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BPI - Q4 2010 Bridgepoint Education Inc. Earnings Conference Call

Event Date/Time: Mar. 01. 2011 / 4:30PM GMT



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CORPORATE PARTICIPANTS

Andrew Clark

Bridgepoint Education Inc. - CEO

Dan Devine

Bridgepoint Education Inc. - CFO

Jane McAuliffe

Bridgepoint Education Inc. - Chief Academic Officer

Paul Goodson

Bridgepoint Education Inc. - AVP of IR

CONFERENCE CALL PARTICIPANTS

Bob Wetenhall

Royal Bank of Canada - Analyst

Ariel Sokol

UBS - Analyst

Frank McEvoy

Craig-Hallum Capital Group - Analyst

Paul Condra

BMO Capital Markets - Analyst

James Samford

Citigroup - Analyst

Peter Appert

Piper Jaffray - Analyst

Trace Urdan

Signal Hill - Analyst

Tom Dillon

William Blair & Company - Analyst

Jeff Silber

BMO Capital Markets - Analyst

PRESENTATION

Operator

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

Paul Goodson - *Bridgepoint Education Inc. - AVP of IR*

Thank you, Ryan and good morning everyone. Bridgepoint Education's fourth quarter and year end earnings release was issued earlier this morning and is posted on the Company's website at www.BridgePointEducation.com. Representing the Company today are Andrew Clark, Chief Executive Officer; Dr. Jane McAuliffe, Chief Academic Officer; and Dan Devine, Chief Financial 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 financial and related guidance. 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 year-end report on Form 10-K for the period ended December 31, 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 Tuesday March 8, 2011, at 12.00 a.m. Eastern time. To access the replay call 888-203-1112 in the US and Canada, or 719-457-0820 for international calls, and enter confirmation code 4113386. The webcast will be archived on the Company's website for one year.

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

Andrew Clark - *Bridgepoint Education Inc. - CEO*

Thank you, Paul, and welcome to Bridgepoint Education's fourth quarter and year end earnings call. Today I will review our operational highlights and business initiatives, and then I'll turn the call over to Dr. Jane McAuliffe, our Chief Academic Officer, to give an overview our academics, and then our CFO, Dan Devine, will review our fourth quarter and year end results and key operating metrics. Following his remarks, I will introduce 2011 annual guidance and conclude with general Q&A.

As of December 31, 2010, total student enrollments increased to 77,892 students. For the fourth quarter ended December 31, 2010, revenue increased \$192.4 million, compared with \$131.8 million for the same period last year. Combined new student enrollment for the fourth quarter of 2010 were approximately 15,600 compared with new enrollments of approximately 10,600 for the fourth quarter of 2009. As our enrollment and financial statistics indicate and Jane's comments will demonstrate, 2010 was another successful year for both Ashford University and University of the Rockies. Our performance last year reflects continued strong demand among working adults for our attractive value proposition, affordability, transferability, heritage, and accessibility, which was reinforced by our steadfast commitment to providing a quality education to our students attending both of our academic institutions. As we enter 2011, our institutions along with others in our sector are adapting business practices to ensure that we remain in full compliance with the new rules that take effect on July 1. Throughout 2010 and as we enter 2011, we continue to see that demand remains strong among prospective Ashford and University of the Rockies students. We anticipate that enrollment growth at our institutions will remain positive in 2011 and normalize to the 5% to 7% annual enrollment growth rates reported by the 2009 IPEDS Digest of Education Statistics report for all post-secondary academic institutions.

I want to update you on our enrollment process and the rollout of our new admissions counselor evaluation policy. Our current admission counselors undergo an extensive training process that emphasizes program knowledge and regulatory compliance and our admissions counselors are required to take additional training on these topics approximately every quarter. All admissions counselors are trained on and required to sign an admissions code of conduct outlining the guidelines that they must follow when interacting with a prospective student. We monitor our admissions personnel's adherence to our policy and procedures with the use of our quality assurance teams who review admissions counselors' calls for quality and provide valuable feedback to continuously improve our enrollment processes. All of these initiatives are areas of constant focus, and we continue to update our training and monitoring to ensure we're providing our students with the best possible enrollment experience. I'm pleased to report that in a recent survey of our newly enrolled students, approximately 94% of respondents strongly agreed that the admissions counselors were extremely helpful in helping students determine their academic path, were highly knowledgeable and supportive during the enrollment process, and were prompt in responding to students' needs.

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Now let me update you on our new admissions counselor evaluation plan. We have begun to roll out our new evaluation plan to all new admissions counselors, and we will have all existing admissions counselors on this plan by June 30. The new evaluation plan does not contain any evaluation criteria based directly or indirectly on the number of students enrolled or the amount of financial aid awarded. The new plan will provide for an annual salary adjustment based on three components; a cost of living component, an educational attainment component, and a tenure component. Additionally, we have a strategy in place that we believe will allow for a smooth transition to this new plan over the next several months.

With that, allow me to turn the call over to our Chief Academic Officer, Dr. Jane McAuliffe, to update you on our academic progress.

Jane McAuliffe - Bridgepoint Education Inc. - Chief Academic Officer

Thank you, Andrew. And I want to echo your comments that our institutions are committed to providing a high quality educational experience that is accessible and affordable to traditionally underserved segments of our population. In 2010 we continued to look for ways to improve the quality of our students' learning experience and introduced more innovative practices to best ensure the learning outcomes of our students. We believe that our quality is best measured by the outcomes and opinions of the students we serve.

As we shared last year, I would like to provide you with some highlights from our most recent alumni survey. 88% of our alumni agree that earning their degree from Ashford gave them the confidence to pursue new job opportunities. 93% of our graduates indicated that they were satisfied or very satisfied with their Ashford experience. 92% of the alumni agree that earning their Ashford degree was worth the time commitment required to fulfill the educational goals. And out of the 90% of alumni who reported having previously attended a traditional institution, 91% feel the quality of education at Ashford University is the same as or higher than a traditional college or university. We continue to be pleased with the results from our alumni survey that demonstrates the value of an Ashford degree and the impact it is having on changing individuals and their families' lives.

Our most recent survey indicates that bachelor degree graduate salaries increased approximately 14% from an average of \$39,376 at the time of enrollment to a current salary of \$44,785. Based on responses from our graduate degree earners, we estimate that the average salary of our alumni is \$57,084, which is an increase of 11.5% over the average salary they were earning when they first enrolled at Ashford. In these difficult economic times, these kinds of salary increases confirm the value that a post-secondary degree can have on the working adult student population we serve.

In addition to measuring the outcomes of our graduates, we remain focused on monitoring and improving the academic performance of our current students by measuring cohort retention and expected graduation rates. As we have reported in the past, we measure a cohort based on active enrollments at a point in time which are defined as students who have completed their first three semester credits and go on to complete a 12-month period. This is adjusted to reflect students who complete, graduate, drop, or reenter the institution. On this basis, the 12-month retention rate for 2010 was 60%. We have maintained an average of 60% or greater for each of the last four years, even as total enrollments at our two institutions have increased. We provide all of these metrics in an effort to allow for more transparency into our institution's performance, and we believe that these metrics should be published by all private sector and traditional institutions in an effort to provide students with a consistent set of data to evaluate during their selection process.

In 2010, we introduced two initiatives that we expect will positively contribute to our future student retention rates. We increased the minimum age of attendance for our online associates degree program from 18 to 22, as our data indicated that students under the age of 22 were generally less successful in pursuing their degree in our online environment. Additionally, we now require that all undergraduate students have perfect attendance for all five weeks of the first class at Ashford. We believe that the mandatory attendance early in a student's program demonstrates the student's commitment to their program of study and provides the opportunity to learn skills and strategies that will allow them to be successful throughout their program.



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On past calls we shared that we were piloting an orientation for our Ashford students. In fall 2010 and spring 2011, Ashford University provided randomly selected first-time online students with fewer than 24 hours of transferred credit with a free two week online Student Success Workshop designed to give students an opportunity to experience the university's online classrooms and assess their individual readiness for college success through a realistic overview of life as an Ashford student. Furthermore, students were enrolled in a workshop prior to starting courses in their chosen program and therefore prior to incurring any financial obligation to the university, thus allowing students to assess the university's online classroom and their suitability for this type of educational experience. In addition, we piloted a live web-based walk to class that enabled a group of students to visit and experience Ashford's online program firsthand. This allowed students to take a visual tour of the student portal, Ashford's online classroom, and Constellation. This online orientation seminar introduced students to the classroom and presenters helped them to locate each element of the classroom and showed them how to post discussions, how to upload papers, where to find instructor feedback along with other important topics. In addition to its instructive benefits, the walk to class began to focus students on success in the classroom and how it looks and feels.

Both of these initiatives are being evaluated for their effectiveness in preparing students for success. We've collected data on the strength of the relationship between participation and one of these pilots and persistence in academic performance in their first course. Preliminary findings indicate that participation in a more formalized experience, designed to provide a realistic overview of the university expectations of students that give students an opportunity to assess the Ashford learning experience at no cost, will benefit those who then choose to continue. We are currently evaluating the results to identify the best elements of both pilots to create an effective student orientation experience that will be rolled out to AU undergraduate students in 2011. We believe that the implementation of these programs will ensure that the students who attend our institutions are better aware of the time commitment and academic rigor required and will be better prepared for the online experience.

Our undergraduate graduation rates at Ashford tell a similar story of consistency, and while we still have another year before we can calculate six-year graduation rates, we currently show a five-year graduation rate from the point of completion of the second course to be approximately 50%. For our graduate programs, we measure graduation for a period equal to 150% of program length, and we are currently showing an expected graduation rate of 67%. These graduation rates compare very favorably to those of our peers, as well as to the rates of public and not-for-profit colleges. We expect that the previously mentioned new quality initiatives that we are instituting will result in improved graduation rates in the future.

I would like to take a moment to give you a brief update on Constellation and Quality Matters. Constellation has been cited in the 2011 edition of the Horizon Report as an exemplar in the emerging field of electronic books. The Horizon Report is internationally recognized and has a readership of over 500,000 across 50 countries. The report grew out of the New Media Consortium's Horizon Project, a research venture established in 2002 that identifies quote, Emerging technologies likely to have a large impact over the coming five years on a variety of sectors around the globe, end quote. The 2011 report is the eighth in the series and focuses on electronic books, mobile strategy and learning, augmented reality, game-based learning, gesture-based computing, and learning analytics. The report is widely read throughout the higher education sector, particularly by traditional higher education and community colleges. Hundreds of institutions vie for such coverage, and only a few are selected. We are honored to be included in this report. Constellation continues to expand, and our rollout of courses has remained on target to date. We currently have 11 courses using Constellation, and we anticipate that approximately 30% of our students will be using Constellation by the end of 2011.

We continue to benefit from having our courses reviewed by peers in higher education community. 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, is increasing for both of our institutions. This process is highly valued by our academic team. The team benefits from receiving feedback on each course from other university professionals, and also sees value in participating in their review of courses as well. University of the Rockies has 16 courses endorsed by Quality Matters, while Ashford now has 191 courses recognized. By a very wide margin, we lead the industry in the number of courses endorsed by Quality Matters.



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I'd also like to share with you another innovative project we've been working on, a mobile experience for our students at the University of the Rockies. More than ever, today's fast-paced learner requires innovative solutions to meet their needs. Rockies Mobile provides reliable solutions for on-the-go students so they can stay connected to what's most important for a successful learning experience. This is an application that can be downloaded to a mobile device. Students are benefiting from access to discussion boards and announcements and their classroom through the use of their phone. Students are now able to contact an advisor, faculty members, view course schedules and personal profiles, and even access support services. We invite you to visit the Apple App Store to read the reviews of our students -- have posted on their experience with this app. Grounded in research on user behavior and needs, the mobile strategy continues to develop increased access and promotes our organizational pillars of quality and innovation. We are very pleased with our launch of this application and look forward to making this available to Ashford faculty and students in the near future as well.

As promised, I wanted to provide you with an update on our WASC process. Ashford formally notified WASC last year of its intention to pursue accreditation through WASC's accrediting body. We continue to move forward in that process and have submitted our eligibility report. The eligibility report allows the university to demonstrate how it believes it is eligible to pursue accreditation using WASC's eligibility criteria. We look forward to participating in a meeting in the coming months to discuss our submission with the WASC team. The next step in the accreditation process would include the writing of our self-study and then a site visit. I look forward to updating you further next quarter. Ashford faculty and staff and our Board of Trustees Chairmen have all participated in workshops hosted by WASC. We are pleased with our interactions with the WASC team and continue to 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. We continue to be in good standing with our current accreditor, and we are keeping them well informed of our work to date with WASC.

And finally, I'm very pleased to report that the University of Rockies recently received approval to offer its first PhD program focused on organizational development and leadership. The university also received approval for a master's degree in human services and a master's degree in organizational development and leadership. The faculty worked diligently in developing these programs and is quite pleased to be able to offer their first PhD program, as well as be able to offer programs that expand beyond the field of psychology.

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

Dan Devine - Bridgepoint Education Inc. - CFO

Thank you, Jane. Before providing an in-depth review of our fourth quarter results, allow me to provide some key operating figures for the year ended December 31, 2010. For the year, revenue increased to \$713.2 million, compared with \$454.3 million for the same period last year. The increase in revenue was primarily a result of an increase in student enrollment as well as a tuition increase implemented on April 1, 2010. Similarly, we experienced favorable net income and EPS growth for the year. Net income for the year ended December 31, 2010, was \$127.6 million or \$2.14 per diluted share, compared with net income of \$47.1 million or \$0.74 per diluted share for the same period last year.

Turning to the fourth quarter of 2010, revenue was \$192.4 million, compared with \$131.8 million for the same period last year. As of December 31, 2010, total student enrollment increased to 77,892, from 53,688 at December 31, 2009. For the fourth quarter, instructional costs and services were \$54.5 million or 28.3% of revenue, compared with \$36.5 million or 27.7% in the same period last year. In the fourth quarter, as a percentage of revenue, an increase in instructional salaries, licensing agreements, and bad debt expense were not fully offset by the cost efficiencies in the areas of academic management, financial aid support, student services, and facilities commensurate with a larger student enrollment base. Included in instructional cost and services for the fourth quarter was bad debt expense of \$12.8 million. As a percentage of revenue bad debt expense increased to 6.6% from 5.6% for the same period last year, primarily due to general economic conditions. Marketing and promotional expenses for the fourth quarter of 2010 were \$62.3 million or 32.4% of revenue, compared with \$40.5 million or 30.7% of revenue in the same



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period last year, primarily due to additional branding initiatives during the quarter. General and administrative expenses for the fourth quarter of 2010 were \$30.9 million or 16.1% of revenue, compared with \$20.9 million or 15.9% of revenue for the same period last year. This increase is due to additional expenses related to administrative support and higher professional fees in the quarter.

Included in our three main expense categories for the fourth quarter of this year is approximately \$2.3 million related to stock-based compensation expense in the aggregate compared with \$2 million for the fourth quarter last year. For the fourth quarter of 2010, operating income increased to \$44.7 million from \$33.9 million in the same period last year. For the fourth quarter, net income was \$26.3 million, compared with \$19.6 million for the same period last year. For the fourth quarter ended December 31, 2010, fully diluted earnings per common share, or EPS, increased to \$0.45 from \$0.33 for the same period in 2009. Fully diluted EPS is calculated based on a diluted share count of 58.1 million shares for the fourth quarter of 2010, and 60 million shares for the comparable period of 2009. We did not repurchase any shares of common stock during the fourth quarter, and we have \$17.8 million remaining in our current stock repurchase authorization.

Our effective tax rate for the year ended December 31, 2010, was 41.4%. As of December 31, 2010, we had cash, cash equivalents, and marketable securities of \$299.1 million. The Company generated \$189.9 million of cash from operations for the year ended December 31, 2010, compared with \$131.7 million for the same period in 2009. Our accounts receivable net of allowance for doubtful accounts was \$58.4 million, which represents 27 days sales outstanding on a quarter to date basis, compared with 30 days sales outstanding at December 31, 2009. Capital expenditures for the fourth quarter of 2010 were \$8 million, compared with \$7.4 million for the same period last year, and for the year ended December 31, 2010, they were \$26.6 million, compared with \$24.2 million for the prior year.

Moving to regulatory items, for the year ended December 31, 2010, Ashford University derived 85% of its respective revenues from Title IV funds calculated under department regulations. This represents an improvement from 85.5% reported in the prior year. For the year ended December 31, 2010, the University of Rockies derived 85.9% of its prospective revenues from Title IV funds, also calculated under department regulations. Ashford University's two-year cohort default rate for the 2008 federal fiscal year was 13.3%, whereas the draft two-year cohort rate for 2009 increased to 15.3%. For the University of Rockies, the 2008 federal fiscal year was 2.5%, whereas the draft two-year cohort default rate for 2009 increased to 3.3%. We believe that the increase in these rates is a reflection of the Department of Education's decision to take over the servicing of outstanding loans and the nation's current economic condition. We continue to increase our investment internally and externally in ensuring that all of our former students are repaying their student loans. Finally, as you know Ashford University received the OIG's final audit report on January 21, and Ashford has responded to the Department of Education with comments on the final audit report.

Now let me turn the call back over to Andrew for our annual guidance and closing remarks.

Andrew Clark - Bridgepoint Education Inc. - CEO

Thank you, Dan. And as we have discussed earlier on this call, and as our industry peers have discussed on their recent earnings calls, we enter 2011 with a combination of pending regulatory changes and unprecedented media and legislative focus on our industry. In 2010, we also put in place quality and preparedness initiatives that, over time, should result in improved cohort retention rates and lower cohort default rates for our institutions. We have analyzed the impact from these factors, and from the expected reduction in admissions counselor productivity at our institutions in developing our guidance. We expect the change in operating margins versus 2010 will be more reflected in the second half of the year as the new initiatives mentioned previously and particularly the revised evaluation process for admissions counselors are fully implemented by June 30. Importantly, we do expect to have positive full year new enrollment growth as our value proposition should continue to attract adult learners.

With that said, our annual guidance for the year ending December 31, 2011, is as follows. Total student enrollment is expected to be between 81,000 and 82,500. Revenue is expected to be between \$870 million and \$885 million. Net income is expected to be between \$129.5 million and \$131.8 million. Fully diluted earnings per common share is expected to be between \$2.18



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and \$2.22, based on an estimated fully diluted weighted average share count of 59.5 million for the year ending December 31, 2011. Bad debt as a percentage of revenues for 2011 is expected to be 5.6%. Capital expenditures for 2011 are expected to be between 6% and 7% of revenue. The Company's effective tax rate for 2011 is estimated to be 38.5%. This guidance takes into account a 5% tuition increase for online students at Ashford University and the University of the Rockies which will go into effect for courses beginning on or after April 1, 2011. The guidance also includes an estimated \$10.6 million in ongoing stock-based compensation charges. The fully diluted earnings per common share guidance does not include the effect of potential additional share repurchases.

Before we begin our Q&A session, let me assure you that the entire management team at Bridgepoint remains fully committed to the long term success of our students, our academic institutions, and our investors. Certainly, regulatory compliance is top of mind in 2011, and as we've said in the past, we believe we are well positioned to be in full compliance on July 1 with the new regulations. Equally important for the long term, let me emphasize that we are committed to continually improving our quality metrics both educationally and operationally and providing the transparency to verify our progress.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Silber, BMO Capital Markets.

Jeff Silber - BMO Capital Markets - Analyst

Thanks so much. Can you hear me?

Andrew Clark - Bridgepoint Education Inc. - CEO

Yes.

Jeff Silber - BMO Capital Markets - Analyst

Great. I apologize. I'm calling from outside the office. Just had a couple questions about your guidance. It looks like you're looking for still some sizable revenue growth, but by my calculations probably slightly down operating profits and pre-tax profit. Can you tell us where the additional spending is going in 2011?

Dan Devine - Bridgepoint Education Inc. - CFO

Sure. Jeff, this is Dan. If you look at 2010 versus 2011, you basically have about an implied 600 basis point drop in operating margin. So if you think of how that's distributed, we talked about we are changing our evaluation process, so that will impact the marketing promotional line. Probably about 45% of it is there. We are making additional investments in student success and continuing to improve the student experience. That represents probably 35% additional investment compared to the prior year, and then we are anticipating higher professional fees and some additional G&A which makes up the remaining 20%. So it is not all concentrated in sales and promotion. It is spread across all three lines.



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Jeff Silber - BMO Capital Markets - Analyst

Okay, that's helpful. I appreciate that color. I just also want to clarify something you said, Andrew. Did you say you were looking for new enrollment to grow as well, in terms of starts for 2011 or just total enrollment to grow?

Andrew Clark - Bridgepoint Education Inc. - CEO

No, I said new enrollment growth should be positive, Jeff, for the full year.

Jeff Silber - BMO Capital Markets - Analyst

Okay. So again, looking at the enrollment guidance for the end of next year, does that imply retention falling off dramatically? Doesn't look like you're looking for a lot of enrollment growth, and you've got some strong starts over the past year. Obviously that'll benefit you next year as well.

Andrew Clark - Bridgepoint Education Inc. - CEO

No, it doesn't imply retention falling off. In fact, as we discussed throughout the call, we have a variety of initiatives from last year as well as this year that will focus on improving our retention. So we don't have -- we have a lot of students that are graduating in 2011, and that's probably what you might be missing as you think that through.

Jeff Silber - BMO Capital Markets - Analyst

All right, that's what I thought. I just wanted to clarify that. Thanks so much.

Operator

Brandon Dobell, William Blair.

Tom Dillon - William Blair & Company - Analyst

Hi, this is actually Tom Dillon in for Brandon. Couple quick ones. How many incoming students came in with zero transfer credits compared to last year?

Andrew Clark - Bridgepoint Education Inc. - CEO

You know what, Tom, we don't provide that number. We provide the number of the percentage of students that come in with some credits, and it's historically been around 73%.

Tom Dillon - William Blair & Company - Analyst

Okay. Where are your current student-teacher ratios, and where do you see those going?

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Andrew Clark - Bridgepoint Education Inc. - CEO

You know what, they've been pretty consistent over time.

Dan Devine - Bridgepoint Education Inc. - CFO

They've actually gone -- the ratio -- well, let me just say that instructor salaries as a percentage of revenue continues to increase. So there's some of that obviously as you change some of your pay to instructors, but there's also, as our base matures, the ratios in the later classes of someone's education are lower. So therefore, our ratios have actually gone down. Okay. All right, I'll turn it over. Thank you.

Andrew Clark - Bridgepoint Education Inc. - CEO

Thank you, Tom.

Operator

Trace Urdan, Signal Hill.

Trace Urdan - Signal Hill - Analyst

Thanks, guys. I just wanted to make sure I understand. In addition, it looks like the guidance suggests that there might be some degradation in the revenue per student in addition to the spending initiatives you described, Dan. I wonder if you could speak to that.

Dan Devine - Bridgepoint Education Inc. - CFO

We're not anticipating that. If it is, that would be just a little bit of timing issues probably between how the students are expected to come on board. We anticipate that we are going to do the 5% tuition increase as we discussed. So there really aren't any other changes in our models that relate to revenue per student. If there is any change it would just be a bit related to the year over year of timing as they start during the quarters.

Trace Urdan - Signal Hill - Analyst

Okay, fair enough. I'm wondering if you could give us a little bit of color on what military enrollment or military starts, military enrollments look like for you guys in the quarter and what you see the trend looking like in that category?

Andrew Clark - Bridgepoint Education Inc. - CEO

You know what, I don't think we have the military number, Trace, in front of us for the quarter. For the full year the military students, as we define them, which can be active duty military, veterans, spouses of active duty, as well as Department of Defense, has been pretty flat to what it was last year.

Trace Urdan - Signal Hill - Analyst

Okay, so the early gains there have sort of leveled off?

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Dan Devine - Bridgepoint Education Inc. - CFO

Well, the early gains meaning the gains in 2008 and 2009?

Trace Urdan - Signal Hill - Analyst

I thought that the growth in that category had been even faster in more recent years for you guys, but maybe I have that wrong.

Dan Devine - Bridgepoint Education Inc. - CFO

Historically it was -- for 2008 we went from a low number to 14.5% or something like that, and then 2009 we're at 17.1%. I think we stated before that we're comfortable with 17.1%. We think that's a good number for us, and we didn't expect it to move. So it may be still 17.1%. It may be 18%, but it's not going to dramatically move above that level.

Trace Urdan - Signal Hill - Analyst

That's as a percentage of total enrollment? Is that what you--?

Dan Devine - Bridgepoint Education Inc. - CFO

Correct. Percentage of total enrollment, yes.

Trace Urdan - Signal Hill - Analyst

Okay. Given the lower rate of growth in general for military students, maintaining at a flat percentage of your total enrollment suggests that you have been growing pretty rapidly there. So I'm gathering then you're anticipating that will slow down in -- to the same degree that your overall enrollments are slowing down.

Andrew Clark - Bridgepoint Education Inc. - CEO

Yes, Trace, you're right, it is slowing down. We've made a decision, though, to slow our new enrollments down. As you can see from the guidance, that's a decision we made across the board. So it's not unique to the military market, and the reason you saw significant increases was because we actually made a focus to reach out to those students in 2008 and '09 as well as '10. So it's more of a conscientious decision by us to slow our rate of growth.

Trace Urdan - Signal Hill - Analyst

And the extent to which this big increase in marketing and promotion spend on brand drives additional interest, will you simply -- will it be your policy then to still keep your start growth where you've guided to? It's a fair amount of money you're looking to spend there. It's possible that, that could drive increased demand. Will that flow through if that happens, or will you be pretty strict about keeping your start growth where you want it to be?

Andrew Clark - Bridgepoint Education Inc. - CEO

You know what, I think we'll be pretty focused, Trace, on keeping our new enrollment growth where we want it to be. We've made a decision here based around our focus on quality and our continued focus on quality, as well as our focus on regulatory

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compliance to have a growth rate that is very similar to those of other institutions of higher education in the country. So we will continue to focus from a branding perspective, because I believe over the long term it's important for institutions to establish their brand. So that will -- and we're very focused on the long term of course. So we'll continue to do that. But we'll be very disciplined I think, through all of our initiatives, at making sure that we are providing an opportunity to prospective students that are the highest quality students that the institution can take.

Trace Urdan - *Signal Hill - Analyst*

Thanks, Andrew. Those comments are very helpful.

Operator

Peter Appert, Piper Jaffray.

Peter Appert - *Piper Jaffray - Analyst*

Thanks. So Andrew, just following up on your comment to Trace, so longer term, we should think about 5% to 7% as the target enrollment growth rate for Bridgepoint?

Andrew Clark - *Bridgepoint Education Inc. - CEO*

Well, Peter, we don't give -- as you know, we don't give two or three year guidance, and I think that would be kind of difficult to do in today's environment for anybody. But I would say that we feel very comfortable with our total enrollment growth rate for 2011. We have a lot of students that are graduating, we're pleased to say, in 2011, and that's really a significant component for us. And we're very happy about that part. And as Jane discussed throughout the call, we have a lot of initiatives, and we as an organization and our institutions are heavily focused on retention of students and ultimately graduation.

Peter Appert - *Piper Jaffray - Analyst*

But it does sound like an evolution perhaps in how you're thinking about the business and the business strategy, dialing back to the focus on growth. I just want to be sure that's the message.

Andrew Clark - *Bridgepoint Education Inc. - CEO*

The message is definitely that we absolutely have always had a focus on quality and regulatory compliance, and that we would make sure that our growth was acceptable around those two parameters. And we feel that, certainly for 2011, given our continued focus on quality and compliance, that our 5% to 6% growth rate is appropriate given those two overriding factors.

Peter Appert - *Piper Jaffray - Analyst*

Okay, fair enough. And then, Dan, just back to the margin compression issue, I think partly -- specifically, so you're stepping up the spending on promotion and branding as previously mentioned. I assume also, given what is implied by the level -- the percentage increase in the marketing and promotion expense that I'm calculating here, you must be planning for a fairly significant increase in the number of enrollment counselors. Is that right?

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Dan Devine - Bridgepoint Education Inc. - CFO

No, that's not correct. We're not planning for a significant increase in enrollment admissions counselors. In fact, I believe our admissions counselors for 2011 will be flat to what it was in the previous year in 2010. What you really see there is a continued, as I mentioned I think in the first quarter call or 2010, I said Ashford University would have a strong focus on branding and developing a branding strategy throughout the year which we did in 2010. We initiated some of that at the very end of 2010, and we'll continue to do that for 2011. I think one of the messages that I would want you to take away certainly from us on every call and certainly this call, Peter, is we are very much focused on the long term. We're focused on building a long term sustainable organization that has institutions that are very successful around academic quality, around retention of our students, and ultimately graduation.

Peter Appert - Piper Jaffray - Analyst

Okay, understand. Then just last thing, any color in terms of timing on the Western Association process?

Andrew Clark - Bridgepoint Education Inc. - CEO

I'll let Jane answer your question.

Jane McAuliffe - Bridgepoint Education Inc. - Chief Academic Officer

We are right in the middle of that process. And as I mentioned we submitted that document for eligibility review. We have to go through a process where we write our self study next, we have our site visit, and then a decision is made after that. I think in the past we've said by the end of the year we hope to have made some great progress, and a decision at that point. So if not, we would keep you posted on that process and how it's going.

Peter Appert - Piper Jaffray - Analyst

So end of 2011 the Western Association could actually have a decision?

Jane McAuliffe - Bridgepoint Education Inc. - Chief Academic Officer

It just depends. It depends on how the process goes and how quickly they assemble teams and that sort of stuff. So that's my best guess at this point. That's our hope that we would have a decision by the end of the year.

Peter Appert - Piper Jaffray - Analyst

Got it, thanks.

Andrew Clark - Bridgepoint Education Inc. - CEO

And we'll certainly, Peter, keep everybody updated on a quarterly basis. I would anticipate that each quarter we'll have an update on each earnings call for you.

Peter Appert - Piper Jaffray - Analyst

Great, thank you.

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Operator

Molly McGarrett, JPMorgan.

Unidentified Participant - - *Analyst*

Hey, it's Andrew. Could you hear me well?

Andrew Clark - *Bridgepoint Education Inc. - CEO*

Yes, we can hear you.

Unidentified Participant - - *Analyst*

Okay, thank you. Sorry, I'm also remote today with a phone that's not working so great. My question was about the salary survey, the \$57,000 plus. Was that right after graduation or a couple of years after graduation, and how big was that survey?

Andrew Clark - *Bridgepoint Education Inc. - CEO*

So Andrew, that spanned students that had graduated as recently as within kind of the last couple months, all the way through the last three or four years. So it really covers the full spectrum of students. I don't have the exact number of respondents in front of me. I do know that it was significant enough and statistically significant. So Dan and I can follow up with you and give that you number, though.

Unidentified Participant - - *Analyst*

And I'm also interested in the graduation level for more recent graduates, but we can follow up on that.

Andrew Clark - *Bridgepoint Education Inc. - CEO*

Okay.

Unidentified Participant - - *Analyst*

Thank you very much.

Andrew Clark - *Bridgepoint Education Inc. - CEO*

Thank you, Andrew.

Operator

James Samford, Citi.

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James Samford - Citigroup - Analyst

Great, thanks. Just wanted to hit a few things. One, when you think about the growth in new students for the year, will that dip into negative territory sometime during the year, or should we think about that as just sort of a generally slowdown in new starts, or is it a second half initiative issue that will hit new starts?

Andrew Clark - Bridgepoint Education Inc. - CEO

You know what, as you know, and I understand why you're asking the question, there's seasonality. We don't give guidance on a quarterly basis. I think you can generally think of it as a slowdown, and then obviously there's seasonality components throughout the year that have been very consistent for us in past years.

James Samford - Citigroup - Analyst

Thanks. I think you've talked a little bit about how much of the technology fee is as a percentage of revenues in some of your recent presentations. I was wondering if you could update us on where that is. Is that becoming less of an emphasis or at least a portion of the revenues going forward?

Andrew Clark - Bridgepoint Education Inc. - CEO

We gave out a number that it represented 7% approximately for 2010.

James Samford - Citigroup - Analyst

Okay.

Andrew Clark - Bridgepoint Education Inc. - CEO

That's the number we gave out. And it's come down from 10.5 in 2006, so it diminishes, and it has consistently went down year over year as a percentage of revenue.

James Samford - Citigroup - Analyst

And I believe military and some of your corporate relationships don't -- they get that technology fee waived. Is that correct?

Dan Devine - Bridgepoint Education Inc. - CFO

The military gets it waived that is correct, and corporate, certain corporate?

Andrew Clark - Bridgepoint Education Inc. - CEO

Yes.

Dan Devine - Bridgepoint Education Inc. - CFO

So 17% of our population, certainly for the military, do not get that fee.

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James Samford - Citigroup - Analyst

Okay. And as far as share count for the year, it looks like it's going to be up probably a couple million shares by the end of the year. Is that just options that are vesting over time? How should we think about that one?

Dan Devine - Bridgepoint Education Inc. - CFO

It is options that vest over time, and there's no repurchase activity forecasted in that share count, but we do have \$17.2 million of authorization remaining.

James Samford - Citigroup - Analyst

Last one, looks like the Holiday Bowl, was that a part of the impact for the growth in new starts this quarter, or is that something that may impact Q1 more than it did Q4, and how do you feel about the investment in that initiative?

Andrew Clark - Bridgepoint Education Inc. - CEO

Sure. It's primarily a community focused investment. As you know, James, we have a very strong social responsibility component and culture within our organization. And besides the economic impact, the positive impact that, that had over that three, four-day period in San Diego, we donated \$1 of every ticket that was sold to Promises2Kids, which ended up being about \$60,000 to that organization, an organization we've been associated with for the past three or four years, well before the Holiday Bowl. So we of course did take the opportunity to kick off some branding for Ashford University during that time, and we have anecdotally received very positive feedback with regards to that.

James Samford - Citigroup - Analyst

Great, thank you.

Operator

Paul Condra, BMO Capital Markets.

Paul Condra - BMO Capital Markets - Analyst

Hi, guys. I wasn't sure if Jeff was going to be on the call, and we're both on here, but I do have a question. I wanted to ask about the tax rate. It seems to be coming down a bit for 2011. I just wondered if you could explain why that's going to be lower.

Dan Devine - Bridgepoint Education Inc. - CFO

Sure. As we mentioned on our previous call, our 2010 tax rate was increased about -- it went up about a point as a result of a California tax initiative that was voted on, on November by the voters. The situation was, it creates a higher tax in the current year because we had to revalue some of our assets. But it's favorable to corporations for our state tax rate going forward, and that's what the change in tax rate is for 2011.

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Paul Condra - BMO Capital Markets - Analyst

Okay, thanks. Then also on your 90/10, I believe you said it's calculated as the department calculates it. So is that excluding the HEOA benefit, and then what are you doing to keep that below 90%?

Andrew Clark - Bridgepoint Education Inc. - CEO

Yes, it does exclude the benefit, and really we continue to have very strong success, and we haven't talked about it much today, but good success in the corporate development channel as more and more companies have been reaching out to us, and us reaching out to them, and having their employees enroll into programs at Ashford University in particular since we're talking about their 90/10, but also at the University of the Rockies. So that channel has really developed nicely and continues to do very well, and is kind of the primary driver there, because, as we mentioned, the military affiliated students remained relatively flat year over year.

Paul Condra - BMO Capital Markets - Analyst

Can you put any numbers around that, the employee channel?

Andrew Clark - Bridgepoint Education Inc. - CEO

No, I think I heard your question, which is can we put numbers around it. I don't have exact numbers, Paul, that I can provide to you today. I can just tell you that we continue to have more and more agreements with corporations to have their employees be able to access our degree programs.

Paul Condra - BMO Capital Markets - Analyst

That's great. And then just one last one, you're not -- it sounds like you don't have any plans for repurchases in the near future, so what kind of uses of cash? What do you plan to do with that?

Andrew Clark - Bridgepoint Education Inc. - CEO

We're constantly evaluating repurchases. I wouldn't say we don't have any plans, as Dan mentioned we do have some opportunity there to spend still another \$17.8 million. Our Board evaluates our uses of cash on a quarterly basis, every single quarter we have the discussion. So I would continue to say that all options are being looked at.

Paul Condra - BMO Capital Markets - Analyst

Okay. Thank you very much.

Operator

Frank McEvoy, Craig-Hallum Capital Group.

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

Great execution on Q4. I'll follow up on one question. In the past you've mentioned on cohort default rates, you talked about the dollar default rate, and I think it was quite a bit lower. Do you have any information on that, the dollar amount that defaulted relative to outstanding loan balances?

Andrew Clark - *Bridgepoint Education Inc. - CEO*

You know what, Frank, we did that calculation, you're correct, in 2009 for you. We haven't done it yet for 2010, but when we do, do it, we'll certainly make it available in an investor presentation.

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

Is it still a situation where you think that many of the people who defaulted have relatively small balances?

Andrew Clark - *Bridgepoint Education Inc. - CEO*

Yes, I would think that the situation would be consistent to what it's been in the past when we've talked about it.

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

Okay. And then new student enrollment growth in Q4 was very good. Any color on enrollment growth by degree or by month that was pretty consistent throughout the quarter? Any color there would be helpful.

Andrew Clark - *Bridgepoint Education Inc. - CEO*

Yes, it's been pretty consistent throughout the quarter. We continue to be pleased with the fact that we offer a quality education. The students obviously perceive that their education is of value. That's why our retention rate is what it is, our graduation rates are what they are. That's why Jane discussed the student surveys and how students view their education compared to another institution. And we do all of that in an affordable fashion, and the consumer is becoming more and more sophisticated about seeking out a quality college education that's affordable. And so I think that certainly helps with prospective students as they look at our institutions and making decisions about where they want to go.

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

Any particular color on the enrollment growth by degree?

Andrew Clark - *Bridgepoint Education Inc. - CEO*

Not much. It's been pretty consistent across the programs. I think education continues to do well, but we have quite a few degree programs now across Ashford University in particular, some new ones at the Rockies, and we've seen, I'd say things be pretty consistent, compared to what they were in 2009 to 2010.

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

Thank you very much.

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Operator

Airel Sokol, UBS.

Ariel Sokol - UBS - Analyst

Hi, guys, congratulations on the quarter.

Andrew Clark - Bridgepoint Education Inc. - CEO

Thank you, Ariel.

Ariel Sokol - UBS - Analyst

Couple of questions. One, regarding the 5% tuition price increase, how do you think about the upper end limit where tuitions could rise to given the evolving environment? Are we close to that point yet, or do you think you can continue to increase prices for a couple years?

Andrew Clark - Bridgepoint Education Inc. - CEO

Ariel, we evaluate that every single year. Obviously there's a significant difference between us and the rest of our peer group in the private sector, anywhere from 17% to 51% in terms of tuition and our tuition being more affordable. And we are fairly competitive on the national landscape against public institutions. So our philosophy has always been to review public institutions, four-year public institutions, and what they're doing from a tuition perspective as well as private sector institutions, and then balance that against our investments in instructional services and technology and the student learning experience. We've come out generally in the 2% to 5% range. But I think -- I understand what you're saying, and the market is definitely, as I mentioned, becoming more sophisticated, the prospective student is definitely looking at what the affordability is of a college education, and that they view the education to be of equal quality to the other institutions that they're looking at, but then there's an opportunity for a more affordable tuition rate. They are definitely making that choice to go to an institution with a more affordable tuition rate than the other institutions that they're looking at, as long as they perceive the quality to be equal to or greater than.

Ariel Sokol - UBS - Analyst

Okay. Then the follow-up question. I appreciate your answer. I think you nailed it on the head. I think affordability does matter. But it's stunning to see that you guys are seeing new start growth in an environment where your competitors are hemorrhaging students. So I guess the question is, to what degree does price point matter because your institution does have a total value proposition including the traditional ground campus among other things? To what extent do you think pricing is the reason why you're kind of leaps and bounds ahead of your competitors?

Andrew Clark - Bridgepoint Education Inc. - CEO

I think our affordability component is a distinct advantage, but I will say that we do do quarterly surveys, as you know, Ariel, of our students. And their reasons for choosing Ashford in particular have always been consistent and the same over the past six years. They've always been focused around affordability, their ability to transfer credit, and the heritage of the institution, coupled with access of taking their degree programs online. So those things have been consistent. They have not changed. I do think that 2008, '09, and even '10 in the economic conditions did highlight the affordability component in the mind of the consumer and has led to that increased sophistication.

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Ariel Sokol - UBS - Analyst

Okay. And then the final question is, again, you guys are performing incredibly well in an environment where your competitors aren't. How easy or how difficult would it be for them to replicate your value proposition and to lower prices, and let's say to provide a traditional ground campus or to replicate your strategy and value proposition?

Andrew Clark - Bridgepoint Education Inc. - CEO

I think it would be tremendously difficult to replicate taking -- one of the advantages we have is that our institutions began with a model of affordability and so had an operating structure and did not have legacy system issues that others face. And so when others who do have those in place, if they wanted to make a change, it would not be impossible, but would be tremendously probably difficult and painful to do, and would take some period of time.

Ariel Sokol - UBS - Analyst

Very helpful. Thank you again.

Andrew Clark - Bridgepoint Education Inc. - CEO

Thank you. I think we probably have time for one more call, operator.

Operator

We'll take our last question from Bob Wetenhall with Royal Bank of Canada.

Bob Wetenhall - Royal Bank of Canada - Analyst

Hi, nice quarter, guys. Wanted to understand just a little bit more to Dan's comment that implied guidance calls for -- or midpoint as 600 basis points of margin compression, and I'm just trying to understand for modeling purposes going forward, should we think of BPI as sustainably generating operating income margin in the mid-20s range? Is that a realistic assumption?

Andrew Clark - Bridgepoint Education Inc. - CEO

We're not -- we're really only giving guidance for 2011, so I'm not going to comment on longer term changes in margin or anything like that at this point.

Bob Wetenhall - Royal Bank of Canada - Analyst

Okay. And just with regard to your guidance, looking 12 months forward, it's a very uncertain time right now, given the regulatory outlook. What gives you confidence on the enrollment front to be in such a tight bandwidth?

Andrew Clark - Bridgepoint Education Inc. - CEO

I think what gives us confidence, Bob, is that, as we've discussed over the past couple years, there's a tremendous demand for the value proposition, and that demand continues. What we've done this year is said to ourselves, we're going to determine how much of that demand we want to access based upon continued quality and continued compliance, especially with the



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new regulations coming on July 1. So the demand is there. But we are just limiting our access to the demand and predicating that upon continuing to try and reach a prospective student that is more likely to persist and more likely to graduate, and less likely to default on their loans. So I think our history and our history with the value proposition gives us the confidence for our guidance for 2011.

Bob Wetenhall - *Royal Bank of Canada - Analyst*

Given that you're deferring some of the demand in your midpoint of earnings calls for modest earnings growth, do you think 2012 will see renewed growth?

Andrew Clark - *Bridgepoint Education Inc. - CEO*

That's not a question I really can answer. As you mentioned, 2011 is going to be an interesting year because there's new regulation, there's still pending regulation. As I mentioned in my call, there's unprecedented media and legislative scrutiny across the sector and focus on the sector. So I don't think it would be responsible for me to comment beyond 2011.

Bob Wetenhall - *Royal Bank of Canada - Analyst*

Good. Nice quarter. Thanks very much.

Dan Devine - *Bridgepoint Education Inc. - CFO*

Thank you.

Andrew Clark - *Bridgepoint Education Inc. - CEO*

Thank you, Bob.

Operator

It appears that we have no further questions at this time. I'd like to turn the conference back over to Mr. Andrew Clark for any additional or closing remarks.

Andrew Clark - *Bridgepoint Education Inc. - CEO*

I just want to thank everybody for joining us this morning and look forward to speaking with all of you throughout this quarter and on our next earnings call. Thank you.

Operator

That concludes today's conference. Thank you for your participation.

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