

# FINAL TRANSCRIPT

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**BPI - Q2 2011 Bridgepoint Education Inc Earnings Conference Call**

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## PRESENTATION

**Operator**

Good day and welcome to the Bridgepoint Education's Second Quarter 2011 Earnings Conference Call. Today's call is being recorded. At this time I'd like to turn the conference over to Mr. Paul Goodson. Please go ahead, sir.

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

Thank you, operator, and good morning, everyone. Bridgepoint Education's second quarter earnings release was issued earlier this morning 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; Dr. Jane McAuliffe, Chief Academic Officer, and Dan Devine, Chief Financial Officer.

Before we begin, we would like to remind you that some of the statements we make today may be considered forward-looking, including statements regarding financial and related guidance. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual performance or results to differ materially.

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Please note that these forward-looking statements speak only as of the date of this presentation and we undertake no obligation to update these forward-looking statements in light of new information or future events except to the extent required by applicable securities laws.

Please refer to our SEC filings, including our quarterly report on Form 10-Q for the period ended June 30th, 2011 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.

On this call we plan to briefly discuss the Form S-3 Registration Statement we recently filed with the SEC, which has not yet become effective. We caution you that the shares covered by the Form S-3 Registration Statement may not be sold nor may offers to buy be accepted prior to the time the Registration Statement becomes effective. Any statements made on this call discussing the Registration Statement do not constitute an offer to sell or a solicitation of an offer to buy the shares covered by the Registration Statement.

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

A replay of the call will be available via telephone through August 9th, 2011. To access the replay, dial 888-203-1112 in the U.S. and Canada and 719-457-0820 outside the U.S.; then enter the access code 8178745. The webcast will be archived on the Company's website for one year.

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

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

Thank you, Paul, and welcome to Bridgepoint Education's Second Quarter Earnings Call.

On the call today I will review our operational results and business initiatives for the second quarter. Then Dr. Jane McAuliffe, our Chief Academic Officer, will give an overview of our academic programs and quality initiatives followed by our CFO, Dan Devine, who will review our second quarter results and key operating metrics. Following his remarks I will finish by discussing our 2011 guidance in my closing comments.

For those of you on the call who may be new to our story, I will provide a brief introduction to the Company. Bridgepoint is an innovative, educational services Company that is using the power of today's technology to advance higher learning. Our institutions, Ashford University and University of the Rockies, offer a practical and dynamic educational model for students seeking associate, bachelor and graduate degrees online or on campus.

Our Universities offer a more enriching and engaging learning experience through Constellation, our proprietary digital information platform that has its educational content and learning assets, through Ashford and Rockie's mobile, our mobile learning environment and through Waypoint technology our proprietary assessment and feedback platform. These new tools further support our efforts to offer students a broad selection of rigorous, innovative and practical courses that help open doors for those who seek to improve their lives through education.

As our enrollment and financial metrics indicate and Dr. McAuliffe's comments will demonstrate, we continue to successfully serve the academic needs of our students at both Ashford University and University of the Rockies. Trends at both academic institutions reflect continued demand among a broad cross section of working adults for our programs, which incorporate innovative technological solutions to deliver a high quality learning experience.



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As of June 30th, 2011, total student enrollment was 84,545 students, an increase of 24.8% over the same period in the prior year.

For the second quarter ended June 30th, 2011 revenue increased 38% to \$239.9 million over the same period in the prior year.

Combined new student enrollments for the second quarter 2011 increased by 3.3% over the same period in the prior year to approximately 19,050.

We have said previously that we expect a slowing of our growth rate as the size of our Company increases, as well as from the quality of preparedness initiatives we have put in place and regulatory changes and unprecedented media and legislative focus on our industry. Our performance this quarter is in line with those expectations and our previous guidance for 2011. We do not believe that slower growth rate is a result of declining demand for our degree offerings. We believe we remain well positioned competitively by offering students a compelling value proposition based on quality and affordability.

Persistence in the second quarter was relatively flat compared to last year's strong second quarter level. We continue to believe that maintaining a high level -- high persistence level is an important goal for both of our institutions and demonstrates that our institutions are successfully engaging students and delivering a quality education experience that enhances student's lives. We will continue to focus on improving persistence despite tougher year-over-year comparisons in this quarter and for the remainder of the year.

Most of you know that July 1 was the effective date for most of the department's new program integrity rules. I am pleased to report that we have successfully completed the changes necessary to comply with all of the new rules that were effective July 1, which covered a broad range of areas including last date of attendance, satisfactory academic progress, state requirements, institutional disclosures and incentive compensation.

I also want to take this opportunity publically thank our team members, who worked hard over sustained period of time to attain this important goal.

As required by new department regulations regarding incentive compensation, we completed the migration of 100% of our admissions counselors to the new evaluation program during the second quarter. As we have previously reported, admissions counselors salary increases are now based on three factors; tenure with our Universities, their own academic advancement while in the position and an annual cost-of-living adjustment.

Over the past six months we've made a thorough and continuous effort to educate our new and existing employees about how the program works to start new admissions counselors on the new plan and to phase in existing counselors. Although it is still too early to comment on how the new evaluation program will affect enrollment growth, our guidance for 2011 continues to anticipate a reduction in admissions counselor productivity following the implementation of the new program. We will be in a better position to comment after all admissions counselors have been working under the new structure for a sufficient period of time to allow us to draw conclusions.

Turning now to Constellation, I am pleased to report that, as of June 30th, more than 50% of Ashford's University students had used Constellation materials in at least one course. This is in line with our plan to have at least 80% of our students on Constellation by the end of 2012.

We continue to add new features to Constellation to increase student engagement with instructional materials. One such feature enables students to observe and interact with events keyed to a specific time line. For example, when studying the Cuban missal crisis a student can scroll through the iconic images of the period, while reading detailed captions. Students can utilize a map feature that provides detailed view of where key events occurred. Students can also view videos for certain events ranging from historical analysis to actual news footage from the date of the event.



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These features are all embedded directly into Constellation and give students direct access into the material they are studying rather than the old model of simply reading about books -- events in a book accompanied at most by pictures. Constellation brings events to life through a multi-media mix of text, images, audio and video elements. And now Ashford University students can access Constellation using their iPads.

The Constellation iPad app was designed to provide students with complete connectivity to Constellation using the iPad intuitive interface and became available on the apps store on July 5th. With all of these features and more yet to come, I think you can see that Constellation delivers far more student benefit than an eReader and that's even before considering the cost savings to students compared to a traditional textbook.

Our institutions are committed to creating a rich learning environment that engages students through technological innovation and other means and our investment in mobile technology for the classroom is part of that commitment. Both Ashford University and University of the Rockies students and faculty now have access to their classrooms using mobile apps designed for the iPhone and Android Smart phones.

In addition to accessing discussion threads and important course information any time and anywhere, students are also able to view their degree progress and grade book from the convenience of their phones, stay up-to-date with news and alerts, request academic advisor support and access faculty contact information. These features are very relevant to our student's growing mobile capabilities.

Because mobile computing will continue to grow, our on-going addition of new features reflects our belief that we need to bring increased access, increased service, increased participation and increased engagement to our students through mobile technologies. Coming soon will also be notifications to students regarding course assignments, new features for faculty and other innovations.

These capabilities demonstrate how Bridgepoint is already advancing education through the application of new technology on behalf of our students and faculty, but I would like to give you a brief glimpse of how we plan to shape the future of learning.

Through out mobile imitative, Constellation and our assessment product Waypoint, we will continue to blur the lines between our products and the classroom resulting in seamless access to a quality education regardless of the modality of access. Through these products students will have increased access to their classroom and educational materials, be able to create social learning groups, take tests and quizzes and receive detailed and timely feedback on their progress.

The data gathered from these digital resources will then open the door to future innovation we will use to define the next major advance in education. Using this data our institutions and faculty will be able to tailor content and instructional materials to better meet the specific needs of each student. In addition, students will be given new tools to adapt their learning behavior to better assure their success. It is through these innovations that we are creating a best-in-class learning environment for future generations of students.

Our new technologies are being recognized by the academic world as well as in the technology industry. In July our team presented at the Sloan-C Fourth Annual Emerging Technologies for Online Learning Conference and we've been invited to present at others. All of our efforts to bring technological progress to the classroom are aimed at a single goal, to offer rigorous, high quality degree programs complemented by cutting edge tools that ensure that students have the best possible learning experience.

We are pleased with our progress in the first half of 2011. We have achieved significant key initiatives, strengthened our support for students and faculty through developing new technologies and enhanced transparency for prospective students.

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



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**Jane McAuliffe** - Bridgepoint Education Inc. - Chief Academic Officer

Thank you, Andrew. I am pleased to report that the eligibility review panel the, The WASC Accrediting Commission on Senior Colleges and Universities approved Ashford University as eligible to seek initial accreditation after meeting all 23 WASC eligibility criteria.

The University was approved to pursue initial accreditation through an application and review process known as Pathway B in the WASC Accreditation manual. Pathway B is reserved for those institutions already accredited by department recognized institutional crediting agency and enables an institution to obtain initial accreditation more rapidly than those seeking institutional accreditations for the first time.

At the time of Ashford's eligibility approval in May, WASC noted that while Ashford is now eligible to move forward with its process toward initial accreditation, all available slots for an onsite visit in the fall 2011 had already been taken and WASC subsequently assigned Ashford an onsite visit in March 2012.

Under the Pathway B procedure and because Ashford met the eligibility requirements for accreditation, Ashford is next required to submit a self study in December of 2011 that demonstrates that at a substantial level that it meets the WASC criteria for accreditation. The December timing reflects a point in time 12 weeks in advance with the currently scheduled onsite visit in March 2012.

The University faculty and staff are hard at work preparing a self study that portrays the institution's strengths and achievements, as well as reflecting on what can further be developed in order to advance the institution. I couldn't be more pleased with where Ashford University is in the process.

I'd also like to update you on the University of the Rockies and the status with the higher learning commission. The University timely submitted its required monitoring report to HLC, which updated the Commission on the progress on the University's planning processes. In June 2011, the University was notified that HLC had accepted its report on planning and that no further reports were required. University of the Rockies next comprehensive HLC evaluation is scheduled for 2014 and '15.

Our successes continued to be acknowledged by academic and industry bodies. The University of the Rockies Journal, the Journal of Psychological issues and Organizational Culture won an award for publishing excellence in the 23rd annual competition for writers, editors, publication staff and communicators sponsored by Writing That Works, a publishing industry newspaper. The Journal was reviewed and selected by a panel of peer reviewers to base the selection on excellence in graphic designs, editorial content and the success of the entry in achieving overall communications effectiveness and excellence.

The award was granted for excellence in design and content of an academic journal. Given the fact that the journal has only had a total of five issues published, the faculty is very pleased with earning this early distinction.

Next, University of the Rockies announced in June that Quality Matters, a nationally recognized faculty center peer review process that certifies the quality of online courses, has recognized University of the Rockies for its long-term systematic approach to course quality assurance. The Quality Matters Academic Advisory Counsel has approved the Institution's implementation plan, which includes training faculty in Quality Matters standards and submitting courses for peer review by trained faculty from several institutions.

45 University of the Rockies courses are now QM recognized and Ashford University has a total of 305 that are currently QM recognized. Ashford continues to lead the field by having far more courses recognized by Quality Matters than any other institution.

Now, I'll turn the call over to our CFO, Dan Devine, to discuss our second quarter financial results.



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

Thank you, Jane. For the second quarter revenue increased to \$239.9 million compared with a \$173.8 million for the same period last year. The increase in revenue was primarily a result in an increase in student enrollments as well as the 5% tuition increase effective April 1st of this year.

As of June 30th, 2011 total student enrollment was 84,545, up from 67,744 in the same period last year. New enrollments for the period were 19,050 as compared to 18,450 for the second quarter of 2010. The new enrollment growth rate of 3.3% is in line with our previous comments on both the fourth quarter and first quarter calls that projected a slowing of our enrollment growth rate as a result of a larger student enrollment base and the operational and compliance initiatives we mentioned.

We're pleased that our student enrollment -- that our student persistence was relatively flat for the second quarter compared to the good result we had in the same period last year.

For the second quarter of 2011, instructional costs and services were \$62 million or 25.9% of revenue compared to \$43.3 million or 24.9% of revenue in the same period last year. The slight increase as a percentage of revenue included increases in direct compensation for academic management, financial aid support and student services.

Included in the instructional costs and services for the second quarter of 2011 was bad debt expense of \$12 million. As a percentage of revenue, bad debt expense for the quarter was 5%, which is just slightly above last year's result of 4.8% for the same period.

Marketing and promotional expenses for the second quarter of 2011 were \$62.2 million or 25.9% of revenue compared with \$50.1 million or 28.8% of revenue in the same period last year. The decrease as percentage of revenue for the quarter was primarily due to efficiencies in selling compensation and advertising when compared to the same period in the prior year. These efficiencies are primarily a result of having a larger student base.

General and administration expenses for the second quarter of 2011 were \$33.1 million, or 13.8% of revenue, compared with \$21.3 million, or 12.2% of revenue for the same period last year. The increase as a percentage of revenue for the quarter was primarily due to increases in administrative compensation and other administrative costs when compared to the same period in the prior year.

Included in our three main expense categories for the second quarter of this year is approximately \$3 million related to stock-based compensation expense in the aggregate compared with \$1.7 million for the same period last year.

For the second quarter of 2011 operating income increased to \$82.5 million from \$59.2 million in the same period last year.

Our effective tax rate for the quarter ended June 30th, 2011 with 37.3%, which is lower compared to the 40.8% for the same period last year. The decrease is primarily due to the impact of California and other states tax law changes that took effect in 2011.

Net income for the second quarter of 2011 was \$52.1 million, or \$0.90 cents per diluted share, compared with net income of \$35.3 million, or \$0.58 per diluted share, for the same period last year.

Fully diluted EPS was calculated based on a diluted share account of 57.9 million shares for the second quarter of 2011 compared to 60.7 million shares for the same period in 2010.

During the second quarter of 2011 we repurchased approximately 1.9 million shares of common stock at a weighted average purchase price of \$23.15 for a total cost of \$43.7 million.



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We have a total of \$36.4 million remaining in our stock repurchase program authorized by our Board of Directors.

The impact of the repurchase program on EPS for the quarter was approximately \$0.01. As for the end of the second quarter, we repurchased as of the end of the second quarter we repurchased a total of 5.6 million shares at a weighted average price of \$17.66 per share.

As of June 30th, 2011 we had cash, cash equivalents and marketable securities of \$357.4 million compared to \$299.1 million as of December 31st, 2010. The \$357 million balance is after the effect of repurchasing \$43.7 million of stock during the second quarter.

The Company generated \$116.2 million of cash from operations for the six-month period ended June 30th, 2011 compared with \$45.4 million for the same period in 2010.

Our accounts receivable, net of allowance for doubtful accounts, was \$78.7 million, which represents 30 day sales outstanding on a quarter-to-date basis compared with 42 day sales outstanding for the same period last year.

Capital expenditures for the six-month period ended June 30th were \$12.5 million compared with \$12.1 million for the same period last year.

I'd like to comment briefly on the new gainful employment rules announced in June. I'm pleased to report that we have analyzed our institutions existing programs using the most current data available and we believe the programs would satisfy the eligibility for criteria for recent periods and we are well positioned to satisfy the eligibility criteria moving forward.

Finally, I'd like to say a few words about the Form S-3 Registration Statement we recently filed with the SEC to register for resale the shares held by our majority stock holder Warburg Pincus. The Form S-3 is a shelf Registration Statement that will enable Warburg Pincus to sell or distribute its shares from time to time pursuant to the plan of distribution described in the related prospectus.

Warburg Pincus has informed us that it has not yet made a decision to sell or distribute its shares and we want to clarify that Warburg Pincus has not yet sold any shares, as was incorrectly reported in some media stories.

Warburg Pincus has been an investor in Bridgepoint since 2003 and we view this registration as an appropriate and expected step in the evolution of their investment. Warburg Pincus has been involved in hundreds of companies and has established the reputation of being a responsible investor in the companies they hold in their portfolio.

Now Andrew will review our annual guidance and offer his closing remarks.

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

Thank you, Dan. As I mentioned previously, we are pleased with our performance through the first half of 2011. As we look toward the remainder of the year, we are updating our annual guidance for the year ending December 31st, 2011 as follows.

Total student enrollment is expected to be between 79,500 and 83,500. Revenue is expected to be between \$886.5 million and \$901.5 million. Net income is expected to be between \$148.3 million and \$155.2 million. Fully diluted earnings per common share is expected to be between \$2.56 and \$2.68 based on an estimated fully diluted weighted average share count of 57.9 million for the year ending December 31st, 2011.



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Bad debt as a percentage of revenues for 2011 is expected to 5.4%. Capital expenditures for 2011 are expected to be between 4.5% and 5.0% of revenue. The Company's effective tax rate for 2011 is estimated to be 37.8%. These numbers do not include the effects of any additional share repurchase we may complete during the remainder of the year.

I hope our conference call today once again demonstrates our commitment to the long-term success of our students, our academic institutions and our investors. Through our innovative approach to the process of learning, we offer a strong value proposition based on delivering the outcomes that matter to students and we believe that this above all else underpins our position in the industry as an important provider of quality post secondary education.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Our first question comes from the line of Jeff Silber from BMO Capital Markets.

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### Jeff Silber - BMO Capital Markets - Analyst

I have a question about your updated guidance for the year. If my math is correct you're still looking for a revenue increase in the back half of the year anywhere 9% to 13%, second half 2011 versus second half 2010 but you're looking for a pretty sizable decline in net income about 25% to 35%. Can you walk us through that math how that works? Are there any specific line items where you're going to be ramping up spending in the back half of the year?

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### Andrew Clark - Bridgepoint Education Inc. - CEO

Sure, Jeff. I think a lot of that is just kind of the evolution of the investments that we made across the board in all three line items. There's nothing substantial that kind of evolved year-over-year. There's nothing substantial that we expect to make significant investments in in the second half of the year. We will see based on what our guidance implies, we will see a large percentage of revenue being invested in sales and marketing, as we said. Year-to-date we've done pretty well on that line and we expect that we'll have a larger percentage of revenue invested in that line as a result of kind of the implied flow of productivity in the second half of the year.

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### Jeff Silber - BMO Capital Markets - Analyst

All right and I'm sorry, just another follow-up on the guidance, I know you don't give guidance on new student enrolment but should we expect a sizable decline in that metric on a year-over-year basis over the next couple quarters?

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### Andrew Clark - Bridgepoint Education Inc. - CEO

Well, I don't know what your definition, Jeff, is of sizable but I would say that the high level comment that I would make here is that Dan and I's view of the second half of the year is unchanged from when we provided guidance at the end, on our fourth quarter earnings call. So we thought that we would have potentially kind of a flat negative new enrollment growth in the latter part of the year. You probably recall those comments that we made and we still have that view. I don't know about it being sizable.



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I would also say that I think Dan and I have a reputation here for being pretty cautious and thoughtful and taking into account the entire sector and what's happening within the sector regardless of how the Company per se is performing and I think we obviously are keeping a view of the sector and how it's doing. We've seen others have a 20% to 50% decline in new enrollments. We're not anticipating that but I think we're being cautious in our view for the second half of the year.

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

Okay great and just a quick numbers question, what shall we be looking for stock based compensation in the back half of the year?

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

I would think it would continue kind of at the same run rate, which is what was it, three million in the quarter?

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

About that much.

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

Yes I don't think it's significantly going to change.

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

Thanks so much.

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**Operator**

Peter Appert, Piper Jaffray.

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**Peter Appert** - Piper Jaffray - Analyst

So just thinking on the guidance topic, well I understand, Andrew, for sure that you've historically been pretty conservative. It does feel like the guidance numbers would suggest you're sort of falling off a cliff here in the second half. Are you seeing something in July or the very recent numbers in terms of recruiter productivity or inquiry rates or something that would cause you to be particularly cautious for the second half?

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

Yes, Peter, well let me just start by saying we don't -- we're not trying to convey that anything is falling off a cliff. We certainly don't feel that way and I think our view of July was that it was indicative of kind of our internal modeling and forecasting that we had already done so no surprises in that regard. I would reemphasize what I just said to Jeff, which is our view of the second half of this year is not a change from the view that Dan and I held as we tried to kind of anticipate this year back when we did our fourth quarter earnings call.

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**Peter Appert** - Piper Jaffray - Analyst

How about specifically on your enrolment counselors? Have you seen a spike in turnover rates since you've implemented the change?

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

No. Our admissions counselors I would not, no. We've seen pretty historical turnover.

**Peter Appert** - Piper Jaffray - Analyst

Okay and then lastly, Andrew, you said in your comments slowing growth is not a function of slowing demand or I think you -- I think that's what you said. So again, how do you square that with your thoughts on the enrollment outlook here on a near-term basis?

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

Well, I mean our view is kind of said in my opening remarks there is that it's a combination of factors, right. It's the size of our institutions. It's the quality and preparedness initiatives that we put in place. It's regulatory changes certainly and the unprecedented level of media and legislative focus that the entire sector is seeing so our view is that those things are what are contributing to the overall slower growth rate for the kind of flat negative new enrollment on the back half of the year. We still -- and certainly compared to the rest of the sector and kind of what we've seen in terms of the enrollment declines of others, leads me to believe that what I've said in the past continues to remain true, which is that students are shifting towards a real focus on value as perceived through quality and affordability.

**Peter Appert** - Piper Jaffray - Analyst

Thank you.

**Operator**

James Sanford, Citi.

**James Sanford** - Citigroup - Analyst

Just sticking with guidance again, if we focus on the midpoint of your guidance, I am trying to figure out from a revenue per student perspective. It likes you actually would need to be negative on a year-over-year basis after doing a couple quarters of 6% and 7% and you just raised pricing by 5% and that -- is my math wrong there?

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

Well, I mean when you make that calculation you have a couple of factors you have to consider, right? You have to consider -- I can't really answer the question unless I give you out all of our assumptions, so you have a retention assumption in there, right. And you have a new enrollment assumption in there. That obviously nets out to what your revenue per student assumption is.

I mean, we haven't really changed our assumptions on new enrollment growth for the year. Obviously we had positive new enrollment growth in the first two quarters compared to the prior year and we've said we'd effectively be flat for the full year

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so obviously there is some year-over-year new enrollment give back. So I wouldn't say there's certainly nothing in place that we would expect revenue per student to decline so, therefore I would say that your -- our assumptions are a little different related to what you're assuming for retention in new enrollment versus what we would assume.

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**James Sanford** - Citigroup - Analyst

Okay fair enough. From I guess sticking to just pricing then, are your expectations that you'll continue to see traditionally raised pricing in the 5% and are you finding that maybe your price gap between some of your peers is narrowing here and some of the slowdown might be a price sensitivity issue?

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

Well, we're not seeing that there's any kind of narrowing of the gap in terms of pricing between us and our competitors. It remains anywhere from 17% to 50% higher than our undergraduate tuition rate, so we're not seeing anything in that regard.

In terms of the future, we take the same exercise every year, which is to take a look at both private sector universities and colleges and what their increases are, as well as in the public sector, what do those increases look like? Because, as we've talked about in the past, we do have quite a few students that look at a public sector institution before deciding to go to Ashford in particular.

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**James Sanford** - Citigroup - Analyst

Great thanks a lot.

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**Operator**

Bob Wetenhall from RBC Capital.

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**Bob Wetenhall** - RBC Capital - Analyst

Just had a question about the enrollment guidance you gave, I think you took the floor down from 82,000 to 79,000 and I was just curious what caused your outlook to change on the enrollment downside? Is it something to do with the environment?

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

Yes sure, Bob, you know what, I think you're exactly right. It's just cautiousness on our part about the external environment again looking at the reps of the sector and what our peers have been doing over this last two to three quarters in some cases. So Dan and I always try to be very thoughtful about all of the various factors and I think that that's really reflected in that guidance there.

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**Bob Wetenhall** - RBC Capital - Analyst

On -- it's kind of like it looks like your total enrollment is up year-over-year based on your guidance. I was just curious, given the current kind of 80,000 level target, is that where you want to be in 2012 or are you looking to grow total enrollment or keep it stable from an operational standpoint?

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

You know what, we haven't made any decisions, Bob, yet about 2012. We follow the same process every year, which is to get into the fall period around October/November and kind of assess all the various factors in terms of our institutions and the direction that they're headed as well as the external environment and then make a decision at the very end of the year. So we don't have a view on 2012.

Again, I think our demand for our value proposition is strong and I think, as is witnessed throughout the sector, everybody is in a transitional period and I think we're no different here in the second half of the year from that perspective. We're in a transitional period and that kind of how we come through that at the end of the year will kind of color our view of where we plan to go next year.

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

Makes sense, thanks very much.

**Operator**

Andrew Steinerman, JP Morgan.

**Andrew Steinerman** - *JP Morgan - Analyst*

You talked about an investment in sales and marketing in the second half of the year. Obviously marketing and promotional line was down in the second quarter as a percentage of revenues. How much do you think that overall marketing and promotional line will be up in the second half? Is that driven solely because of productivity of enrollment offices or are there any other sort of changes going on in investments in terms of marketing and promotion?

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

Sure, Andrew, I'll start and then I'll let Dan add in anything that he'd like to. It's primarily driven I think again by our cautiousness in view of productivity in the second half for admissions counselors. There is, of course, a branding component that's in the second half but that's secondary. I would say the primary driver for that would be just our view of admissions counselor productivity. Dan, if you have any?

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

Yes just to clarify, I mean as a percentage of revenue, we do expect it to increase over in the second half of the year over what it was in the first half of the year. I don't have much else to say to what Andrew said. It is primarily driven by both productivity and some investment in branding that we expect to do in the second half.

**Andrew Steinerman** - *JP Morgan - Analyst*

Right so you think second half as a percentage of revenues will be up from the first half and up from a year ago?

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

Correct.

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**Andrew Steiner** - *JP Morgan - Analyst*

Okay thank you very much.

**Operator**

Mike Malouf, Craig-Hallum Capital Group.

**Mike Malouf** - *Craig-Hallum Capital Group - Analyst*

As I go through some of the comments that you've made with regards to some of the inputs that we all have in our models, I am still coming up with some pretty amazing numbers for marketing and promotional because if you use new enrollment of say down 10%, which is kind of consistent with your flat net new enrollment for the back half of this year, retention is as you said flat, potentially even better but let's just use flat.

And then you say the pricing is obviously reflecting of some of the price increases. The only line item say for structural costs and general and administrative spiking tremendously in the back half is that marketing and promotional numbers go up from around \$60 million to around \$80 million plus in the back half per quarter to come anywhere close to your guidance. And I think that's the disconnect but I am certainly happy with the guidance so if I could get some comments on that, that would be helpful. Thanks.

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

Well, I think that some of the increase in expense is distributed across all three lines so I understand the math you're doing but I think it needs to be distributed. There are increases, run rate effective increases in total direct expenses in the second half of the year as well as in G&A. We've made investments in our Information Systems Group. That investment will continue in the second half of the year so if you're trying to kind of plug the numbers, I mean it is distributed amongst all three areas and I would say that it is probably weighted more to marketing and promotional but there are dollar increases in all three areas.

**Mike Malouf** - *Craig-Hallum Capital Group - Analyst*

So when you look at the magnitude an increase of \$30 million a quarter in expenses from the first half to the back half makes sense to you?

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

Well, that's currently what the plan is for the expenses. I don't know if it's exactly \$30 million a quarter the way you're looking at it but yes we've experienced increases in expenses in each, basically in each quarter.

**Mike Malouf** - *Craig-Hallum Capital Group - Analyst*

Thanks.

**Operator**

Kelly Flynn, Credit Suisse.

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

Couple of questions; first, just following up on the last question and I guess the line of questioning on this call about the guidance, I am confused about what you're saying about starts. I probably miss heard but I thought you, Dan and Andrew, said different things about starts expectations in the second half, so just to be clear do you expect starts in the second half to decline year-over-year or to be flat?

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

We expect them in the second half of the year to decline over prior year and we expect that for the year 2011 will be effectively flat to new enrollments in 2010.

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

Okay great.

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

And if you think, Kelly, to that fourth quarter earnings call, I think we had a similar conversation here where people were trying to understand based on our full-year guidance kind of where that would occur and Dan and I both indicated that it would occur in the second half of the year.

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

That's correct.

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

But I thought you said previously that you thought starts would grow for the year and that they'd be down in the second half. Is that -- that's not your--?

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

We said for the full year that we thought that our starts would be flat to potentially negative. I mean, we said that new enrollments could potentially be negative but that we'd thought that they'd be flat to potentially negative.

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

Okay great and then I guess just switching gears to Constellation and some of these other applications you guys are talking about, I just want to clarify the pricing on those. Well, first of all, actually starting with the technology fee can you just clarify is that the same that it's been for a while or has it increased or decreased? Are you contemplating any changes in that in the near term?

And then also, all these other things that you were talking about, I know you charged for Constellation but are there any incremental charges to the students resulting from some of these new apps?

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

So our tech fee, just to begin with that, is the same as it's been so there's been no increases, no changes in that. We're not contemplating anything at this time. you'll remember when we first introduced Constellation our students were spending about \$150 on average for a traditional textbook in their classroom and we were able to lower that cost to \$75 through Constellation so by about 50% so the effective textbook cost for the students now in a Constellation course, Kelly, is \$75.

**Kelly Flynn** - Credit Suisse - Analyst

Okay and then--

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

None of the other applications that we're providing for example the additional ability to get Constellation through the Apple application. The student doesn't incur any additional charge or fee for having access to that. It's free to the student.

**Kelly Flynn** - Credit Suisse - Analyst

Okay sounds good. Thanks a lot, appreciate it.

**Operator**

(Operator Instructions). Gary Bisbee, Barclays Capital.

**Zach Batum** - Barclays Capital - Analyst

It's Zach Batum for Gary. You said that Constellation was rolled out at about 50% at Ashford. Will you provide us with some color on what specifically you're doing with the student usage data and how much you think the data can help student quality and retention going forward?

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

Yes sure. It's a great question. I mean, I would say that we're at the early stages in terms of student data that comes from Constellation and what we can do with it. We think the potential is very strong and we think that potential will relate to student persistence, student behavior, enabling students to get even further help from the faculty because the data that were able to collect and just create an overall better student experience as a result of that data.

So we're in the early stages of that but we think that there's tremendous potential in that regard. If you think about most university classrooms, a traditional textbook, the faculty, the Deans, the institution don't have a lot of insight into how the student uses the book, what they've read, what they haven't read, what they're highlighting, what they're taking notes on and ultimately I think we have a potential to be able to shed some light on all of that through the data we collect.

**Zach Batum** - Barclays Capital - Analyst

And have you guys put together kind of a time line of when you expect the data to begin to tell you something?

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

Well we definitely have a product plan for Constellation and I don't want to give out a specific date on this call but it is in that plan and we are definitely working towards that.

**Zach Batum** - *Barclays Capital - Analyst*

Great and just one more question on your new admissions model, maybe you can just give us a little bit more detail and explain just exactly what's changed from the previous model. Like, is it basically an evaluation in comp change or are there any other changes that were made?

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

No I think nothing has really changed. I emphasize that from the fourth quarter earnings call and our full-year guidance and our outlook on the year. The only thing that's changed in our view has really been the external environment our sector and just us being cautious from looking around and seeing what some of our peers have been experiencing over the last two to three, in some cases, four quarters.

Everything that we're looking at revolves around the new evaluation which, as I mentioned on the call, is based around tenure and based around the admissions counselors' own progress with regards to additional educational degrees. And we believe that, as others have experienced, that there will be some decline in productivity. We modeled that in back when we put our plan together for this year and then we had seen again, as I mentioned earlier, what we modeled internally. You saw that in July.

**Zach Batum** - *Barclays Capital - Analyst*

Okay that's helpful. Thanks a lot.

**Operator**

(Operator Instructions). There are no further questions in queue.

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

All right well, I just want to thank everybody for joining us on our call and we look forward to talking to you all again soon. Thank you.

**Operator**

This does conclude today's conference call. Thank you for your participation.

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