

Yes, let me clarify that. I was referring to the total number of physical new starts, not as a percentage.

**Andrew Steinerman** - *JPMorgan - Analyst*

And you mean no declines.

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

No decline in the number of new enrollments in the fourth quarter as compared to the fourth quarter of 2009.

**Andrew Steinerman** - *JPMorgan - Analyst*

But it could decelerate from the 23%.

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

Yes. it could decelerate from the percentage. I was referring to gross physical number, not a percentage.

**Andrew Steinerman** - *JPMorgan - Analyst*

Okay. And the deceleration that you see here is something on your own volition. I think you had to use the word normalizing our growth rate or is this something external?

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

No, this is something that really happens every single year, Andrew, every fourth quarter just because of the seasonality. We make an internal decision not to try and have students start their classes around the holidays. We just don't think that that is conducive to their academic experience and there is a lot of distractions going on that time of year and it's better off for them to wait until January. So this is just more pronounced because our growth rate is normalizing. So you see the seasonality a little more pronounced than you have in the previous years.



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**Andrew Steiner** - JPMorgan - Analyst

Right. But Andrew, you must realize that pretty much all the other educational services companies have talked about value enrollments, do you think the reason why Bridgepoint is not going to see value enrollments is that you're just a younger company?

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

No. And I'm glad you asked that question. I think the reason why -- and I've been saying that going on two years almost, Andrew, is we had a differentiated value proposition that resonates tremendously with prospective students out there and affordability and the transferability of credit and the heritage of the institution just continues to allow Bridgepoint institutions to [drop students] that normally look at a community college or a four-year public university, but find that those tuition prices are increasing. The accessibility is very difficult or decreasing in some cases and they naturally turn to our institutions. That -- the differentiated value proposition is what has driven growth at our institutions. That's why we had a very strong third quarter, that's why we've raised our guidance for the full year and we've been very consistent, as I know you know, because we've been talking almost two years now about this.

**Andrew Steiner** - JPMorgan - Analyst

Andrew, Dan, thank you so much.

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

Yes.

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

Thanks a lot.

**Operator**

And our next question will come from Peter Appert with Piper Jaffray. Please go ahead.

**Peter Appert** - Piper Jaffray - Analyst

Thanks. So Andrew, I was trying to ask the enrollment number is very impressive versus your peers and I was just hoping give us some color on the drivers in terms of particular degree levels where you're seeing growth or program areas that are driving this performance?

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

I don't have any real specifics for you, Peter. I think the one thing I can continue to say though about Bridgepoint and our institutions is we've experienced tremendous consistency. Again, we've been doing -- this is I think our seventh earnings call here or seventh quarter. I've been talking with folks for the last two years about our business. Our business continues to be tremendously consistent and I think it's predicated, as I mentioned just a second ago to Andrew, on the highly differentiated value proposition and really how strongly that resonates with prospective students in an economic environment that continues to be very difficult and looks to be very difficult for the foreseeable future.

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**Peter Appert** - Piper Jaffray - Analyst

Yes. Do you have any sense if new program offerings are a particularly important driver of the enrollment growth?

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

We certainly have expanded our new program offerings this year. But I don't think that that is -- you can't point to any one particular problematic area and say that that has been kind of the driver for our growth. The thing you can point to, and I'm going to sound like a broken record here, is our differentiated value proposition. That is what really is driving the growth at our institution.

**Peter Appert** - Piper Jaffray - Analyst

And how about the pilot orientation program, Andrew? Can you give us any added insight into how that works and how that might impact the enrollment numbers on a short-term basis?

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

Well, we just started it here. And so it's just really in its early phases and we'll continue it through the quarter, probably into early next year. So I really -- I don't have anything in terms of detail that I can give you. Jane can comment a little bit for you on just the orientation program itself and what it entails?

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

Right. Our faculty who are teaching right now for the first time are really enjoying the interaction with students. So it's really focused on helping our students navigate through that online learning environment, introducing them to learning resources that are available to them through their university, assisting them with learning management skills, time management skills, providing an analysis of their English/math skills and I think it's really designed to set that stage for learning. So it's just a great [key as] to welcome them into higher education. So we're having a great time with that and we're interested to get to the point where we can start analyzing the impact.

**Peter Appert** - Piper Jaffray - Analyst

And is there a meaningful cost associated with offering this?

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

No, that's not a material cost.

**Peter Appert** - Piper Jaffray - Analyst

Okay. And then one last thing for Dan, you were pretty aggressive in the repurchase in the third quarter, so you've used up a good chunk of the authorization, so presumably, you can get more on the context of your cash balance. So the question is how aggressively do you think you want to pursue buybacks on a go-forward basis, just from a strategy standpoint?

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

Well, we evaluate it on a continuing basis and we do have that \$17 million available to us and I don't really know [without seeing] where -- what the future prices look like.

**Peter Appert** - Piper Jaffray - Analyst

Okay. Thank you.

**Operator**

And we'll now take our next question from Trace Urdan with Signal Hill, please go ahead.

**Trace Urdan** - Signal Hill - Analyst

Thanks. First question, maybe for Dan, it looks like on the revenue numbers that you've outlined for the full year and the EPS numbers that you've outlined for the full year, there is the potential for margin contraction in the fourth quarter. Am I -- have I got something wrong there or is --?

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

No, I mean, we've made this comment before as early as the first quarter. The fourth quarter has a sequential decline in enrollments, as Andrew said, because we have an effectively holiday break as well as a shorter enrollment period in the fourth quarter as compared to other quarters. And as a result, you have a large enrollment base at the end of Q3, that large enrollment base has certain assumptions for our graduation than the people leaving the institution and that's not being fully offset by the shorter enrollment period due to the holidays. That results in lower revenue in this particular quarter. It did not do that in '09, I think revenue was up just slightly, but this year you actually -- it's more pronounced and you're going to see unfavorable revenue variance sequentially. And that all basically falls to the bottom line and creates the margin contraction. So you are correct, that's what [we're at].

**Trace Urdan** - Signal Hill - Analyst

Thank you. I'm sorry to make you [give].

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

No. I'm glad you asked it. It's nice to kind of reiterate it once again so that it's clear that that is the impact of the margin.

**Trace Urdan** - Signal Hill - Analyst

Okay. I wondered if -- I know you kind of -- you get asked this each quarter and maybe there is no more information to bring to bear here, but there is an intense interest now around the change in incentive comp or the removal of the Safe Harbors and I know you guys have been piloting a program already around that issue and I presumably are prepared to roll it out. I'm wondering if you could sort of describe what impact if any you see as a result of that of having to roll that pilot out in your P&L. I mean, are we going to see sort of near-term expansion in costs or will there be any change in the productivity that you can foresee? Can you give us a little bit more color around what's going to happen as a result of that?

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

Sure, Trace. And I might have kind of a long answer to your long question here, so bear with me. But I mean I guess I'd set the table this way. For seven years, we've built a very strong Company with a very strong management team that's executed very well. And we've predicated that upon high quality and compliance. And I believe as I've said that there is a strong demand for our value proposition. And then really the question becomes, what do we think is reasonable access to that demand, giving our two overarching guiding principles of quality and compliance?

So if you look at 2011, I can't really -- I can't comment on -- it wouldn't be appropriate for me to comment on that since we're having those discussions now. But I think it's reasonable to think that there would be some change in expense structure based around incentive comp. I think it's reasonable to think there might be some change in productivity. I think that I have a view that there are opportunities within our marketing and commercial line for improvement as well. So all of those things are going through our head, Trace, as we think about kind of the current regulatory environment and kind of the uncertainty of the political environment now and going into next year. But we will be very thoughtful and I think at the end of the day, really the focus on quality and the focus on compliance is going to drive our view of how much of that demand is created by our value proposition here we want to access.

**Trace Urdan** - Signal Hill - Analyst

Okay. And then, maybe the last question for Jane, I think investors are intensely interested in this transition that you're making to WASC and I appreciate you addressing it in your remarks. Will there be any milestones that we will be able to watch as the process unfolds? Are you going to be able to -- are there things that we can look for to see that everything is progressing smoothly and in good order, or is it going to be sort of a black box and we're going to have to wait till we get to the end of it?

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

No, I'd be happy to provide updates as we go along. They have a very formal process that they go through. They kind of call it the eligibility process, then candidacy and then the initial accreditation process. And as you know, we've submitted our [intent to file], so we've passed that first phase and now we're submitting our eligibility application and working towards submitting that in the next few months. So once from there, that's when it sort of starts to develop into a full-blown self study and the team is set up to come to visit and then we can sort of update as to where we are in the timeline and keep you posted, and I certainly don't have an issue with that.

**Trace Urdan** - Signal Hill - Analyst

And is there sort of a back and forth process and will they -- are they likely to come back to you and say, we have these 15 questions about your practices in these areas, could you address those please and give us more information? I mean, is it that kind of a situation like a program review?

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

No, I mean, it's a very formal process where you -- it's just like any other regional accreditor where you just make your self study and a team evaluates you and comes to your visit and then they write a report. And you do have an opportunity to provide a response and then a decision is made. So it's just a -- it's a very clean process, so it's not a matter of for months and months, you back and forth.

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**Trace Urdan** - Signal Hill - Analyst

Okay. Great, thank you.

**Operator**

(Operator Instructions) We will now take our next question from James Samford from Citi. Please go ahead.

**James Samford** - Citigroup - Analyst

Thank you. Most of the questions have been asked at this point. But just wanted to get a sense for whether you've had any changes in your military strategy as far as how that's trended in the quarter? And any comments on your relationships with community colleges and other partnerships? How much -- how important is that to your new student acquisition channels?

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

Yes, thanks, James. We have not had any changes in our military strategy and I'm very pleased with kind of both of our channel developments, both the corporate strategy as well as the military strategy. Again, kind of along with our theme of consistency, those have gone really according to plan throughout 2010 here. The community college continues to be -- community colleges and articulation agreements continue to be a focus for us and we continue to expand our relationships with more and more community colleges. It is important to us. Because of our transferability of credit policy, it's a nice stead and we find that community colleges are very receptive when we approach them about an articulation agreement.

**James Samford** - Citigroup - Analyst

Great. And just a quick follow-up on your tuition structure. Is the technology fee still a big part of your tuition structure and any opportunities to maybe lower your tuition relative to some of your peers who are most likely facing potential tuition lowers to meet gainful employment?

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

Well, I mean first of all, technology fee has been something, James, that we've had for -- since 2005. We increased the fee for, I think like the first time since 2005 because we've increased so many of the services to our online students over the last five years and it was appropriate to offset some of those expenses there. In terms of lowering tuition rates, our tuition rates are lower than most of our public/private sector competitors. And our repayment rates, as you know, at least kind of on that first go around by the department, both of our institutions were at the threshold or above. So I think, there is certainly not a need for us to look at lowering tuition or anything in that regard based upon what we've seen.

Most of our students -- a lot of our prospective students look at a community college or a four-year public university before they decide to come to Ashford, for example. And what you find there because of declining state revenues is that those tuition prices continue to escalate and are very competitive now with Ashford's pricing and in some cases higher. So, our view is that we really don't need to change anything from a tuition pricing standpoint and we don't need to change what we've done in the past five years. I think it demonstrates itself in the value proposition and just in the growth that we've had certainly in this year.

**James Samford** - Citigroup - Analyst

That's great. Thank you. Great quarter.

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

Thanks.

**Operator**

And our next question will come from Kelly Flynn with Credit Suisse, please go ahead.

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

Thanks. [I just want to go] back to the starts growth, Dan, I guess, somewhat unclear on why seasonality should really impact the year-over-year growth. Can you explain that a little more?

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

As a percentage? I thought that the original question was, I thought, is your gross number of new enrollments going to exceed the gross number of new enrollments in Q4 of 2009? And my answer to that was yes.

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

Right. Well, I guess I think that answer implies that the growth rate will be -- that answer coupled with your guidance and it implies that the new student growth will be significantly lower than 23%, which is what we saw in the third quarter. So I guess I'm trying to figure out why seasonality would be the driver of that deceleration and if it's not seasonality, I just want to go back to these initiatives, the orientation especially, do you think that the starts growth would be higher if you aren't doing the orientation?

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

It's pretty straightforward, I think. This is Andrew, Kelly. It's pretty straightforward. As I mentioned, our growth rate -- the seasonality occurs every year, our growth rate is normalizing and as it normalizes, it just pronounces the seasonality to a greater extent. If there was anything from an initiative perspective or from an external perspective, as I said a few minutes ago, we would share those with you, but we don't see that. And I think we've been very transparent as a public company in the last seven quarters about what we do see.

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

Okay. I guess just to say it another way then, if your enrollment growth is implying starts probably somewhere between, I guess 0% and 20% growth year-over-year. So if we use the midpoint and put it at 10%, I mean is that -- what's your normal growth rate? Is it 10% and does it decelerate further? And how are you thinking about when will -- at what level the growth rate will normalize for your student growth?

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

Well, I mean, I think our full-year new enrollment growth rate is about -- on the full-year guidance is about 34%. So as I mentioned, we've set this plan a year ago, we've been very consistent every single quarter with you about what we were going to achieve. There is obviously nothing new in the fourth quarter here because we're going to do for the full year what we've been telling

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you we were going to do for the full year [and] we gave you full-year guidance back in March. So there is no -- I don't know what you're looking for, but there is no surprises here, there is nothing internal or external that changes our view of the fourth quarter and the full year.

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

Okay. No problem. Thank you.

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**Operator**

And our next question will come from Frank McEvoy with Craig-Hallum Capital Group, please go ahead. Mr. McEvoy, your line is open.

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**Frank McEvoy** - *Craig-Hallum Capital Group - Analyst*

Yes, good morning, everyone.

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

Good morning.

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

Good morning.

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**Frank McEvoy** - *Craig-Hallum Capital Group - Analyst*

Yes, nice quarter.

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

Thank you.

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**Frank McEvoy** - *Craig-Hallum Capital Group - Analyst*

Andrew, I have a question on Constellation to start off with and can you give us a sense of what percent of courses in the third quarter had Constellation and maybe get an update on the rollout over the next year or two and just kind of touch on the revenue and potential cost benefits?

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

Well, I've just talked to how many courses or books we've put out so far. We've done six so far on a plan of ten for the full year. So we are again right on course with what our plan was for the full year in terms of Constellation. I think -- what was the follow-up to that?

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**Frank McEvoy** - *Craig-Hallum Capital Group - Analyst*

And where do you -- how do you see it rolling out over the next couple of years? Is that -- are you still on track with the plan and all of you accelerated or --?

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

We've been real consistent about saying that we expect 30% course penetration in 2011 and about 75% to 80% in 2012 and our view hasn't changed on that.

**Frank McEvoy** - *Craig-Hallum Capital Group - Analyst*

Okay, great. And then, this was asked earlier, but I was just trying to get some sense on can you talk about enrollment growth in the quarter by degree type? Was it -- or do you see more growth in say master's versus associate's, or can you give us any kind of color on that at all?

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

You know what, I don't have anything specific in front of me or off the top of my head. I would just say -- and again I'm a broken record going back to my theme here of consistency, we really continue to see growth where we've seen it traditionally, certainly in our graduate program offering that continues to do well, as well as in our bachelor's degree offerings. So, it's been very consistent, very according to plan.

**Frank McEvoy** - *Craig-Hallum Capital Group - Analyst*

Right. Very good. Thank you.

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

Yes.

**Operator**

And our next question will be from Bob Wetenhall with RBC, please go ahead, sir.

**Bob Wetenhall** - *RBC Capital Markets - Analyst*

Hey guys, nice quarter.

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

Thank you.

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**Bob Wetenhall** - RBC Capital Markets - Analyst

And thanks for the transparency on what's going on. Just kind of in terms of the momentum you guys had, what's -- how much additional operating leverage do you think is achievable in G&A?

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

Are you referring to going forward in the future? I assume future years. We said it before, we expect that there is some future maybe less than a point a year going forward. We could get down a little further, maybe two or three points down over time, but less than a point a year. We don't expect to keep marching down to a too lower level.

**Bob Wetenhall** - RBC Capital Markets - Analyst

Okay. And is there anything going forward that's going to change radically [ICS] as a percentage of revenues?

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

No, nothing that I would characterize in your word of radically. I think we'll continue, as I mentioned I think with Trace, we're going to continue our focus on quality and compliance. So beyond 2010, we're going to use those two guiding factors to make sure we're making the appropriate investments as we have been to reinforce academic quality.

**Bob Wetenhall** - RBC Capital Markets - Analyst

Fair enough. And just trying to put some bigger bookend [finality] where you haven't provided F'11 guidance, but is there kind of a sweet spot that you're looking to get to next year for total enrollment, maybe like 80,000 students, 85,000 or just ballpark rough -- very rough back of the envelope?

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

No. And I'm glad you asked that, Bob, because that's really not the way we think about it. And that's kind of why I provided that long answer to Trace. The two things we're most focused on as we have been is really the quality of our academic offerings of student experience and our regulatory compliance. And those are really the bookends. We obviously believe that we have a very differentiated and strong value proposition as demonstrated by the last seven quarters of performance. And going forward, our access to that demand will be guided by those bookends of quality and compliance.

**Bob Wetenhall** - RBC Capital Markets - Analyst

Good answer. Thanks very much.

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

Thank you.

**Operator**

And we have no further questions in the queue. I'd now like to turn the call back over to Andrew Clark.

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

Yes. I want to thank everyone for joining our earnings call today and we'll look forward to talking with everybody again next quarter.

**Operator**

And this does conclude today's conference call. Thank you for your participation. You may now disconnect your lines.

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