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# EDITED TRANSCRIPT

BPI - Q2 2012 Bridgepoint Education Inc. Earnings Conference Call

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**Corey Greendale** *First Analysis - Analyst*

**Gary Bisbee** *Barclays Capital - Analyst*

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

**Jeff Olson** *JPMorgan - Analyst*

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

## PRESENTATION

### Operator

Good morning and welcome to the Bridgepoint Education second quarter earnings conference call. Today's conference 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.

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

Thank you, Anthony, 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/investorrelations](http://www.bridgepointeducation.com/investorrelations). Representing the Company today are Andrew Clark, CEO; 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 Ashford University's plans and response to recent WASC and HLC developments as well as statements regarding our financial and operational outlook. These forward-looking statements are subject to a number of risks and uncertainties that can cause actual performance or results to differ materially.

Please note that these forward-looking statements speak only as of the date of this presentation, and we undertake no obligation to update these forward-looking statements in light of new information or future events except to the extent required by applicable securities laws. Please refer to our SEC filings, including our quarterly report on Form 10-Q for the period ended June 30, 2012, which we plan to file later today, for a more detailed of the Company's financial performance and risk factors that may affect our results. Copies may be obtained from the SEC or by visiting the investor relations section of our website. At this time, it's my pleasure to introduce Bridgepoint Education's CEO, Andrew Clark.



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

Thank you, Paul, and welcome to Bridgepoint Education's second quarter earnings call. Our number one priority is maintaining regional accreditation for Ashford University, and that will be our focus this morning.

An uninterrupted regional accreditation is critical to our mission as an organization, and the Ashford University leadership team and its board of trustees are singularly focused on ensuring that Ashford provides both WASC and HLC with comprehensive and timely responses. The University has already organized a number of mission-specific internal and external teams which have begun working diligently to address Ashford's accreditation status. Our research and data analytics has allowed us to implement initiatives that we feel will lead to better student outcomes.

We continue to collect evidence that the initiatives we have implemented are working and have identified additional initiatives that should continue the goal of improving outcomes. We will be introducing these new initiatives over the remainder of the year and look forward to improving student outcomes over the long term. Consistent with the measures that underlie accreditation, our most intense focus will be on those key areas that validate the strength of Ashford's education model.

Retention, persistence, learning outcomes, graduation rates, and all of the factors that contribute to success in these areas. In every instance, the goal continues to be to improve those aspects of our operating model that demonstrate its educational effectiveness and its ability to deliver value and opportunity through the educational success of our students.

Ashford's investment in student initiatives, together with the potential effect of recent regulatory actions on new students and student retention, reduces our financial and operating visibility. As a result, we have elected to suspend the full year 2012 financial guidance that we customarily provide on these quarterly calls.

I want to emphasize that we have never been more steadfast in our mission to deliver educational value and opportunity. Today, Ashford University provides a vibrant learning community where high-quality programs and leading-edge technology creates an immersive, stimulating, learning experience for more than 90,000 students.

As Dr. McAuliffe will cover in more detail, students are positive about their educational experience at Ashford. In support of their continued educational success, we will take whatever steps are necessary to ensure Ashford's accreditation status. With that, I'll now turn the call over to our Chief Academic Officer, Dr. Jane McAuliffe.

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

Thank you, Andrew. As most of you know, during the second week of July, Ashford University announced several events. Specifically, the Western Association of Schools and Colleges, or WASC, denied Ashford's application for initial accreditation. Additionally, Ashford announced it had received two notifications from its current accreditor, the Higher Learning Commission, or HLC.

The first was notice of a December 1st deadline to comply with HLC's substantial presence requirements. And the second was notice that HLC had placed the University on special monitoring status as a result of WASC denial and detailed a specific time table for review of the issues as they pertained to the HLC criteria. Ashford has been engaged with both accreditors regarding time lines and processes.

Let me provide an update in respect to WASC. In the full report of its decision, WASC acknowledged that Ashford University has several strengths, including its faculty and staff, whom it characterized as loyal, engaged, and dedicated. WASC also recognized Ashford's strong commitment to the core mission to provide its students with a high-quality, affordable education. Especially noteworthy in its full report, WASC reported that more than 90% of 23,000 Ashford students responding to a WASC-conducted survey are satisfied or very satisfied with Ashford's quality of instruction. Another 88% are satisfied, or very satisfied, with the value of the education they're receiving for the amount they're paying.

And 83% are satisfied or very satisfied with job placement or prospects with an Ashford education. WASC also acknowledged that the University is addressing many of the areas cited in its notification, but that it was simply too soon to reach a determination as to impact. As such, the commission has permitted Ashford the option to pursue a re-application process as well as exercising a review of the decision. Ashford University is pursuing both options.

A re-application would focus only on the six areas WASC cited in its original denial. The re-application would require only a single visit by a WASC-accrediting team as early as the spring of next year, which would allow the re-application to be considered at WASC's June 2013 commissioned meeting. Ashford's leadership team is currently in discussions with WASC regarding all of these options.

Now let me turn to HLC's notice of the December 1 deadline to demonstrate substantial presence. Because of the potential overlap of WASC and HLC's decision processes, Ashford formally requested an extension of the December 1 date. In recognition of this parallel process, HLC has determined its December 1 requirement to be the submission of an implementation plan detailing how Ashford will comply with the substantial presence requirement if the university does not move forward with its migration to WASC, or if that migration is significantly delayed.

Ashford was also granted an extension for the special monitoring reports and will be permitted to submit the report to HLC in two phases. The first part of the report is due August 31, and the second part of the report is due September 21. Following submission, a team will visit the university in October. At its February, 2013, meeting it is anticipated that HLC will review the report of the advisory visiting team and will determine what, if any, further action is appropriate.

The Ashford leadership, faculty, staff, and board of trustees are highly engaged in these processes and remain focused on providing a quality educational experience to students. Now I'll turn the call over to Andrew.

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

I want to close by reinforcing what Dr. McAuliffe said about our students. Both Ashford and University of the Rockies have students and alumni who are positive about their experience with us as demonstrated by WASC's survey as well as our own. Our institutions have faculty, administrators, and executives who are committed to the success of our students.

The internal teams Ashford has formed, with support from their external advisors, will be working diligently with the accrediting bodies to implement any and all changes necessary to continue successfully serving our students as an accredited institution. Before I open the call for questions, I would like to emphasize that Ashford is currently in the process of responding to HLC and WASC, and we will not be able to go into the specifics of our responses or speculate about outcomes. Now I would like to open the call for questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). We will take our first question from James Sanford at Citi.

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**James Sanford** - *Citigroup - Analyst*

Great. Thank you. Just wanted to touch on the physical presence issue. I'm just wondering how far along you on your plans related to that and any sort of parameters you could provide us as to how many people might need to be relocated. Any cost numbers that could be associated with that? I appreciate it. Thanks.



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

Yeah, James. I really appreciate the question. I can't go into the details about our plan and what we would propose to HLC. I can tell you that we're actively working on that plan. And we will submit that plan to them by the December 1 deadline.

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**James Sanford** - *Citigroup - Analyst*

Have they provided you then, I guess, just sort of a framework as to what would satisfy physical presence or substantial physical presence?

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

Well, I can tell you that we have been in discussions with HLC. So we are having conversations with them, and we believe that those conversations are helpful in us developing our plan.

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**James Sanford** - *Citigroup - Analyst*

Okay.

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**Operator**

We'll take our next question from Trace Urdan at Wells Fargo Securities.

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**Trace Urdan** - *Wells Fargo Securities - Analyst*

Good morning. Andrew, from your prepared remarks, it sounds like your focus in responding to the WASC concerns is on showing better student outcomes, but WASC in their report also made some several dramatic recommendations regarding process. Can you speak to that tension? Are you inclined to, you know, sort of follow some of the process recommendations, or is it your contention that you should be able to re-orient their focus on outcomes, and then that it's outcomes that matter most?

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

Sure, Trace. Well, absolutely. I mean our focus is on all six items that were in WASC's commission action letter. Obviously, we want to balance the response with the institution's mission to serve underserved students and make sure that whatever we do doesn't lose sight of that mission. But we're 100% committed to making sure that we demonstrate to WASC on all six of their points that we're able to be in substantial compliance.

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**Trace Urdan** - *Wells Fargo Securities - Analyst*

Does that mean that you would be prepared to add to your full-time faculty?

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

Yeah, I can't get into the specifics, Trace, but we will focus on all six areas and make sure that we respond while keeping that, you know, important balance around the mission of the institution.

**Trace Urdan** - Wells Fargo Securities - Analyst

Okay. I'll get back in queue. Thank you.

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

Thanks.

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**Operator**

We'll go next to Peter Appert at Piper Jaffray.

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**Peter Appert** - Piper Jaffray & Co. - Analyst

Thanks. So my one question has two parts. Part one, Andrew, I was hoping you might give us some color on what you're seeing in terms of inquiry levels or just some color on pipeline metrics since the news flow has broken on the accreditation issue; and then the second part of the question is, just any commentary on the revenue-per-student metric and any increase in scholarship or discounting what you're doing in response to some of the current over-hang. Thanks.

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

Yeah, sure, Peter. I'll take your first question, and then I'll turn your second question over to Dan. In terms of providing additional color on the impact to prospective students that are inquiring to Ashford University, we did -- we have seen some impact in that area since July 9. But I would say that it's still too early to tell what the eventual impact will be. And that's part of the reason for us suspending our guidance. So I think we'll have a clearer view of that on our next earnings call.

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

And your question relating to scholarship or discounting, we have not changed our policies or given any, I guess, scholarshiping or discounting inducements for students. We made no changes in that area.

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**Peter Appert** - Piper Jaffray & Co. - Analyst

What should we anticipate then in the second half in terms of the revenue-per-student number?

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

I would say -- the revenue per student sequentially was basically flat. I think it was down a point in Q2 over Q1. I would suspect that revenue per student should remain relatively consistent at this point for the remainder of the year.

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**Peter Appert** - Piper Jaffray & Co. - Analyst

Great. Thank you.

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**Operator**

And we'll go next to Jeff Silber at BMO Capital Markets.

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

Thanks so much. In your press release, you talk about the reduced visibility. I'm just wondering, is it more so on the student pipeline, current students that are attending in terms of future retention, or on the expense-line item in terms of, you know, what you might have to do to comply with some of the accreditors' requirements. Thanks.

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

Yeah, sure, Jeff. Well, I think it's both. It's both the inquiring students and any impact potentially to persistence. Negative impact as a result of the regulatory actions as well as anything that we might contemplate in terms of changes that we might want to make and how that would impact our expenses going forward.

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

Okay. You alluded to my second question in your answer. What kind of communication have you been providing to current students, and have you seen an impact on retention over the past few weeks since the announcements have been made? Thanks.

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

Yeah, we've been doing, you know, everything that we can to make sure that we communicate with our Ashford students, our current students. Certainly, social media is very helpful in that regard and, you know, our students are very passionate about their education at Ashford and the quality of their education as Jane mentioned and as WASC's own survey demonstrated. So I would say that while it's still too early to tell, we haven't seen much in the way of a decline in persistence. But it's only been about four weeks. I think we'll know better on our next earnings call how that's trending out.

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

All right, great, thanks so much.

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

Yup.

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**Operator**

And we'll go next to Jarrel Price with Height Analytics.

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**Jarrel Price** - *Height Analytics - Analyst*

Good morning.

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

Good morning.

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**Jarrel Price** - *Height Analytics - Analyst*

When HLC placed Ashford on special monitoring, the commission referenced the need to demonstrate compliance with their standards and "minimum expectations." Have you gotten any clarity on whether there are minimum thresholds that you'll have to meet to maintain HLC accreditation?

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

Well, we certainly know what the minimum expectations are. They were provided by HLC, but we really can't comment on thresholds. If you go onto their site and you look at the minimum expectations, you'll find that there's no quantitative thresholds for those areas.

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**Jarrel Price** - *Height Analytics - Analyst*

So they haven't articulated that they're establishing new quantitative minimum standards?

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

They have only articulated what you can find publicly on their site, which is what their minimum expectations currently are.

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**Jarrel Price** - *Height Analytics - Analyst*

Got it. And one quick follow-up. The HLC staff recommendation for a delay in its substantial presence requirement, I understand it's still subject to the board's approval. Have you gotten any additional color about the dynamic between the staff and the board, and on what grounds would the board possibly reject your implementation plan?

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

No. I mean, I can't comment on that. That would be speculation on my part to comment on the communication between the staff and the commission.

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**Jarrel Price** - *Height Analytics - Analyst*

Thanks.

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**Operator**

And we'll go next to Paul Ginocchio at Deutsche Bank. Please go ahead.

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**Paul Ginocchio** - *Deutsche Bank - Analyst*

Thanks, Andrew. Along with the other lines of questions, just about enrollment counselor productivity over the last month and retention or turn within the enrollment counselors? Thank you.

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

Yeah. Our focus, Paul, obviously, is on accreditation and on student outcomes and demonstrating continued success and student learning. So I don't have any comments with regards to admissions counselor productivity. You know, there's really nothing to comment in that regard. Our focus is 100% on accreditation.

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**Paul Ginocchio** - *Deutsche Bank - Analyst*

And did you think maybe implementing or raising academic or entrance requirements to sort of slow down the growth rate or maybe even shrink growth dramatically -- is that potentially a scenario that you would look at?

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

Yeah, I mean I don't want to -- as I said earlier, I don't want to speculate or comment too much, but absolutely. I mean, you know, everything's on the table in terms of, you know, what we might consider that would again help focus on improving student outcomes. As we discussed, we have implemented things in the past that have demonstrated successful outcomes, and I think you saw this as an example in this second quarter in terms of the increase in persistence. And that's been going on now for some time. So our focus is going to be entirely on how can we continue to build upon that improvement in student outcomes? And what more can we do?

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**Paul Ginocchio** - *Deutsche Bank - Analyst*

Thank you.

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**Operator**

We'll go next to Corey Greendale at First Analysis.

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**Corey Greendale** - *First Analysis - Analyst*

Hi. Good morning.

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

Good morning.

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**Corey Greendale** - *First Analysis - Analyst*

A couple of the issues raised in the WASC letter were more about inputs than about results, and I was just hoping that you could comment on a couple of those. One of those was their comment that management of Ashford needed more depth. I would be interested to hear what you're doing on that front, if anything.

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

Sure, Corey. I mean, I would love to answer your questions with specifics. But I really can't right now other than to say that we're continuing -- we will focus on all of the six items from WASC; and we will continue to focus on their suggestions while, you know, balancing that with the mission of the institution and making sure that we don't negatively impact that mission.

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**Corey Greendale** - *First Analysis - Analyst*

Okay. I'll get back in the queue. Thanks.

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**Operator**

And we'll go next to Gary Bisbee at Barclays. Please go ahead.

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**Gary Bisbee** - *Barclays Capital - Analyst*

Hi, guys. In your initial remarks, you said you've identified incremental initiatives to improve outcomes. I wondered if you could tell us what those are and maybe what the cost of them would be or what impact on enrollment might happen. Just a little more color?

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

Yeah, sure, Gary. I really would love to answer your question, but I can't right now. I know that when we have our earnings call in November, we should be in a position to describe those initiatives and any corresponding expense associated with them.

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**Gary Bisbee** - *Barclays Capital - Analyst*

Can you give us any color at all? Is it similar to the stuff that you've talked about over the last 6 or 9 months that you've already implemented or are there very new courses of action? Anything at all you can share?

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

Well, certainly a lot of the things that we've already implemented and discussed are having -- were having a positive impact. Now, to the extent that that might be offset by WASC's and HLC's actions, I can't speak to because it's just still too early. But we definitely were doing things that were having a positive outcome on student retention, for example, and you saw that in this last quarter. In terms of new initiatives, I can't give you any color on that, and I hope to be able to do so on the next earnings call.

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**Gary Bisbee** - *Barclays Capital - Analyst*

Okay.

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**Operator**

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

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

Thanks. Good morning, guys.

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

Good morning.

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

Maybe some color on your philosophy around the balance sheet and use of capital right now? I would suspect given the lack of repurchases in the quarter, that's a decent indication of, kind of, how you're thinking about stuff; but any color around how you think about the cash balance would be great. Thanks.

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

Sure, Brandon. We did not repurchase any stock in the quarter. We are having a discussion at our next board meeting on if we will continue to -- if we will utilize our \$75 million authorization. So it's certainly up for discussion.

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

Okay. And then capital spend in the back half of the year? Was Q2 a decent run rate or is it just because you're going to take a step backwards?

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

It should be a decent run rate. There's no significant CapEx change in our current plan.

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

Okay. Thanks, guys.

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

Yep. Thank you.

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**Operator**

And we'll go next to Jeff Olson at JPMorgan.

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**Jeff Olson** - *JPMorgan - Analyst*

Good morning and thank you for taking my question. I wanted to go back to the timeline of the decisions. It sounds like the WASC decision is scheduled for June and HLC in February. Is that correct?

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

Yeah, Jeff. So the way that the timeline works is the commission for HLC will meet in February, and I would anticipate that the institution would be notified probably kind of, I don't know, 4 to 6 weeks after that. So the notification probably won't be until March. And then, we would have the WASC visiting team sometime there in the spring. And then WASC's meeting is in June. And again, I would expect kind of a similar type of timeframe before the institution was officially notified.

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**Jeff Olson** - *JPMorgan - Analyst*

Okay. And then, switching gears a little bit, is the education department involved in these processes? I noted earlier you talked about the program review at the University of the Rockies. Is that in some way connected or is that completely separate?

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

We have no reason to believe that they're connected. All of the indications that we have are that they're separate.

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**Jeff Olson** - *JPMorgan - Analyst*

Okay. But is the education department involved in the WASC and HLC processes at all?

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

Not that we're aware. No.

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**Jeff Olson** - *JPMorgan - Analyst*

Okay. Thank you.

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

Yup. Thank you.

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**Operator**

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

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

Thanks, guys. A couple of questions. The first one relates also to the cash. Can you talk about the student deposits? First of all, maybe give us the balance for the quarter, because I think we wouldn't get it until the 10-Q. And then, advise us on how to think about that? I mean, is that cash that you're just holding for students that relates to stipends that you would eventually have to pass along to the students? And therefore, should be consider it be kind of restricted cash, if you will? If you could help with that, that'd be great. Then I have a few others too.



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

Yeah, I don't have that figure for the quarter directly in front of me. It is contained in the 10-Q. Student deposits -- they're not technically restricted. That's why they're not treated as restricted cash. They -- a portion of those are kind of the stipend process, yes.

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

Okay. Do you know, is it mostly that?

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

As student deposits -- I'm trying to think here exactly the percentage. I would say, in general, the majority of them are student deposits. Yes.

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

Okay. Great. Thanks. And then, just switching gears back to some of the drivers of revenue per student. I just wanted to talk about the technology fee.

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

Uh huh.

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

Did you -- have you made any changes to that? Or are there any changes contemplated as we think about revenue per student for the rest of the year?

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

We have not made any changes to that technology fee, and as far as speculating on what's going to happen in the remainder of the year, we're not giving out any guidance.

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

Okay. Fair enough. And then, another related issue is just the refund policy. I know this executive order hasn't -- the presidential order related to military hasn't really come up, but -- same question that I asked related to the tech fee. Have you made any changes to the refund policy? Or are there any changes you're contemplating, in particular, related to the executive order?

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

I'll give the same answer; A, we have not made any changes to date to our refund policy, and any changes to our refund policy in the future would be speculative.

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

Okay. Fair enough. Thank you.

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

Thank you.

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**Operator**

And this does conclude today's question-and-answer session. At this time, I'd like to turn the conference back over to today's speakers for any additional or closing remarks.

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

I want to thank everyone for participating on the call today. This concludes today's call.

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

Thank you.

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**Operator**

This does conclude today's presentation. We thank everyone for their participation.

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