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PRESENTATION

Operator

Good morning and welcome to the Bridgepoint Education third quarter 2012 earnings conference call. As a reminder, today's conference call is being recorded. I would now like to turn the conference over Mr. Paul Goodson, Associate Vice President of Investor Relations for Bridgepoint Education. Please go ahead, sir.

Paul Goodson - Bridgepoint Education, Inc. - IR

Thank you, Lisa, and good morning, everyone. Bridgepoint Education's third quarter earnings release was issued earlier this morning and is posted on the investor relations page of the Company's website. 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 Ashford University's plans in response to recent WASC and HLC developments; the expected impact of Ashford's new academic quality and student success initiatives on enrollments; persistence and our 2013 revenue, as well as statements regarding our financial and operational plans and outlook. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual performance or results to differ materially, including the risks that Ashford is not successful in implementing its new academic quality or student success initiatives, or that the results of such initiatives are different than currently anticipated. Please note that these forward-looking statements speak only as of the date of this presentation, and we undertake no obligation to update these forward-looking statements in light of new information or future events, except to the extent required by applicable securities laws. Please refer to our SEC filings, including our quarterly report on Form 10-Q for



the period ended September 30, 2012, which we plan to file later today for a more detailed description 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 is my pleasure to introduce Bridgepoint Education's CEO, Andrew Clark.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Thank you, Paul, and welcome to Bridgepoint Education's third-quarter earnings call. Following my comments today, Dr. Jane McAuliffe, our Chief Academic Officer, will update you on our progress and next steps with WASC and HLC. After her remarks, I will offer my closing comments and then open the call for questions.

I want to begin by reiterating what I said last quarter. Our number one priority is to maintain regional accreditation for Ashford. In doing so, Ashford is focused on continuing to maintain its HLC accreditation in good standing as the university works towards WASC accreditation. The foundation of Ashford's ability to deliver value to students has always been its educational philosophy, which is comprised of four pillars -- affordability, access, academic quality and student success. My primary focus this morning will be on the actions we're taking in the academic quality and student success, which build upon the university's earlier progress in these areas. We also believe these new initiatives will extend Ashford's leadership position in private sector education and will continue to demonstrate that Ashford offers a successful model for the future of higher education in the US.

To best position the university to implement the new initiatives, Ashford's Board of Trustees has elected two key leaders. I'm pleased to report that just this morning, Ashford announced the election of Dr. Greg Joffre as Chairman Elect of the Ashford Board of Trustees. Dr. Joffre has a distinguished 38-year academic career, culminating in his 10-year role as President of Iowa State University and his current role as President Emeritus of Iowa State. Previously a Senior Vice President and Provost, he was the Chief Academic Officer of the University of Maryland in College Park. Dr. Joffre holds a PhD in chemistry from Caltech.

I'm also very pleased to report that Dr. Richard Pattenaude was unanimously elected by Ashford University's board of trustees as Ashford's President. He succeeded Dr. Elizabeth Tice and remains with Ashford as Executive Vice President of Academic Affairs. We're grateful for Dr. Tice's contributions as Ashford's President and for her continued support of the university. Dr. Pattenaude most recently chaired the commission on Institutions of Higher Education for the New England Association of Schools and Colleges, which, like WASC and HLC, is one of the six regional accrediting bodies in the US. Dr. Pattenaude has had a long and distinguished career in higher education, including a total of 21 years in top academic leadership positions. He comes to Ashford from the University of Maine system, where he has served as Chancellor for the past five years. Prior to this position there, he was President of the University of Southern Maine for 16 years.

To facilitate the university's success and its leadership transition and the implementation of its new initiatives, Ashford's Board of Trustees established the transition council to advise Dr. Pattenaude as he began serving his new role as a university President. Dr. James Appleton and Dr. David Parrish, two experts in higher education, have been elected to serve in this capacity and will support Dr. Pattenaude as new external senior advisers. Dr. Appleton is President Emeritus of the University of Redlands, as WASC-accredited school, and Dr. Parrish is the Executive Director of the new Leadership Alliance for Student Learning and Accountability. Both have deep academic experience and are well known in the academic community.

Collectively, we believe that these individuals will help expand the breadth and depth of Ashford's leadership and will advance Ashford's continuous improvement efforts in academic quality and student success.

Our philosophy of continuous improvement and our focus on academic quality and student success has led to the development of a group of new initiatives that are already being implemented. The foundation for these is evidence-based using the data analytics and predictive modeling capability we previously developed. We expect these new initiatives to build on Ashford's earlier success at improving student retention and the graduation rate.

In the academic quality area, Ashford is launching two new initiatives to improve academic quality and give students the best chance to succeed, both while studying at Ashford as well as post-graduation. The first of these initiatives is an expansion of something Ashford has been dedicated

to for some time now, the addition of more full-time faculty. We expect that the growing body of full-time faculty will help produce a more robust environment for advancing academic quality and student success. Our predictive modeling studies illustrated that first-year retention is strongly correlated with early student success, which let Ashford to modify its support services in two important ways. Knowing that effective early student support positively contributes to early student success, admissions counselors and student advisors will collaborate on supporting students through their first four courses rather than a transfer taking place after the first course. As a result, we believe this additional early support will result in greater first-year retention, and Ashford is implementing this change.

In addition, to provide better support to continuing students, Ashford has used predictive modeling to focus more intently on the identification of students who are experiencing difficulties, and we have increased the size of our student support team. This increased investment will complement the extended support from admissions staff for newer students and provide increased levels of support for students throughout the entire academic program at Ashford.

I would like to turn now to Ashford's student success initiatives. Overall, they're aimed at ensuring the right students are admitted and that the students who ultimately would drop do not start in the first place. In broad terms, we will reduce spending on marketing and sales and reallocate those funds to educationally focused initiative aimed at student success. More specifically, a portion of Ashford's admissions department workforce has been reassigned to work as a point of first contact with prospective students to ensure that they have accurate awareness of what it takes to successfully earn a degree from Ashford and that they are sufficiently prepared for a university education. With the renewed focus on lead analytics to make the new student selection process more effective, the role of Ashford's new student success initiative in helping identify and admit students who fit best with Ashford and the expanded orientation program, we require a smaller, more focused admissions counselor workforce.

While we anticipate that these changes will result in fewer new enrollments, we believe that the students who are admitted should persist and complete at higher rates, which will continue a trend we began in prior quarters.

Next, we are implementing policy changes in the admissions area, further designed to ensure that students are well matched with our academic programs. For example, Ashford will limit all new admissions to online programs to adults 22 years of age or older unless they already have at least an AA degree, which is an expansion of an earlier policy. In addition to this expanded policy, we have also discontinued new enrollments into two associate programs -- business and organizational management.

Third, Ashford plans to further verify student readiness through an expansion of the student orientation program. This free two-week course is expanded to all zero credit undergraduate students at Ashford and will give students a hands-on look at what it's like to be an Ashford student.

The fourth initiative in the student success area is an expansion of what we call the Ashford promise. Under this initiative, all new students will benefit from a broadening of Ashford's refund policy, which will allow a student to experience the first three weeks of class before incurring any financial obligations. At any time during these first three weeks, students who either opt out or do not demonstrate satisfactory academic progress will not be matriculated into the university. They will not be responsible for any tuition and fees and, of course, will not incur any related debt. In addition to helping students to be sure that Ashford is the right institution for them before incurring any financial obligation, this initiative is one way that Ashford can help address the national problem of rising student loan debt.

In parallel with the student success initiatives we are expanding the support we provide in two other important ways. First, Ashford is continuing to expand the breadth of technology it provides students over the entire length of their experience with Ashford. As a result, Ashford has decided to replace the current one-time technology fee with a \$50 per course charge beginning with students entering the institution on or after January 1, 2013.

Second, to help our graduates make the most of their careers post-graduation, Ashford is expanding the level of career support services. This will take the form of help with resume building, job search and interview preparation for our students nearing graduation. For our alumni, we are establishing an alumni networking system and an employer awareness program for Ashford and its graduates.

To help attract the students who have the best opportunity to succeed at Ashford, we have recently launched a campaign to broaden national awareness of the Ashford brand. As with our other initiatives, predictive modeling helps us identify the characteristics of students who persist well



and benefit the most from Ashford's academic programs. One of our observations was that students who came to us organically -- in other words, through a contact they initiated directly with us by phone or through our website -- have on average a better record of persistence and academic success than do students we obtain through lead aggregators. Within this organic group, our predictive modeling capability further helped identify certain subgroups such as those who have already earned college credits or those who are already employed full-time as being strong predictors of success as Ashford students.

These insights pointed us toward brand awareness as being an important first step in reaching students who might come to us organically and who are therefore more likely to persist and complete at high rates. We developed a brand awareness campaign with advertising around the message that technology changes everything in how education is delivered, along with a targeted media mix aimed specifically at those adult learners who could best benefit from Ashford's degree offering.

Although we launched a branding campaign only in late July, I am pleased to report that we have had some early success. For example, we have seen an 80% increase in new visitors to our website while nearly doubling the conversion rate of student inquiries on our website at the same time. Furthermore, these students are showing early indicators of persistence, including strong engagement in class. More broadly speaking, we have seen a 100% increase in awareness of the Ashford brand by individuals who already have college credits and a 114% increase in the awareness by individuals who are employed full-time.

Before turning the call over to Jane, I would like to give you my bigger picture perspective on Ashford's progress in delivering value for students and in maintaining regional accreditation. The university has roughly 90,000 students and currently more than 40,000 alumni. In survey after survey, including WASC surveys as well as our own, students and alumni consistently state that Ashford provides them with an affordable, high-quality education in an acceptable format that provides meaningful support to them in their careers after graduation. Despite these high marks, Ashford has further strengthened its support to students.

Now I'll turn the call over to Jane.

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

Thank you, Andrew. I want to provide an update on Ashford University's accreditation initiative. University leaders and the Board of Trustees decided to withdraw from the review process, which was the first step in the appeal process for the Western Association of School and Colleges, or WASC. The team believes that all (technical difficulty) directed towards preparing for the replication process (technical difficulty) decision. The team placed its entire focus on writing the reapplication and submitted it to WASC as scheduled. This document focused only on the six areas WASC cited in its original action letter. The university will participate in a single special visit by a WASC accrediting team, which has been set for April 2013.

The university still anticipates a decision at WASC's June 2013 commission meeting. Ashford's leadership team remains in close contact with WASC as they progress through this process.

Ashford submitted its response to the Higher Learning Commission, demonstrating how the university continues to meet the HLC criteria. It hosted an advisory team in October and its decision will be formalized to determine what if any further action is appropriate at HLC's February 2013 commission meeting. Ashford is currently focused on writing its response to the Higher Learning Commission detailing how it will comply with a substantial presence policy if the university does not move forward with its migration to WASC or if that migration is significantly delayed. This proposal will be considered at a February 2013 commission meeting as well. The Ashford leadership, faculty, staff and Board of Trustees continue to be highly focused on submitting these documents, implementing new quality initiatives and, above all, continuing to provide a quality educational experience to its students.

I would like to close with Ashford's most recent graduation ceremony. On the weekend of October 13 and 14, more than 1200 graduating students along with another 5000 guests packed the iWireless Center in Moline, Illinois for Ashford's 2012 fall commencement ceremony. Three-time Olympic medalist Jackie Joyner-Kersey provided the commencement address, telling graduates Ashford University has given them a place to call home.



Just one of the many individual success stories from this fall's graduation was a 72-year-old mother and grandmother from Maryland who received her BA in business and currently owns a nonprofit organization for families in her area who seek emergency needs. As both her grandchildren are currently attending college, she was very proud to share with others that she, too, is a college graduate. She realized that her age going back to school was not something her peers would be considering but was something she promised to herself she would achieve. We are always gratified to play a role in the success of so many deserving Ashford graduates and the two graduation ceremonies each year bring many other interesting stories to our attention.

Now I'll turn the call back over to Andrew.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Thank you, Jane. As you know, we posted our earnings results this morning outlining our performance for the third quarter. While we did not elaborate on the results during this call, I will say that we were satisfied with our performance during the quarter, considering the current industry environment and the challenges facing the Company. Looking ahead, I think it's clear that Ashford has strengthened its efforts to ensure that the students who engage with us and those students who begin their studies at Ashford have the best chance of success. The changes in admissions requirements, admission screening, orientation, student support and the addition of full-time faculty all should have the effect of increasing persistence, learning outcomes and the graduation rate. Our branding campaign complements these outcomes by enhancing our ability to attract students who will be successful. The senior academic leadership we have attracted to Ashford along with the many initiatives we have mentioned today reinforce our commitment to the academic success of our students and demonstrate that we have the resources, knowledge and organizational structure to support their success.

In turn, we believe the numerous ways in which we are committed to academic quality and student success support our goal of maintaining Ashford's HLC accreditation and achieving its migration to WASC.

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

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Trace Urdan, Wells Fargo Securities.

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

Good morning. I wonder if we could start -- if you could describe what kind of quantitative goals, perhaps, you have for full-time faculty hiring, and if you could explain to us what, if any, the financial implications of that transition represent.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Yes, sure. Qualitatively, I can't give you a specific number. I will say that we are making, obviously, a very concerted effort and focus on increasing full-time faculty and on our focus on academic quality. And because I can't give you an exact number, it would be difficult for Dan to quantify the financial impact.



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

(multiple speakers) those individuals who are going to be full-time faculty do teach our courses as well. So there is some offset to what currently is done by adjunct faculty. It's not 100% net adds, so to speak.

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

I understand that, so my question is -- is it effectively neutral? Because the driver of cost is actually time spent in the classroom, or is there sort of an incremental cost associated with a new faculty?

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

There would be an incremental cost in this case.

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

And then I'm wondering, Andrew, you made an oblique reference to the environment and its impact on enrollment. I'm wondering if you have found that the accreditation issues that you are going through at the moment have filtered into the marketplace and students are aware of that. Is that becoming a factor on a competitive basis?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Yes, that's a good question, Trace. The decline in new enrollments that we saw were, I would say the majority of that was concentrated around the changes that we made in terms of admissions requirements as well as various things we did to focus on students that we know will be much more successful, like the orientation. We actually have seen very little in the way of prospective students or even continuing students and any concerns over the accreditation. We have a few here and there, but nothing that is material.

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

And last question for me -- I'm wondering if the customer-facing -- the student-facing aspects of his plan, such as the change in the technology fee and then the initial three weeks -- I don't know what you call it, a trial, I guess -- whether those have been presented to students and whether you have seen any kind of reaction from the student population to some of those changes.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Yes, the tech fee change begins January 1, 2013, and Ashford promise will occur during the quarter, which is that three weeks that you were mentioning where they will spend those first three weeks in class and will either decide that Ashford and a college education is something that they are capable of pursuing, or the institution will proactively have the student withdraw based upon how well they're doing academically, if they are not performing at college-level work.

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

You're basically making these announcements today for the first time, so you haven't started to implement them in the marketplace yet?



Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Well, I wouldn't say -- some of these initiatives have already been implemented, hence my comment about the admissions and the negative new enrollments for the quarter. Some of them are being initiated during this quarter.

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

Great, okay, thank you, I'll let you move on.

Operator

Peter Appert, Piper Jaffray.

George Tong - *Piper Jaffray & Co. - Analyst*

Hi, this is George Tong for Peter Appert. One of the issues cited by WASC in its initial review of Ashford was high spending on recruiting compared to instruction. In the third quarter, though, marketing expense jumped 31% year over year while instructional costs only increased 9%. Can you comment on this?

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

Sure. This is Dan. The issue is our branding expenditure was expensed when our programming was run, which was -- the majority of that was in the third quarter. The net branding was \$15.1 million, or 6.1% of expenses for the quarter, so that is the vast majority, or that's basically the biggest uptick in year-over-year related to marketing.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

The other thing I'd say, George, at a very high level, obviously all the initiatives that I went through this morning are targeted at student success and academic quality. Many of those initiatives, if not most of them, will fall in the instructional costs and services line. And you probably are aware of some of the changes that we made from an admissions perspective. So I would say over the longer term, you will see a market shift in the percentage of expense allocation between instructional costs and services versus marketing and selling. Instructional costs and services will definitely be higher in the future than marketing and selling would be.

George Tong - *Piper Jaffray & Co. - Analyst*

That's very helpful. Just one follow-up question -- by our calculations, persistence fell to roughly 76% from 81% last year. Could you tell us what contributed to that year-over-year drop off?

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

Sure. Part of the favorable -- I guess if you look at -- the third quarter 2011 was favorably impacted by the changes at -- related to leave of absences and recording students has dropped. I don't know if you remember those from last year. July 1, 2011, the DOE change their procedures. That caused an increase in the number of enrollments in -- the fewer drops in that quarter. That is normalized this year but has an unfavorable variance year-over-year. That contributed to about a third of that number. We did have higher graduations in the quarter compared to the prior year. That was also a contributor. And then there's just some natural quarter-to-quarter flux involved in that also.



George Tong - *Piper Jaffray & Co. - Analyst*

Great, thanks very much.

Operator

Joe Janssen, Barrington Research.

Joe Janssen - *Barrington Research Associates, Inc. - Analyst*

Hey, this is Joe Janssen filling in for Alex Paris. Andrew, maybe you could just comment -- in Jane's remarks, you talked in regards to HLC, there was a team visit in October. Anything you can share with us in terms of take-away? Was there an exit interview; anything we should be concerned about?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Yes, Joe, thanks for your question. In keeping with what we have done historically, we are not going to comment on any of our interactions with the accreditors. So we'll have to wait until March when the institution will be notified by HLC on the results of its visit, and of course we'll share those with you.

Joe Janssen - *Barrington Research Associates, Inc. - Analyst*

All right, I thought I'd try. So one other question -- you talked about addictive analytics; you talked about a lot of the initiatives and the policy changes. Any way you could give us a sense on all these changes, what your expectation may be one, two, three quarters out in terms of starts? I'm not looking for exact or maybe kind of ranges, anything given your analytics, anything you can share with us?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

We are not giving guidance, so I can't really qualify. But I would, at a high level, say that these initiatives will lead to negative new enrollments and negative total enrollment. I think some of the -- in terms of the admissions initiatives, some of the student success/academic quality initiatives are going to lead to higher retention, which will offset some of the negative new enrollments. So I think generally, at a high level, that's how we see things for probably the next four quarters.

Joe Janssen - *Barrington Research Associates, Inc. - Analyst*

Great, I'll jump back in queue, thanks.

Operator

[Gerald Price], [Height] Analytics.

Gerald Price - *Height Analytics - Analyst*

I have a two-part question related to your incentive compensation policies. I was hoping you could describe how your incentive compensation plan complied to the safe harbors during the period 2006 to 2007 that was reviewed by the OIG report.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Well, we responded to the IG audit, and I think that's publicly available. So you can read exactly from that report what our response is and how we did -- our view of how we complied with regards to the safe harbors in 2006-2007.

Gerald Price - *Height Analytics - Analyst*

Okay, and then have you made any material changes since then that you think are important?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Well, when the new incentive comp policies came into effect back in July of 2011, we obviously put a new policy in place. Actually, we started before that, so it was fully implemented by then to be compliant with the new rules, and it's very straightforward. Our admission advisers received a cost of living adjustment on an annual basis. They receive an adjustment based on tenure, and then they receive an adjustment based on their own educational attainment. If they go from a bachelor's to a Masters degree in a particular year, at that annual review date, they can receive a slight increase as well for that. So very straightforward.

Gerald Price - *Height Analytics - Analyst*

Okay, and then just one other really quick one -- I was wondering if you had gotten any clarity from HLC about how many employees you would have to move to their region if you were to in fact have to comply with their geographic presence requirement.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

I can't comment on that, other than to tell you that our deadline for submitting that to HLC is December 1.

Gerald Price - *Height Analytics - Analyst*

Okay, thank you.

Operator

Corey Greendale, First Analysis.

David Warner - *First Analysis Securities - Analyst*

This is David Warner for Corey. Prior to submitting in your reapplication to WASC, did you receive any further guidance on what would constitute an acceptable counselor/student ratio or full-time faculty/student ratio, attrition rate, anything specific in that regard? And can you speak to your level of confidence that the changes that have been put in place thus far will be deemed sufficient by WASC?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

WASC and most the creditors do not have bright lines in terms of numbers or percentages. I would generally say that the institution is in discussions and very collaborative from that perspective with WASC, and there's a lot of dialogue back and forth. So I think that's about as far as I would characterize that.



David Warner - *First Analysis Securities - Analyst*

And just one more follow-up -- you didn't, I don't think, touch on scholarships. What were scholarships in the quarter, and what are your plans with regard to that going forward?

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

I don't have a scholarship figure in front of me because I have the net the numbers that we reported. I don't think our policy toward scholarships has changed, so there's really no update there. It will be in the Q, I think.

David Warner - *First Analysis Securities - Analyst*

Alright, thank you.

Operator

Gary Bisbee, Barclays Capital.

Gary Bisbee - *Barclays Capital - Analyst*

The first question, I guess -- can you give us a sense what portion of the total bucket of initiatives that you talked about today was implemented during the third quarter versus what will be implemented? Or if not a number, a general sense? Is much more still coming versus already been implemented?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Generally speaking, Gary, at a high level, it's probably two-thirds implemented, and a third left to go.

Gary Bisbee - *Barclays Capital - Analyst*

Alright, and then the second question -- interesting commentary about the better performance from the folks who came to you through your website, or I think you called it organically. What percent of new students have been coming to you on their own or through the website? I assume that it's a pretty small number, but how quickly do you think you can ramp that up through the new campaign you talked about?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Yes, I don't have a specific number for you, Gary. I can tell you that we were very pleased with the results of the branding campaign. It actually performed much higher than our internal expectations. And the thing that we really are looking at, like I mentioned in my opening remarks, is we are really looking at the success of those students, their ability to persist over students that find us through an aggregated channel. And those indicators are, again, very good as well and were higher than what we had forecasted internally. So I think branding obviously is very important, especially in a highly competitive market. I would anticipate it's something that the institution would continue to commit itself to, not just from a differentiation standpoint but, most importantly, from a student success standpoint and being able to identify the students that are most likely to be successful at the university.



Gary Bisbee - *Barclays Capital - Analyst*

Okay, thank you.

Operator

Paul Condra, BMO Capital Markets.

Paul Condra - *BMO Capital Markets - Analyst*

I just wanted to follow up also on the three-week trial period. Is that open to all incoming students?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Yes, it is.

Paul Condra - *BMO Capital Markets - Analyst*

And is this something that -- I don't know if you can give any details on -- this is something that you have already started rolling out, maybe you're just seeing some kind of how it's going over, whether you are seeing students take advantage of it and then stay in or drop out?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

It's being rolled out during the quarter, Paul, as I mentioned earlier. So I think that the orientation program will be very effective at filtering out students that aren't quite prepared for college-level work. And then, I think this is an additional opportunity, obviously, for prospective students to see if they are ready as well as for the institution to monitor that.

Paul Condra - *BMO Capital Markets - Analyst*

And then I just want to follow up on CapEx too. I don't know if you can tell us your expectations for the fourth quarter, CapEx expense. I think you had said 4% of revenues last quarter, and it's coming in a lot lower than that. So --

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

We expect for the year it should come in around 4%, I believe. So I don't have it for the fourth quarter in front of me, but it should be about 4% for the year.

Paul Condra - *BMO Capital Markets - Analyst*

Okay. Is there any reason that would go up a lot in the fourth quarter?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

There's no particular reason. I don't know where we are in certain projects, so that would be only -- the timing issue at the end of the quarter, where it falls in the third quarter or the fourth quarter. I don't know where we are closing out some of those projects.

Paul Condra - *BMO Capital Markets - Analyst*

Okay, thank you.

Operator

Jeff Volshteyn, JPMorgan.

Jeff Volshteyn - *JPMorgan - Analyst*

When I think about timing of the impact from the technology fee change, as well as the orientation program, can you help us think through the timing? I know it starts -- at least the technology fee change starts January 1. How long will it take before it's fully cycled out?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

It should take -- you will see an impact in 2013, approximately \$30 million in revenue from the change in the technology fee. It will take about 13 months to get back to the full enrollment body being -- absorbing a monthly charge. So it corrects itself -- the majority of the correction happens in 2014, where you're back to a full engagement of the entire enrollment.

Jeff Volshteyn - *JPMorgan - Analyst*

And the orientation program change?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

The orientation program is an expansion of a program we have today, so I imagine most of that will be Q4, Q1.

Jeff Volshteyn - *JPMorgan - Analyst*

Okay. One follow-up -- and bad debt expense, it came down in the quarter; it was coming down last quarter as well. What are you guys doing differently on the collections front?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Well, we are putting a lot of effort into the collections. We continue to try to improve our processes, add some staffing, where they are required. We still expect it to be about 6% for the year.

Jeff Volshteyn - *JPMorgan - Analyst*

Okay, thank you.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair & Company - Analyst*

A couple of quick ones -- you mentioned a couple of programs that you are not going to be enrolling students into, it sounds like, based on organizational management. Any sense for us as to how big those are or maybe how much they contributed to recent start growth over the last couple of quarters?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Yes, Brandon, that's a good question. I don't have exact numbers that I can give you. But I think the main take-away at a high level for us on the associate degree in business and org. management was that a high propensity of those students tended not to persist certainly beyond three courses. And again, our analytics and our ability to look at the data over a period of time led the institution to make a decision that it was in the institution and the students' best interest for us to discontinue those programs.

Brandon Dobell - *William Blair & Company - Analyst*

Can you talk about the, call it kind \$6 million of branding spend? But if you take that away and look at more of a normalized level of marketing spend, how do we size the (inaudible) talk about the decline or decrease in marketing spend going forward? It could down 10% from the last 12 months number, down 20%? I'm trying to figure out how to size what a more normal rate would be for (inaudible).

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Well, I don't think I'm going to give you a specific number. If you take away the branding in Q3, you're pretty flat to prior year. I think what you're going to see, Brandon, it is going to tick down over the next three quarters as we work through some things. I'm not going to give you a target of where it is going to end up, because we haven't completed our plans for 2013. But we do expect that the investment in that area will be as a percentage smaller in 2013.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. And with all the change in the faculty mix, let's call it, should we expect average class sizes to change, or is it really just going to be replacing adjunct with full-time, so it's kind of a better mix of faculty, but no change in what the average person is going to see in the classroom?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Yes, I think that -- you're breaking up a little bit, Brandon -- but I think the class size is generally going to tick down as well. As we increase the number of full-time faculty, I think that will go down. I can't really say by how much, but at a high level, it will go down.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. And final quick one for me. With all the things you guys are doing, should we expect any kind of restructuring charges, (inaudible) charges, those kinds of things in the fourth quarter, maybe in the first quarter as things roll through?

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

We do not expect any of those charges.

Brandon Dobell - *William Blair & Company - Analyst*

Okay, perfect, thank you, guys.

Operator

James Samford, Citigroup Research.

James Samford - *Citigroup - Analyst*

You're not under any restrictions at this point for launching any new programs, or did you launch any new programs during the quarter?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

We didn't launch any new programs during the quarter. Generally, you might recall, James, that we didn't -- when we went from HLC to WASC and the institution started the application process for accreditation at WASC, you need to leave your current stage within HLC unchanged, meaning you don't go and add any programs. You want to remain static while you are in the application process with WASC. So we haven't requested new programs for probably the last year and a half or two years.

James Samford - *Citigroup - Analyst*

Okay, got it (inaudible). The follow-up question is, on the positive side from a data analytics perspective, I know you decided to opt out of the business and organizational management side. Any particular programs that have been successful? Was there some silver lining out of all this?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Nothing from a program-specific standpoint. I would just say that we had many of these initiatives either partially implemented or fully implemented in the pipeline. We have a strong analytical groove that we -- that has been able to demonstrate and track that, if we made these various changes it would have the kinds of positive outcomes on student success and learning that the institution is striving for as part of its continuous improvement. So we are very pleased. It's all evidence-based. We know that what we are doing are the right things to do for the student.

James Samford - *Citigroup - Analyst*

And any updates on where you stand on 9010 or you think you'll be at the end of the year?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

No, we will provide that at our end-of-the-year earnings call.

James Samford - *Citigroup - Analyst*

Okay, thanks.



Operator

Paul Ginocchio, Deutsche Bank Securities.

Paul Ginocchio - *Deutsche Bank - Analyst*

Just a question on -- is it HLC policy or your policy not to talk about the interviews? I'm just wondering if the HLC has asked you not to talk about things.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

It's our policy, but it's also HLC and WASC. Both treat the process as confidential, and we are not supposed to comment on it. HLC, in particular, doesn't want you to make your reports publicly available. You have to go through a process and ask them for special permission to do something like that.

Paul Ginocchio - *Deutsche Bank - Analyst*

Maybe I'll just ask a couple of follow-ups. Based on your comments that the persistence decline was sort of some of a catch-up from a year ago, should we expect that persistence is much better in the fourth quarter? I just was surprised that there was no impact from the accreditation in your persistence number. Then I have one more follow-up, thanks.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

I don't think that persistence would be -- certainly, the variance would be much closer, meaning it should be closer to last year, we hope slightly favorable.

Paul Ginocchio - *Deutsche Bank - Analyst*

And then just for that, looking for guidance, is there any way you could just comment on new enrollment trends that you've seen over the last month or six weeks?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

I think our new enrollment trends have been what we expected with the new admissions processes and initiatives we put in place. I really can't comment much beyond that. We are very satisfied with the steps that we've taken and the changes that we've made. Our students Ashford University -- as was demonstrated in that last survey, they are very passionate about the institution, believe the quality of education they are receiving is very good. And I would expect that to continue and even improve.

Paul Ginocchio - *Deutsche Bank - Analyst*

But overall, the initiatives would mean overall a weaker enrollment trend; correct?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Yes. As I said, I think to an earlier question, at a high level, you're going to see negative new enrollments for probably the next four quarters, and total enrollment will be negative because of the initiative. I think it will be offset by the retention gains that will occur because of the initiatives.



Paul Ginocchio - *Deutsche Bank - Analyst*

Thank you very much, guys.

Operator

Kelly Flynn, Credit Suisse.

Kelly Flynn - *Credit Suisse - Analyst*

A couple questions -- first question on the tech fee. I was hoping you could provide a little more high-level color on how we should think about the economics of this fee. I know you talked about the \$30 million revenue impact, but I think the consensus view is that the tech fee is very profitable to you, in part because it's paid up front. So I'm wondering if we should assume that much of that \$30 million comes out of the operating income line as well.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Well, we haven't given guidance on the operating income line for 2013. It's a change in policy. There's not -- we are not making any headcount adjustments related to that. So I would assume that's -- on a standalone basis, that was only transaction that we did for 2013. A large portion of that would be impacted on operating income. But it's just a change compared to a bunch of other changes. So we're not giving any guidance specifically how much is impacting operating income.

Kelly Flynn - *Credit Suisse - Analyst*

Okay, fair enough. And then, on the branding spend, just to clarify, I think you said marketing spend overall should tick down over the next three quarters. But is that branding amount that you talked about -- is that sustainable over that period? That branding spend -- will it continue?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Well, it could continue. That's up to the institution in terms of the level of investment they want to make. I think, assuming that it continues, you would still see a tick down in the marketing and sales expense over the next three, four quarters.

Kelly Flynn - *Credit Suisse - Analyst*

Okay, great. And then the last question -- I know you've gotten this question in various ways, but I just want to come back to it. As far as the new quality initiatives you introduced on today's call, can you just explain which ones are starting in the fourth quarter and which ones are starting in the first quarter of 2013?

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Well, the only one that's starting in the first quarter would be the technology fee change, the \$50 per course which starts January 1. I think the only ones left in the fourth quarter, really, are continuing to hire more full-time faculty and the Ashford promise. I think all others for the most part have been implemented already.



Kelly Flynn - *Credit Suisse - Analyst*

Okay, great, thank you.

Operator

It appears there are no further questions at this time. I would like to turn the conference back to our speakers for any additional or closing remarks.

Andrew Clark - *Bridgepoint Education, Inc. - Co-Founder, CEO, Pres., Director*

Thank you, everybody, for joining our call. We will talk to you soon. Take care.

Operator

Ladies and gentlemen, that does conclude today's conference call. Thank you for your participation.

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