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PRESENTATION

Operator

Good morning, and welcome to the Bridgepoint Education's first quarter 2012 earnings conference call. Today's conference call is being recorded.

At this time, I would like to turn the call over to Mr. Paul Goodson, Associate Vice President of Investor Relations for Bridgepoint Education. Please go ahead.

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

Thank you, Vickie, and good morning, everyone. Bridgepoint Education's first quarter earnings release was issued earlier this morning and is posted on the Company's website at www.bridgepointeducation.com/investorrelations.

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. 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 March 31st, 2011, 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.

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

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

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

Thank you, Paul, and welcome to Bridgepoint Education's first quarter earnings call. Today I will review our operational highlights and business initiatives. Then I'll turn the call over to Dr. Jane McAuliffe, our Chief Academic Officer, to give an overview of our institution's academics. And then our CFO, Dan Devine, will review our first quarter results and key operating metrics. Following his remarks, I will finish by reviewing our 2012 guidance in my closing comments.

Now I'd like to take a minute to describe Bridgepoint Education for those new to our Company. Bridgepoint is an innovative educational services company that is using the power of innovation to advance higher learning. Our institutions, Ashford University and the University of the Rockies, offer a practical and dynamic educational model to students seeking Associates, Bachelors, and Graduate Degrees online or on campus.

Our universities offer an enriching and engaging learning experience through our growing number of proprietary technology platforms, including Constellation, which is our proprietary cloud-based digital learning platform that adapts educational resources to each student's learning style and needs, Thuze, which is the name we have chosen for Constellation when used in universities outside of our institutions, and Ashford and Rockies Mobile, our mobile learning environments, and Waypoint Technology, our proprietary assessment and feedback platform.

Our efforts to expand the use of technology to advance learning are continuing in 2012. For example, we recently released Version 2.1 of our mobile learning environment. This is a series of online classroom apps available on both Apple and Android powered tablets that offer an expansive connection with the online learning experience to students and faculty of Ashford University and the University of the Rockies.

Noteworthy advancements incorporate the digital student ID, which gives students a method to identify themselves as college students. In addition, students have access to their financial ledger cards to better track their account information.

We are also taking our Constellation technology outside Bridgepoint's institutions for the first time under the name Thuze. In January we announced a pilot with three textbook publishers, Pearson, McGraw-Hill, and Jones and Bartlett Learning, to test features of the learning platform with over 850 students across a variety of colleges and universities. This spring we held student focus groups with two of the largest pilot groups, California State University at San Bernardino and University of North Carolina at Chapel Hill, who generally found that Thuze is easy to use, intuitive, and sleek and clean. They particularly liked the tablet experience.

Beyond readability and ease of navigation, students valued self-assessment exercises at the end of each chapter, which quizzed students on key concepts, automatically tally-up responses, and point students to sections of the textbook for reinforcement when incorrect answers are given. -We will provide you with an update on student and faculty reactions to Thuze, as well as improvements we are making to Constellation based on their feedback after the trial is completed after the end of the semester.

Our technological innovations expand and enhance our efforts to offer students a broad selection of rigorous, engaging, and practical courses and help differentiate Bridgepoint's institutions from other universities. I'm pleased to report that there is a growing recognition of this outside our institutions, both Waypoint Outcomes and Mobile Classrooms have been listed as finalists for the Software and Information Industry Association, SIAA 2012 CODiE Awards. Wavepoint Outcomes is a finalist in the category of best student assessment solution, and Mobile Classrooms as best educational use of a mobile device. Winners will be announced on May 10th at SIAA's All About The Cloud Conference. Constellation was a 2011 CODiE finalist.

Turning to our first quarter performance, I'm pleased to report that we achieved our internal targets for enrollment and financial results. Our performance in the quarter continues to support our thesis, the demand for high quality, innovative, and affordable programs remains strong. Our 2012 outlook remains consistent with the view we shared with you last fall, namely, we continue to expect positive year-over-year new enrollment growth in the second quarter of 2012, and we expect higher revenues, higher new enrollments, and higher total enrollments for the full year 2012 compared to 2011.

We believe we are continuing to capture market share in our industry and have not seen any increase in competition with traditional schools operating online degree programs. The strong demand for our degree programs is driven by their affordability, quality, and the effectiveness of our innovative technologies at helping students learn. These differentiators, along with other factors, also helped improve our student persistence during the first quarter, and as we move forward we believe our growing brand identity will play an increasingly important role in further differentiating our schools and ensuring continued strong demand.

Most importantly, our efforts to instill quality in all that we do are producing student and alumni outcomes that prove we are serving the academic needs of our students at both of our institutions.

As of March 31st, 2012 total student enrollment stood at 94,863 students, an increase of 7.5% over the same period in the prior year. For the first quarter ended March 31st, 2012 revenue increased to \$250.4 million compared to \$229.4 million in the first quarter of 2011. We are pleased that these increases in performance were driven in part by continued increases in student persistence in the first quarter. Achieving higher persistence levels is particularly notable during a time when our graduation rate is also increasing, as it did again during the first quarter of 2012.

Increasing persistence remains an important goal of ours. It is one way of validating that we are delivering a quality education experience that enhances students' lives. Even though our student persistence is already among the best in the industry we are continuing to make investments that will drive further improvements in this important metric.

During the first quarter we initiated the first phase of our new branding campaign, which included launching our new brand identity through the Ashford, Rockies, and Bridgepoint websites. We are focusing on creative aspects of our media campaign, and we expect that we will begin rolling out the new advertising campaign during the third quarter.

Affordability, quality, and innovation continue to differentiate our institutions, and we're confident that our branding program will succeed in delivering the message to prospective students who can benefit from our academic programs.

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. - EVP and Chief Academic Officer*

Thank you, Andrew. Today I would like to update you on our progress [inaudible] acquaint you with two new websites designed to help prospective students and increase transparency, and review our participation in our Regional Accreditation Conferences. I will close with a mention of Ashford's spring graduation ceremony.

Just a brief update on Ashford University's WASC process. As previously reported, the self-study was submitted in December of 2011. As planned, a team visited the University in March 2012. We expect a final decision midyear and will provide an update when Ashford University is formally notified in writing.

Bridgepoint has an impressive history of providing meaningful data about our universities, students, and student outcomes, and we extended that record of transparency with the launch of two important websites in the first quarter. Our primary goal with both sites is to better help students evaluate our institutions and program offerings. In addition, the sites also provide evidence that we are succeeding and creating value for students.

One website, experience.ashford.edu, focuses on helping prospective students understand what it's like to be an Ashford student through videos, resource listings, and descriptions of the many academic paths available to them. Our goal is to ensure that prospective students are fully aware of Ashford's academic standards, culture, and opportunities, as well as help them understand what we expect from each student.

The other website, assessment.ashford.edu expands significantly on the data Ashford previously provided. In it you will find extensive detail on Ashford's academic quality initiatives and numerous quality validation checkpoints. The site provides student demographics, geographic distribution, modality and degree focus. Student retention, persistence, course completion rates, and graduation rates are provided. The results of alumni and faculty surveys are there, as well, including post-graduation salary data.

We believe these two sites set new standards for transparency and disclosure in our industry. For students, regulators and investors these sites offer the tangible evidence that our institutions are creating real and sustainable value for students and, importantly, they help explain why our institutions continue to grow in enrollment, produce increases and persistence and capture market share in our industry.

A number of our faculty and administrators have recently given presentations at the 2012 Higher Learning Commission Conference and the 2012 WASC Academic Resource Conference. Our teams from Bridgepoint Education, Ashford, and the University of the Rockies presented a total of nine sessions, providing thought leadership and advancing the practice of higher education. At the Higher Learning Commission meeting the University of the Rockies presented a session on planning and conducting diversity initiatives, and Ashford University facilitated a roundtable discussion on capstone experiences.

At the WASC Academic Resource Conference [base] members from Ashford University and Bridgepoint Education presented sessions on ensuring course quality through scalable course development model, online faculty evaluation and mentoring, the new ecology in higher education, academic program review, degree qualifications profile, leveraging institutional research offices, and curriculum mapping and calculating course credit hours. I'm pleased that so many of our colleagues are contributing to the advancement of higher education.

I'm always happy to report on our graduation ceremonies, and this past weekend Ashford University held its spring 2012 commencement ceremonies at the campus in Clinton, Iowa. There we celebrated the achievements of 8,977 Ashford students. Approximately 1,500 students and 8,000 family and friends attended, representing 49 U.S. states and territories, as well as four foreign countries. One highlight of the ceremony was meeting one of the graduates, a 71-year-old great grandmother, who came all the way from [inaudible] Texas to receive her degree. Congratulations to all the graduates.

Now I'll turn the call over to Dan.

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

Thank you, Jane. Let me begin by providing some key operating figures for the quarter ended March 31st, 2012.

For the quarter revenue increased to \$250.4 million compared to \$229.4 million for the same period last year. The increase in revenue was primarily the result of an increase in student enrollment, as well as a tuition increase implemented on April 1st, 2011. As of March 31st, 2012 total student enrollment increased to 94,863 from 88,252 in the same period last year. New enrollments for the period were 24,275 as compared to 27,550 for the first quarter of 2011, which is in line with our expectations for the quarter.

As Andrew mentioned, we're pleased that our student persistence increased significantly over the same period last year. Our hard work in increasing persistence is paying off despite higher graduation rates in recent quarters, which works to reduce the calculated persistence number.

For the first quarter of 2012 instructional cost and services were \$68.5 million or 27.3% of revenue compared with \$55.8 million or 24.3% of revenue in the same period last year. The increase as a percentage of revenue was primarily due to additions of economic staff and higher cost for faculty and higher facilities cost associated with a larger student enrollment base. Included in instructional cost and services for the first quarter of 2012 was bad debt expense of \$14.9 million or 6% of revenue. This is down sequentially from the two previous quarters and is in line with our expectations for 2012.

Marketing and promotional expenses for the first quarter of 2012 were \$80.1 million or 32% of revenue compared with \$59 million or 25.7% of revenue in the same period last year. The increase as a percentage of revenue in the quarter was primarily due to higher labor expense for admissions counselors and higher spending on advertising when compared to the same period last year.

General and administrative expenses for the first quarter of 2012 were \$49.5 million or 19.8% of revenue compared to \$28.5 million or 12.5% of revenue for the same period last year. Included in G&A expense for the first quarter of 2012 was a \$10.8 million expense accrued for a pending legal settlement.

In April 2012 we entered into a settlement agreement with the plaintiffs of three cases consolidated under Stevens versus Bridgepoint Education, Inc. The increase in G&A expense as a percentage of revenue for the quarter was primarily due to the settlement agreement, increases in administrative compensation, and facilities cost when compared to the same period in the prior year. Adjusted G&A, which excludes the settlement, was 15.5% of revenue for the first quarter of 2012.

Included in our three main expense categories for the first quarter of this year is approximately \$2.5 million related to stock based compensation expense in the aggregate compared with \$1.8 million for the first quarter of last year.

For the first quarter of 2012 operating income decreased to \$52.4 million from \$86.1 million in the same period last year. The principal reasons for the decrease are the legal settlement just mentioned, increased spending for admissions counselors, expenses related to building our brand, and higher spending on instruction cost.

Our effective tax rate for the quarter ended March 31st, 2012 was 37.7% compared to 37.9% in the same period last year.

Net income for the first quarter of 2012 was \$33 million or \$0.59 per diluted share compared with net income of \$53.9 million or \$0.92 per diluted share for the same period last year. Adjusted net income and adjusted EPS for the first quarter of 2012 which exclude the net income affect of the settlement were \$39.8 million and \$0.71 per share, respectively. Fully diluted EPS is calculated based on a diluted share count of 56.2 million shares for the first quarter of 2012 compared with 58.6 million shares for the same period in 2011.

I'm pleased to announce that the Board of Directors has authorized the repurchase of up to \$75 million of the Company's outstanding shares of common stock over the next 12 months. Under the share repurchase program the Company may purchase shares from time to time in the open market through block trades or otherwise. The timing and extent of any repurchases will depend on market conditions, trading price of the Company's shares, and other factors, and are subject to the restrictions relating to volume, price, and timing under applicable law. The share repurchase may be commenced or suspended at any time or from time to time by the Company.

As of March 31st, 2012 we had cash and total investments of \$442.1 million compared with \$407.2 million as of December 31st, 2011. The Company generated \$40.4 million of cash from operations for the quarter ended March 31, 2012 compared with \$81.5 million for the same period in 2011.

Our accounts receivable net of allowance for doubtful accounts was \$92.2 million, which represents 33 days sales outstanding on a quarter-to-date basis compared with 30 days outstanding for the same period last year.

Capital expenditures for the first quarter of 2012 were \$7.2 million compared with \$5.2 million in the same period last year.

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

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Thank you, Dan.

As I mentioned previously, we are pleased with our performance in the first quarter, particularly with the stronger student persistence. For eight of the last nine quarters we have met or exceeded our persistence compared to the prior year's quarter despite a higher graduation rate. We remain

confident that the continued demand for our degree programs, together with the quality initiatives we have undertaken, will allow us to attain the growth and performance objectives we have established for 2012.

With the exception of the settlement charge we recorded in the first quarter, the 2012 outlook we provided in March has not changed. As such, our guidance for the year ending December 31st, 2012 is as follows. Total student enrollment is expected to be between 94,500 and 96,200. Revenue is expected to be between \$1.01 billion and \$1.03 billion. Net income is expected to be between \$131.5 million and \$136.9 million.

Fully diluted earnings per share is expected to be between \$2.33 and \$2.43 based on an estimated fully diluted weighted average share count of 56.3 million shares for the year ending December 31st, 2012. [Add that] as a percentage of revenues for 2012 is expected to be 6% of revenue. Capital expenditures for 2012 are expected to be approximately 4% of revenue. The Company's effective tax rate for 2012 is estimated to be 37.8%.

Our thoughts about 2013 have also not changed. We continue to expect high single digit total enrollment growth, low double digit revenue growth, and expansion in our margins of approximately 50 to 100 basis points compared with the 2012 margin levels.

We are confident that our academic model, which has been successful in the past, will continue to be sustainable for the future because it is centered upon delivering educational value to our students. That educational value is based on affordability, quality and innovation, and is continuing to differentiate our institutions from the many academic alternatives available today. Our commitment to delivering value to our students underlies their success, as well as that of our investors and other stakeholders, and we remain focused on this core objective.

We thank you for your participation on Bridgepoint's conference call today. At this time, I'll ask that our Operator open the call lines for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

We'll take our first question from Peter Appert with Piper Jaffray.

Peter Appert - Piper Jaffray - Analyst

Yes, I was hoping you might share with us your expectations for what that number should look like over the balance of the year, and I ask this in the context of trying to understand how much of the enrollment growth you're anticipating for the year is related to improved persistence versus growth in starts?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Peter, yes, you cut out at the very beginning of your remark, so we missed the first part, if you wouldn't mind repeating it?

Peter Appert - Piper Jaffray - Analyst

Right, that was the part where I was sucking up and telling you that the numbers were looking great. So the question was just sort of trying to understand year-to-year trend in persistence over the balance of the year to get to an understanding of how much of the enrollment growth is related to persistence improvement versus start improvement over the balance of the year?



Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Well, I can't give you specifics. I mean other than to say that we've consistently held the view since last fall when we said -- or last -- on our fourth quarter earnings call that we expect that our persistence will increase on a year-over-year basis and will continue to improve. And you can look at that on an annualized basis. Obviously, we had a tremendous quarter this quarter in terms of persistence. I would anticipate that we'll continue to see improved persistence because of many of the initiatives that we have implemented over the past 18 to 24 months.

Our new enrollments, as we've said in the past as well, we expect those to turn positive during the second quarter, and we expect those to be positive for the full year. So I'm sorry I can't be more helpful than that.

Peter Appert - Piper Jaffray - Analyst

I think maybe you or Dan said on the last call that you thought starts could be up as much as 10% by the fourth quarter, maybe I'm hallucinating on that?

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

Yes, we did -- Peter, this is Dan -- I think we said last time and we still have this view is that we -- new enrollment would likely be close to 10%, high single digits for the year, and we're not going to achieve the same persistence over performance or comparative performance than the prior year, that margin of performance for the remainder of the year. We anticipate it to be lower than that.

Peter Appert - Piper Jaffray - Analyst

Got it. Okay, and one other thing, Dan, on the cost side the increase in marketing promotion expense, G&A expenses is pretty steep. How do we think about rate of growth in those expenses over the balance of the year? Was there anything unusual timing wise in the first quarter?

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

Well, it wasn't G&A, I mean without the settlement that you're referring to or with the settlement?

Peter Appert - Piper Jaffray - Analyst

Without the settlement I think it was still up 30 some percent, wasn't it?

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

Without the settlement? Without the settlement the G&A was flat to Q4.

Peter Appert - Piper Jaffray - Analyst

Okay, I was looking at year-to-year.

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

And selling expense was up 5% to Q4. Total operating expenses excluding the settlement for Q1 were flat to Q4.



Peter Appert - Piper Jaffray - Analyst

Okay.

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

You saw a little bit of swing, your direct instruct costs were down slightly, but the rest of the expenses -- and, you know, the aggregate expenses were flat to Q4.

Peter Appert - Piper Jaffray - Analyst

Okay. Thank you.

Operator

Next we'll hear from Alex Parish with Barrington Research.

Joe Jansen - Barrington Research - Analyst

Yes, this is [Joe Jansen] filling in for Alex Paris. Maybe just for clarity purposes regarding starts, are we talking about some point in Q2, like on a monthly basis or we talking about quarter-over-quarter?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Yes, so while we try and stay away from quarterly guidance, Joe, we expect that the second quarter new enrollments will be positive.

Joe Jansen - Barrington Research - Analyst

Okay, great. And then just one other question regarding WASC, in March when they did the onsite visit did -- was there an exit interview, and if there was any pending issues or do you care to comment on that?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

I'll turn it over to Jane to comment on that.

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

I don't think we're going to comment on the informal processes along the way. I think our intent really is to wait until we're through the whole process and then we'll be sure to give you an update at that time.

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

But they did come and conduct their visit, Joe, so that did happen as was scheduled.



Joe Jansen - *Barrington Research - Analyst*

Okay, I'll leave it at that. I'll jump into queue. Thanks, guys.

Operator

Next we'll hear from Jeff Silber with BMO Capital Markets.

Jeff Silber - *BMO Capital Markets - Analyst*

Wanted to focus on revenue per student. It was roughly flat year-over-year. Can you just give a little bit more color around that? And I know, if I remember correctly, you instituted a 3% tuition increase, should we be modeling that for the revenue per student increase going forward or are there going to be any mix issues?

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

Well, that's a good question. I agree it was flat. I think the differentiation quarter-over-quarter, if you look at Q1 '11 over Q1 '12, there were lower new starts in Q4 and Q1, and that does impact how we amortize the technology piece, and as a result on a quarter-over-quarter basis it kind of flattened out the revenue. When you get back to positive growth you should see that kind of 3% differential come back into play.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay, great. And then in terms of just a little bit more color around the year, can you tell us what we should be modeling for stock based comp and capital spending?

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

Capital spending should probably be 4% for year, for the year, and stock based comp I would straight line what we have, which was \$2.5 million in the quarter. And to be perfectly honest with you, Jeff, I don't have that specific number in front of me, but I could call you with it, but I think it's fair to say it's probably going to be that run rate.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay, that's fine. Yes, thanks so much.

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

Yes.

Operator

Next we'll hear from Brandon Dobell with William Blair.

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

For a second, both in terms of where you are headcount, maybe either compared to fourth quarter or compared to the first quarter of last year? And obviously there must be some assumption you're making in terms of the ramp in productivity to remain confident in starts turning positive, but what kind of trends are you seeing there and are those above or below your expectations?

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

Yes, sure, Brandon, you cut out at the very beginning, so I'm not entirely clear what the headcount question was?

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

It was on the enrollment counts or headcount, maybe comparing this quarter to where you were previous quarter or last year first quarter?

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

Last year first quarter we were probably up 300 in enrollment Q1 to Q1.

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

Okay.

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

Three hundred, probably 360.

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

Okay.

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

Yes, then in terms of productivity, Brandon, I would say that it's met -- our view of productivity is the same as it's been since we went into the new regulations back in July and since our comments last fall and our comments on the fourth quarter earnings call. We've seen that kind of go according to our own internal view, and we see that improving obviously, saw a new enrollment decline sequentially quarter-over-quarter improve, and then our comments with regard to the second quarter should also indicate that our view is that productivity is improving as we thought that it would.

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

Okay, I guess on a related matter, a lot of companies this quarter in particular have talked about moving away from some of the traditional sources of potential students, in particular, either lead gen or just internet marketing in general. Maybe some commentary or color on if you're making any or have made any recent changes to your marketing strategy or if we should assume that during this year you guys take a different approach to going out and attracting students?



Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Yes, well, we have been taking a different approach, actually it dates back to last year in our third and fourth quarter in terms of diversifying our marketing channels and our prospective students, acquisitions. And that's in part and parcel why you saw the increase in our advertising expenses throughout this year is because of the data analytics work that we've done and the work that we've done on identifying different channels that provided prospective students that would persist at a longer rate.

And so we've been executing against some of the tests and pilots we did last year based on that information. It's been very successful, and we continue to refine our strategy. And then we think our branding initiatives that we're going to continue to rollout through the year, especially in the third quarter, ought to enhance our market channel diversification and help us diversify and not rely as heavily on aggregators as perhaps was the case in years past.

Brandon Dobell - William Blair & Company, LLC - Analyst

Okay, and then a final one for me. I think Capella on their recent call reiterated or confirmed the idea that some changes in the rules around return to lender were having an impact on the amount of bad debt that they were required to accrue every quarter. Has that been an issue or will it be an issue for you guys? Obviously, you're still talking about 6% for the year for bad debt, but any changes that we should know about with regard to return to lender and how you guys are accruing on bad debt?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

I believe they are a term based environment, which is different. We're a non-term base environment. We've always been that way. So there is really no difference how we handle the return of lender. They changed kind of the days related to the return of lender, but it's the exact same process for us. And I think that issue impacts a term-based school more than it would impact us, and I believe they are term-based.

Brandon Dobell - William Blair & Company, LLC - Analyst

Yes, correct. Okay, great. Thanks.

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Yes. Thank you.

Operator

Next we'll hear from Corey Greendale with First Analysis.

Corey Greendale - First Analysis Corp. - Analyst

Hi, good morning.

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Good morning.

Corey Greendale - *First Analysis Corp. - Analyst*

A quick question. Dan, in your comments you pointed out or in response to a question that the instructional cost and services dollars were down sequentially, which I think that's the first time in your history as a public company that that's happened, and particularly as to why, you used a higher student count in Q1 versus Q4 last year -- so can you just comment on to what you owe that sequential decline?

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

That's down \$3 million, which is basically the difference. So basically that in the quarter versus Q4 is down, so as a result our -- that instructional cost and services line, if you take that swing out, that's 2.6 or 3, so basically everything else was pretty well flat.

Corey Greendale - *First Analysis Corp. - Analyst*

Okay, so in other words you were able to serve more students with the same faculty count as in Q4?

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

Well, there's -- no, I'm just saying in the aggregate that's the biggest component of the change. Our instructor fees were flat and our direct labor was increased, so the biggest component of the change and where the number came down was the bad debt. Everything else remained pretty much constant.

Corey Greendale - *First Analysis Corp. - Analyst*

Okay, and on the marketing and promotional, looking at the year-over-year change I appreciate you gave, in response to Brandon's question you gave the change in the admissions reps, but if you look at that broadly is there any way you could give us some detail on kind of breaking down the components of the growth between increases in advertising, increases in compensation per admissions, person, and increase in the number of reps?

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

Well, there was an increase in the number of reps during the quarter, probably about 100. We did not have any dramatic increase per rep in compensation. So --

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

That was flat.

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

-- that was flat, so we don't give out much more detail beyond that.

Corey Greendale - *First Analysis Corp. - Analyst*

Okay, I will follow-up. Thank you.

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

Okay.

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Thank you, Corey.

Operator

Next we'll hear from Andrew Steiner with JPMorgan.

Jeff - JPMorgan - Analyst

Good morning. This is Jeff for Andrew. I wanted to go back to new enrollments in the first quarter, could you give us a little more color on the sort of the pockets of strength and weaknesses by either program or degree levels, which ones performed better or worse?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

You know what, Jeff -- thanks for your question. It really has been consistent for us. Because we have one tuition pricing across all of our programs and affordability is so important to our prospective students we don't see a lot of changes between particular programs. Our undergraduate, graduate demand remains consistent, so nothing that really leaps off the page that would be worthy of pointing out.

Jeff - JPMorgan - Analyst

Okay, and the same question for student persistence?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Well, student persistence was strong across the board for us, and it's always been strong with graduate students, but we're really focusing on our students in their first three to four courses because that's typically where a student will choose to drop out of college. And so we focus strongly in that area. We've obviously done a lot of various things, including just the types of prospective students that we identify at the very beginning. And so it's paid off nicely across all parts of the enrollment base.

Jeff - JPMorgan - Analyst

Sounds good. And one more question, would you be able to comment on the President's Executive Order related to marketing to military students? Does that change the way you market, does it bring it back to the [GC 4A] military student population?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Well, I mean let me just be very clear, it doesn't change anything in terms of our marketing. In fact, we made a decision well over a year ago to not use the Gbill.com website. You haven't seen Ashford University on that site in over a year, and I know that -- and that was for reasons very specific to the military and making sure that they didn't somehow think that that site represented some kind of government entity, when it didn't.



But let me also say that on behalf of our institutional presence, [Dr. Tythe] and Dr. Shelton, as well as our Senior Vice President of Strategy, Doug Abts, who is a veteran himself and supports our military teams internally, that we expect nothing less than the best for the men and women who serve in the military and their families who have chosen to serve. And we support any and all initiatives that assist active duty military and veterans in furthering their educational goals while providing transparency when choosing an institution.

Jeff - *JPMorgan - Analyst*

Okay. Thank you.

Operator

Next we'll here from Gerald Price with HITE Analytics.

Gerald Price - *HITE Analytics - Analyst*

Good morning.

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

Good morning.

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

Good morning.

Gerald Price - *HITE Analytics - Analyst*

I was wondering if you could describe your military tuition refund policy, and how is this the same or different from your civilian tuition refund policy?

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

It is the same as our refund policy with the civilians, so it's -- the first week of attendance there's -- if the student doesn't attend the first week, there's no charges, obviously. I believe if the student attends 40% of the course with two to five weeks as an undergraduate student there's a 50% charge that the student is obligated to pay. And then if the student completes 60% of the course, which is consistent with the Department of Ed, I believe the charge is 100%. So it's the same policy as we have with our civilians.

Gerald Price - *HITE Analytics - Analyst*

Okay, and then the quick follow-up is to go back to the Executive Order, have you had a chance to examine whether the Executive Order signed on Friday would impact your internal refund policy for military students? I believe it has a line that would require alignment with the Title IV Refund Standard?



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

You are correct, it does have that, which does not impact us. You need to understand that the individual student has the obligation to the institution, and how a student pays for that, either reimbursement from TA or VA, has no -- nothing to do with how we recognize revenue. So in most cases if you talk about a TA student, who is the majority of our military students, the student has to complete the course and pass the course in order to be reimbursed for that course. So if the student does not pass the course or the student does not complete the course, that student now has the obligation to -- still has the obligation to pay the institution for that course, they just can't use TA dollars to do so.

I don't think -- so if they actually were to change -- so in that, just in that example, we carry probably more risk under the current policy than we would under the new policy because under the new policy if the student were to complete three weeks of five weeks, that student would receive a reimbursement for those three of five weeks, which in most cases they don't get today, and they would use those funds to pay their obligation to the institution. So for us it's probably a net, net zero to positive.

But I think the rule is put in place, in general, to protect students in situations in institutions who are on quarterly basis or term basis and they use a census date calculation, where once the student achieves a census date then they're billed for the entire term. We bill, our institutions bill the military one course at a time, so kind of answering Brandon's earlier questions, we don't have the same kind of situations that term based institutions would have related to this Order. And you are correct, I mean it's Section II, whatever it is, II something, so.

Gerald Price - *HITE Analytics - Analyst*

Okay, thanks.

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

Yes.

Operator

Next we'll hear from Gary Brisbee with Barclays Capital.

Gary Brisbee - *Barclays Capital - Analyst*

Hi, guys, good morning.

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

Good morning, Gary.

Gary Brisbee - *Barclays Capital - Analyst*

Wondering if you could give us some more color on which of the initiatives that you've talked about over the last few quarters were the most helpful in contributing to the persistence? And some of the things that I remember were smaller class sizes on the initial class, more of the fulltime faculty early in the course trying to drive more interaction with the students, and I think there were several other things you've talked about, but what's helping the most, what's not, any color on that would be great?



Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Yes, sure. Well, I'll just start and then I'll turn it over to Dr. McAuliffe. But I would start by saying that I don't think there was any one singular reason that led to the improved persistence, I think it's a variety of factors, but I'll let Jane describe those.

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

Yes, I would agree. Hi, Gary. I think it's all of them. It's the focus on the orientation, it's the class size, it's putting doctorally prepared faculty in the classes, it is implementing faculty mentoring and peer review process to ensure quality in the classroom. It's really I think a combination of all those things. It's our focus on quality. It's our focus on increasing the value of that student experience that's so important to us. So it's all that combined, and then looking at our data analytics and making sure that we're tracking all the initiatives and we know what's having an impact. So I would say it's a multitude of things that we're looking at.

Gary Brisbee - Barclays Capital - Analyst

Hey, and what's the reason to think that that type of an improvement wouldn't persist throughout the year? Is it just conservatism or is there something else behind that statement [inaudible]?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

I think probably it's, you know, we do think it will persist through the year. It's primarily probably conservatism on our part, but as I said, Gary, last fall in the last earnings call even on very difficult comparisons on a year-over-year basis we expect our retention to continue to improve throughout 2012.

Gary Brisbee - Barclays Capital - Analyst

Okay, and then just can you give us a sense, how are you doing in terms of the goals of recruiting a higher quality prospective student? Was that also a big issue here or is that more future maybe with the new marketing campaign?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Well, it's certainly been an area of focus for us, and we've started on it actually the end of last year in a pilot, on a pilot basis, and it will continue to be an area of focus throughout this year. But I would say if you look at the significant increase in persistence in this quarter, I mean part of that could be attributed to some of the channel mix and some of the things that we've done in terms of the prospective student acquisition generation side of it. So I think the branding will only add to that and make it even more impactful as we go through the year.

Gary Brisbee - Barclays Capital - Analyst

Okay, great. Thanks for the color.

Operator

Next we'll hear from James Samford with Citigroup.

James Samford - Citigroup - Analyst

Great. Thank you. I just wanted to hit on a couple things. One, the [bill] discussions on the Hill around trying to limit the amount of Title IV Funds that can be used for advertising, I'm just wondering given how much of a -- how big of a part of the cost structure it is for you guys how you're thinking about that, how much concern you might have, and any discussions you might be having with policymakers around this issue?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Well, I mean I think, James, first of all, we're always engaged in dialogue with policymakers and folks back there around policies that we think would ultimately benefit students because we think that's where the focus should be.

And, with that said, you know, by trying to have a very affordable tuition rate it tends to increase and highlight kind of our advertising and marketing expense as a result. And we are doing things which we think in the aggregate over the longer term will allow that to reverse direction, and that's why we've made comments about 2013 and the kind of 50 to 100 basis points improvement in margin, and we see that improvement coming specifically from greater efficiencies in that area and having that reduced by some part.

James Samford - Citigroup - Analyst

Great. And, secondly, I guess on the competition side, haven't talked about that yet so far on this call I think, but obviously there's a lot more traditional colleges shifting online. I was wondering if you could comment on what you're seeing there and, particularly, maybe any regional differences in your conversion rates, whether it's southwest region versus other regions on conversion rates for getting new students? Thanks.

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Yes, sure. Yes, James, I mean from a regional perspective it's all been very consistent in terms of our conversion rates. We haven't seen anything noteworthy to describe on the call today.

From a competition perspective, as I mentioned kind of at the beginning of the call, certainly in our undergraduate programs we don't see any competition from traditional institutions. It just really, it isn't even something that we're seeing. I think, you know, if you're a higher price point institution with graduate programs, primarily, or I think you do see competition in that area. But for an undergraduate program that's affordably priced you just, you know, you don't see it.

James Samford - Citigroup - Analyst

Great. And one last one, on graduations, I think you said last quarter that they were up about 50%, I wonder if you could update us on where they were this quarter or sort of similar kind of rates?

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

What was the graduation? I don't think we have those figures in front of me.

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

I don't -- I mean we don't have a figure for how much it was up. I mean it's continuing to increase, which is a good thing, but I don't have exact numbers for you on that, James.

James Samford - Citigroup - Analyst

Thank you.

Andrew Clark - Bridgepoint Education, Inc. - President and CEO

Yes.

Operator

Next we'll hear from Kelly Flynn with Credit Suisse.

Kelly Flynn - Credit Suisse - Analyst

Thanks, guys. Just a couple questions, first of all, did you guys make any institutional loans, Bridgepoint lending to students during the quarter?

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

We did.

Kelly Flynn - Credit Suisse - Analyst

Can you quantify?

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

I don't have that figure off the top of my head. I think it was \$2.5 million maybe?

Kelly Flynn - Credit Suisse - Analyst

Okay.

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

That will be in the Q today, and I apologize I don't have the Q in front of me.

Kelly Flynn - Credit Suisse - Analyst

That's okay. So maybe just qualitatively can you just talk about I guess how you're thinking about that program, kind of why you're doing that, at all, and over time should we expect that to grow? Thank you.

Dan Devine - Bridgepoint Education, Inc. - EVP and CFO

Sure. I think last year we did a -- during the year I think we did \$6 million for 2011, we don't anticipate much more than that, at all, in 2012. And that's split between the Rockies and some slight or some lending at the Ashford.



Kelly Flynn - *Credit Suisse - Analyst*

Okay, all right. And then can I just ask a second one? I mean this is pretty high level, I guess asking you kind of your thoughts on what's gone on with market drivers? You've talked a couple times on the call about competition not being a factor. So when you think about the starts decline can you just talk about what at this point you view as the key reasons that the starts have come down, I mean regulatory, economic, and as you think about restoring starts growth in the back half, which of those factors do you think eases up? Thanks.

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

Yes, I think I can speak, obviously, just to our case, Kelly.

Kelly Flynn - *Credit Suisse - Analyst*

Yes.

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

In our case it's been entirely regulatory driven by the new rule on last July 1st regarding admissions compensation. So the demand for affordability and quality and innovative education is very strong, that's why we expect that we would return to positive new enrollment growth in our next quarter here. So, for us, it's just been the regulatory component.

Kelly Flynn - *Credit Suisse - Analyst*

Okay, that's really helpful. Thank you, guys.

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

Yes.

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

Thank you.

Operator

(Operator Instructions)

Next we'll hear from Paul Ginocchio with Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thanks for taking my question. Just I always thought that most of the bad debt was associated with new students, so bad debt is up on the absolute basis year-on-year for the last three quarters, new enrollment is down, but the persistence is up. So just I would assume that means that your more seasoned students are persisting more or sticking around longer and there's really been no change to the new students, is that the right -- how do I kind of square those metrics? Thanks.



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

Paul, this is Dan. I don't understand -- a component of that I guess you could say, the component of bad debt is related to new students, that would be students who start at the institution and fall out of attendance prior to receiving their financial aid. So there is a component of that, I don't think that's the majority of bad debt, I think it's 30% of it maybe.

And the remainder of it kind of is the same, right? You just have students who have this issue of being at an affordably priced institution, students can borrow above our -- up to Title IV loan limits, which is above our tuition, in that scenario we have to give the funds back to the student. The student doesn't complete the term, there's a receivable due from the student. That hasn't changed. I'll be honest with you we have not done the analysis that splits out the two components, so I can't really comment if there's been any change in kind of new student contribution to bad debt versus existing student.

I will tell you that we focus very heavily on improving bad debt. We have improved it sequentially, and we're focused on getting that number down. But I don't have a split between the two components of it, but it is not heavily, it's not 75% new students.

Paul Ginocchio - *Deutsche Bank - Analyst*

Okay, and then just back to the question on the Executive Order, I know if the new misrepresentation rules you have to have complete transparency on how you attract new students, and I was just wondering if you knew what percentage of your leads came in looking at the term GI Bill? Thanks.

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

I don't know what percentage comes in looking at that. As I mentioned, Paul, you will not find our institutions on Gbill.com. We don't use that site and haven't in at least a year now. So, but I don't have a particular figure.

I can tell you that a large part of the students that come to us from the military are actually referred to us from other students, so it's really most of it comes from or a majority of it comes from really the good experience that military students have at our institutions and them telling other active duty military or veterans about that positive experience.

Paul Ginocchio - *Deutsche Bank - Analyst*

Okay. Thank you.

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

Yes. Thanks, Paul.

Operator

At this time, there are no further questions. I'd like to turn things back over for any additional or closing remarks.

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

Yes, I just wanted to thank everybody for attending today's call. I look forward to speaking to you all in the next few days. Take care.

Operator

And that does conclude today's teleconference. Thank you, all, for joining.

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